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How the Balance of Power Conditions International Trade Agreements: A Comparative Case Analysis

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FLORIDA INTERNATIONAL UNIVERSITY

Miami, Florida

HOW THE BALANCE OF POWER CONDITIONS INTERNATIONAL TRADE
AGREEMENTS: A COMPARATIVE CASE ANALYSIS

A dissertation submitted in partial fulfillment of the

requirements for the degree of

DOCTOR OF PHILOSOPHY

in

INTERNATIONAL RELATIONS

by

Kevin D. Modlin

2019

To: Dean John F. Stack, Jr.
Steven J. Green School of International & Public Affairs

This dissertation, written by Kevin Modlin, and entitled How the Balance of Power Conditions International Trade Agreements: A Comparative Case Analysis, having been approved in respect to style and intellectual content, is referred to you for judgment.

We have read this dissertation and recommend that it be approved.

Kyle Mattes

John Oates

Kaz Miyagiwa

Félix E. Martín, Major Professor

Date of Defense: May 22, 2019

The dissertation of Kevin D. Modlin is approved.

Dean John F. Stack
Steven J. Green School of International & Public Affairs

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Vice President for Research and Economic Development
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Florida International University, 2019

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DEDICATION:

I dedicate this work and all my work to my enthusiastically loving parents, Daniel and Deborah Modlin. Without your endless support, insight, and goodness, I would not be the person I am becoming.

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ABSTRACT OF THE DISSERTATION
HOW THE BALANCE OF POWER CONDITIONS INTERNATIONAL TRADE
AGREEMENTS: A COMPARATIVE CASE ANALYSIS

by

Kevin Modlin

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Professor Félix E. Martín, Major Professor

This dissertation explains how the balance of power influences the incidence of international trade agreements. It shows the interaction of factors from the disciplines of Economics, Politics, and International Relations. Specifically, it shows the influence of the balance of power within three cases of trade agreements.

The following cases illustrate how states, when negotiating agreements, respond to power competition. This influence of power within state relations is a social interaction but also one where individual states respond. Some of those responses include trade agreements with other states. Systems influence the decisions of negotiators involved in trade agreements. As the cases illustrate, state leaders respond to the power dynamics of the parties involved in negotiations as well as those outside the negotiations.

Therefore, this dissertation shines a light on an under-explored conditioning variable in International Political Economy literature and points to examples where it is relevant in influencing trade agreements. Also, it considers alternative explanations related to the occurrence of trade agreements including hegemony, economics, and politics. It shows that the absence of the balance of power variable would result in an incomplete analysis of why trade agreements occur.

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CHAPTER 1: INTRODUCTION

Background:

In the years since the Cold War ended, the world has experienced more than a tenfold increase in the number of trade agreements. This observation leads to questions related to why international trade agreements happen, and why the quantity of trade agreements has dramatically increased since the end of the Cold War? Many disciplines, including Economics, Politics, and International Relations, look within their respective theoretical explanations to help understand this puzzle. These explanations are helpful but are incomplete. Few of these approaches take the influence of the interactions within the balance of power into account. This work addresses that oversight and explains how the balance of power has a significant influence on the incidence of international trade agreements, as reflected in state decision making.

This work also corrects for the under consideration of the influence of the balance of power in International Political Economy literature that focuses on trade. Since the balance of power plays an overarching role in this research, it will be necessary to start by explaining how the idea is understood. This understanding is reached through definitions and a review of history to help illuminate the various conceptualizations of the balance of power.

The balance of power acts as a conditioning force that facilitates the formation of trade agreements. Specifically, it performs as a salient force that pushes and pulls upon states. That interaction conditions the dynamics of state relations, including the occurrence of international trade agreements. The force is incorporeal, but the influence

nevertheless is consequential on state relations. This force that states impose on each other is continuous in its influence by how it constrains state policies. However, the force remains outside the agency of specific units to control, but states can respond. As this dissertation will explain, the influence of these state interactions plays a distinct role in state decisions involving trade agreements. So, while the states exist in a system this research explains that states develop trade policy in response to constraints.

The significance of this research rests on working to alter the omission in international trade literature of the balance of power concept. As this analysis and cases demonstrate, the balance of power is a distinct and vital component in understanding how international trade agreements transpire. As a result, this research makes a significant contribution to the knowledge of the occurrence of international trade agreements as studied in international relations. Like other conditioning systems in the social order, it is impossible to evade the influence of the balance of power on the incidence of trade agreements.

Therefore, this work seeks to advance the understanding of a salient variable that interacts in the social world and conditions the occurrence of trade agreements. The series of ideas within this dissertation are nascent conjectures and not near the final statement akin to those provided in a refined law. However, the process helps improve concepts as patterns emerge through an analysis of the following cases, which examine three trade agreements. The cases transpire under differing international conditions and provide a lens to examine theoretical conclusions.

In short, the fundamental assumption of the dissertation is that the balance of power is not only a byproduct of states' interactions; it conditions trade agreements.

Regrettably, though, the relationship between the influence of system effects and international trade is insufficiently researched. The influence of the balance of power has received only scant attention in the International Political Economy literature. The dissertation derives motivation from Robert Keohane's appeal that the "suppression of the 'I' in IPE," is disheartening.¹ This absence is particularly notable when it does not address the consideration of the outbreak and evolution of international trade agreements. Accordingly, the significance of this research rests on bringing the concept of the balance of power into research in order to examine its effects on international trade agreements. In this manner, this study will be complementing a rich body of literature in International Relations involving agents and systems.

The following dissertation will test concepts to further advance the theoretical reasoning in international relations around the development of international trade agreements. For example, when examining a broad scope of trade agreements, patterns emerge, showing the salient force of the power competition among states. The influence of power among states impacts those present at the negotiating table and those who are not. The influence of all of the states is part of the system dynamics that mold international affairs.

When examining the occurrence of trade agreements, economists frequently focus on economic conditions and incentives. Meanwhile, when political scientists examine trade agreements, they often consider the political realm and agent motivations.² In both

¹ Keohane, Robert O. "The Old IPE and the New." *Review of International Political Economy*, 2009, 34-46.

² As will be further elaborated on in this chapter the differences relate to ontological and epistemological assumptions that have manifested in differences in the study of IPE as highlighted by Cohen, Benjamin J.

cases, the emphasis is generally on domestic and multilateral relations of the parties involved in negotiations. The International Relations discipline incorporates the influence of institutions and their attendant international political processes, as influencing trade agreements, especially within the World Trade Organization (WTO). This emphasis can narrow explanations of trade agreements that focus on actors, nuanced provisions, narratives, or processes. Nevertheless, these analyses provide some explanations related to the occurrence of international trade and can support the testing of more abstract theoretical conceptualizations of trade agreements. However, the findings in this research suggest there should be further consideration of the balance of power and its influence on social interactions.

Interaction among the respective states involved in negotiations, as well as the influence of the international institutions, does not fully cover the scope of factors to assist researchers in understanding why trade agreements occur. This dissertation asserts it is the force of the balance of power, which helps account for previously neglected explanations, across the disciplines, seeking to understand why trade agreements transpire. For operational purposes, this research assumes the balance of power conditions international trade agreements. However, this salient influence does not remove or dismiss the significant causal influences of economics and politics, as explored within those respective disciplines.

"The Transatlantic Divide: Why are American and British IPE so Different?" *Review of International Political Economy* 14, no. 2 (2007): 197-219.

Research Question: How do balance of power dynamics condition the outbreak and evolution of international trade agreements?

Hypothesis: If the balance of power assists in explaining trade agreements, it should play a distinct role in conditioning how negotiators respond to the international power environment.

The following case studies cases show an awareness of the influence of balance of power during trade agreement negotiations. This awareness of balance of power dynamics manifests in the conditioning influence on the leaders and how those leaders make choices while negotiating. The conditions include opportunities or constraints in the global marketplace. Also, the diminished enmity among the negotiating states was a precondition for the incidence of these trade agreements. The balance of power dynamics reflect leader objectives throughout the negotiating process.

The following mechanisms show how the balance of power dynamics operate within trade agreements:

1. New opportunities or constraints develop in the global market and intersect with state relations
2. Diminished political enmity is apparent among the trading partners
3. Leader objectives are affected by power competition among states
4. Negotiating processes are influenced by and may reference international power competition

With these four mechanisms in mind as the literature is reviewed and the cases analyzed, there will be, when appropriate, references to the mechanisms and the salient role they are playing in the trade agreements. This chapter will continue by elaborating on the key points and how they interact in these relationships. Also, through this chapter and succeeding chapters, several relevant concepts related to the research project will be incorporated. These concepts will help illuminate some of the commonalities and differences in the three cases that explain the development of trade agreements and the conditioning influence of the balance of power.

Systems and Shadows:

An important concept for this research revolves around the understandings of the International State System within the discipline of International Relations. As Kenneth Waltz points out, the system encompasses the arrangement and interaction of the parts.³ Therefore, under this perspective, explaining the causes of international events cannot be attributed to a single unit or group of units. The relational arrangement organizes relative to each states' respective capabilities. Therefore, the emphasis is on how these states interact with each other and how their presence influences others. As a result, state relations begin with an understanding of the concept of power. Often, Realism (and its multiple theoretical variants) emphasizes material capabilities as a central element of power. States share similarities, including the influence from the absence of global

³ Waltz, Kenneth N. *Theory of International Politics*. Boston, Mass: McGraw-Hill, 1979.117. 80.

hierarchy.⁴ The structure accepts those states who work within and rejects states that operate outside those norms.⁵ This claim does not suggest the structure, at its core, is rules-based (which is also a structure) but that, in a competitive and sometimes conflictual environment, states decline and sometimes cease to exist due to the actions of other states. Those that are most likely to fall are those that do not learn and adapt to their social environment.⁶

Therefore, the existence of one state influences the behavior of other states. This interaction among states has evolved into a balance of power system that exists within the international order and influences phenomena outside the order. The arrangement of the balance of power system is constrained, positional, relational, and interactive. However, while there is a consistent agreement regarding the importance of these influences, we are not sure about the effects and interactions among these factors. The existence of a state, according to Waltz, grants it status regardless of its size.⁷ This size in the system is subject to constant change, resulting in uncertain relations and outcomes. Likewise, objects influence each other continually in differing ways due to their respective positions.

⁴ “Despite changes that constantly take place in the relations of nations, the basic structure of international politics continues to be anarchic. Each state fends for itself with or without the cooperation of others. The leaders of states and their followers are concerned with their standings, that is, with their positions vis-a-vis one another” Waltz, Kenneth N. “The Emerging Structure of International Politics.” *International Security* 18, no. 2 (1993): 44-79.

⁵ Waltz, 1979. 115

⁶ Machiavelli, Niccolò. *The Prince*. Hackett Publishing, 2008. 24.

⁷ Waltz, 1979. 96.

Robert Jervis examines the interrelated and interactive effects, intended and unintended, across the units in a system.⁸ Specifically, in *System Effects*, he denotes differences between the understanding of stability and peace. Jervis draws inspiration from Ashby's conceptions of system stability as a means to recognize them.⁹ Therefore, the existence of a system is not about preventing change. Instead, what shows the existence of a system is the way it reacts to change. Thus, the system existence rests in its durability or ability to return to the existing system. This systemic endurance can happen through changes or shocks experienced by an individual or collective units. Jervis also points out, "Aron and Hoffman argue that heterogeneous systems tend to be unstable while homogeneous ones tend to be stable."¹⁰

It is helpful to acknowledge that the study of science has extensive references to the concept of the system. Jervis describes types of systems employed outside of the International Relations discipline. Thomas Kuhn's *The Structure of Scientific Revolutions* asserts there is a varied and cumulative nature to advancements in scientific knowledge.¹¹ Therefore, this understanding of knowledge development from its

⁸ Jervis, Robert. *System Effects: Complexity in Political and Social Life*. Princeton, NJ: Princeton University Press, 1997. 94. Also, for other systemic theories Wallerstein views the world as composed of multiple interacting systems, including the Modern World System, which stressed capital accumulation. This created a relationship related to production that transcended political systems and states. Wallerstein, Immanuel Maurice. *World-Systems Analysis: An Introduction*. Durham: Duke University Press, 2004.

⁹ Ashby, William. *Design for a Brain: The Origin of Adaptive Behaviour*. Springer Science & Business Media, 2013. 54.

¹⁰ Jervis, 1997. 99.

¹¹ Kuhn, Thomas S. *The Structure of Scientific Revolutions*. Chicago, IL: University of Chicago Press. 1996. 52.

condition or change is difficult because the weight of the knowledge is not fully known.¹² However, the knowledge still acts as a force that affects the environment with stabilizing and revolutionary consequences. Kuhn asserts that the perception of the observability and linearity of knowledge development is mistakenly the result of the process of teaching science.¹³ This construction of knowledge development can lead the student to the misperception that the linear method is how knowledge develops.¹⁴ The assumptions within these debates involve the question of whether knowledge accumulation and linear development occur as a result of epistemic systems we often characterize as schools, groupings, or communities.

Like other systems and phenomena, not all interactions studied in International Relations are wholly observable. However, there are useful measures to indicate the existence, changes, and our resulting perceptions of the effects, like with the International State System. We can seek to explain the respective elements but understanding happens through references to the whole. Similar to the cases in this dissertation, we often experience the whole through the activity of some of the parts. At the same time, systems involve agents who assert claims. It is often agents who internalize and respond to these observations. It was agents within various epistemic communities who developed the knowledge, although the community played an essential role in accepting or rejecting the

¹² Ibid. 140.

¹³ Similar points about the challenges regarding the teaching through narratives are in Freedman, Lawrence. *Strategy: A History*. Oxford: 2015. 432.

¹⁴ Kuhn, 1996. 138.

developed knowledge. Kuhn notes revolutions in thought include leading figures whose ideas were accepted and built upon by future generations.¹⁵

In the early 1990s, Krugman¹⁶ wrote about the increased frequency of regionalized trade agreements and the decreased activity at the international institutional level. These institutions involved in guiding trade activity would be expected to play a facilitating role in maintaining the workings of trade as well as the expansion of trade agreements. He asserts that it is not sufficient to consider the frequency of trade, which is due to the diffusion and adoption of norms regarding free trade. For Krugman, the unit of analysis for theoretical explanations of trade is the state and the relations with other states.¹⁷ However, references to Viner's description of how exclusionary trade agreements make the excluders less well-off hints at the existence of an exogenous systemic force influencing trade.

Krugman argues that the reason why GATT and other institutions have been less effective is due to the diminished position of the systemic leader (hegemon).¹⁸ Therefore, under this diminished condition of leadership, there developed an increased role of new economic actors. This shift in influence facilitated the development of more subtleties of trade policies and the obfuscation of international trade rules. As a result, regional trade becomes more attractive due to "both economic and political shadows."¹⁹ This

¹⁵ Ibid. 6.

¹⁶ Krugman, Paul. "The Move Toward Free Trade Zones." *Economic Review* 76, no. 6 (1991): 5.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

dissertation contends that these shadows are another way of describing power. It is through the accumulation of power, as well as survival and interests among the states, that the influence of these aims becomes systematized to form the foundation of the balance of power system.

However, distinct interests develop with the formation of states. This development is akin to change that occurs through a grouping of individuals, which creates a system. Before they act in concert within the group, they also have their respective interests. It seems most likely that some interests may have predated the existence of the International State System, but some new ones emerge due to competition for survival in the system. Butterfield sees balancing as a problem, where it is the result of state formation and system formation.²⁰ Each element reinforces the other. Also, in both classical economic literature and Realist literature, there is an emphasis on discussion of the concepts of absolute advantage and comparative advantage. The literature review in the next chapter includes a discussion of these concepts as reflected within the cases.

Another component relevant to the project involves understanding systemic change. Gilpin's typology of system, systemic, and interaction change provides a theoretical groundwork for how relations among states may transpire.²¹ Change can be related to expectations involving the occurrence of phenomena at the systemic level.

²⁰ Butterfield, Herbert, and Martin Wight. *Diplomatic Investigations: Essays in the Theory of International Politics*. London: Allen & Unwin, 1966.

²¹ Gilpin, Robert. *War and Change in World Politics* Cambridge: Cambridge University Press, 1981. 40.

Questions related to change and expectations are the focus of Dale Copeland's work that seeks to consider the economic influences and causes of war.²² He explains that the factor that resulted in a military conflict was neither cooperation nor competition, but rather an unexpected change in the relations between states. He asserts the expectations of future trade relations between states stabilize or destabilize affairs.²³ Copeland's work on expectations is similar to the contributions from Economists Muth and Lucas.²⁴ Likewise, Thucydides discusses the influence of expectation when describing the ability of Themistocles to foresee, "better than any the possible advantage and disadvantage in a yet uncertain future."²⁵ According to Thucydides, this ability to anticipate the future was a very rare trait among all the leaders in Greece during that time.

Trade Theories:

*"Structural constraints explain why the methods are repeatedly used despite differences in the persons and states who use them."*²⁶ ~ Kenneth Waltz

Before exploring the recent theoretical contributions regarding trade among states, it is essential to consider the broad understandings provided by classical thinkers.

²² Copeland, Dale C. *Economic Interdependence and War*. Princeton University Press, 2014.

²³ Ibid. 43.

²⁴ Muth, John F. "Rational Expectations and the Theory of Price Movements." *Econometrica: Journal of the Econometric Society* (1961): 315-335.

²⁵ Thucydides. *The Peloponnesian War*. Translated by Martin Hammond. Oxford: Oxford University Press, 2009. 68

²⁶ Waltz, 1979. 117.

Through an examination of the respective theoretical assumptions, a sustained understanding of conditions that influence the incidence of trade agreements can be more thoroughly understood. In the process, it will help to consider themes of power and change through a reading of theory as well as history.

Classical thinkers like Thucydides, Machiavelli, or Smith saw less of a delineated distinction between the respective parts of governance and economy.²⁷ Machiavelli points out, “A Prince is exposed to two dangers, from within in respect of his subjects, from without in respect of foreign powers.”²⁸ He further links the two planes, when he claims that when conditions abroad are settled, they will be the same domestically.²⁹ Machiavelli argued that a Prince would need to employ prudence to balance the choices, including sometimes selecting the least bad option.³⁰

Thucydides, Machiavelli, and Smith also saw the linkage of power and wealth. This linkage is especially apparent in matters involving the state, security, economy, and order. Smith says every state should have the “wherewithal to carry on foreign wars.”³¹

²⁷ It should be noted that these classical thinkers use terms widely recognized within the disciplines most often referenced by them, even though they are each from different centuries. Their works had influences in different eras though from the current reader’s vantage point all the work seems a distant past. Thucydides died around 400 BC and Machiavelli died in 1527. Smith passed centuries later in 1790.

²⁸ Machiavelli, Niccolò. *The Prince*. New York: Pocket Books, 2004. 88.

²⁹ Ibid. 88.

³⁰ Ibid. 109.

³¹ Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: 1776. 459.

Thucydides discussed how a revolt among allies is a means to cut their financial reserves, which were a vital source of state strength.³²

Endogenous and Exogenous Political Relations:

To illustrate the interaction of the variables of the International State System, Politics, and Economics, work from Paul Kennedy and Kevin Narizny will be helpful.³³ As Narizny asserts, a grand strategy for a state can be revealed not through a specific plan, which is subject to variation, but instead through a pattern of state behavior.³⁴ Narizny's contribution includes his insights into how economic interest relates to state interest and mirrors the Classical Realist points from Smith, Machiavelli, and Thucydides. States have the choice of policies ranging from isolationist to imperialist on opposite spectrums, with internationalist and interventionist in-between.³⁵ According to Narizny, these conditions interact with other mobilizers and constraints like societal preferences including domestic politics and international politics.³⁶ Therefore, determining between the preeminence of domestic political interest relates to how the

³² Thucydides. *The Peloponnesian War*. Translated by Martin Hammond. Oxford: Oxford University Press, 2009. 58 "Also trouble arose between Athens and Megara (on the isthmus between Athens and Corinth), on which Athens was imposing economic sanctions" Thucydides. *The Peloponnesian War*. Translated by Martin Hammond. Oxford: Oxford University Press, 2009. xiv

³³ Kennedy, Paul M. *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. New York, NY: Random House, 1987. 421.

³⁴ Narizny, Kevin. *The Political Economy of Grand Strategy*. Ithaca: Cornell University Press, 2007. 10.

³⁵ Ibid. 16, 164, 210.

³⁶ Ibid. 16.

state differentiates if the relations are in the periphery or core.³⁷ The constraints include international and domestic behaviors such as vote-seeking, socialization, ideational shifts, and the formation of domestic political coalitions.

In assessing the different historic periods for the U.S. and Great Britain, Narizny first examines the economic foundations for the relations between states (first the periphery and second the great powers). To this point he asserts, “(1) all states must make trade-offs in their security policy, (2) the trade-offs often have distributive implications, and (3) almost all state leaders are selected by, or rely on the support of, groups that are affected by these trade-offs.”³⁸ Mearsheimer also argues that great powers are always wealthy, but not all wealthy powers are great. He maintains that great powers rely on wealth, population, and technology as a latent power which, for a state, links to military power.³⁹ Mechanism one as listed above considers these interacting influences of the comingling of economic and political interests. Specifically, changes in global conditions may either present opportunities or constraints and these interact with political decisions including decisions to enter into trade agreements.

Median voter models consider the preferences of voters and the influence of the median actor determines the outcome.⁴⁰ Mayer applies this concept to the issue of trade

³⁷ Ibid. 19.

³⁸ Ibid. 23.

³⁹ Mearsheimer, John J. *The Tragedy of Great Power Politics*. New York: Norton. 2001. Ch.3.

⁴⁰ Roger D. Congleton The Median Voter Model in Rowley, Charles K., and Friedrich Schneider. *The Encyclopedia of Public Choice*. Dordrecht: Kluwer Academic Publishers 2004.
<http://www.credoreference.com/book/sprpubchoice>.

by employing an economic model which is similar to research on factor inputs for production.⁴¹ Meanwhile, Magee, Brock, and Young assert the voter tradeoffs in preferences and information, as well as the influence of political parties, are the key variables.⁴² The trade agreements may also be a source of strengthening for domestic politics, which may improve domestic political predictability, which can be expected to be favored by state leaders. For trade between states to occur within their framework the political system (like the economic) will shift away from autarky. Levy also considers the feedback effects in the political realm from the approval of bilateral agreements. He then outlines how this previous event influences the consideration of future agreements.⁴³ However, Mansfield, Milner, and Rosendorff assert that democracies follow the Kantian design and engage in more trade.⁴⁴

There was also a systemic change over time that favored authority and likewise seemed to punish norm violators. Therefore, institutions like the WTO advance trade norms. Trade norms from the WTO condition state behavior through rule enforcement, policy direction, and their institutional presence. Rules make it costly to operate outside the systemic norm. The incurred costs can be from either an organized or unorganized

⁴¹ Mayer, Wolfgang. "Endogenous Tariff Formation." *The American Economic Review* 74, no. 5 (1984): 970-985.

⁴² Magee, Stephen P., William A. Brock, and Leslie Young. *Black Hole Tariffs and Endogenous Policy Theory: Political Economy in General Equilibrium*. Cambridge: Cambridge University Press. 1989. 42.

⁴³ Levy, P. I. A Political-Economic Analysis of Free-Trade Agreements. *The American Economic Review*, (1997). 506-519.

⁴⁴ Mansfield, Edward D., Helen V. Milner, and B. Peter Rosendorff. "Why Democracies Cooperate More: Electoral Control and International Trade Agreements." *International Organization* 56, no. 03 (2002): 477-513.

response. Keohane also talks about the costs of uncertainty being a motivator for agreements, “since general conformity to rules makes the behavior of other states more predictable.”⁴⁵ Similarly, Brodie argues that Thucydides makes the point that, “peace is better than war not only in being more agreeable, but also in being very much more predictable.”⁴⁶

Breznitz and Wong present slightly different perspectives on the role of the state in the economy.⁴⁷ Both authors develop parallel and somewhat competing explanations for understanding economies that have adopted state-driven models. These national efforts have the objective of rapidly expanding technology sectors to boost the economy as a whole. Breznitz examines the computer chip and related technology sectors within Israel, Ireland, and Taiwan.⁴⁸ Meanwhile, Wong also discusses Taiwan and adds South Korea and Singapore.⁴⁹ In these countries, the leaders of the Asian Tigers focused state resources on biotechnology and faced poor results.⁵⁰ Breznitz is somewhat more optimistic about the role of the state in development and Wong is more pessimistic. However, they generally agree with each other on how this growth happened and when it

⁴⁵ Keohane, Robert O. *Power and Governance in a Partially Globalized World*. London: Routledge, 2002. 30.

⁴⁶ Brodie, Bernard. *Strategy in the Missile Age*. Princeton, NJ: Princeton University Press, 1959. 408.

⁴⁷ Breznitz, Dan. *Innovation and the State: Political Choice and Strategies for Growth in Israel, Taiwan, and Ireland*. Yale University Press, 2007. Wong, Joseph. *Betting on Biotech: Innovation and the Limits of Asia's Developmental State*. Cornell University Press, 2011.

⁴⁸ Breznitz, 2007.

⁴⁹ Wong, 2011.

⁵⁰ *Ibid.* 165.

did occur. The authors follow the legacy of Hamilton and List in acknowledging that because of power, there is an interaction of the political and the economic.⁵¹

Challenges Toward Theoretical Synthesis:

Considering the points made in the introduction, a research project such as this should acknowledge the challenges in its design. The definition of the balance of power system, while complicated, pales in comparison to knowing, understanding, and measuring its influence. Nevertheless, we can observe its influence in its resistance and conditioning of outcomes. Existing research will be incorporated, including how theories explain the occurrence of trade. The emphasis in this dissertation will be on work from International Relations theory and how it is employed to help explain the formation of trade agreements.

Common ground for the cross-pollination of research opportunities appear in a few key examples of study within International Political Economy. Two examples of this theoretical synthesis are from Milner and Garfinkel et al. Milner gives an overview of explanations involving trade within IPE literature that range from agent and system profit motives to institutional facilitation of trade.⁵² Also, work from Garfinkel, Skaperdas, and Syropoulos looks at security issues within economic trade questions and models. They assert, “power matters for trade as critically as the traditional determinants of

⁵¹ Edward Earle Ed. Paret, Peter, Gordon Alexander Craig, and Felix Gilbert. Eds. 1986. *Makers of Modern Strategy: from Machiavelli to the Nuclear Age*. Princeton, N.J.: Princeton University Press. Ch. 8.

⁵² Milner, Helen V. "The Political Economy of International Trade." *Annual Review of Political Science* 2, no. 1 (1999): 91-114.

endowments, preferences, and technology.” With this in mind, they develop a consumption model in a two-state scenario of trading guns or goods. In this abstraction, they argue that a situation of parity in arms creates an environment of less insecurity, relative to comparative advantages of the other state.⁵³ Also, Mansfield considers the interaction of global power distribution and its influence on war as well as peace.⁵⁴ However, none of these works place the balance of power concept in puzzles related to explaining the formation of trade agreements.

Throughout *The History of the Peloponnesian War*, readers of Thucydides see the interplay of economics and politics, most notably in understanding alliance systems and the rising and declining powers.⁵⁵ Also, military tactics frequently take on economic elements. Raids, sieges, and blocking trade are actions used to weaken a rival power and influence decision-making by effecting the public treasury. Similarly, Adam Smith speaks of security being the primary concern of the sovereign.⁵⁶

However, since the creation of these classical works and the further development of the respective disciplines, an enormous theoretical chasm has evolved. The theoretical assumptions and the inherent tensions within the ideas deserve consideration. At the core is the underlying notion discussed in IPE, within the classical Liberal economic theory

⁵³ Garfinkel, Michelle R., Stergios Skaperdas, and Constantinos Syropoulos. "Trade in the Shadow of Power." *Oxford Handbook of the Economics of Peace and Conflict*. 2012.

⁵⁴ Mansfield, Edward D. *Power, Trade and War*. Princeton: Princeton University Press. 1995. 71.

⁵⁵ Cartledge, Paul. in Strassler, Robert B., and Richard Crawley. *The Landmark Thucydides: A Comprehensive Guide to the Peloponnesian War*. Free Pr, 1996. 596.

⁵⁶ Smith, 1776. Book 5, Part 1.

and the classical Liberal political theory, that individuals are cooperative and frequently engage with each other politically and economically. This thinking has carried over into Neoliberal International Relations theory today.⁵⁷ However, these theories are less reliant on explanations related to exogenous influences to explain engagements in trade, like the Neorealist conception of the balance of power. Instead, in Liberal theory there is a dependence on assumptions related to humans as social beings. They explain how, through human engagement, individuals become more malleable to others. Liberals apply this assumption to explain state relations and also interactions among international institutions.

Again, this dissertation asserts that another theoretical chasm related to assumptions exists, involving the influence of anarchy and the International State System. There are distinct differences in the hierarchy concept, between the domestic and international, and how that concept informs theories. This is the result of different assumptions regarding the influence of anarchy. As Waltz pointed out, “national governments can manipulate system-wide economic variables. No agencies with comparable capabilities exist internationally.”⁵⁸

Furthermore, there is agreement regarding an ontological assumption within classical economic Liberalism and Realism that individuals compete to survive. That understanding, as well as the acknowledgment of the primacy of power in determining

⁵⁷ Burchill, Scott, Linklater, A., Devetak, R., Paterson, M., Donnelly, J., Reus-Smit, C., and True, J. *Theories of International Relations*. Palgrave Macmillan. 2005. 64.

⁵⁸ Waltz, 1979. 110.

outcomes, shows areas of more evident interaction than sometimes acknowledged between realism and classical liberal economics. Recognizing this complexity is necessary. Otherwise, it could be overly simplistic to assume that classical liberalism in economics carries the same assumptions as liberalism in International Relations. This clarification is required to understand the theoretical foundations within a series of case studies that consider the influence the balance of power has on the incidence of international trade agreements.

Therefore, what seems to divide classical liberal economic thinking from the classical Realist approach is less the impression on human behavior and the emphasis on the pursuit of wealth and power. Instead, the result is on the unique attributes of the different domains. Keohane notices intrinsic commonalities between the variants of Realism within international relations theory and classical economics theory.⁵⁹ In both disciplines, the individual is the central tenant of decision-making, relations, measurement, and satisfaction. Furthermore, Keohane does not focus on individuals, states, or economies being defined or experiencing self-actualization through the interaction with others.⁶⁰ In other words, he avoids the logical traps that can arise by claiming altruism is for selfish reasons.

Instead, it is due to the self-help nature of anarchy in the International State System that states are assumed to procure interests and security from others. This

⁵⁹ Keohane, Robert O. *After Hegemony: Cooperation and Discord in the World Political Economy*. Princeton, N.J.: Princeton University Press. 1984. 19, 25, 51, and 52.

⁶⁰ Though Keohane seems to prefer a world where individuals are not wholly satisfied by themselves but instead empathetic.

condition makes states less collaborative than how market firms behave within a classical economic system. This different type of behavior is due to an underlying assumption of the state compared to a market firm. The firm is more subject to the constraints and hierarchies than what states are understood to be subject to in international relations.

There are overlapping points of agreement between classical Realism and classical economics. They come from examining the pieces that are assumed to resemble each other in name only when taken through the respective theoretical logic. Outside of the differing understanding of hierarchy, there are direct links in assumptions regarding human nature, sources of tension, gain, power, and in measuring change.

Gilpin argues that one of the challenges of Neoliberal Institutionalism is the divergence between the authority within institutions and the broader understanding of economic power.⁶¹ In *After Hegemony*, Keohane works to synthesize Realism and Liberalism during a time after the oil crisis of the 1970s, a period which spurred the formation of the IPE discipline.⁶² He does not perceive a grand divide between the leading schools of thought.⁶³ Keohane highlights the degrees of difference within the theories that individuals may be described as egoist, but at the same time be considered cooperative in reaching these individual goals. Keohane observes that, “harmony has never characterized trade politics.”⁶⁴

⁶¹ Gilpin, Robert. *Global Political Economy: Understanding the International Economic Order*. Princeton University Press, 2011. 384.

⁶² Keohane, 1984. 135.

⁶³ Ibid. 122.

⁶⁴ Ibid. 189.

Keohane's argument for Neoliberal Institutionalism operates within the cooperative realm. States, therefore, find it more efficient, or at a minimum less costly, to bind themselves to mutually agreed upon rules.⁶⁵ By reducing asymmetric information and behavior (for example, the WTO or IAEA) through the bargaining process, a type of order forms and commitments develop through the bargaining process. Bargaining fosters commitments among states because of the incentive of reciprocity.⁶⁶ This thinking is similar to security arrangements as outlined by Jervis in, "deterrence theory it is reputation, commitments, and others' expectations that create interconnections."⁶⁷

There seem to be insoluble difficulties in achieving synthesis among these theories and efforts employed to explain human interactions and trade. An effort of this magnitude would face complications due to the necessity of ensuring the internal consistency of the synthesized product as well as how it relates to each respective original theory. This challenge is heightened by the human tendency to focus on inconsistencies. Almost any outlined argument can be found to be inconsistent with any other related argument. As Bertrand Russell explains, "no one has yet succeeded in inventing a philosophy at once credible and self-consistent."⁶⁸ Therefore, any effort to synthesize a theory involving trade agreements and the influence of international relations theories would have multiple inconsistencies to confront. Without the dedication of a career's

⁶⁵ Ibid. 13 and 56.

⁶⁶ Ibid. 18, 53, 90, and 128.

⁶⁷ Jervis, 1997. 23.

⁶⁸ Russell, Bertrand. *History of Western Philosophy* 1945. 613.

work, almost any effort toward synthesis would likely result in an incomplete text. Instead, this dissertation examines these ideas through case studies to consider their relevance and how they contribute to the explanations of how trade agreements occur.

Contribution:

The contribution of this research is the emphasis on the balance of power's roll in conditioning the occurrence of trade agreements. The following cases demonstrate that, while negotiating a trade agreement, states account for the power and interests of other states. This awareness of the other states is not confined to the parties involved in negotiating the agreement but includes a broad number of states. Historic accounts reference an awareness of the influence multiple states have on trade agreements. However, International Political Economy theories neglect the balance of power's influence on trade agreements. These cases show how the balance of power influences the parties involved in the trade talks, issues under deliberation, and the anticipated consequences of an agreement.

Therefore, the dissertation can show how theory within International Political Economy can advance with the incorporation of the balance of power variable. The balance of power has customarily been considered a security variable. However, it molds a range of social phenomena, including (but not limited to) politics and economics, as well. In fact, these cases show the salient causal role the balance of power plays in influencing the incidence of international trade agreements.

There are few instances where scholars consider the effect of the balance of power on trade activity. Specifically, the literature overlooks the influence of the balance

of power on the formation of international trade agreements. This absence is noteworthy, considering the opportunity within the discipline of International Political Economy to allow each of the disciplinary constituent parts to contribute insights to help explain the formation of trade agreements. There is an absence of the balance of power variable within economics literature and separately in political science literature related to this topic of trade and trade agreements. There is even an absence of the balance of power concept within international relations explanations of trade agreements.

Some of this deficit may be due in part to the challenges just outlined regarding internal consistency involving theoretical work across multiple disciplines. Even with this caveat, considering the consequential ramifications of the balance of power on state relations, it is puzzling why this concept is absent from the literature. Instead, as Krasner points out, research within the discipline seems to focus on transnational explanations at the expense of the concept of the state.⁶⁹ Consequently, there is a deficit in the incorporation of the influence of the system of states and how they condition phenomena that would fall into the category of International Political Economy. Mansfield considers the effect of differences in the distribution of physical power among states as an influence on trade activity. He outlines how trade volume is affected by acute differences in the international distribution of power.⁷⁰

Some emphasize the power of a hegemon to develop economic systems favorable to the hegemon. They cannot explain how empirically these economic systems rarely

⁶⁹ Krasner, Stephen D. "State Power and the Structure of International Trade." *World Politics* 28, no. 3 (1976): 317-347.

⁷⁰ Mansfield, Edward D., 1995. 23.

overlap with hegemony in trade policy. Furthermore, there are multiple empirical examples where a hegemon may exert modest influence, as explained by the theorists.

The dependent variable of this research, the formation of trade agreements, is not the most distinguishing aspect of this dissertation. Instead, the focus deals with the independent variable, the balance of power, and the effect it has on the formation of trade agreements. Researchers should emphasize the importance of understanding why trade agreements seem less durable under multipolarity. The conclusion of the dissertation analyzes the cases to explain how polarity conditions the formation of trade agreements; with every increase in polar actor, there is a corresponding decrease in agreements. The polarities within the balance of power shape the competition among states, which impacts security. However, the differences in polarity also influence all state relations including the reaching of trade agreements.

As a result, the incorporation of this concept will motivate deeper deliberation about the influence of the balance of power in trade agreements and its further consideration within the International Political Economy discipline. Perhaps, as a result of the existence of unipolarity, the absence of robust power competition has led to this under consideration in contemporary research. However, with the emergence of multiple political power centers it is reasonable to expect research will reflect this shift in state competition. With this in mind, the value in this research and future work is theoretical but can also have practical influence, especially with the growth of China and the resulting power competition.

The dearth of explanations on the influence of the balance of power may relate to Krasner's observation about the somewhat myopic focus of IPE literature. Existing

academic research could be myopically focused because the explanations are internally consistent. However, utilizing theories that are internally consistent has provided limited explanations for the complex political, economic, and international dimensions of relations. Within the core elements of the literature, there is an unresolved tension when attempting theoretical synthesis. As mentioned above, because of these barriers to synthesis this work will primarily focus on examining specific cases of trade agreements. Therefore, examining empirics refocuses the reader on events to better test theories. Consequently, understanding why trade agreements happen develops not just by theories, but by how those theories comport with events.

The dissertation contribution shows, through cases, how the balance of power influences the incidence of international trade agreements by conditioning the choices available to leaders. By focusing on the balance of power variable, these cases show a possible refinement for International Political Economy theories. As the methods section will outline, theory will help contextualize the cases, and the cases will help test theory.

Methods:

Tension is sometimes created in science when a researcher tries to prove a theory while also providing real-world applications. If the idea is to have real-world application, it must also be subject to testing. As Popper notes, on the falsifiability of the research

design, “irrefutability is not a virtue of a theory (as people often think) but a vice.”⁷¹ This research seeks to address this challenge by testing theory through relevant cases.

The dissertation will examine three cases to consider the existing theoretical claims to help understand the phenomena of international trade agreements and the balance of power influence. Also, the work will study some related questions to consider the possibility of alternative explanations. Through that process nascent conjectures will be provided to explain these phenomena. Precisely through these outlined methods, the research will examine the factors that contributed to the formation of trade agreements. The conclusion will consider these factors again and compare factors and derive patterns related to these cases.

This comparative approach is utilized to examine the complexity of trade agreements and to allow the consideration of theoretical explanations. Because the research involves three cases, a comparative approach allows the opportunity to draw inferences from each case. In addition, the opportunity exists for each case to reveal patterns that contribute explanations about the formation of international trade agreements. This approach forces a researcher to examine a case more closely. In the same way theory is used as a means to shine a light on a subject, a different case can help illuminate unnoticed patterns and push for thorough analysis. As Lim stresses, comparison “can help open your eyes to the world.”⁷²

⁷¹ Popper, Karl, *Conjectures and Refutations: The Growth of Scientific Knowledge*. 1969. 36.

⁷² Lim, Timothy C. *Doing Comparative Politics: An Introduction to Approaches and Issues*. Boulder, CO: Lynne Rienner Publishers, 2006. 31.

This approach presents opportunities and challenges. The opportunities include thoroughly examining the claims within specific cases. However, while a case may be able to falsify a theory component, it cannot falsify all other claims from a related theory. The falsification would apply only to this case. On the other hand, if an idea faces rejection in one example it is essential to consider that it could be rejected in other cases. Therefore, researchers are confronted with a challenge when examining cases because of the limitations associated with developing generalizable theoretical insights.

Given the dearth of existing explanations directly related to this area of research, it is appropriate to build a foundation. This approach is necessary before seeking to make broad claims related to the international state system and generalizable claims regarding its influence on trade agreements. Because these cases are bound by specific periods it is not possible to control for variables occurring in those periods. These dynamics include technological change, the rise of institutions, changing norms, changes in domestic political systems, and globalization. However, in each of the cases these circumstances are relevant. Therefore, these conditions are referenced even though they are often not part of the Neorealist paradigm.

Referencing relevant details does not confuse or diminish the influence of the balance of power in explaining trade agreements. Therefore, because of the infrequency of changes to polarity it is challenging to design research that detects all of the differences. There are only some similarities among the cases to aid in determining a difference. However, when reviewing the cases, general patterns emerge that are useful for future theory building. At a minimum, researchers can determine if cases comport with theoretical claims. As Peters explains, “eliminating possible causes is in itself a theories of cause available.”⁷³

This dissertation's tests relate to Popper's scientific approach. Specifically, he explains a theory must be testable to be scientific. He also outlines how a universal claim can be refuted based on one experience or example.⁷⁴ In, *The Logic of Scientific Discovery*, Popper explains, "a positive decision can only temporarily support the theory, for subsequent negative decisions may always overthrow it."⁷⁵

Therefore, Popper outlines four approaches to test a theory. First, he stipulates the necessity of applying internal consistency checks. Second, according to Popper, the logical character of the work should be determined to be empirical, scientific theory, or tautological. Third, he calls for comparison with existing theories. This step determines the tested theory's references to research, whether it survives scrutiny, and if it will advance scholarship. Fourth is testing the theory against empirical examples to determine if it meets scrutiny.⁷⁶ Therefore, these methods provide insight into getting the respective variables to explain their influence. Each is likely to reveal some internal validity but to face challenges with external validity.

Case selection for this dissertation was not determined at random though the details and outcome of the research was unknown at the time of case selection. Each case focuses on the bilateral negotiations of an agreement and the conditions the states operate within. The agreements studied in the cases were negotiated in different time frames

⁷³ Peters, B. Guy. *Comparative Politics: Theory and Methods*. NYU Press, 1998. 69.

⁷⁴ Popper, Karl. *The Logic of Scientific Discovery*. Routledge, 2005. 27.

⁷⁵ Popper, 2005. 33.

⁷⁶ Popper, 2005. 32 and 33

under different balance of power polarities. A central claim of this research is that the cases reflect how the balance of power influences the incidence of international trade agreements. Within most realist paradigms the main variation within the balance of power is the number of polarities. So, the independent variable, the balance of power, affects the dependent variable, the adoption of trade agreements. As a result, this research develops a nascent conjecture that requires additional cases. It suggests that the influence of polarity would mean for each increase in number of polar units there is a decrease in the number of trade agreements. For this dissertation one case is presented for unipolarity, one for bipolarity, and one for multipolarity. The selection of three cases is similar to Breznitz, as well as Wong, and their respective comparative studies of state-directed technology development. This dissertation differs in its temporal scope as well as its emphasis on conditions and agreements, rather than on internal state technology developments. Although this dissertation also has three cases it does not benefit from a counterpart to supply contrasting conclusions.

With that in mind there is a range of concepts and complexities that need consideration in order to ensure consistency and testability of the research. First, while this research utilizes theory to examine cases it cannot make generalizable statements regarding the certainty of claims. However, it can provide direction on places to look. Hall outlines how internal validity is a cohesive and supported argument that shows the relationship between variables. Also, he explains that external validity is a case where the explanation under similar circumstances (*ceteris paribus*) would repeat.⁷⁷ Therefore, the testing of these claims relates to the external validity of existing theory.

⁷⁷ Hall, Peter. "Aligning Ontology and Methodology in Comparative Research" Mahoney, James, and Dietrich Rueschemeyer, eds. *Comparative Historical Analysis in the Social Sciences*. Cambridge

However, given the limited cases, this qualitative work will consider the internal validity of its analysis. Goertz and Starr point to the Aristotelian origins of the necessary logic that an event happens “only if” a specific variable exists.⁷⁸ Therefore, when applying these methods, the dissertation will test existing theoretical explanations within these three cases. As a result, the dissertation will provide alternative explanations and paths to theoretical development that is internally and externally consistent within the confines of the examined cases.

We, therefore, can expect that the balance of power will be a necessary but not sufficient variable in explaining the formation of trade agreements. This approach will focus on the cases and highlight the opportunities for additional tests. Comparativist approaches in case studies often look within cases at the agents and systems that influence the area of study. As a result, this approach can neglect the influence of exogenous factors where the concept of the balance of power would likely be an influence on the other research programs. Therefore, “case studies provide guidance in the revision and reformulation of analytic theory to account for a broader range of phenomena. Indeed, analytic theory cannot do without case studies.”⁷⁹

University Press, 2003.

⁷⁸ Goertz, Gary, and Harvey Starr. *Necessary Conditions: Theory, Methodology and Applications*. Lanham, Md: Rowman & Littlefield, 2003. Print.

⁷⁹ Achen, Christopher H., and Duncan Snidal. "Rational Deterrence Theory and Comparative Case Studies." *World Politics* 41, no. 2 (1989): 143-169.

Chapter Outline:

The following chapters will build from existing literature to show how the balance of power influences the incidence of trade agreements. In order to explore the importance of the balance of power, the next chapter considers how the idea has evolved. The chapter also incorporates the history of the evolution of trade and trade agreements and concludes with an analysis on how the concept intersects with the balance of power.

The subsequent three chapters apply these concepts while also examining cases of trade agreements. Each case illustrates the balance of power variable. Each example incorporates the different system types of multipolarity, bipolarity, and unipolarity during the time frame of the respective trade agreement's adoption. Chapter Three, the multipolarity case, looks at the early trade agreement between France and Britain in 1860. Negotiated by Cobden and Chevalier this agreement lowered French barriers to trade with Britain. The bipolar case, Chapter Four, looks at the development of MERCOSUR and focuses on the interactions between Brazil and Argentina that molded the agreement. Chapter Five discusses a unipolar agreement involving the Russia and China natural gas deal in 2014. The concluding chapter compares the insights from the individual cases, with emphasis on the conditioning influence of the balance of power, and considers further areas of research.

CHAPTER 2: LITERATURE REVIEW

“The balance of power is the scale of peace.” ~ Thomas Paine⁸⁰

“So the realm of strategy is one of bargaining and persuasion as well as threats and pressure, psychological as well as physical effects, and words as well as deeds. This is why strategy is the central political art. It is about getting more out of a situation than the starting balance of power would suggest. It is the art of creating power.” ~ Lawrence Freedman⁸¹

Balance of Power Theories:

The various balance of power theories incorporate consideration of how the number of great powers in the world influences the relations among states. The variations of these types of explanations range: from the intuitive, to the agent-based perspective, and to structural understandings. Even with a large volume of academic literature, there is modest consideration of how this concept of balance of power influences trade agreements. This chapter explores existing academic literature around balance of power, trade, and in the specific examples where the concepts overlap. This dissertation does not seek to be bold in terms of theory claims, but rather to more broadly shine a light on this largely neglected subject.

⁸⁰ Paine, Thomas. "Thoughts on Defensive War." *History of Economic Thought Chapters*. 1908. 56.

⁸¹ Freedman, Lawrence. *Strategy: A History*. Oxford University Press, 2015. xii.

The beginning of the chapter will look at the relevant meanings of balance of power, and the second half will look more closely at the ideas employed to understand global trade. Before considering how the balance of power, in these three cases, influences the incidence of trade agreements, it is essential to examine the various meanings of the balance of power to reach a working definition.

First, a discussion of power helps illustrate these competing understandings of the balance of power. Morgenthau argues that power is evident in human nature, and this influence is similar to what he observes in state relations.⁸² Morgenthau assumes specific laws govern interactions, which draw from his understanding of nature.⁸³ Waltz, on the other hand, draws different assumptions regarding state relations and highlights system-oriented explanations.⁸⁴

For this research, the meaning of power derives from Robert Dahl, who suggests, “my intuitive idea of power, then, is something like this: A has power over B to the extent that he can get B to do something that B would not otherwise do.”⁸⁵ Dahl’s definition of power claims that intent is not the only determining criterion to detect the presence or direction of power. Behind this contest of power are the explanations and understandings which, as Edward Carr explains, function as an interaction between

⁸² Morgenthau, Thompson, and Clinton, 2006.

⁸³ Ibid.

⁸⁴ Waltz, 1979.

⁸⁵ Dahl, Robert A. "The Concept of Power." *Systems Research and Behavioral Science* 2, no. 3 (1957): 201-215.

Classical Realism and utopian Liberalism.⁸⁶ He also asserts that fundamentally, politics is, “in one sense always power politics.”⁸⁷ He explains that neglecting power results in confusing the essence of the relations among states. As a result, the primary objective of each state is to “maximize its share of world power,” and power helps the state survive in a conflictual environment.⁸⁸ Waltz agrees when he suggests that, in the system, states position according to their power.⁸⁹

Classical and contemporary writings emphasize the relationship between the need for wealth to maintain power and the idea that power helps secure wealth. In *The Twenty Years' Crisis, 1919-1939*, E.H. Carr asserts that the influence of power in the relations among states was being neglected after World War I to the risk of peace and order in Europe.⁹⁰ Adam Smith contends in *An Inquiry Into the Nature and Causes of the Wealth of Nations*, that, “wealth, as Mr. Hobbes says, is power.” However, those who gain fortune may not succeed in gaining political power. Financial means may afford an opportunity, but fortune does not necessarily convey automatically to a person.⁹¹ Child contends the “profit and power ought to be jointly considered.”⁹² Placing them together

⁸⁶ Carr, E.H. *The Twenty Years' Crisis, 1919-1939: An Introduction to the Study of International Relations*. Palgrave Macmillan. 1939.

⁸⁷ Ibid. Ch. 8.

⁸⁸ Mearsheimer, 2003. 2.

⁸⁹ Waltz, 1979. 97.

⁹⁰ Carr, 1939. 78.

⁹¹ Smith, 1776.

⁹² Child, Josiah. *A New Discourse of Trade: Wherein is Recommended Several Weighty Points Relating to Companies of Merchants, the Act of Navigation, Naturalization of Strangers, and Our Woolen Manufactures, the Balance of Trade, and the Nature of Plantation*. London. 1698. 115.

results in a reinforcing and multi-causal logic that makes parsing out explanations difficult, and perhaps unwise.

While these writings seem to be complementary and reinforcing, there are challenges to this notion. There are examples in history of exceptions to the argument regarding the significance of wealth and power. At the same time, throughout history, it is often the case that the wealthiest states are the most powerful. A counter-argument that state power is ineffective would be much more difficult to prove, especially when states and humans continually pursue power.⁹³

While Realists disagree on the specific measures, there seems to be a general agreement regarding what constitutes a great power. There are three common requirements for identifying a great power. These requirements include a sufficient sized military to control substantial territory. Second, a military with adequate resources to arm its forces and sustain a prolonged presence away from its borders must be available. Also, it is necessary for there to be a strong economy. With this kind of economy, a state can finance, innovate, and sustain itself for many years of military conflict. If any of these fundamental elements do not exist, it is hard to claim that the specific state is a powerful actor on the global stage.

“If we assume as the historians do that great men lead humanity to the attainment of certain ends the greatness of Russia or of France, the balance of power in Europe, the

⁹³ Outside of the scope of this work it is important to reflect and consider the multitude of examples where power in its raw form has not been sufficient in explaining events. In fact, it may be a difference in its use as well as a too narrow understanding of power where empirically other contests for power are more successful than anticipated.

diffusion of the ideas of the Revolution, general progress, or anything else then it is impossible to explain the facts of history without introducing the conceptions of chance and genius."⁹⁴ ~ Leo Tolstoy

Intuition:

In recent centuries, practitioners and political writers first chronicled cases about the balance of power through vague allusions. The allusions are intuitive and do not provide precise explanations for state relations.⁹⁵ Interestingly, the concept of balance of power developed through this intuitive discussion around cases that considered the influence of state power relations instead of a generalized system. An evolutionary route for ideas is critical because intuition can be the foundation of concept development that refines through reflection and testing. Aaron Preston explains how both Locke and Hume, "treat intuition as an immediate grasp of relations among ideas."⁹⁶

The concept focuses explicitly on how great powers influence each other and how they sometimes organize in balance or imbalance. Not surprisingly this intuitive development does not result in a distilled definition of these terms. Instead, the concept is the result of agents thinking abstractly about these ideas in the context of their environment as well as their preferences. With this subject, like others, it is helpful to know where the intuition originates.

⁹⁴ Leo Tolstoy. *War and Peace*. Oxford: Oxford University Press. 1998. Book 15. 43.

⁹⁵ Haas, Ernst B. "The Balance of Power: Prescription, Concept, or Propaganda?" *World Politics* 5, no. 4 (1953): 442-477.

⁹⁶ Preston, Aaron. "Intuition in Analytic Philosophy." *Teorema: Revista Internacional de Filosofía* 34, no. 3 (2015): 37-56.

Hume's classic text on the balance of power makes universal claims regarding the influence of apparent principles throughout history. Therefore, for the author, these patterns are common sense and grasping the meaning was impossible to, "have escaped antiquity."⁹⁷ In drawing inspiration from Thucydides, he asserts that Hiero's relations and arrangements with Carthage ensured his possession of Sicily. Therefore, as a result of this executed plan, he preserved relations with Rome, thus improving balance and safety for the interested parties. Hume argues that the balance of power can be grounded in understandings of politics and prudence, which can successfully sustain lasting power groupings.

Other writers who discuss the balance of power view it as an equal power distribution that, "makes it impractical for the one to disturb the repose of the other," says the anonymous author of *Europe's Catechism*.⁹⁸ Fenelon in 1835 points to, "action by a state to keep its neighbours from becoming too strong... beyond a certain limit changes the general system of all the other neighbours."⁹⁹ Maintaining the relational process of trying to preserve a balance, which involves moves to keep neighbors from getting too strong, can relate to the security dilemma.¹⁰⁰ Efforts to curtail the strength of another can

⁹⁷ Hume, David. "Of the Balance of Power". 1742

⁹⁸ Text cited in secondary source: Sheehan, Michael J. *The Balance of Power: History and Theory*. Taylor & Francis, 1996. 2.

⁹⁹ Fenelon in Sheehan, Michael J. *The Balance of Power: History and Theory*. Taylor & Francis, 1996. 2.

¹⁰⁰ Wright, Quincy. "Realism and Idealism in International Politics." *World Politics* 5, no. 1 (1952): 116-128.

often strengthen one's self, which others will seek to balance against in a dynamic situation. At the same time, the preservation of the state is aided by the survival of the system of states.

Eyre Crowe argues that the maintenance and pursuit of balance happen by a state's understanding of rivalry patterns as well as coordination among states to establish formidable groupings of force. Therefore, this approach will check abuses among states through the existence of an equilibrium, "by such a grouping of forces is technically known as the balance of power."¹⁰¹ As a result of this check, "no state shall be in a position to have absolute mastery."¹⁰² Through an analysis of additional theoretical approaches, the understandings of the balance of power will enhance the research. This process will aid in explaining the influence of the balance of power on the relations among states and ultimately on international trade agreements.

The next two sections will focus on the classical and structural theories involving the balance of power.

Classical Understanding:

The following section highlights agency-based explanations for the balance of power. An agent is generally known as an individual. More specifically, the degree of agency an individual possesses is a function of their ability to act in society. The

¹⁰¹ Crowe, Eyre, and Hilaire Belloc. *German Foreign Policy Before the War: The 1907 Memorandum*. London: Friends of Europe. 1936.

¹⁰² Vattel, 1916 in Sheehan, Michael J. *The Balance of Power: History and Theory*. Taylor & Francis, 1996.

structure is the influence of forces outside the agent that modifies their ability to act. The differences between the points of emphasis in agent and structure contribute to perspectives or levels of analyses within the International Relations discipline, and the conceptualization of balance of power. These theories seek to explain phenomena by emphasizing either the agent, the structure, or sometimes both.¹⁰³

“The balance of power ‘refers to an actual state of affairs in which power is distributed among several nations with approximate equality,’” as quoted in Hans Morgenthau.¹⁰⁴ The system is considered in balance if there are no major power wars, and it is out of balance if there are major power wars.¹⁰⁵ This point relates to Nicholas Onuf’s observation that for Morgenthau, “operationally speaking, what must always be calculated is power position.”¹⁰⁶

Quincy Wright and Louise Leonard Wright explain that due to external pressures, states must advance their power to ensure self-preservation. Because of these considerations, states can and do ignore thoughts of law and social solidarity.¹⁰⁷

¹⁰³ Ibid.

¹⁰⁴ Morgenthau, 1978. In Sheehan, Michael J. *The Balance of Power: History and Theory*. Taylor & Francis, 1996. 3.

¹⁰⁵ That does not preclude the occurrence of other various atrocities due to events that happen outside of the relations among states or inside the relations within states.

¹⁰⁶ Onuf, Greenwood, N. *World of Our Making: Rules and Rule in Social Theory and International Relations*. Routledge, 1989. 240.

¹⁰⁷ Wright, Quincy, and Louise Leonard Wright. *A Study of War*. Chicago: University of Chicago Press. 1983. 116 & 117

Therefore, peace may occur, but it would be from “incidental by-products.”¹⁰⁸ However, Edward Vose Gulick challenges some of the agency-based explanations. He asserts that leaders expect the balance of power systems to continue and become complacent with the arrangement. Instead, Gulick has an idealized image of leaders who should be alert and maintain the order.¹⁰⁹

Similarly, Wright talks about leaders who are pursuing stability and see the management of the system as necessary. Therefore, leaders’ actions require “actively willed and maintained,” postures to preserve the balance of power.¹¹⁰ The stability is promoted by devices and by the degree of certainty held by states regarding their environment and relations among states in the system. Jack S. Levy explains the great powers are expected to balance and often do express their agency in their balancing behavior against other great powers.¹¹¹

Morgenthau maintains that “the balance of power found such a criterion, as we have seen, in territory, population, and armaments.”¹¹² He explains that the balance of power plays a role in facilitating stability in the power relations among states. However, those relations are never stagnant and are always subject to continuous change.¹¹³ This

¹⁰⁸ Gulick, Edward Vose. *Europe's Classical Balance of Power: A Case History of the Theory and Practice of one of the Great Concepts of European Statecraft*. Westport: Greenwood Press. 1982. 184.

¹⁰⁹ Gulick, 1982. 184.

¹¹⁰ Wright and Wright, 1983. 118.

¹¹¹ Levy, Jack S. "The Causes of War and the Conditions of Peace". *Theories of International Relations*. 2008. 691-717.

¹¹² Morgenthau, Hans J, Kenneth W. Thompson, and W D. Clinton. *Politics Among Nations: The Struggle for Power and Peace*. Boston, Mass: McGraw-Hill Higher Education, 2006. Ch. 14.

¹¹³ Morgenthau, Thompson, and Clinton, 2006. 186.

those relations are never stagnant and are always subject to continuous change. ¹¹³This change occurs in the competition and realignments of alliances.¹¹⁴

Morgenthau cites the history of relations among states where alliances are assured less by agreement or bonds than instead by circumstances where states join for a time.¹¹⁵

Morgenthau claims that World War I and the decades before saw a shift in perceptions from balance of power being a European conception to a global one. Also, Morgenthau emphasizes the role of the holder of the balance. From an agency perspective, Britain would be the arbitrator and would be independent in decision making. Therefore, under this idea, Britain could exist inside and outside power games in continental Europe and intervene with the weaker side. ¹¹⁶This choice to join the weaker side in a conflict is an expression of its agency to decide when to intervene. However, according to Morgenthau, the choice to intervene and the choice of which specific side to favor is automatic.

¹¹⁷Morgenthau's explanation hints at systemic qualities that are conditioning the power competition in Europe beyond the attributes of the individual states.

However, empirically, the balance of power competition among states exists, with or without the presence of Great Britain. Morgenthau emphasized how Great Britain's geography accorded its distinct relational flexibility. ¹¹⁸However, this does not make the pursuit of security or power unique. States that are near adversaries can be involved in

¹¹⁴ Ibid.

¹¹⁵ Ibid. 193.

¹¹⁶ Morgenthau, Thompson, and Clinton, 2006.

¹¹⁷ Ibid.

¹¹⁸ Ibid.

balancing competition among other rival peers. As a result, it seems likely they would seek outside influence from powers to improve their positions. Therefore, these states engage in their own balancing choices. These conditions constrain the choices Morgenthau outlined for the balancer and the states not engaged in balancing. Some of the understanding behind these points may rest with Morgenthau's underlying assumption regarding international relations; objective laws grounded in human nature show the importance of power.

A byproduct of the balance of power arrangement, according to Stanley Hoffman, was that it moderated aspirations and accomplishments of rulers in the past, “it restrained violence (without curtailing wars). It provided enough flexibility to ensure a century of global peace after the Congress of Vienna, despite drastic changes in the relative strengths and fortunes of the main actors.”¹¹⁹

In order to transition toward other explanations of the balance of power and away from agent-centered phrases like balancing, this text shifts toward structural considerations. However, the number of conflicting explanations of balance of power inside and outside of Realism may contest the assertion by Onuf that, “the Realist view of world politics has the considerable virtue of consistency and simplicity.”¹²⁰

¹¹⁹ Hoffmann, Stanley. "Weighing the Balance of Power." *Foreign Affairs* 50, no. 4 (1972), 618.

¹²⁰ Onuf, Greenwood, N. *World of Our Making*.: Routledge, 1989. 240.

Structural Understanding:

By emphasizing the forces imposed upon agents and states, including the International State System, the conception of structure within the balance of power literature rounds out the understanding. Most widely known in the discipline are the works of Kenneth Waltz, who emphasized the influence of this third image, the international system of states, in *Man, State, and War*. Waltz further theorized the structural conception of this state system in the *Theory of International Politics*. While not denying the influence of agency in explaining relations among states, this section examines the effect of the number of units that are known as great powers.¹²¹

The number of units influences a wide range of state relations, including conflict. As this dissertation contends, the number of units also influences the occurrence of international trade agreements. This is because many structuralists agree with the points from Poincaré, who claims that the objects of study are unknowable.¹²² He argues that it is not possible to correctly know objects due to perception and bias; consequently, we can only infer. Therefore, what stands out are the interactions that, as a result, form the structure, “and structure is what can be expressed by mathematical logic.”¹²³ This line of thinking contends that what is most significant is the relational aspects of research, “what science gets right about the world is not its detailed ontology, but rather its structural

¹²¹ Fox, William T. R. *The Super-Powers: The United States, Britain, and the Soviet Union - Their Responsibility for Peace*. New York: Harcourt, Brace and Company, 1944.

¹²² Poincaré, Henri. *Science and Hypothesis*. Science Press, 1905. 1.

¹²³ Russell, Bertrand. *The Analysis of Matter*. Psychology Press, 1992. 254

features.”¹²⁴

A challenge with this assumption is the difficulty in understanding structure in isolation from assumptions about agents. Also, some of the challenges center around the interpretation of structural perspectives and the difficulties posed by imprecise concepts, terms, and interactions. Of course, this problem is not limited to a specific theoretical, methodological, or ontological framework, but it is a challenge across the scientific disciplines. Waltz points out, “structure is a useful concept if it gives clear and fixed meaning to such vague and varying terms.”¹²⁵

Therefore, the structural view of the balance of power system consists of the influence states have on each other. The structure is broader than communicating the actions and influence of agents, but also considers the factors that propel and constrain actors within the state. These states seek to survive, while aware that they are imposed upon by the influence and aims of other states. This is because “structure is not a collection of political institutions but rather the arrangement of them.”¹²⁶

The units perform similar roles in the system because of the need for survival and their interaction with other states. As a result, these attributes allow for a degree of parity among many of the characteristics of each state. Therefore, the states resemble each other and possess “uniform” qualities where the functions of each of the states are

¹²⁴ Bokulich, Alisa, and Peter J. M. Bokulich. *Scientific Structuralism*. New York: Springer Verlag, 2011. xi.

¹²⁵ Waltz, 1979. 80.

¹²⁶ Waltz, 1979. 81.

similar.¹²⁷ However, the, “individual unit acts for itself. From the coaction of like units emerges a structure that affects and constrains all of them.”¹²⁸ Waltz compares this systemic order to groupings of market firms.¹²⁹ He argues that when systems form, it is not possible for a specific firm or a small grouping of firms to organize to change the system arrangement.¹³⁰ Concomitantly, as with all orders and systems, the distinction is critically important.¹³¹

The International State System itself is unique because, as Boulding maintains, there are general types of systems that make war or peace more likely. “The measure of the strength of the system is the degree to which it can stand strain but, as the measure of strain is the degree to which it can overcome strength, it is hard to get independent measures of these characteristics.”¹³² Mearsheimer argues similarly, “that systemic factors constrain aggression, especially balancing by threatening states.”¹³³ Therefore, power itself is a resource and a potential force when utilized. However, the unutilized potential force molds the systemic environment where, as Boulding points out, “there are

¹²⁷ Ibid.

¹²⁸ Ibid. 90.

¹²⁹ Ibid.

¹³⁰ Ibid.

¹³¹ Onuf, Greenwood N. *World of Our Making*. Routledge, 2015. 221: Also, there are differences within constructivism regarding balance of power deriving from degree of differences in determining the significance of anarchy and agency as played out in debates between Wendt as well as Onuf. Gould, Harry D. "What is at Stake in the Agent-Structure Debate?" *International Relations in a Constructed World* (1998): 79-98.

¹³² Boulding, Kenneth E. *Stable Peace*. Austin: University of Texas Press, 1978. 33.

¹³³ Mearsheimer, 2003. Ch. 2.

subtle differences between power and influence.”¹³⁴

Mearsheimer is specific with what he considers the impact of power and says, “military power is based largely on the size and strength of a state’s army and its supporting air and naval forces.”¹³⁵ He argues that states possess a latent power in the form of economic resources. So, great powers need resources, technology, and a population base for military forces.¹³⁶ Brawley argues that there are intermediate (procurement) and long-term (research and budgeting) economic dimensions toward military power.¹³⁷ However, Brawley concludes, “behavior of great powers is influenced mainly by their external environment.”¹³⁸

In the same way, the balance of power system is a composite of individual states where the power relations have elements that are static while other elements are dynamic. This is why previous authors have described the coexistence of the attributes that interact. This is a similar idea to the coexistence of order and disorder in Bull’s *Anarchical Society* or the different ideological sides for Carr.¹³⁹

Waltz continues by explaining how firm decisions, “are influenced by their

¹³⁴ Boulding, 1978. 35.

¹³⁵ Mearsheimer, 2003. 56.

¹³⁶ Ibid. 55.

¹³⁷ Brawley, Mark Ed. Paul, T V, James J. Wirtz, and Michel Fortmann. *Balance of Power: Theory and Practice in the 21st Century*. Stanford University Press, 2007. 87.

¹³⁸ Ibid.

¹³⁹ Bull, Hedley. *The Anarchical Society: A Study of Order in World Politics*. Macmillan International Higher Education, 2012. 3: Carr, 1939.

market, and how people's behavior is molded by the offices they hold."¹⁴⁰ He incorporates economic analysis of abstract units. Waltz recognizes the differences in hierarchical arrangements between the assumptions within economics and international relations where, "international politics is more nearly a realm in which anything goes. International politics is structurally similar to a market economy insofar as the self-help principle is allowed to operate in the latter."¹⁴¹ The system tends to reward certain types of behavior that conform to its fundamental rules and punish those outside those guidelines. An agent who wants to survive would seek to learn and conform to the rules while also possibly benefiting from those who exist outside the rules.¹⁴²

Meanwhile, "the death rate among states is remarkably low."¹⁴³ However, states, as we infer from their behavior, seem to fear death more than market firms due to the different ramifications a demise would have. This means that incorporating exogenous frameworks may help explain some but not all phenomena. There is perhaps nothing fully comparable to the competitive nature states face because there may be nothing like the death of a state in scope and magnitude. Therefore, states pursue a range of strategies to address these different polar arrangements.

Because of balancing behavior, diverse types of systemic arrangements are expected to form. These arrangements are organized based on the number of great

¹⁴⁰ Waltz, 1979. 81.

¹⁴¹ Ibid. 91.

¹⁴² Ibid. 95.

¹⁴³ Ibid.

powers that exist at a particular time.¹⁴⁴ A great power, in a fundamental sense, is a sovereign state which can sustain prolonged military operations well beyond its borders, to project power and influence and not merely for defensive purposes. When one great power prevails, it is a Unipolar system, and an arrangement with two great powers is Bipolar. A system with three or more great powers is known as a Tripolar or Multipolar system. As a result, different arrangements are expected to produce different systemic-level outcomes because of the distinct influence each arrangement has on states. This observation is like the understanding from Waltz, who argues that, “market structure is defined by counting firms; international-political structure, by counting states.”¹⁴⁵

Polar state relations are not expected to be harmonious regardless of the system configuration. As a result, Sørensen suggests that, “in a bipolar system, with two leading states significantly more powerful than any of their competitors, these two states are compelled to be rivals.”¹⁴⁶ However, there are considerable differences among theorists on determining the influence of different types of polarity. Bull makes the case that, a simple balance of power is made up of two great powers, whereas a complex system involves three or more great powers.¹⁴⁷ Wright argues that, “stability will increase and the probability of war will decrease in proportion as the number of states in the system

¹⁴⁴ While regional state systems also operate globally according to power this text will focus on the International State System and not specific engaging regional dynamics.

¹⁴⁵ Waltz, 1979. 99.

¹⁴⁶ Sørensen, Georg. "Big and Important Things' in IR: Structural Realism and the Neglect of Changes in Statehood." *International Relations* 23, no. 2 (2009): 223-239.

¹⁴⁷ Bull, 2012. 97.

increases.”¹⁴⁸ When considering the critical role of state commitments, the authors suggest that permanent alliances are not as stable. This is because the agreements and the arrangements of non-parties have less ability to adjust to changing power dynamics.¹⁴⁹ Wright contends that the durability of law in society is a critical factor and believes the continuity of laws would enhance stability in relations.¹⁵⁰ Therefore, this seems to suggest that the power relations among states are more volatile than other orders, especially those grounded in a hierarchy. Mearsheimer claims that, “power imbalances that lead to conflict are still more likely in multipolarity than in bipolarity.”¹⁵¹ This is because, within a multipolarity arrangement, the dynamic creates an environment where miscalculation is more likely due to the state system version of inequality.¹⁵²

Waltz, in particular, argues that the number of units influences the stability of the system.¹⁵³ When characterizing the types of polar arrangements Waltz views bipolar as more stable, whereas for Morgenthau multipolar conditions are more stable.¹⁵⁴ More units increase the complexity of interactions. Therefore, complexity is associated with influencing the stability of systems. However, complexity and the indicators we use to explain complexity, including crisis, change, and disruption do not always result in

¹⁴⁸ Wright, Quincy, and Louise Leonard Wright. *A Study of War*. Chicago: University of Chicago Press. 1983. 122.

¹⁴⁹ Ibid.

¹⁵⁰ Ibid.

¹⁵¹ Mearsheimer, 2003. 341.

¹⁵² Ibid.

¹⁵³ Waltz, 1979. 161.

¹⁵⁴ Waltz, 1979. 161. : Posen, Barry R. "Emerging Multipolarity: Why Should We Care." *Current History* 108, no. 721 (2009): 347-352.

instability. In the same sense, the absence of complexity does not necessarily mean stability exists. Therefore, it is essential to understand the descriptive use of complexity.

It seems that at the balance of power system level, having multiple units would shift the complexity of relations. It also seems likely that smaller shifts in power could have a greater magnitude in changing the distribution of power. During the Cold War, the rapprochement between the US and China was a significant event. It did not shift the balance of power system and polarity but still was beneficial to the United States and China. However, what would be the magnitude of a country of similar size and influence to that of China if it were to shift in a multipolar system? Some of the answers to that question rest both in the number of units in the system, but also in the power concentration across those units. Discerning these differences will aid in determining if alliance shifts influence relations or, more profoundly, alter them.

Even if simplicity exists, (often described as a Bipolar order) it is automatically assumed to be more stable. Stability and simplicity are terms used interchangeably in some literature. An individual can easily envision a condition where complex systems are also stable at the macro-level while sometimes unstable at the micro-level.¹⁵⁵ In the same regard, simple social arrangements can be highly unstable. It is problematic to assign the qualities of one characteristic of complexity on to behavior. This inference may be due to the moment the conceptual explanations developed during the Cold War.

¹⁵⁵ Theorists have framed this type of dynamic as the stability – instability paradox. They have contemplated the interplay of limited or proxy wars between the great powers and their possession of nuclear weapons. Discussions include: Jervis, Robert. "Arms Control, Stability, and Causes of War." *Political Science Quarterly* 108, no. 2 (1993): 239-253. : Kapur, S. Paul. "India and Pakistan's Unstable Peace: Why Nuclear South Asia Is Not Like Cold War Europe." *International Security* 30, no. 2 (2005): 127-152.

These orders between the great powers were considered by some to be both simple, because of the size, and stable due to the outcome. However, these understandings come from different reference points.

Perhaps a link can be found to help understand this dynamic and determine the influence the different types of complexity have in state relations. Research can advance through noticing how polarities influence state policy, including the occurrence of trade agreements. Different polar arrangements of the system may influence and therefore limit the spectrum of choices available to states. Mearsheimer says this relationship of polarity on state strategies exists, “the distribution of power tells us how much buck-passing is likely among the great powers.”¹⁵⁶

Critiques:

There are theoretical and normative critiques of the balance of power concept, which should be appropriately recognized. Some peace researchers find the study of power akin to the study of evil. Therefore, they believe its study corrupts and obstructs constructive steps to improve the human condition. These critiques highlight the points from figures like Thucydides, Machiavelli, and Hobbes, which infer the weak and violent tendencies of human beings. These inferences provide the foundation for the critiques of Classical Realism. This influence reflects Morgenthau’s assertion that alliances form not because of norms but instead circumstances.¹⁵⁷ Therefore, the operations and the

¹⁵⁶ Mearsheimer, 2003. 271.

¹⁵⁷ Morgenthau, Thompson, and Clinton, 2006.

relations within the balance of power are amoral.¹⁵⁸

Interestingly, Liberals' critiques of Classical Realism center around the influence differences on the forces of power and norms have on global affairs. Therefore, the debate focuses on discussing the optimal amount of power and norms that should be employed. However, in other ways related to the assumptions under the agent and structure debate, the grounds for criticism for Neorealism from Classical Realism could be even more significant regarding how the world is perceived. Specifically, the different conceptions of types of human behavior are distinct and important for the agent-based theories. However, the differences may not be as drastic as the conceptual divide between the degree of human influence relative to the structure.

However, what is probably even more troubling is to assert that individual human beings do not possess the same level of influence as assumed by many Liberal theorists. John Ruggie's critique of Waltz centers on the employment of a structural theory of state relations that suspends any understanding of humans.¹⁵⁹ However, Wendt makes the case that Neorealism is not entirely structural because of the importance of internal measures.¹⁶⁰ Theoretical critiques of systems-based studies claim that the complexities and nuances of human nature and interaction are underutilized in structural research programs. They will argue that any work that strips out these features neglects the fundamental qualities of human beings and therefore, will fail to explain human

¹⁵⁸ Ibid. Ch. 12.

¹⁵⁹ Ruggie, John Gerard. "Continuity and Transformation in the World Polity: Toward a Neorealist Synthesis," *World Politics*, Vol. 35, No. 2 (Jan. 1983). 261-285.

¹⁶⁰ Wendt, 1987. 335-370.

interactions. Also, many Liberal theorists draw from Kant's emphasis on the order of states and how the composition of the states influences the relations and system of those states.¹⁶¹

Some contend the pursuit or reliance on a balance of power system is unstable or even the cause of centuries of major cataclysmic war. Boulding suggests the, "first great fallacy is the ancient classic that peace is guaranteed by a balance of power."¹⁶² President Wilson argued in his Senate address that the world system must transform away from the balance of power.¹⁶³ He maintained in the address that, "the question upon which the whole future peace and policy of the world depends is this: Is the present war a struggle for a just and secure peace, or only for a new balance of power?"¹⁶⁴ He continued by asserting something new must happen to move away from the terrible bloodshed of the Great War. Some had explained that war was the result of power politics, but he championed an alternative remedy in international agreements through the League of Nations. Liberals and pacifists say the balance of power system is inherently unstable.

¹⁶¹ Kant, Immanuel. *The Philosophy of Kant: Immanuel Kant's Moral and Political Writings*. New York: Modern Library, 1949.

¹⁶² Boulding, 1978. 104.

¹⁶³ A League for Peace: Address of the President of the United States Delivered Before the United States Senate of January 22, 1917 : Submitting Certain Conditions Upon Which This Government Would Feel Justified in Approving Its Formal and Solemn Adherence to a League for Peace. Washington: G.P.O, 1917.

¹⁶⁴ Ibid.

They argue the system of states is based on competition, alliances, and imperialism that facilitate militant sentiments. These elements make peaceful ends impossible.¹⁶⁵

This section gave a sweeping overview of the necessary variables and concepts that are incorporated in the next section that applies these understandings of the balance of power to trade theory. The following section grapples with the history of global trade activity, including agreements, and the theoretical explanations of these developments.

Trade History:

“People of the same trade seldom meet together, even for merriment and diversion” Adam Smith in An Inquiry into the Nature and Causes of the Wealth of Nations¹⁶⁶

This section examines the history of trade as an idea and the development of the phenomena of international trade agreements. This chapter section will emphasize the relevant points to build around the central theme of the dissertation, while drawing from the existing material for support. It will be organized into two areas that illuminate economics and IPE literature concerning trade and how theory explains the phenomena of trade agreements. Within the first section, there will be an analysis of the theory and history of trade agreements in recent centuries, and the influence of the different balance

¹⁶⁵ Kennedy, Ross A. *The Will to Believe: Woodrow Wilson, World War I, and America's Strategy for Peace and Security*. Kent, Ohio: Kent State University Press, 2009. 22.

¹⁶⁶ Smith, 1776.

of power arrangements.

As the above quote from Adam Smith illustrates, the non-directed or designed interactions among peoples, economies, and states play a significant role in molding our world. This text seeks to pierce through this veil of social interactions and show, through a systems analysis, how these interactions take place through the act of international trade agreements.

Within Oakley and Cohn, the two dominant academic textbooks for undergraduate students in International Political Economy, both theory sections only talk about the state as a major actor in discussing mercantilism.¹⁶⁷ The individual or the class system is the unit of analysis for Liberals and Marxists, and the state would be considered a less important influence compared to mercantilists. For these theories, when considering the interactions among states and economic behavior, Waltz's third image disappears and state relations fade into the background.¹⁶⁸ It seems these theories reduce the role of state to state relations in these conceptual frames. The understanding of the state is modified accordingly to serve a function within the different theories.

Furthermore, this is puzzling when considering the prominent role the state plays in ordering economy and society within both of these theories. Interestingly, the study of International Political Economy rarely gives weight to interactions among states. It is difficult to conceive of any of these systems functioning without the existence of durable

¹⁶⁷ Cohn, Theodore H. *Global Political Economy*. Pearson, 2014. : Oatley, Thomas. *International Political Economy*. London: Routledge, 2017.

¹⁶⁸ Waltz, 1959. Ch. 6.

states, as well as the interactions within the system those states form.

Meanwhile, other theorists, most notably in the Realist schools, bring the role of states to a more prominent position. For some of these theories, it is a question of whether the state is either less observed or if it does not conform to theoretical frameworks. The balance of power system is not an abstract space where events transpire; it distinctively conditions outcomes. Also, trade within states is a different phenomenon than trade among states. This work seeks to analyze that puzzling difference through a series of points to penetrate the subject matter. These include the influence of the balance of power on the formation of trade agreements.

International Political Economy History and Literature:

For over two centuries, there have been two major competing ideas regarding the conceptualization and practice of international trade: absolute advantage and comparative advantage. The concept of absolute advantage encourages the development of domestic industry and the export of excess production. Within this idea, the state correspondingly seeks to maintain a large stock of goods, capital, and money. In net, the focus is on preserving wealth with the argument that exchange, unless it is domestic excess, has a subtractive effect on wealth accumulation. Gilpin asserts, “economic nationalists also believe that free trade undermines national autonomy and state control over the economy.”¹⁶⁹ As a result, economic nationalists argue that free trade leaves a

¹⁶⁹ Gilpin, Robert. *The Political Economy of International Relations*. New Jersey: Princeton University. 1987. 183.

state subject to the influence of the, “instabilities of the world market exploitations by other, more powerful economies.”¹⁷⁰ The economic nationalists suggest that specialization of production leaves a state susceptible to the volatility of the market forces outside the state, which results in an inherent vulnerability.¹⁷¹ Figures like List and Hamilton are among the proponents of absolute advantage.

This zero-sum approach challenges the idea of comparative advantage, which emphasizes mutual gains through interaction and trade across states. Instead of encouraging holding onto wealth, it argues that the way to improve well-being is through the exchange of goods, which incentivizes increased efficiency and output. In turn, this would arguably benefit more parties than the absolute advantage approach. This engagement with multiple parties across states means that all parties could realize economic gains. Through this engagement, more goods are exchanged, and therefore consumed. This is desirable to many who, regardless of state, are better off through the extension of the respective individual and societal gains. Proponents of comparative advantage include figures like Ricardo and Smith.

During different eras in history, the ideas of comparative advantage and absolute advantage have each experienced cycles of favorability. This has resulted in scenarios where states adopt mixed approaches where the concept of trade, in its theoretical form, is neither an exclusively absolute advantage nor purely comparative advantage.

¹⁷⁰ Ibid.

¹⁷¹ Gilpin, 1987. 188.

Some argue the repeal of the Corn Laws in 1846 in Great Britain was an example of this mix. While the law draws from the ideas of comparative advantage, it applies to specific sectors where the gains for Great Britain would be most significant. Meanwhile, in the areas where trade would result in a greater expected domestic loss, the approach for those sectors more closely resembled the idea of absolute advantage. This contest of ideas and interests is what Gilpin considers when he highlights the differences between liberals and nationalists over, “differing assumptions regarding the nature of the international economic relations.”¹⁷²

When reading through economic history, there is a definite ebb and flow between comparative advantage and absolute advantage in the approaches to explaining and advocating trade policy. Gilpin describes the phases of the world economy throughout centuries that transform through military conflict. From the sixteenth century until the end of the eighteenth century, the dominant idea was mercantilism.¹⁷³ Following that period, and the end of the Napoleonic wars, comparative advantage became the foundation of the international market economy until World War I and World War II. Also, as Krasner notes the global economic leader shifted in the late decades of the nineteenth century from Britain to the United States.¹⁷⁴ Describing the World War II era, Eric Helleiner agrees with Gilpin’s assessment of the world war period and says it had

¹⁷² Gilpin, 1987. 188.

¹⁷³ Gilpin, Robert. *The Challenge of Global Capitalism: The World Economy in the 21st Century*: Princeton University Press, 2018. 52.

¹⁷⁴ Krasner, Stephen D. "State Power and the Structure of International Trade." *World Politics* 28, no. 3 (1976): 317-347.

the, “effect of encouraging a decisive shift away from liberal financial tradition in the federal government.”¹⁷⁵ Gilpin argues that after the economic chaos and trade contraction during the global wars during the first half of the twentieth century, trade expansion resumed during the Cold War.

Helleiner contends the movement of financial liberalization in the 1980s shifted globally, particularly in the financial centers including Tokyo, London, and New York.¹⁷⁶ As Helleiner argues, the liberalization of trade and liberalization of finance have an uneven relationship.¹⁷⁷ This unease is because of the tension in types of volatility in capital flows, production, and politics. He points to Albert Bressand,¹⁷⁸ who explained how multiple “invisible hands” may work against each other.¹⁷⁹

The 1990s and early 2000s experienced a shift in polarity from a bipolar system, with the United States and the Soviet Union as great powers, to a unipolar world with the United States as the sole great power. That shift also saw an acceleration in trade agreement activity.¹⁸⁰ Gilpin argues that this relationship is important, “my position is that hegemons are necessary to the existence of a liberal international economy.”¹⁸¹

¹⁷⁵ Helleiner, Eric. *States and the Reemergence of Global Finance: From Bretton Woods to the 1990s*. Cornell University Press, 1996. 31.

¹⁷⁶ Ibid. 146-156.

¹⁷⁷ Ibid. 196.

¹⁷⁸ Bressand, Albert. "Mastering the" World Economy"." *Foreign Affairs* 61, no. 4 (1983): 745-772.

¹⁷⁹ Helleiner, 1996. 207.

¹⁸⁰ Helleiner, 1996. 208. For Helleiner hegemonic orders are important for political and economic systems – however was Japan a political order acting economically under the US security umbrella?

¹⁸¹ Gilpin, 1987. 88.

Most recently the 2008 financial crisis, as first acutely experienced by the United States and Europe, occurred during unipolarity. Through the late 2010s, the debate continues that the world's polarity could be shifting again from unipolar to another polar configuration. A dominant academic discussion involves the possible emergence of a bipolar order between the United States and China. This discussion connects to existing measures of state power and expectations of future power, which lead to the conclusion that a shift in the global order is on the near horizon.¹⁸²

In looking at the topic of Economics and Balance of Power, Brawley argues the relationship between Economic Theory and the International Relations Theory, including the research on the balance of power, is underrepresented in the literature.¹⁸³ He suggests there is a linkage in policies when states are adopting balance of power strategies; they may pursue different economic strategies depending on the circumstances. He asserts that if states are engaged in external balancing, they may be more involved in trade than if they are concerned with pursuing internal balancing. If this is the case, following Brawley's thinking, it could result in states pursuing more protective policies of domestic economies.

Mansfield considers the intersection of war, polarity, and trade by suggesting there is a nonlinear "U shaped" relationship between power concentration among states and international trade.¹⁸⁴ He asserts that the periods with the highest and lowest

¹⁸² Allison, Graham T. *Destined for War: Can America and China Escape Thucydides's Trap?* 2017. 347.

¹⁸³ Brawley, 2004. 76-99.

¹⁸⁴ Mansfield, 1995. 20.

concentrations of global power have the most significant volume of international trade. This is an inverse relationship compared to his argument that the highest and lowest concentrations of power have the lowest incidence of war, which forms an “inverted U shape.”¹⁸⁵ Mansfield’s work is similar to this dissertation by looking at the international power distribution influence on trade. However, he looks at the concentration of power to correct for what he considers to be an overemphasis and debate in determining poles.¹⁸⁶

Those who favor an economic absolute advantage perspective, including mercantilists as described by Barbieri and Levy, suggest that “the effect of trade on war is small relative to that of military and diplomatic considerations.”¹⁸⁷ Those who favor a comparative advantage standpoint (depending on the degree of optimism) assert that trade has spillover benefits. They argue that improved relations among states, including the avoidance of trade war escalation, have exogenous benefits. They contend these gains go beyond the commercial and influence broader state relations.

Perhaps the greatest empirical challenge to confront trade theory, including this text, is the point from Barbieri and Levy, “contrary to both liberal and realist expectations, however, there are numerous historical cases of trade between enemies during wartime, and a preliminary quantitative study suggests that war frequently does

¹⁸⁵ Ibid.

¹⁸⁶ Ibid. 226.

¹⁸⁷ Barbieri, Katherine, and Jack S. Levy. "Sleeping with the Enemy: The Impact of War on Trade." *Journal of Peace Research* 36.4 (1999): 463-479.

little to depress the volume of trade between adversaries.”¹⁸⁸ However, Joanne Gowa contends, “free trade is more likely within than across political-military alliances.”¹⁸⁹

Kindleberger places responsibility for the duration of the 1929 Depression on British inability and the unwillingness of the United States to stabilize the world economy. He argues they had tools available to maintain an open market, provide countercyclical lending, and the resources to internalize financial crises from other states. Instead, for Kindleberger, the leader of the system should be responsible for maintaining an international public good and the power to, “pool sovereignties to limit the capacity of separate countries to work against the general interest.”¹⁹⁰ However, any power-sharing arrangement between the two great powers would have been unstable and undesirable. Therefore, under unipolarity, the state system has more ability to operate and engage in trade than during the situations that internalize great power politics. He concludes that a hegemon is a necessary precondition for ensuring an open market trading system.¹⁹¹

Krasner criticizes the tendency of IPE literature to focus on transnational activity. He believes that emphasis is misplaced and is a detriment to fully understanding the concept of the state. He argues the transnational approach is misleading because it does not help understand states or the structure they operate within. Krasner asserts that a state’s trade policies aim to maximize goals, which include wealth, stability, political

¹⁸⁸ Ibid.

¹⁸⁹ Gowa, Joanne. *Allies, Adversaries, and International Trade*. Princeton University Press, 1995. 120.

¹⁹⁰ Kindleberger, Charles. *The World in Depression, 1929-1939*. Vol. 4. Univ of California Press, 1986. 304.

¹⁹¹ Kindleberger did not originally refer to a hegemon but he similarly describes a state who operates in the international system with greater power.

power, and economic growth. He argues for a state the degree of trade openness interacts with these goals. As a result, the goals can sometimes be in agreement but often are in tension with each other. For example, he argues that large growing states would be receptive to open trade because of the economic gains, increased political power, and stability.

With these goals, Krasner concludes a state that is in decline may find reasons to not trade due to lower economic gains and risks to stability. There can also be cases where states grapple with the risks to stability in exchange for economic growth. He explains that, for states, tension exists between trade openness and social stability.¹⁹² However, he also asserts the ability of larger states to adjust production factors make them inclined to favor open trade. Therefore, the inherent tension between openness and social stability is mitigated by domestic production flexibility.

In addition to considering domestic structures involved in trade, he examines the structural elements of the international state system. Specifically, Krasner says, “a hegemonic distribution of potential economic power is likely to result in an open trading structure.”¹⁹³ He suggests a closed trade system would be composed of a few unequally developed large states. He explains that opening trade for these states would produce modest gains compared to the risks of potential social instability. When considering these state goals, Krasner explains how, when led by a hegemon, a different system

¹⁹² Krasner, Stephen D. "State Power and the Structure of International Trade." *World Politics* 28, no. 3 (1976): 317-347. Krasner does note an exception to his pattern of large states who favor open trade and accept social change. His exception includes petroleum producing states like Saudi Arabia.

¹⁹³ Krasner, Stephen D. "State Power and the Structure of International Trade." *World Politics* 28, no. 3 (1976): 317-347.

arrangement forms.

Krasner argues the hegemon benefits economically and politically from an open trade system as well as through fostering its existence. The gains for the hegemon of wealth, growth, and influence would offset any risks of instability, primarily due to the ability to adjust domestically to shifts in factor allocation. He also suggests that the gains for smaller states are modest compared to larger states. However, the smaller states may have fewer options other than comporting with the hegemon. For example, he explains, “British military power was also a factor in concluding the Cobden-Chevalier Treaty, for Louis Napoleon was more concerned with cementing his relations with Britain than he was in the economic consequences of greater openness.”¹⁹⁴ However, he also suggests that open trade can exist in a system of multiple small states that are also highly developed.

Krasner’s typology of trade systems emphasizes policy choices primarily determined by state size. However, state size often, though not always, involves a critical component that is frequently overlooked by researchers, unless the state is a hegemon. These approaches do not consider the continuous influence states exert on each other. On the other hand, this dissertation argues that state power influences other states and takes on economic and military forms. As a result, the power competition among the states becomes a balance of power dynamic that can complement Krasner’s framework. The distinction between a large state and a great power shows Krasner is emphasizing economic power rather than military power. As explained at the beginning of the

¹⁹⁴ Krasner, 1976.

chapter, these two forms of power overlap frequently.

Krasner argues there are four primary goals for a state when it is considering openness to trade. While less parsimonious, this concept would benefit from the incorporation of a fifth variable that deals with security. By incorporating a state security variable, the power competition among states gains prominence and improves explanatory power involving the openness to trade. As a result, the state security variable will interact with the other variables and better explain state considerations involving trade and trade agreements. Also, Krasner examines only a few types of arrangements among large and small powers when many more can and do exist. In Krasner's framework, other arrangements would create more divisive tensions within state goals that would likely result in unpredictable outcomes.

In *After Hegemony*, Keohane explains how a hegemon has control over raw materials, capital, markets, and production of high valued goods.¹⁹⁵ He argues, "the theory of hegemonic stability predicts that the more one such power dominates the world political economy, the more cooperative will interstate relations be."¹⁹⁶ The eras of British and American hegemony were examples of broad trade cooperation among states on trade. Keohane explains how a close review of the 1800s, reveals that British hegemony did not play a causal role in critical relations. As he explains, this influence is causally weaker, including Britain's inability from the 1870s to induce other continental powers to engage in trade. However, Britain remained the center of trade ideas and

¹⁹⁵ Keohane, Robert O. *After Hegemony*. Princeton: Princeton University Press, 1984. 32.

¹⁹⁶ Keohane, 1984. 34.

finance. Even with its hegemony status contested, it would be the global leader in trade volume relative to its economy for almost 90 years after the Corn Laws.

McKeown agrees with this challenge in defining a hegemon and determining its influence. He considers the history of trade policy in Britain as well as America. He argues that neither example sufficiently shows either state continuously overlaying its policies with its economic power.¹⁹⁷ Lake also sees distinct differences that complicate theory development when examining these two periods of hegemony characterized as Pax Britannica and Pax Americana.¹⁹⁸ This is particularly important when developing a theory around the idea of hegemony, which infrequently occurs in history. Also, as Milner outlines, the hegemonic power does not automatically translate into significant influence.¹⁹⁹

Hegemonic stability is not definitive, according to Keohane. In part, this is due to the decisions of secondary states to not defer to the hegemon. Also, Keohane brings in the influence of military power, which is a missing component from Krasner's article. Keohane argues a symbiotic relationship develops between hegemony and cooperation; however, with other polarities, a restrictive environment develops.²⁰⁰ He also thinks a hegemon can develop durable institutions that resist these changes in polarity.

The significance of this dissertation is that it expands this literature to incorporate

¹⁹⁷ McKeown, Timothy J. "Hegemonic Stability Theory and 19th Century Tariff Levels in Europe." *International Organization* 37, no. 1 (1983): 73-91.

¹⁹⁸ Frieden, Jeffrey A., and David A. Lake. *International Political Economy: Perspectives on Global Power and Wealth*. Routledge, 2002. 138.

¹⁹⁹ Milner, Helen V. "International Political Economy: Beyond Hegemonic Stability." *Foreign Policy* (1998): 112-123.

²⁰⁰ Keohane, 1984. 46.

the prominence of state power in all of the balance of power types and the conditioning influence it has on trade agreements. Therefore, this research scope differs with Keohane and especially Krasner. The dissertation deemphasizes the significance of the hegemon as a concept at the expense of considering other polar dynamics. Through cases, this research will show how the balance of power system intervenes and often intermingles with the conditions that facilitate trade agreements. Even though the research mentioned above found challenges in the use of the hegemony variable due to variations in outcomes, it is a useful concept to examine. It is helpful when reflecting on the balance of power system to study how a hegemon operates compared to conditions that exist under other polarities.

Many of the explanations are helpful but do not explain why a hegemon seems significant in some cases but not in others. Instead, this research considers how the balance of power and specifically the increase in polarity complicates state relations, including reaching trade agreements. This influence of increases in polarity on state relations makes it harder to sustain trade agreements due to power competition. The record of power competition is reflected in the annals of state relations and within the explanations employed in some International Relations theory. However, the constraining effect polarities have on state relations may be less noticeable than the singular actions of a hegemon. Most would agree that the hegemon can act because its position is less contested. However, the shift from hegemony to additional poles suggests that now this state power constrains the choices among the great powers.

Therefore, the other system types that internalize this competition for power have a conditioning effect on all forms of state relations, including the incidence of

international trade agreements. Kindleberger makes a similar claim and references both political science and economic concepts of monopoly and duopoly as they operate in economics. Like Waltz, he applies the logic of this concept of unit firms to international political economy. Kindleberger concludes that one unit operates more freely, whereas additional units (even allies like in his case of the U.S. and Britain) are unstable.²⁰¹

Therefore, we can expect that, under different polarities of the International State System, the arrangement will have a conditioning effect on the frequency of trade agreements. Generally, it seems possible with the increase in the number of poles, a corresponding decrease in trade agreements will result. This reasoning has to do with the causal inference that different polarities have distinct outcomes involving the stability of state relations. The indicator often used to infer systemic stability is a major war. Outside of Unipolarity, there do not seem to be differences in the number of wars (or the amount of suffering) between Bipolarity and other arrangements involving multiple polarities. This has more to do with the expected costs (with or without conflict) that firms and states face.

Firms face higher costs as they are involved in overlapping trade relations across different types of risk that rise in complexity as the number of polarities increases. With an increase in polarities, there are more costs to trade. This includes types of agreements, transport costs, and different normative orders where these all compete with each other. In most of these international cases the competition is of a zero-sum nature (unlike the theorized market behavior) and therefore the result is costlier for states. This concept is

²⁰¹ Kindleberger, Charles. *The World in Depression, 1929-1939*. Vol. 4. Univ of California Press, 1986. 298.

similar to Waltz's observations when he compared firm size and number in a market place, as he studied polarity's influence on international outcomes.²⁰²

²⁰² Waltz, 1979. 72.

CHAPTER 3: COBDEN–CHEVALIER

“Those who are so fond of laughing at political economy, forget that they have a political economy of their own; and what is it? That they will monopolise to themselves the fruits of the industry of the great body of the community—that they allow the productions of the spindle and the loom to go abroad to furnish them with luxuries from the farthest corners of the world, but refuse to permit to be brought back in exchange what would minister to the wants and comforts of the lower orders. This, in one word, is the true reason why the mass of the people is at this time so wretchedly clothed and so miserably fed.”²⁰³ - Richard Cobden

“The story of Waterloo, indeed, is full of instances of quite neutral and normal human contact between people who happened to be wearing different uniforms – of British infantry lying for cover among Frenchmen wounded in the most recent attack and asking their opinion of how the battle would end.”²⁰⁴ - John Keegan

The Second French Empire and Great Britain reached a consequential trade agreement in 1860. The agreement is known for lowering tariffs on a range of goods entering France from Britain. The following account explains the dynamic role of compounding factors that influenced the developments that resulted in the agreement.

²⁰³ Cobden, Richard. Speech in the House of Commons against the Corn Laws. (July 8, 1842)

²⁰⁴ Keegan, John. *The Face of Battle: A Study of Agincourt, Waterloo and the Somme*. Random House, 2011. 204.

Specifically, this chapter explores how economics, politics, and the balance of power played a distinct role in influencing this early form of a trade agreement. This treaty is significant because it serves as an example for some future agreements in subsequent decades.

The nineteenth century, not just the twentieth, was an era of developing and contesting ideas of economics and politics. These ideas inspired and provided justification for the relations that took place within and outside the state. However, not all ideas become accepted policy, especially when those policies must be mutually agreed upon by states. This research asserts that the concept of tariff lowering trade agreements needed to exist before a policy change would likely be possible.

This case, like the succeeding cases, explains how the concept of balance of power is under-represented in International Political Economy literature. This research contends that the interaction among the polarities in the balance of power plays a significant causal role in the incidence and evolution of trade agreements. Therefore, any explanation would be incomplete if it only focused on one of the influences that led to the agreement. By examining the formation of this treaty, it becomes apparent that the factors of economics, politics, and the balance of power all play consequential roles in conditioning this trade agreement.

The 1860 commerce treaty was one of the first trade agreements of the modern era. This agreement is about the negotiators, Cobden and Chevalier, who were seeking to respond to the influence of industrial and agricultural change. The agreement is also about the legacy of movements of Napoleon, Adam Smith, Malthus, and the balance of power, which were conditioning influences on the commerce treaty.

The factors of economics, politics, and the balance of power are necessary in order to propel or disrupt an initiative like a trade agreement. Even though the chapter discusses the agents involved in the development of this idea of trade agreements, the text also considers the conditions the agents are operating within. Specifically, the chapter explains how the factors contribute by forming the circumstances that led to the trade agreement. This chapter examines the roles agents play in the evolution of an idea and highlights how themes and conditions repeat as these agents respond to their environment.

The Corn Laws:

The rejection of the Corn Laws, which restricted grain imports into Britain, provided a useful precondition for Cobden and Chevalier's talks. Also, as will be explored, there is an influence from the legacy of the end of the Napoleonic Era and its succeeding system, the Congress of Vienna. In 1815, Parliament approved a restriction on the importation of grain into Britain. The adoption of this legislation was due to the support of landowners, who made up a strong voting coalition in the House of Commons. Without trade, grain prices, including the cost of corn, increased throughout Britain. These increases in price were due to the highly restrictive clause that allowed the importation of grain if prices were too expensive. This policy, though generally supported at the time, was criticized by figures like Adam Smith.

In Smith's work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, he devotes a considerable amount of analysis on the price of corn. He viewed the agricultural good through various levels of study. Within Smith's writing, corn retains a

base value due to its usefulness and the labor and capital employed in its production.²⁰⁵ It was a universal economic commodity but also one that varied in price and supply. His exploration of the variation in corn prices was an effort to examine many of the puzzles regarding price, demand, and change that continue to draw theoretical inquiries. The source of Smith's curiosity with corn is unclear other than its general universal use. However, his later appeals (as well as writings from Ricardo) to lower tariffs on corn show this influence of intellectual curiosity and policy analysis.²⁰⁶

Cobden was deeply affected by these ideas and became an ardent proponent of opening trade among states and repealing the Corn Laws. Cobden was active in the movement through speeches and the dissemination of information. Through recently reduced postage rates, he circulated writings that favored the abolition of the Corn Laws, which borrowed language from the abolitionist movements against slavery.²⁰⁷ Cobden's objective was to incorporate this sentiment from the abolitionist movement to curry the support of its members.²⁰⁸

In part due to Cobden's movement, Parliament reconsidered the Corn Laws, and

²⁰⁵ Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations*. 1776. Book I Ch. V and Book IV Ch. V.

²⁰⁶ Irwin, Douglas A. "Political Economy and Peel's Repeal of the Corn Laws." *Economics & Politics* 1, no. 1 (1989): 41-59.

²⁰⁷ Tombs, Robert. *The English and their History: The First Thirteen Centuries*. Penguin UK, 2014. 449.

²⁰⁸ It should be noted these changes in tariff policy did not shift Britain's colonial policy or practices. As Bhagwati and Irwin explain, "Two qualifications to the thesis that Britain had adopted unilateral free trade should be noted, although they do not detract from the substance of the thesis. First, when it came to trade with unequals, Britain did not maintain a stance of unilateralism. Reciprocal market access, even market access not balanced by full reverse market access, was forced on colonies such as India." Bhagwati, Jagdish N., and Douglas A. Irwin. "The Return of the Reciprocitarians—US Trade Policy Today." *World Economy* 10, no. 2 (1987): 109-130.

Prime Minister Peel led the repeal of the legislation in 1846.²⁰⁹ The movement was not the only factor that contributed to this policy reversal. The coalition had broadened its support among academics, manufacturers, and the public who argued that repealing the Corn Laws would lower grain prices. As Stearns notes in this period, “approximately 70 percent of all working-class income had to be spent on food.”²¹⁰ This concern was also acute during a period of general political turbulence in the region and became inseparable from the apprehensions about the rising number of famines in Europe and Britain. Also, there was an expectation that this challenge would continue and become more acute for those who were influenced by Robert Malthus.

In 1789’s, *An Essay on the Principle of Population*, Malthus argued that the production of food would not keep pace with his projected population increases.²¹¹ This environment and ideas contributed to actors seeking solutions in both France and Britain, and this sparked a range of economic policies, including the Cobden-Chevalier trade agreement.²¹² Therefore this commerce treaty was a result of the convergence of ideas, interests, and conditions which became realized in the areas of economics, politics, and

²⁰⁹ Irwin explains how Peel’s position on the Corn Laws changed from favoring them, to seeking reform, to final repeal. The author argues Peel’s shift was not the result of studies of political economy (which he for years differed with), or the Irish potato famine. Instead his shift in policy was from his observations on the effects agricultural plenty and want have on a society. Irwin, Douglas A. "Political Economy and Peel's Repeal of the Corn Laws." *Economics & Politics* 1, no. 1 (1989): 41-59.

²¹⁰ Stearns, Peter N. *1848: The Revolutionary Tide in Europe*. WW Norton & Company, 1974. 15. : “the poorer classes spend a much larger percentage of their incomes upon commodities than the richer classes do.” Marshall, Alfred. *Official Papers by Alfred Marshall*. 1926. 409.

²¹¹ Malthus, Thomas Robert. "An Essay on the Principle of Population. 1798." *The Works of Thomas Robert Malthus*, London, Pickering & Chatto Publishers. 1986. 1-139.

²¹² “Humanity was liberated from the constraints imposed by diminishing returns to labor in the agricultural sector: hence, the Industrial Revolution meant, above all, an escape from the Malthusian trap.” Komlos, John. "The Industrial Revolution as the Escape from the Malthusian Trap." 2003.

the balance of power. Significant conditioning events in 1815 included the beginning of the Corn Laws in Britain, the end of Napoleon I's reign, the beginning of the Congress of Vienna, and the Holy Alliance formed by Austria, Russia, and Prussia.

Post Napoleon Systems:

Because the balance of power is under-considered as an influence on the formation of trade agreements, it is beneficial to consider the history of state relations in this period. This approach will illuminate how the relations and conditions preceding and during the Cobden and Chevalier negotiations were significant. As this chapter will explain, France's leader, Napoleon III, was heavily influenced by the legacy of his uncle Napoleon I. After the Napoleonic wars the Congress of Vienna met to organize its conception of a new European order. Not surprisingly, the conference emphasized the influence great powers have on each other and on smaller powers.

Specifically, the consensus among the great powers was to develop an allocation of land and power in such a way that it facilitated balance among the states. The readjustment throughout this century often came at the expense of smaller powers, some of which, not surprisingly, decided to align from loose federations into states. These efforts to balance power reduced conflict in this era. This policy also added new fissures that contributed to the development of Prussia into Germany and the creation of Italy. Napoleon III proclaimed, the "Empire means peace." However, his wars can be noted by historians for contributing to the unification of Italy and Germany. His acts influenced the whole system of relations across Europe. As a result, what became two distinct balance of power subsystems in Europe began to function more like a whole system.

This system change (especially related to Italy) was occurring during Napoleon III's negotiations with Britain over the commerce treaty.

East and West regional subsystems guided great power relations in this era. The Eastern European system was Russia, Prussia, and Austria and the Western European system consisted of France, Britain, and Spain. Within the Congress of Vienna, state relations behaved as if the ideological differences between East and West, "did not prevent them from achieving a degree of policy coordination."²¹³ As Bullen notes, "Prussia had annexed the Rhineland, Austria had gained large territories in Italy, while long-standing French allies such as Saxony and Poland had been savagely dismembered." Also, Britain's navy continued its dominance unencumbered.²¹⁴

This arrangement is similar to the point observed by Jervis that in, "the balance of power, a number of restraints are evinced: no state gains dominance, wars do not become total, unconditional surrenders are rare, the territory of losing states is not divided up among the winners, and usually the loser is soon reintegrated into the system."²¹⁵ However, if there was a great power who lost in this new distribution, it was France who lost allies, and the system was positioned to align against it. Therefore, part of Napoleon I's legacy is in this regional response and, "Europe's need to constrain France."²¹⁶

²¹³ Sheehan, Michael. *The Balance of Power: History & Theory*. Routledge, 2004. 130.

²¹⁴ Bullen, Roger. "France and Europe, 1815–48: The Problems of Defeat and Recovery." In *Europe's Balance of Power 1815–1848*, pp. 122-144. Macmillan Education UK, 1979.

²¹⁵ Jervis, Robert. "From Balance to Concert: A Study of International Security Cooperation." *World Politics* 38, no. 1 (1985): 58-79.

²¹⁶ Bullen, Roger. 1979.

Though this new position was primarily the result of France's own doing it conditioned the environment where Napoleon III reached decisions.

Though France and Britain acted in concert with other states in the Crimean War, the conflict loosened the Congress of Vienna system. Even with a weakened alliance system, great power competition persisted. The end of the Congress of Vienna cleared the way for the formation of the Crimean system. It challenged the previous collective conception of state order that was established to address grievances through realism.

Deliberations started on the commerce treaty began on the after decades of improving, though sometimes tenuous, relations between Britain and France. France and Britain were allied with the Ottoman Empire during the Crimean War against Russia. This alliance was an effort to balance against Russian territorial encroachment as a system need that also served the interests of the states. Britain was concerned that Russia would weaken the Ottoman Empire and would be able to project influence into the Suez, which was a principal shipping conduit from its colonies. France was seeking partners and took on the mantle of protector of European Christians.

The Crimean War was arguably fought to preserve the balance of power system to constrain an assertive power. As per the balance of power concepts outlined in the Congress of Vienna, efforts were made to confront Russia. However, in so doing, other elements became out of balance. This example shows the limitations among interacting agents. Regardless of ability, an agent cannot know the full scope of the ramifications of complex decisions and how those choices can reverberate in a system. Most importantly, the conflict resulted in a split between the old partners in the Holy Alliance of Austria and Russia. As a result, Austria was without a great power ally at a time of domestic unraveling under the competing social movements.

Furthermore, as Van Evera explains, the balance of offense and defense shifted to favor the offensive. He reasoned that changes in the period included lethal arms and rail transport which helped the defensive. However, other developments, including mass armies, favored the offensive. Therefore, a distinct influence came from the breakdown of diplomacy where he argues, “Britain entered an isolationist phase that lasted into the 1870s, and Russia lost interest in maintaining the balance among the western powers. As a result, diplomatic obstacles to continental conquest largely disappeared, giving continental aggressors a fairly open field.”²¹⁷

British and French Relations:

In the decades before the Cobden-Chevalier Treaty between France and Britain, both countries episodically, except during the Napoleonic War, sought to improve trade relations with each other. These efforts never materialized. However, those discussions outlined a series of issues and goods that would later constitute an agreement. Both were seeking to return to the 1786 agreement where, “after some haggling, both the French and British government declared their desire to abolish prohibitions and any duties levied exclusively on Franco-British trade.”²¹⁸ Dunham explains how this agreement covered wine/spirits, textiles, pottery, iron, and glass.

The agreement emerged in an environment where some political and economic

²¹⁷ Van Evera, Stephen. "Offense, Defense, and the Causes of War." *International Security* 22, no. 4. 1998: 5-43.

²¹⁸ Dunham, A. L. *The Anglo-French Treaty of Commerce of 1860 and the Progress of the Industrial Revolution in France*. Ann Arbor. 1930. 4.

sectors in each state saw an opportunity. However, there were also social structures within the states that were opposed. As a result, there were some protective provisions for each state's politically sensitive sectors. However, each granted the other most favored nation status, excluding those sectors. Through this status, if a state in the future adopts lower tariffs in a separate agreement with another state, those lowered tariffs would be transferred to the terms of the previous tariff structure of other agreements.

For example, if France lowered its tariffs on grain from another state below that rate offered under the agreement with Britain, this provision would apply. As a result, they would be required under most favored nation status to lower the tariff on grain from Britain by the new rate. However, both parties agreed to exclude existing trade agreements that Britain had with Portugal and that France had with Spain. France had fewer exports to Britain than Britain sent to France during the duration of the agreement. However, the agreement was functionally short-lived.

As Dunham explains, "the commercial relations of France and England and the whole tariff policy of France were changed radically by the wars of the French Revolution."²¹⁹ Even though smuggling existed, Napoleon imposed restrictive trade policies with Britain and its trade partners. The war decimated the economies and peoples throughout the continent. It also upended relations between the treaty partners. Landes explains that the French Revolution and Napoleonic wars brought, "destruction and losses of manpower; political instability and a widespread social anxiety; the decimation of the wealthier entrepreneurial groups; all manner of interruptions to trade;

²¹⁹ Dunham, 7.

violent inflations and alterations of currency. Above all, they cut continental Europe off, sometimes by formal restrictions, from active intercourse with Britain.”²²⁰ After the war, Britain and France agreed to a navigation treaty in 1826. Also, by 1838 they began discussions to address unresolved tariff rates, but they reached no deal despite years of talks.

In 1842 France and Belgium held negotiations over a customs union, but the idea failed without sufficient domestic support. This failure was due to the opposition in France from the cotton sector and chambers of commerce while government, economists, vineyards, and manufactures favored the change. After the French Revolution of 1848, the shift in power in France moved the balance toward landowners and manufacturers. The divisions resulted in a continuation of the existing tariff structure between Britain and France. However, by this time, the tariff structure restricted certain goods overlooked at the time of the 1789 negotiations. Decades later, these restrictions evolved to have a constraining effect on the French economy. The ramifications from restrictions on iron, coal, and machinery grew more acute over time for France. As a result, France saw “slow progress” during the Industrial Revolution relative to its neighbors.

These relations between the states negotiating this commerce treaty also reflect the personal experience of its leaders. In 1846, Napoleon III escaped his imprisonment at Ham and fled to Britain, where he wrote *Napoleonic Ideas* about his uncle and *The Extinction of Poverty*. His latter text focused on policies the government could employ to alleviate poverty. Decades later, when he lost the Franco-Prussian War in 1870 and

²²⁰ Landes, David S. *The Unbound Prometheus*. Cambridge Books. 2003. 142 and 143.

revolutionaries overthrew his government, he fled to Britain. He died there three years later.

Cobden spent years in France building relationships among political economists. As a result, some British criticized him for understanding France better than Britain, and some questioned his loyalty to his homeland. As this text shows his devotion to an idea clouded his perceptions and relations in France as well as Britain.

Cobden was more famous and therefore was subsequently more frequently recorded in history than his trade negotiating partner, Chevalier. Dunham argues this influenced an overstatement of the role Cobden played relative to Chevalier. Say's academic discussions of Adam Smith exposed Chevalier to the ideas of capitalism. Say and Chevalier merged elements of capitalism with ideal revolutionary theories to transform society through their studies of political economy.²²¹

Treaty Negotiations:

In 1852 Chevalier received an appointment as a member of the Conseiller d'Etat, where he promoted tariff reforms. Chevalier first sought to reduce general tariff rates for goods entering into France but failed to get support from the government. This failure led him to conclude he needed to seek an alternative path on trade policy. He suggested a measure where the Emperor could solely approve a treaty involving commerce without needing consent from other political or economic institutions. After the proclamation of the Second French Empire, the Senate, in a special session, conferred upon the Emperor

²²¹ Dunham, 32.

the power to make commercial treaties. Under this act, a commerce treaty could have the force of law within France without the approval of any other government body other than the Emperor.²²²

This new French power would prove useful for negotiating the treaty in light of the continued divisive politics around tariff policy in France. This French power gave the Emperor unitary bargaining influence to negotiate with Britain. Meanwhile, Britain had a more cohesive political and economic establishment in support of lower tariffs.

However, as will be elaborated, this unitary ability in France did not automatically clear the way for relations with Britain. Many free trade advocates like Cobden found a future trade agreement to be unnecessary because they had unilaterally lowered tariff rates substantially.²²³ At that level, some could reason that any negotiated change would lead to higher tariff rates than existed before. However, the different apparent negotiating objectives between the two states did not complicate the friendship between Cobden and Chevalier.

Six years after their meeting in 1846, the pair started correspondence including trade. Within Cobden and Chevalier's letter exchanges, they spoke of the intertwined possibilities of improving political and economic relations. They both saw improved trade relations as a panacea to address many social ills. This perspective grounded their thinking and shaped their arguments to their respective leaders. Chevalier assumed a simple outline of what the arrangement would entail in the earlier stages of their talks.

²²² Dunham, 38.

²²³ Dunham, 40.

He suggested, “it would not be necessary for you to give us special and exclusive advantages, nor for us to give any to you.”²²⁴

However, after the two senior figures framed the negotiation terms, Chevalier’s role was downgraded because of Napoleon III’s level of activity. This reassignment was also due to the “personalized power structure,” of Napoleon III, as pointed out by Jack Thacker.²²⁵ It is easy to see this personal influence would further mold the perceptions of the family name in Europe. As a result, in France, the treaty would be known as the Cobden Treaty. In part, this was also because Chevalier did not always record or publicly assert his role.

Most importantly, this designation was because of the unpopularity of the deal within France. Drawing this distinction was a means to be dismissive of the agreement by emphasizing the British role. Also, Cobden stressed his role in persuading Napoleon III to accept a trade treaty despite French economic and political pressures.

These abstract discussions started to form when Cobden met with Napoleon III and began their informal trade deliberations in 1859. They agreed that the most effective political mechanism for France to consider the agreement would be through the commerce treaty. Also, Napoleon III explained to Cobden his concern with an agreement due to the scope of opposition among sectors of the French economy and the Senate.²²⁶ Cobden had the sense, perhaps due to his ardent support for tariff reduction, that Napoleon III had overstated his concerns. Napoleon III asked Cobden what he would do

²²⁴ Dunham, 44.

²²⁵ Thacker, Jack W. "Napoleon: Ellis, Geoffrey: London: Longman 290 pp., March 1997." (1998): 97-98.

²²⁶ Dunham, 58.

if he were in Napoleon III's position. Cobden said he supported a reduction in tariffs across the board but underscored the importance of reducing tariffs on iron, which would have the maximum effect on improving France's economy.

This result is not surprising due to the considerable degree of changes in France's policy compared to Britain. In other words, there were various forms of leverage in the deliberations. Readers can conceptually organize trade deliberations as an interaction of both power and leverage among the interested parties. Under a realist frame, one of the purposes of power is to exert leverage on others. However, power and leverage rarely function in absolute terms. Empirically those with considerably more power are seldom able to exercise their preferred degree of leverage to produce all of their desired outcomes. At the same time, those with modest power can sometimes exert considerable leverage in circumstances when employing power with strategic effect. Part of this is due to the competitive relations among states but also due to the conditioning influence of international anarchy, which makes power more desired but sometimes insufficient to accomplish specific ends.

Leverage is a useful tool in the political negotiations in agreements, and some of its most effective forms involve the influence of factors exogenous to the process. For example, appeals that each state makes to economic factors and interests often carry leverage as well as the influence of states outside the process, including the balance of power. This approach is akin to political claims of having hands tied while negotiating and seeking to exert leverage in the process. It is harder for a politician to claim their hands are tied when they are known to exert influence. However, efforts toward consolation may be more convincing when a negotiator effectively claims a factor is

outside their hands to control. This process may require a flexible disposition when negotiating a position. Realizing this is important because a leader who claims too frequently their hands are tied can see their power diminish, either due to perceptions of weakness or actual weakness in state management. Therefore, the process is multilayered in its dimensions.

Britain was in a stronger economic position than France, which was not experiencing the Industrial Revolution to the same degree. For example, most of France's iron was wood smelted, which is less efficient than coal smelted iron. Britain also had more cohesive economic and political support for lower tariffs, as driven by the economic and political ideas of the time. Britain's recent robust economic growth was associated with the repeal of the Corn Laws. As a result, that provided validation for the proponents of this policy. However, as noted, Britain was experiencing this growth as a result of its policies and not through trade agreements. This improved condition satisfied the general society who saw little need for future agreements with other states. As Bhagwati and Irwin explain, free trade proponents were concerned that, "insisting on reciprocal tariff reductions abroad would only serve to make the task of free traders abroad more difficult by implying that free trade was really in the British interest rather than their own."²²⁷ Therefore, the absence of general national interest for a commercial treaty was a domestic challenge for Cobden.

However, it was also potential negotiating leverage, if Britain chose, so they could appeal to the national constituency. The general disposition towards favoring

²²⁷ Bhagwati, Jagdish N., and Douglas A. Irwin. "The Return of the Reciprocitarians—US Trade Policy Today." *World Economy* 10, no. 2 (1987): 109-130.

lower tariffs could have given Cobden leverage. However, it did not because he was philosophically grounded in a belief in unrestricted trade. Therefore, even though they had the power, they may have had less leverage because there was less flexibility in deviating from a specific trade policy to meet a perceived middle point with France. Reaching a median compromise point of tariff rates would be contrary to the goals of Cobden and his allies and therefore was a form of tying hands. This was because they could always revert to the existing policies of low tariffs. Therefore, the British objective was to change France's tariff structure.

France also had a spectrum of leverage and influence it could exert on the negotiations. Napoleon III, though imbued with considerable unique power, was still influenced by the sentiments and interests within France. The proponents of the ideas of free trade persuaded him. Napoleon III sensed a need to change to prevent France from economically slipping behind others in Europe. Therefore, even though he sensed a need to adjust, the change would be occurring on his terms. Furthermore, because of his unitary position, of not needing outside approval, he had a better bargaining situation.

Britain also had to come to terms with Napoleon III's constraints and had to accommodate them. Therefore, though Napoleon III's economy was in a worse situation (France was one third the size of Britain's per capita industrialization),²²⁸ he had the leverage to negotiate. In some ways, the sector Napoleon III had the greatest power over, the approval of the treaty, gave him a different form of leverage. Britain knew they had

²²⁸ Findlay, Ronald, and Kevin H. O'Rourke. *Power and Plenty: Trade, War, and the World Economy in the Second Millennium*. Vol. 30. Princeton University Press, 2009.

to satisfy the concerns of Napoleon III and not the reservations of other French centers of power. Not surprisingly, these dynamics played out throughout the deliberations, which were propelled by the existence of power and the application of leverage. Therefore, in part because of Napoleon III's position, he had to publicly acknowledge the influence of forces of the balance of power. Napoleon III used this approach as a form of tying hands while he negotiated the trade agreement with Britain. At the same time, his efforts to gain leverage from trade talks with Britain and Napoleon III's appeals to international issues will be analyzed.

Cobden's conception of trade:

*Free Trade! What is it? Why, breaking down the barriers that separate nations; those barriers, behind which nestle the feelings of pride, revenge, hatred, and jealousy, which every now and then burst their bounds, and deluge whole countries with blood; those feelings which nourish the poison of war and conquest, which assert that without conquest we can have no trade, which foster that lust for conquest and dominion which sends forth your warrior chiefs to scatter devastation through other lands, and then calls them back that they may be enthroned securely in your passions, but only to harass and oppress you at home.*²²⁹

It is not clear if Napoleon III and Cobden shared similar idealized views of trade,

²²⁹ Speech at Covent Garden (28 September 1843), quoted in John Bright and J. E. Thorold Rogers (eds.), *Speeches on Questions of Public Policy by Richard Cobden, M.P. Volume I* (London: T. Fisher Unwin, 1908). 40.

even though both were reformers. Cobden would speak in political and economic terms of the agreement and would discuss the residual benefits of improved relations among the two states. However, the correspondence and the ideas of the time, as espoused by Cobden and Chevalier, idealized the spillover benefits of adopting the trade agreement. Napoleon III may have assumed this was a sincere belief as well as an effort for more direct bilateral ties. On this front, Napoleon III likely expected he had distinct leverage over the others who believed in an agreement. As will be outlined, this calculation, as well as the conditioning influence throughout the balance of power, influenced the components, evolution, and adoption of the Cobden-Chevalier Treaty.

These complex interactions show this interplay of agency and structure as well as how leverage and power influence the final agreement. Dunham explains how Napoleon III favored trade with Britain with geopolitical objectives in mind. In addition, the Emperor was seeking support for his policies in Italy and Prussia and saw a trade agreement as a means to build that relationship with Britain.²³⁰ Napoleon III also believed that his uncle's overthrow was due to his opposition to Britain.²³¹

During treaty negotiations, general agreements were reached to meet specific tariff rates and time tables of the changes. Also, there was a strategy on the proper ordering of formal considerations of the agreement. Napoleon III even suggested that the Queen and he share the stage for an announcement of the commerce treaty adoption.²³²

²³⁰ Dunham, 62.

²³¹ Dunham, 63.

²³² Dunham, 76.

However, suddenly he switched his stated objectives and suggested a postponement of negotiations until after Britain and France reached an alliance to address the affairs of Italy.²³³ Napoleon III's consideration of Italy involved his side agreement to annex Savoy and Nice as well as general support for Italian unification, both a net loss to Austria. Britain's policy and relations, both with Italian provinces as well as Austria, differed with Napoleon III. Britain rebuffed the offer. Napoleon III's consideration of this possible leverage appears again during the final treaty deliberation.

Finalizing the Commerce Treaty:

Even though Napoleon III perceived there was universal support for the commerce treaty within Great Britain, there were divisions. Some of the division was the result of expectations of reciprocity with France, whereas others favored a general trade policy not grounded in reciprocity at all. These sentiments became exacerbated by the delay in information and consideration of the treaty. As the negotiations became public knowledge, British Members of Parliament raised concerns. In part, this was due to not being involved in the negotiations, but also the sentiment among the British was that they were conceding more on tariff rates than the French. The negotiators, therefore, returned to deliberations. As a result, they adjusted the time schedules of when tariff rates would change, and which goods would be affected. Interestingly, in this case, this modification

²³³ This is a form of linkage where a range of issues are linked in the relations among states to facilitate continued interaction and recognize some agreements may favor one party over the other but that the next issue could be more favorable. It could also be argued that linkage is the reason (outside of expertise) that the United States negotiates its trade agreements through a trade representative outside of the hierarchy of the State Department to focus on the specific objective but also minimize the likelihood other states could link other issues.

seemed to temper the opposition to the treaty in both states. Fortunately for the negotiators, the act of flexibility improved the political chances of the agreement.

Dunham argues the, “attempts made to conclude another treaty, from the fall of the First French Empire to the foundation of the Second, failed because neither the French nor the British Government was sincerely anxious for their success and because the French Government throughout that period lacked the power to control the protectionist Chambers.”²³⁴ The author concludes that even if a deal had been reached earlier it would have likely been restrictive and had little effect.

The goods that featured prominently in the discussion included linens, iron, and coal. For example, the assessment of wine and spirits were at the respective rate equivalent tax on domestic beverages based on alcohol content.²³⁵ In that way, the tax on imported alcohol occurred when it entered either France or Britain but was not taxed again on the alcohol. Thus, this created general parity for domestic and imported alcohol for consumer prices. This was to the benefit of France’s export of wine, which was growing in popularity in Britain. However, the French were less interested in alcohol from Britain.

The agreement included no restrictions on coal imports or exports for either state. According to Dunham, this created more unease during the debate in parliament than any other issue.²³⁶ This was because Britain would be exporting most of its coal to France

²³⁴ Dunham, 101.

²³⁵ Dunham, 99.

²³⁶ Dunham, 100.

while France's coal shipments to Britain were minuscule. The British feared this would create a vulnerability in its relations with post-Napoleonic France. The agreement also listed items for further discussion and settlement on a tariff schedule. The schedule included Britain's low across the board tariff and France's lower but still average 30% tariff, which would drop to 25% after four years. These tariff ceilings could be negotiated later to lower levels between the parties through subsequent treaties. While tariff rates were high for several goods, it was an agreement between the two states when one had been elusive for decades. It also lowered tariffs on many goods and provided a mechanism for further revision. Therefore, "it replaced the decadent system of prohibitions that was slowly choking all desire for progress."²³⁷ Also, the treaty would last for ten years and could be extended year to year unless one of the parties gave twelve months notice and withdrew.²³⁸

During the discussion, words of agreement and harmony between France and Britain were expanded upon by figures in addition to Cobden-Chevalier. Napoleon III, in a letter to Persigny, remarked, "this morning I saw [Prime Minister] Palmerston and [Foreign Secretary] Russell. Both consider that it will inevitably unite indissolubly the two peoples through the bonds of mutual prosperity."²³⁹ However, during British consideration of the treaty, a rumor spread about the possibility that Napoleon III

²³⁷ Dunham, 102.

²³⁸ Dunham, 100.

²³⁹ Dunham, 105.

intended to annex Nice and Savoy.²⁴⁰ This shifted debate in the House of Commons and Lords as speculation mounted with the questioning of Napoleon III's aims.²⁴¹ Gladstone explains the complexity of these overlapping concerns, which were prompted by the actions of Napoleon III.

*“While we complained of her demand for Savoy and Nice, we were open to the answer that it was the consequence of proceedings in Italy which we had with all our might favoured and encouraged; and while we cherished warlike emotion in the country by these complaints, we also applied the most powerful stimulus to its trading instincts and its peaceful spirit by pushing forward persistently the arrangements for giving effect to the commercial treaty. The complication was extraordinary, the opportunities for criticism abundant; but it cannot be doubted that a great balance of good was gained.”*²⁴²

The opposition party in Britain felt constrained from prolonging division over the commerce treaty. They did not want to slow down the issue because they did not want to address it should they ever be in the majority. Instead, the opposition found more significant political gains in criticizing Russell's reform bill. These calculations make further sense due to the distinct realignment in party philosophies and actors in Britain as a spillover from the repeal of the Corn Laws. So, a closer examination of internal

²⁴⁰ Dunham, 107.

²⁴¹ Dunham, 109.

²⁴² Gladstone, W. E. "The History of 1852-60, and Greville's Latest Journals." *The English Historical Review* 2, no. 6 (1887): 281-302.

Parliamentary dynamics reveals a more complex set of explanations for considering notions of power and leverage. Gladstone solidified sufficient support for his budget and as a result, shifted focus away from Napoleon III's policy on Italy. As Chancellor of the Exchequer, he rose from his sickbed and gave a budget speech which included the tariff treaty. Parliament gave him roaring support, and this response improved support for Cobden-Chevalier in British public opinion.²⁴³

After the agreement, Chevalier included provisions in the legislation that allowed the French government to provide loans to affected manufacturers. Even though Chevalier favored less restrictive trade, he also advocated a more significant government role in supporting industry and addressing public welfare. He and Napoleon III agreed on these ideas, and as a result, these efforts helped them recover support from the sector who loathed the commerce treaty.²⁴⁴ This policy was intended to facilitate the export of goods but also was more resoundingly supported by the public than the treaty. The industries that were most critical of the changes in tariff rules modernized their production and experienced profitable returns. This adjustment was also favorable timing for France due to the dearth of production in the United States during the Civil War. As called for in the treaty, the follow-up Enquete saw further reductions in specific tariff rates. This development came as a surprise to Cobden.²⁴⁵ Therefore, the agreement had ramifications both in the policy realm but also in the policy replication realm. This

²⁴³ Dunham, 116.

²⁴⁴ Dunham, 144.

²⁴⁵ Dunham, 140.

commerce treaty resonated among other states where this policy contributed to the opening of an international trade norm emergence.²⁴⁶ Perhaps as a result of the norm changes, there were tariff reduction talks a few years later between Britain and Austria.²⁴⁷

The Balance of Power and Cobden-Chevalier

As referenced throughout this chapter, the negotiation of the treaty of commerce was not isolated from the influence of great power competition. First, this section will consider the history of this relationship and the interlocking relations within Europe that conditioned the dynamics around and within the agreement. Second, it will examine in the abstract how the use of the provision Most Favored Nation status relates to the balance of power.

During the nineteenth century, the post-Napoleonic era spanned three periods that conditioned the relations among states. The Congress of Vienna and Concert of Europe most famously characterize eras during which the European balance of power system functioned under a concept of balancing through alliances. This arrangement facilitated responses to domestic revolutions. It also allowed for coordination among European great powers in settling into a new order after the wars of Spanish Succession and Napoleon I. This dynamic in Europe faced complications due to the shifts in alliances that overlaid nation-states with royal lineage.

²⁴⁶ Finnemore, M., & Sikkink, K. International Norm Dynamics and Political Change. *International Organization*, 52(4), 1998. 887-917. Also, the literature review examines the emergence and diffusion of the norm of lower tariffs.: The discussion of social tipping points is Schelling, Thomas C. *Micromotives and Macrobehavior*. WW Norton & Company, 2006. 101.

²⁴⁷ Helleiner, Karl F. *Free Trade and Frustration: Anglo-Austrian Negotiations 1860-70*. University of Toronto Press, 1973.

What stands out in examining the nineteenth century is the under discussion of a system in European order that operated approximately from 1856 to 1870. It is important to consider the order that existed after the Crimean War and before the Franco-Prussian War, because this is the time frame of the commerce treaty negotiations. This post-Crimean War system was also grounded in alliances (and the absence of alliances) that outlined relations, and this research argues that it interacted with the consideration of the Cobden-Chevalier Treaty

Did Napoleon III believe Chevalier and Cobden's arguments that trade would solidify the political and cultural bonds between France and Britain? He may have been persuaded enough to agree to the treaty with conditions. It could be that his efforts to intervene or appeal to Britain for support on Italy policy was an effort to test the degree of the links that existed between the two states. While Britain ends up favoring the commerce treaty, they did not support efforts beyond those favored by Napoleon III. Napoleon III designed a test to gauge British will and to determine if actions, especially alliances, were in line with the platitudes surrounding the trade deliberations. The British rejected Napoleon III's alliance request. Napoleon I's nephew introduced a sense of worry into the British system that his Italian intentions would interrupt the trade relationship. Napoleon III did not experience any positive externalities due to trade deliberations during Parliament's debate. However, both matters were considered important and potentially intertwined. British leadership worked to untangle the links in accordance with their interests. This example provides insight into the balance of power considerations that were prominent on both sides of the Channel.

While not taken as seriously, some opposed the agreement over concerns with the

British coal trade with France. This argument was an example of a case that intertwined the consideration of politics, economics, and the balance of power. These critics feared the possibility of going to war with France because a Napoleon was its leader. Therefore, under the treaty, they reasoned that France would receive British coal exports with no duty. They concluded that under the treaty, Britain could be forced to provide coal to France in a hypothetical war against Britain. Leaders in Parliament countered the argument and said any war between the two sides would suspend trade activity and agreements between the two. Concern about a possible war between the two sides was a subtle underlying issue. Though this concern was not cohesive across the government, it influenced British procurement and fortifications.

This approach is an example of how a state can have a mix of seemingly conflicting sentiments in their policies and relations. In this case, the adoption of a consistent policy regarding British relations with France never happened. Interestingly, during this time, Cobden was able to persuade Napoleon III to lower travel restrictions into France. This complex sentiment influenced the debate around iron. While the British economy was stronger, its navy was larger, and its production of iron was more significant, it was nevertheless behind France in the advanced armament of naval vessels. This imbalance in armament resonated more in Britain than France. Meanwhile, Cobden became frustrated because he saw trade activity among states as a panacea to resolve tensions.²⁴⁸ Furthermore, he worried these naval tensions would spur a vicious cycle in British and French relations and jeopardize the trade treaty.

²⁴⁸ Hinde, Wendy. *Richard Cobden: A Victorian Outsider*. Yale University Press, 1987. 301.

*“Napoleon III was starting to engage on a foreign adventure. He wanted to rid Italy of Austrian rule by use of arms. The British opposed his military measures, despite their recent use of force in Crimea. The treaty was used to hold British neutrality, as much as or more than to stimulate growth in France.”*²⁴⁹ Charles Kindleberger

Kindleberger's argument that the trade talks had the intent of holding British neutrality is problematic. This is challenging because the war with Austria began June 4, 1859, and ended with the armistice treaty on July 12, 1859. Furthermore, the arrangement over Napoleon III's claims on Savoy, with his secret deal with the Piedmont in the Plombières Agreement, was in 1858. The potential discussion Napoleon III had on trade with Britain did not begin until after the war. The earliest possible point to influence this dynamic came with private correspondence between Cobden and Gladstone on September 5, 1859.²⁵⁰ How could neutrality be maintained for a conflict that had ceased hostilities? Furthermore, the one actor most reluctant to engage in trade talks at this time was Napoleon III.

Also, a prolonged conflict with Austria, unlike the recent secession of hostilities, would have knowingly exposed France to likely threats from a growing Prussia. This systemic interaction underlies all these considerations of war and trade. Furthermore, in this period, most free trade proponents in Britain would have been content with France

²⁴⁹ Kindleberger, Charles P. "The Rise of Free Trade in Western Europe, 1820–1875." *The Journal of Economic History* 35, no. 1. 1975. 20-55.

²⁵⁰ Dunham, 51.

withdrawing. This position was because, as explained above, they preferred policies where states chose to unilaterally lower tariff rates. Because Napoleon III's legislature had a history of not agreeing to this, Napoleon III had no other alternative than a commerce treaty. Britain was helping Napoleon III lower tariffs.

If he wanted to lower tariffs, that would not necessarily shift military alliance relations with Britain. Action over low trade flows is different from interrupting high trade flows. Marshall argued Britain was not overly exposed to any hypothetical action by Napoleon to restrict trade. This claim from Marshall was because there are no British exports, "which other countries need so urgently as to be willing to take them from her at a considerably increased cost."²⁵¹ Furthermore, this case challenges the rationale of Hegemonic stability theory. Britain was more economically powerful relative to France, but it had few tools through economic ties to exert that power.

Instead, what was significant was that Napoleon III was seeking military alliances. His Second Empire faced exposure to the growing strength of his neighbors and the burden of distrust his family name carried. Therefore, Napoleon III had increased difficulty in solidifying alliances. These diplomatic moves with Britain appear to be an effort to resolve the challenges streaming from the absence of a great power alliance. Instead, Napoleon III sought to use the relationship with Britain to influence the spoils of victory over Austria and the developments in Italy. Each step of Napoleon III's wavering support for the treaty was to test the possibility of relations with Great Britain. It was also possibly a test of their general attitude towards him and his designs to annex Savoy

²⁵¹ Marshall, Alfred. *Official Papers by Alfred Marshall*. 1926. 408.

and Nice. He was willing to gain this territory either through agreements or possibly by force. Napoleon III tested the British sentiment in its relations toward Austria as well as the firmness of British policy regarding Italian unification.

In early January 1860, Napoleon III was engaged in multiple diplomatic and military paths. He seems to be exploring the limits and intentions of his neighbors while negotiating Cobden-Chevalier. He asked for support from Britain in a conflict with Austria over the northern Italian provinces. Britain declined Napoleon III's offer. British leaders rarely moved away from a position of "splendid isolationism," and for nearly ten decades only the crisis in Crimea sufficiently rustled leaders from this position.²⁵² Britain's approach to maintaining the balance of power system focused on the preservation of the system, which in turn helped Britain's security. They achieved this objective through a general disposition that avoided passivity or over engagement. Instead, British leadership evaluated state interests before determining the degree of state engagement.

Simultaneously, Napoleon III met with the minister of Austria, Metternich, expressing sorrow for the loss Austria faced in their recent conflict. Surprisingly, he offered to participate in a coalition with Austria to help acquire eastern lands.²⁵³ It seems Napoleon III was pursuing British support to attack Austria at the same time he was offering sympathy and an alliance with Vienna. Austria did not take his offer seriously nor did Britain. In this balance of power system where Austria and France had no

²⁵² Fraser, Rebecca. *The Story of Britain: From the Romans to the Present: A Narrative History*. WW Norton & Company, 2006. 609.

²⁵³ Bierman, John. *Napoleon III and his Carnival Empire*. St. Martin's Press, 1988. 202.

alliances, the evolution of relations between the two is not surprising. At the same time, they also faced limitations. Austria would have known that acquiring land to its east would have created a permanent fissure with Russia. This would have further exasperated the balance of power which could have drawn a response from Russia, the Ottoman Empire, Prussia, and Britain. All these trials for Austria would be at a time of domestic challenges and their poor recent military performance against France. As noted, Austria would begin trade talks with Britain a few years after Cobden-Chevalier. Austria also may have been seeking ways to improve relations with Britain. An agreement with Austria from an economic or political perspective was a low priority for Britain. France and Austria had few alternatives other than turning to Britain for improved relations. This narrow list of alternatives is particularly important considering their tenuous relations with the other great powers and each other. French ties with Britain and Austrian relations with Britain improved. However, there were no security guarantees through alliances.

There are additional considerations necessary in order to examine the influences on Napoleon III's overtures to Britain. Also, British neutrality would not be sufficient for Napoleon III's objectives. This appears to be another example of what was known as "Napoleon's erratic policy."²⁵⁴ Alternatively, this can be seen as an attempt by Napoleon III not only to test either party but also to develop a ruse to undermine Austria, with the help of Britain. Napoleon III assumed the treaty of commerce he was negotiating with Britain afforded him with potential leverage. He believed this relationship had changed

²⁵⁴ Kissinger, Henry. *Diplomacy*. Simon and Schuster, 1994. 105.

through this diplomatic relation that had not existed before, when hostility existed between the two states. However, Britain's rejection was due to France's recent conflict with Austria and also with an eye on the recent upset to the balance of power. If Britain sided with Napoleon III, it would be to the net loss of Austria and, depending on the outcome, could be a net benefit for France, as well as Russia. The rationale for the Crimean War that had upset the Congress of Vienna system would be further undermined by a stronger Russia and a weaker Austria, which had been of principle concern years earlier. This deft move by Britain forestalled French action and sustained trade talks during a complicated relationship with France.

It may be immaterial whether Napoleon III accepted the arguments made by Cobden and Chevalier, that increased trade would improve relations. It is likely at a minimum that he thought that they believed in lower trade restrictions. Therefore, the negotiations were useful for his ends in annexing Savoy and Nice while also exploring ways to engage within the balance of power system. Furthermore, trade with Britain and Austria began after Cobden-Chevalier, which shows the spread of the trade agreement norm. Interestingly, Britain is responsible for introducing both the norm of unilateral tariff reduction as well as treaties of commerce. These two norms were conceptually, and in practice, in tension with each other. The remainder of this century would be about how these trade provisions overlapped the relations throughout Europe and the unraveling that occurred in the following decades.

While the economic decline placed considerable political pressure on European states to change policy, these overlapping practices, along with most favored nation

status, proved to be politically inflexible during a time of deep economic crisis.²⁵⁵ This mix of conditions led to the unraveling of agreements, including Cobden-Chevalier. This unraveling preceded Britain's decline in relative power. While the British were proponents of this conception of trade policy, they did not cause the replication, nor did they control its unraveling across Europe. Britain chose to never exert sufficient leverage in these circumstances, though it had considerable power, and it continued its policy of unilaterally reduced tariffs. Instead, it is the interaction across the balance of power system that facilitated trade agreements and in this case, led to their demise.

Trade treaties were more challenging to negotiate around the limits of the balance of power. Therefore, it is not surprising that this trade language would unravel before the formal unraveling of the balance of power system in Europe. This is due to alternative forms of logic in the different operating principles of balance of power and trade agreements. There is a minimal logic of expected state behavior within the balance of power that states work in concert to curtail the rise of another state. However, from a state perspective, a similar form of logic related to trade agreements did not exist.²⁵⁶ Therefore, while the two systems coexisted, they did not operate within the same logic. Part of this is due to the absence of a trade agreement focused institution but even more an absence of general understanding among states. This general understanding of

²⁵⁵ Snyder, Richard C. "The Most Favored Nation Clause and Recent Trade Practices." *Political Science Quarterly* 55, no. 1 (1940): 77-97. "One of the few attributes of the most favored nation clause which can be stated with any degree of certainty is its persistence as an underlying factor."

²⁵⁶ This claim does not neglect the influence of the logic of comparative advantage as an economic logic, just that states did not have an equivalent approach to grasping the logic of trade agreements. This challenge due to absence of a trade agreement logic would be revealed when the trade agreement system would become strained.

practices and links involving trade never existed even though, according to theory, Britain would have benefited from it. As Gilpin argues, “the actual or threatened cutoff of trade, finance, or technology can be a potent means of leverage of other states. The ability of the hegemon to exercise its power through the mechanisms of economic interdependence contributes to its governance and management of the international market economy.”²⁵⁷

Cobden-Chevalier included language adhering to the principles of most favored nation status. This provision deserves close examination regarding how it relates to the balance of power. When a state agrees to this arrangement, they are binding themselves to a potential range of other state choices who also would accept these terms. Therefore, the agreements influence the relations among those states as they focus on expected linkages with other states. As a result, they are intertwined by this agreement to other states while simultaneously always reacting to power relations. In short, through this legal mechanism, states are disincentivized to increase tariff rates. This provision is not subject to modification or the potential of withdrawal through dissatisfaction or when a trade agreement expires. Thus, for states, there was insufficient operating logic regarding trade agreements and no mechanism to change the Most Favored Nation status. This is due to the binding nature of the Most Favored Nation status across states.

²⁵⁷ Gilpin, Robert. *The Political Economy of International Relations*. Princeton University Press, 2016. 76.

Conclusion:

The negotiation and adoption of the Cobden-Chevalier treaty illustrate the dominant influence of the balance of power in the agreement. This influence is evident in Napoleon's approach to the commerce treaty with Britain. He pursued the treaty while he sought objectives that seem to create tension with that pursuit. This tension includes his relations with individual states, including Britain. Britain's policy evolution on trade agreements was a test for Napoleon III. Britain also faced the challenge of shifting its policy away from unilateral tariff reductions to a policy of trade agreements. These exchanges relate to the mechanisms described in the introduction. The balance of power dynamics are influencing the objectives of leaders as well as the negotiating process.

Most acutely throughout this case, we see the interaction of two states who were considering the broader implications of their relationship and reaching a trade agreement. Both states considered how this trade agreement would affect bilateral relations and dynamics within the balance of power. Specifically, this reflects the policies and relations each had with Austria. This choice was critical because Austria was in a weak position. It lacked allies at a time when the Eastern and Western European subsystems were collapsing into one European system with the formation of Italy and later Germany. Also, the case outlines how the issue of France's annexation of Savoy and Nice influenced British consideration of the trade treaty, even though they accepted the annexation. Britain accepted in part because it favored the final product of these exchanges, which resulted in the formation of an Italian state. These conditions also reflect in the mechanisms that explain the improving relations between the states as well as an international power environment that is permissive for this trade relationship.

This work also accounts for the agency of the actors and their understanding of power and leverage which, when best understood, are concepts mainly outside the influence of the negotiating agents. Napoleon learned he did not have sufficient leverage over Britain during the trade negotiations to persuade London to agree to a military alliance. Britain concluded the negotiations over the trade agreement were not sufficient to leverage over France's policy in Italy. However, bilateral agreement and disagreement happened frequently between France and Britain during these negotiations, as factors exogenous to tariff rates sometimes rose to prominence. This change of events has more robust causal influence than suggesting the decisions were solely the result of agent-based dispositions like Napoleon III's affinity for the Italian people.²⁵⁸

Gladstone explained this period and the agreement by focusing on the changes in France under Napoleon III's rule. He wonders, is it, "not by a strange irony of fortune that the same Napoleonic rule should have conferred on France the greatest material benefit it has ever received, and entailed on it the most ruinous reverse it has ever suffered?"²⁵⁹ While many factors influenced the relations that merged into the Cobden-Chevalier trade agreement, it would be incomplete to consider these factors without the inclusion of the influence of balance of power dynamics. Balance of power considerations propelled France's interest in the agreement as well as British concerns during its deliberations. As this chapter explains, the balance of power did not just

²⁵⁸ Cheetham, Frank Halliday. *Louis Napoleon and the Genesis of the Second Empire: Being a Life of the Emperor Napoleon III to the Time of His Election to the Presidency of the French Republic, with Numerous Illustrations Reproduced from Contemporary Portraits, Prints and Lithographs*. John Lane, 1909. 66.

²⁵⁹ Gladstone, W. E. "The History of 1852-60, and Greville's Latest Journals." *The English Historical Review* 2, no. 6 (1887): 281-302.

mildly condition this agreement. The logic and influence of this system left an indelible mark on the negotiations, provisions, and debate surrounding the Cobden-Chevalier trade agreement.

The next case examines a trade agreement reached over a century later. While the region and agents are different when looking at MERCOSUR, the significance of the balance of power variable is reflected in conditioning the agreement.

CHAPTER 4: MERCOSUR

Introduction:

This chapter examines the factors that contributed to the formation of MERCOSUR and the primary actors of the agreement, Brazil and Argentina. Behind this work is the broader research question: Why do bilateral/multilateral trade agreements transpire? In effect, this is a question related to a broader puzzle about the conditions and causes of change in state relations. This is because for an event to transpire, we look to a change in circumstances and connections to be the impetus behind the phenomena. This research questions some of these assumptions regarding the influence of change in affecting the social world. The project seeks to measure this change that incorporates the influence of Economic, Political, and International State System factors to determine the probability of reaching decisions. This section will focus on the consequences of change, with an emphasis on the key factors that help explain the incidence of trade agreements and the importance of the balance of power variable.

Change is a constant in world politics. The condition of a state's political systems, ideas, technology, relations, capabilities, interests, and its very existence are all subject to change. It is a dynamic and fluid condition. As a result, some realists argue that states pursue power to help secure against and manage threats to their existence by improving domestic capabilities and seeking to balance against rivals. Ikenberry asserts that change is a constant phenomenon revealed over the centuries and, because of its

noncyclical tendency, it is difficult to infer patterns and develop lessons.²⁶⁰ Wendt argues that change is not sufficiently covered within Neorealism to explain major events because of the continuity of power competition due to anarchy.²⁶¹ While almost all individuals regard change as something that is part of the world, there are in fact events that are inside or outside the realm of expectations.²⁶²

Gilpin in *War and Change in World Politics* explains this change in the forms of the system, systems, and systemic.²⁶³ Therefore, if everything is changing in the world, events on the international political stage can be categorized within one of these groupings. He says systemic change, “involves the replacement of a declining dominant power by a rising dominant power.”²⁶⁴ System change happens regularly through ongoing interactions among states.²⁶⁵ On the other hand, systems change rarely occurs because it involves the foundation of the international order.²⁶⁶ An example of systems change is the adoption of the Treaties of Westphalia.

The following section considers the meaning and consequences of change. It extends these into a framework that serves to study the influence of politics, economics,

²⁶⁰ Ikenberry, 2014. 146.

²⁶¹ Wendt, 1999. 365.

²⁶² Copeland, Dale C. "Economic Interdependence and War: A Theory of Trade Expectations." *International Security*: 1996. 5.

²⁶³ Gilpin, 1983. 42.

²⁶⁴ Ibid.

²⁶⁵ Ibid.

²⁶⁶ Ibid.

and the International State System on the formulation of international trade agreements.

Background on MERCOSUR:

Keohane argues that states willingly cede some element of control through agreements in exchange for the opportunity to make relations among states more predictable.²⁶⁷ A simple reading of International Relations dominant schools of thought, Realism and Liberalism, is they both seek to grapple with explaining change and how to manage it. Liberalism often focuses on how, through processes of state relations, the interaction can increase certainty and gains, while Realism often focuses on risks and costs.

In 1991 with the signing of the Treaty of Asunción, the MERCOSUR agreement was reached between Brazil, Argentina, Uruguay, and Paraguay.²⁶⁸ Many scholars trace the group's origin to 1985, which started the process of formalizing relations between Brazil and Argentina. The trade agreement followed the trend of other common market initiatives²⁶⁹ from that era. The objectives included lowered trade tariffs, and it eased the flow of workers between member states.

It is also worth noting that this relationship among parties does not have a single hegemon providing security and gaining militarily. Rather, MERCOSUR is more like in

²⁶⁷ Keohane, 2002. 30.

²⁶⁸ Paraguay was suspended from the group, due to the swift impeachment of President Lugo, Venezuela entered the grouping under Paraguay's unregistered protest.

²⁶⁹ Gussoni, Enrique O. *Argentina Y Brasil: Análisis Histórico De Sus Relaciones Políticas, Económicas Y Sociales: Desencuentros, Armonías, Destino Común*. 2012. 142.

the European Union (EU), with the dominance of France and Germany, and the Shanghai Cooperation Organization (SCO) with Russia and China.²⁷⁰ The economic relationships between the members of MERCOSUR are closer to the SCO than the EU. Within the grouping, Argentina and Brazil have played a similar role to the primary actors in the EU in the formation of its institutional predecessors.

However, the agreement is unique in its scope in allowing for unilateral protections of industries and products, and the agreement increases tariffs on goods that enter from outside the group. This arrangement makes MERCOSUR a modified common market that is conditioned by political caveats. Also, the organization is a security subgrouping that focuses on cooperation among member states. *What role did balance of power dynamics, in addition to economic and political conditions, play in the relations between Brazil and Argentina that led to the formation of the Mercado Común del Sur (MERCOSUR)?* This chapter hypothesizes that changes in internal (political and economic) and external factors (balance of power) in Brazil and Argentina were the significant conditions that led to the formation of MERCOSUR. Furthermore, it highlights the significance of the international factors to illustrate how the absence of this variable would render an incomplete analysis of the conditions around the formation of MERCOSUR.

Based on theoretical and historical grounds, this chapter posits that if interstate relations are stable, then states are more likely to trade. From this observation, stable relations are not a cause, but instead broadly a common condition that results in the

²⁷⁰ Bajo, Claudia Sanchez. "The European Union and Mercosur: A Case of Inter-Regionalism." *Third World Quarterly* 20, no. 5 (1999): 927-941.

adoption of trade agreements. Stability in state relations is also a measurable phenomenon as observed through the history of the balance of power. Also, work from scholars like Boulding and Kupchan suggest that trade is not the condition for stable relations but that stable relations facilitate trade.²⁷¹ This agreement relationship seems to be the case with MERCOSUR since tensions between the states were in decline before the agreement. This was also facilitated by the regional influence of the long peace in South America. Certainly, within South America, the low volume of trade between the states could not be considered a cause of its general stability, as some trade and peace theorists like Bearce suggest.²⁷² In *Economics and Balance of Power*, Brawley argues that these multilayered relationships among states are under-represented in the literature.²⁷³ He suggests that there is a linkage in policies and when states are hard balancing they may pursue different economic strategies depending on the circumstances. He asserts that if states are engaged in external balancing, they may be more involved in trade than if they are concerned with pursuing internal balancing, which could result in states pursuing more policies protective of domestic economies.

Also, improvements to general security predated implementation of any trade agreements, though there was discussion among elites about developing a common market in South America as early as the 1950s.²⁷⁴ Brazil (1948), Chile (1949), Peru

²⁷¹ Boulding, 1978. 64. : Kupchan, 2010. 3.

²⁷² Bearce, David H. "Grasping the Commercial Institutional Peace." *International Studies Quarterly*: 2003. 347-70.

²⁷³ Brawley, 2004. 76-99.

²⁷⁴ Urquidi, Victor. *Free Trade and Economic Integration in Latin America; the Evolution of a Common Market Policy*. Berkeley: University of California Press, 1962. 65.

(1951), and Uruguay (1953) were early members of GATT, which was more than a voluntary indicator of a willingness of the states to lower trade barriers. Other states followed in membership with Argentina (1967), Columbia (1981), Venezuela (1990), and Bolivia (1990). While not the primary focus of this work, this “seed planting” of ideas deserves further exploration of how this and other agreements sometimes take time to develop.²⁷⁵ This idea of trade was a seed that germinated among the regional states as there were foundational changes in the balance of power system from bipolar to unipolar that occurred before the adoption of the agreement.

In effect, the following sections look at three factors and the respective changes within security (including politics), economy, and the international state system. Next, a review of existing literature will help position this work in the proper context.

MERCOSUR Literature:

Economic matters are the most prominent factor considered by most scholars when examining MERCOSUR. A minority of the academic literature examines the issue from security and political perspectives. However, there is a profound absence in the academic literature when it comes to considering the influence of the balance of power on the incidence of trade agreements. This may be due to the focus within academic disciplines toward identifying explanatory conditions and influences. This approach is not a criticism of each of these pieces that constitute the whole. It is necessary to know each of the factors that will be displayed to enhance the explanatory power of the

²⁷⁵ Samuel Konefsky as well as Max Lerner may be places to start.

research and to develop this interdisciplinary theory further. Observing each of these factors (political, economic, and balance of power) aid in viewing the whole. In the interdisciplinary study of IPE there is no “or” qualifier between “I” “P” “E” but instead some “and” where the theories and methods in the respective disciplines are incorporated into the conceptualization and explanation of research. However, doing so invites challenge regarding internal consistency, as addressed in the first chapter of this dissertation. Therefore, what is presented may require a sacrifice in factor parsimony to observe how no explanation sufficiently describes how trade agreements happen. However, the inclusion of the balance of power variable in this case will illustrate how its absence results in an incomplete explanation related to the evolution and incidence of international trade agreements, including, MERCOSUR.

Gardini traces MERCOSUR back to the bilateral relations between Argentina and Brazil and believes examining the common shared attributes of each state explains the cooperative relationship between the two, which is mainly due to democratic systems.²⁷⁶ Coutto asserts, “the settlement of the Itaipú-Corpus controversy paved the way for an alternative approach to bilateral relations.”²⁷⁷ Gardini also appropriately considers Brazil and Argentina as the dominant actors in the creation and maintenance of MERCOSUR. This argument justifies considering the prominent role played by these two actors in the formation of this common market. As Wise points out, “Argentina and Brazil represent

²⁷⁶ Gardini, Gian Luca. *The Origins of Mercosur: Democracy and Regionalization in South America*. New York: Palgrave Macmillan, 2010. 43.

²⁷⁷ Coutto, Tatiana. "An International History of the Brazilian–Argentine Rapprochement." *The International History Review* 36, no. 2 (2014): 302-323.

more than 95 percent of MERCOSUR's combined GDP."²⁷⁸ On the other hand, Tulchin and Espach disagree and point to the relative dominance of Brazil's economy during the development and duration of MERCOSUR.²⁷⁹ Some could question the Tulchin and Espach assumption, because of the role a state the size of Argentina can play in consensus building with neighbors. Argentina's involvement facilitated the inclusion of Paraguay and Uruguay, who may not have joined MERCOSUR if Argentina had not been involved.²⁸⁰ This follows a pattern of bandwagoning, as described by Mearsheimer and other realists, but within the economic realm.²⁸¹

An examination of the history of Argentina and Brazil reveals two prominent cycles, economic and military, that overlay and interact throughout their respective national histories. While some would appropriately assert that other factors like politics are prominent, historically the military in Brazil and Argentina has been the domestic political force. In many circumstances, the military intervenes in times of domestic turmoil. This power to intervene is akin to Schelling's concepts of the power to hurt, intervene, and compel.²⁸² When an element is more powerful than others within a

²⁷⁸ Wise, Carol. *Latin America in a Changing Global Environment*. Edited by Riordan Roett and Guadalupe Paz. Boulder, Co.: Lynne Rienner Publishers, 2003. 32.

²⁷⁹ Tulchin, Joseph S., and Ralph Espach. *Paths to Regional Integration: The Case of MERCOSUR*. Washington, D.C.: Woodrow Wilson International Center for Scholars, Latin American Program, 2002. 5.

²⁸⁰ A similar parallel can be made concerning states like Kazakhstan, Uzbekistan, Kyrgyzstan, and Tajikistan joining SCO if only China or Russia were involved. Ramos, Hugo. "Integración Regional y Organizaciones Político-Partidarias. Los Partidos Políticos de Argentina, Paraguay y Uruguay Frente al MERCOSUR." (2013). Asserts a closeness in some political parties in Argentina and Uruguay also helped facilitate the passage of the agreement.

²⁸¹ Mearsheimer, 2001. 163.

²⁸² Schelling, Thomas C. *The Strategy of Conflict*. Harvard University Press, 1960. 7.

society, it exerts positive and negative influence. A coup or even the threat of one was not distant from the minds of civilian leaders within states where the most influential, stable, resourced, and sometimes popular institution is the military. This influence reveals itself more clearly when looking at each state's history and the prominent role the military has played in each state.

Thomas Schelling also makes the point that, during a military conflict, deterrence and compulsion are hard to tell apart.²⁸³ The military has played a dominant role in the strength and weakness of Brazil and Argentina. While Schelling was looking primarily at military strength dealing with external threats, the militaries of Brazil and Argentina applied this concept in a domestic political fashion. As Resende-Santos points out, “the Argentine-Brazilian rapprochement is puzzling also because it occurred under conditions—such as military rule—that are usually assumed to militate against international peace and cooperation. It occurred during a time when military regimes engaged in state terror at home and aggressive nationalism in foreign policy.”²⁸⁴ David Mares points to a violent contemporary history, just short of war within Latin America, that has the potential to escalate because the most powerful political elements within Latin America are the respective militaries. Therefore, he asserts states employ the military both domestically and internationally in shows of force that usually end diplomatically.²⁸⁵

A brutal example of indirect influence between the two states was the Argentine

²⁸³ Ibid. 9.

²⁸⁴ Resende-Santos, Joao. "The Origins of Security Cooperation in the Southern Cone." *Latin American Politics and Society*: 2002. 89.

²⁸⁵ Mares, David R. *Latin America and the Illusion of Peace*. Routledge, 2012. Ch. 2.

security forces during the *Desaparecidos* incident, where an estimated 20,000 or more persons were taken from their homes from 1976-1983; their whereabouts remain unknown. The Argentine actors learned from observing the Brazilian experience of political repression. However, during this time, Brazil and Argentina were able to cooperate on nuclear research and the resolution of border disputes.

More recently, the relations between Argentina and Brazil have advanced to allow for an expansion of relations between MERCOSUR and the Andean Community of Nations (ACN). These ties have progressed to allow for greater coordination on economic and noneconomic issues. Points from UNASUR members pledge to promote economic development, industrial and financial integration, trade cooperation, and communication.²⁸⁶ Mares helps point out the noneconomic elements that will make up the relationship within the Union of South American Nations (UNASUR).²⁸⁷ These are related to closer security cooperation, short of an alliance structure. However, these relationships are outside the dynamics of the Organization of American States (OAS) and specifically the United States.

Authors like Gilbert Le Gras²⁸⁸ are optimistic about the commercial opportunities from the union of the two trade groups. Nevertheless, his enthusiasm for a regional common currency in 2002 would likely be tempered by the Greek debt crisis and related

²⁸⁶ "UNASUR / Todos Somos UNASUR." UNASUR / Todos Somos UNASUR. Accessed February 16, 2015. <http://www.unasursg.org/node/48>.

²⁸⁷ Mares, 2012. Ch. 4.

²⁸⁸ Gras, Gilbert. *The New New World: The Re-emerging Market in South America*. London: Pearson PTR, 2002. 225.

challenges experienced in the EU. Adam Zaretsky echoes this thinking while asserting a unified currency within MERCOSUR would help, “bring further economic stability to the region.”²⁸⁹ Tying the fates of the various states too closely together, as would happen with a common currency, would certainly be a risky proposition given the contemporary and distant history of debt crises. It is no surprise that the economic integration process for this region has been incremental and intentional. Others, including *The Economist*, have been critical, pointing out MERCOSUR, "has not evolved into the seamless single market its founders dreamed of."²⁹⁰

Also, within Brazil and Argentina, since the middle of the 1980s, there has been a transition to democratic institutions. This democratization trend reverberated throughout this period, as the power center moved from military to civilian leadership. This was due, in part, to the shortcomings of the military government as well as the civilian reforms within the military organizations. Those reforms fostered internal political competition within the military, instead of a focus on external civilian politics. Larry Diamond agrees and provides an outline of a series of steps necessary to transfer from military to civilian power, including control of mass communication, business, and surveillance. He also believes it is important for the evolution to go in the direction where power transitions, reduced military budgets, and military training and advancement focus on organizational growth and not political goals. Diamond illustrates how each state is not a perfect image

²⁸⁹ Zaretsky, Adam. "Yes, This EMU Will Fly, But Will It Stay Aloft?" Accessed March 29, 2015. <http://research.stlouisfed.org/publications/regional/98/07/EMU.pdf>.

²⁹⁰ "Mercosur RIP?" *The Economist*. July 14, 2012. Accessed April 12, 2015. <http://www.economist.com/node/21558609>.

of democracy, with Argentina's diminished level of civil liberties and the corruption in Brazil.²⁹¹ Using the ideal image of what a system should be is not just for criticism, but using the ideal serves as an indicator of the position and direction of reforms.

In 1985, members of the Organization of American States affirmed and amended the protocol to declare that democracy was fundamental for peace and stability in the region.²⁹² Argentina and Brazil ratified the agreement in 1988.²⁹³ Further, this supports the earlier assertion that not only does joining multiple outside organizations allow Brazil and Argentina flexibility within the institutions, but also a stronger position relative to potential military rivals who would have to consider external costs to intervene. Peter Smith points out, "Mercosur provides civilian democrats throughout the subregion with regular opportunities for consultation and mutual support, thus offsetting the long-established enclaves for chieftains of the armed forces."²⁹⁴ He describes the decision by civilian leaders in the 1990s to not challenge the military on issues related to human rights abuses. He concludes, "a long agenda for reform of civil-military relations remains." This influence of institutions reflects the work of Félix Martín, who shows how common bonds within the military aided the region's stability.²⁹⁵ However, these

²⁹¹ Diamond, Larry. *Beyond Sovereignty: Collectively Defending Democracy in the Americas*. Edited by Tom J. Farer. Baltimore: Johns Hopkins University Press, 1996. 62.

²⁹² "Multilateral Treaties Department of International Law OAS." Multilateral Treaties Department of International Law OAS. Accessed April 5, 2015. http://www.oas.org/dil/treaties_A-50_Protocol_of_Cartagena_de_Indias.htm.

²⁹³ Ibid.

²⁹⁴ Smith, Peter. *Latin America in the New International System*. Edited by Joseph S. Tulchin and Ralph Espach. Boulder, Colo.: Lynne Rienner Publishers, 2001. 48.

²⁹⁵ Martín, Félix E. *Militarist Peace in South America Conditions for War and Peace*. New York: Palgrave Macmillan. 2006. 163.

bonds did not seem to facilitate any direct commercial relationship between states until more recent times, with the advent of more democratized systems within Latin America. Therefore, the common institutional bonds helped temper conflict but did not facilitate commercial interaction among the Latin American states.

Conventional logic would argue that agreements among states come at the cost of states and their pursuit of absolute security and autonomy. However, for some actors in a state, the greatest challenges to security and autonomy are not from external sources but are more internal. Therefore, appealing to outside institutions and general norms (global and those accepted locally) can provide a mechanism for the political elements of a state to challenge the legitimacy of the military elements. If applying the Mares example of the military providing internal security, external security, and the mechanism for diplomatic negotiations, some political actors within a state may seek to wrestle this influence away from the military.²⁹⁶ This is accomplished through direct state coordination as well as through institutions that in time develop new practices to help attain policy objectives.

When considering Latin America, there are differing characterizations from scholars inside and outside the region. Keohane does not consider South America a regional subsystem in the global system.²⁹⁷ However, Barry Buzan and Ole Wæver

²⁹⁶ Mares, 2012. Ch. 4.

²⁹⁷ Keohane, Robert. *Latin America in the New International System*. Edited by Joseph S. Tulchin and Ralph Espach. Boulder, Colo.: Lynne Rienner Publishers, 2001. 207.

assert that for South America the security concerns are “mostly regional.”²⁹⁸ These differences in characterization are not uncommon for those who engage with the region. George Kennan’s assessment that Latin America needs the United States more than the U.S. needs Latin America does not seem to resonate.²⁹⁹ The behavior through much of Argentina's history and some of Brazilian history shows cooperation with the U.S. was infrequent. Part of the impetus behind the Andean and MERCOSUR agreements was to counter the Free Trade of the Americas initiative, of which the U.S. would have been a member.

In a U.S. State Department report in 1950, Kennan, who was known for not parsing words, quoted John Quincy Adams, who had described Latin America as an, “Arbitrary power, military and ecclesiastical, is stamped upon their education, upon their habits, and upon all their institutions.”³⁰⁰ Furthermore, a review of the literature seems to show a perception within Latin America that the rest of the world considers the region an afterthought and rarely at the forefront. Western writers’ simplification and bias of persons and places in the former colonial world has been noted by Said and others as a means of reinforcing power structures, thereby erasing identity and, as a result, creating normative and epistemic problems.³⁰¹

A broader examination of Miguel Centeno’s work, *Blood and Debt*, indicates that

²⁹⁸ Buzan, Barry, and Ole Wæver. *Regions and Powers the Structure of International Security*. Cambridge: Cambridge University Press, 2003. 263.

²⁹⁹ Kennan, George. *Neighborly Adversaries: Readings in U.S.-Latin American Relations*. Edited by Michael LaRosa and Frank Mora. Lanham, Md.: Rowman & Littlefield, 1999. 184.

³⁰⁰ Ibid.

³⁰¹ Said, Edward W. *Orientalism*. New York: Vintage Books. 1979.

each part of these economic and domestic violence cycles helps define the continent.³⁰² Like Enrique Arias and Daniel Goldstein, the view is that these problems are structural.³⁰³ At the same time, Centeno, along with Arias and Goldstein, have highlighted times when violence was most prevalent, and they have observed times of change in economic systems. These incidents indicate when conditions may be somewhat malleable, but not easy to alter. Edward Mansfield and Jack Snyder disagree with this assumption. They assert, in the short run, a change in systems may create or make internal and external violence harder to control. In fact, since the process of democratization began domestic violence has not declined.³⁰⁴ Perhaps Todd Landman makes the best point that under democratization, state violence has declined throughout the region, while criminal violence increased.³⁰⁵ For many of these states, including Brazil and Argentina, incomplete data makes it difficult to reach a conclusive determination of causality when viewing issues involving internal violence, economic growth, military strength, and state capacity.

Centeno, Arias, and Mares all point to the military as the great organizing and socializing force within Latin American history. Arias describes the military as a component of a vicious cycle within a violent pluralism that is pervasive throughout all

³⁰² Centeno, Miguel Ángel. *Blood and Debt: War and the Nation-state in Latin America*. University Park, Pa.: Pennsylvania State University Press, 2002. 265.

³⁰³ Arias, Enrique Desmond, and Daniel M. Goldstein. *Violent Democracies in Latin America*. Durham, NC: Duke University Press. 2010. 13.

³⁰⁴ Mansfield, Edward D., and Jack Snyder. "Democratization and the Danger of War." *International Security*: 1995. 5.

³⁰⁵ Landman, Todd Ed. Arias, Enrique Desmond, and Daniel M. Goldstein. *Violent Democracies in Latin America*. Durham, NC: Duke University Press. 2010. 234.

elements of Latin American society.³⁰⁶ Arias stresses that it functions like a language that has rules and shared understanding. Mares says, “The militarization of disputes is part of a strategy of inter-state bargaining.”³⁰⁷

Charles Tilly asserts that “War made the state, and the state made war” and similarly, Centeno emphasizes the molding force of the state whereby, “armies make citizens and nations.”³⁰⁸ Centeno’s focus on the interaction of military and economic factors provides a guidepost for the remainder of the chapter, which emphasizes both elements. Gianluca Gardini asserts the history between Brazil and Argentina, before the beginning of bilateral relations, was a mixture of competition, conflict, and cooperation.³⁰⁹ It seems likely the ideas of Locke, Hobbes, and Kant will interact between Argentina and Brazil, as well as their relations within the region, through MERCOSUR, UNASUR, or some other institution. Next, a framework will examine how these factors (balance of power, political, and economic) interact to explain more fully the relationship between Brazil and Argentina.

³⁰⁶ Arias, Enrique Desmond. *Violent Democracies in Latin America*. Durham NC: Duke University Press, 2010.

³⁰⁷ Mares, 2012. 10.

³⁰⁸ Centeno, 2002. 218.; Tilly, Charles. *Coercion, Capital, and European States, AD 990-1992*. Cambridge, MA: Blackwell. 1992. These reinforcing causal links make sense for explaining state formation and behavior revolving around the capacity to project sustained violence which can be the unmaking of many states. However, their unmaking may have many sources that culminated in poor war making ability as Tolstoy points out, “All happy families are alike; each unhappy family is unhappy in its own way.” Tolstoy, Leo, Rochelle S. Townsend, N. E. Andreyev, and Roland Topor. *Anna Karenina*. London: Heron Books. 1974. 1.

³⁰⁹ Gardini, 2010. Ch. 1.

Framework:

Employing a framework will assist in answering the hypothesis regarding the factors behind the formation of MERCOSUR. The framework will facilitate comprehension of each of the factors and illustrate why the balance of power factor played a significant, but not solitary, role in the formation of MERCOSUR. Again, to only consider a single factor would result in sacrificing the influence of the interaction of the parts that more closely resembles complex, real-world events. By formalizing this practice, the factors illustrate more clearly the political, economic, and balance of power influences.

Broadly, what this chapter hopes to address is the misplaced overemphasis within the discipline of International Political Economy on institutions and the liberal definition of interdependence. This excess emphasis sacrifices an understanding of interactions and interests that construct these temporal bonds that manifest in the balance of power system. When examining a deal like MERCOSUR, the institution's formation is not as significant as the transactions that conditioned its formation. Also, those who want to quantify the transactions miss the point of the underlying influence of these transactions. To aid in understanding these relationships, inferences are drawn from the ideational concepts democracy, interdependence, and influence that are no less present but are understandably difficult to quantify. For purposes of this project, ideational change in this period is occurring along with the physical shifts within the conditioning forces that inform the relations between Brazil and Argentina. In addition to these variables the work shows how the neglected influence of the balance of power helps to more completely explain the formation of this trade agreement.

To operationalize these points, the variables will help to encapsulate the key factors of the balance of power, politics, and economics. The author understands the limitations of quantifying some behavior when the available data is not perfectly explanatory. However, despite the difficulty of measuring intermittently available data, numbers are extrapolated from what is known. Nevertheless, in these factors, there are distinct quantifiable changes. Therefore, a general picture forms. However, as Bartels warns, this framework seeks explanation while not forcing data and inference into a Procrustean bed³¹⁰ of fixed assumptions. This approach considers multiple factors that lead to the event of the trade agreement.

As a result, this framework is likely unsatisfying for those who seek a broad understanding of subjects outside the confines of examining these factors. Those who prefer parsimonious models may be unsatisfied with the vagaries related to drawing inference from these social interactions. However, this framework more accurately reflects the rigidity and opaqueness of the social world, where the force of the structure is not always easy to see, and the intentions of individuals are not easy to understand. Therefore, the following framework helps capture distinct data points of conditions leading up to and after the time frame the states negotiated MERCOSUR.

Economic Factors:

When examining economic behavior, a few variables will be considered, including trade flows between Argentina and Brazil. The benefit of this measure is that it

³¹⁰ Bartels, Larry. *Rethinking Social Inquiry: Diverse Tools, Shared Standards*. Edited by Henry E. Brady and David Collier. Lanham, Md.: Rowman & Littlefield, 2004. 84.

shows the exchanges between the two states and allows for crossing the paradigm of inside–out or outside–in, to assist in considering both perspectives and how each interacts within the trade mechanism. As members of the World Trade Organization (WTO), Argentina and Brazil, like the rest of the region, agree to a lowered international tariff system. Like other areas of governance where institutions and norms exist, the behavior may not strictly adhere to expected norms. However, as this chapter will explain, the behavior closely resembles the goals of the actors involved in the system. This measure is similar to David Ricardo’s thinking that states make comparative gains through trade by focusing on specialization and efficiency.³¹¹ Argentina derives more economic benefit from the relationship as a share of total trade compared to its neighbor, Brazil, which has rapidly expanded into the global market. This increase in trade share reflects both the recent shifts and expectations for this trade relationship to continue in similar form.

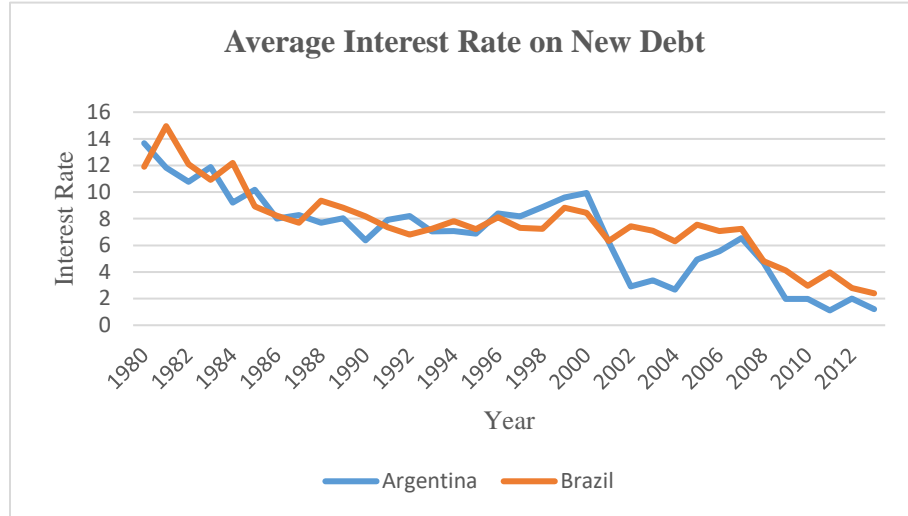
The interest rate for each state is more of an internal measure, but it reflects on state and economic stability. These are critical elements for a prolonged exchange of goods. If the conditions within a state are in flux, commerce is more expensive, which may shift trade to another customer in another state. This indicator of state stability may also reflect on the general health of internal economic and political systems. High interest rates are often a result of high government spending that cannot be sustained by expected future economic growth and revenue. High interest rates may also reflect greater volatility that is expected to be internalized by a state’s economy. These rates impose costs on borrowing and production. Therefore, it reflects a general risk profile of

³¹¹ Ricardo, David. *Principles of Political Economy and Taxation*. G. Bell, 1891. 307.

a national economy that can dissuade both investment and trade.

As a result, there is generally a negative relationship between high interest rates and economic activity, including trade. Therefore, this inside–out measure has a significant influence on how others decide to exchange in the international marketplace. Among the economic factors there is a decrease in interest rates for Brazil and Argentina, as well as an increase in trade volume. This shift in phenomena is important in understanding the factors within to explain the occurrence of MERCOSUR. It also illustrates the interaction of the political/security measures, as well as the influence of the balance of power.

Brazil and Argentina Interest Rates



Source: <http://datacatalog.worldbank.org/>

The measure of interest rates also reflects upon the state's ability to tax and dissuade illicit behavior within the domestic economic system. (Figure: Brazil and Argentina Interest Rates) As Hernando De Soto points out, "since the government persists in its efforts to obtain more revenue, it increases the taxes levied on formal activity and creates a vicious circle: increased informality," in the economy.³¹² An inability to service a national debt can be the result of weak revenue collection policies which are often considered necessary for a viable state. As with the above variable, both absolute value and the rate of change will be considered. Recent work from Arnaud Costinot and Dave Donaldson³¹³ re-examines Ricardo's thinking on comparative

³¹² Soto, Hernando De, and Peru Lima. *The Other Path: The Invisible Revolution in the Third World*. New York: Harper & Row, 1989. 175.

³¹³ Costinot, Arnaud, and Dave Donaldson. "Ricardo's Theory of Comparative Advantage: Old Idea, New Evidence." *American Economic Review*: 2012. 453-458.

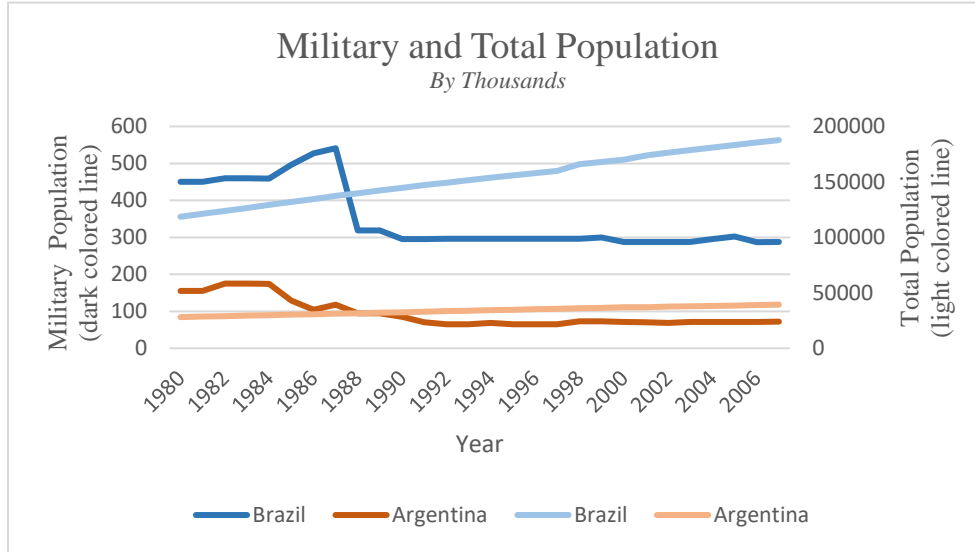
advantage and finds state factors have the greatest explanatory power. Therefore, in order to fully understand agreements like MERCOSUR and Ricardo's concept, the balance of power system, Economic, and Political factors must be examined to see where they most influence the incidence of this agreement.

Security/Political Factors:

When examining the security parameters, two elements will be measured to consider the depth of the relations between these two states. First, it should be considered why in this model political elements are overlaid with security. As the literature highlights for both Argentina and Brazil, security forces have played a formative role in creating or pushing government policy. In addition, the variable incorporates significant forces for stability and instability relative to the domestic situation and military elites' position. This assumption should be taken into account when examining the factors, while considering where the dividing point is between the political and security elements. Perhaps the perspective that history can provide will give clarity to this point. This chapter does not assume that change never happens, only that it is difficult. To measure the strength of the military in Brazil and Argentina, we can measure a similar shift from the number of military personnel size to that of the total civilian population.³¹⁴ (Figure: Brazil and Argentina Population) The authors contend this change in state capacity and the influence of the military is what is transforming in an age of democratization within Latin America.

³¹⁴ A measure of the population is a helpful metric but not as strong as the relative spending of defense and civilian institutions which is not available.

Brazil and Argentina Population



Source: <http://www.correlatesofwar.org/data-sets/national-material-capabilities>

Also, within the security measure is an examination of speeches and statements made by each state's leadership as it relates to the other state. These exchanges are made within the bilateral relationship, within MERCOSUR, or some other venue. Quantifying words is more difficult than goods or finances. Also, adding value to certain words over other words incorporates additional biases. As the framework will display, the weight of the words will still change as the relations do, because it will reflect the intensity and therefore the durability of the relationship. Similar methods were employed by Kaltenthaler and Mora³¹⁵ when they examine MERCOSUR in the previous decade, applying similar methodology aids in comparison of outcomes. An analysis of the ties between the two states shows a relationship short of an alliance. Argentina and Brazil are

³¹⁵ Kaltenthaler, Karl, and Frank O. Mora. "Explaining Latin American Economic Integration: The Case of Mercosur." *Review of International Political Economy*: 72-97.

open with doctrine, strategy, collaboration, procurement, and even coordinate votes in the UN Security Council when one has a seat.

When Argentina's former President Kirchner died, there were three declared days of mourning in Brazil, in addition to continued support within Brazil for Argentina's claim on the Malvinas/Falkland Islands. Also, during the beginning of the advancement of improved relations between Brazil and Argentina, each withdrew military forces and fortifications from borders. Unilateral signals of intentions evolved into bilateral trust. However, perhaps because there is little conflict within the region, there is also no formalized security treaty between Argentina and Brazil. Treaties both influence relations and reflect perceptions. Still, in the 1980s, a measurable shift occurred, where the perceptions among the states were less unfavorable. Similarly, in the middle of the 1980s, there was a noticeable shift in the number of military personnel as a share of the total population.

As noted in the opening, the democracy clause within MERCOSUR that allows for members to exclude states who are considered to be undemocratic can be a source of strength for civilian leaders. Recently, changes in membership include the suspension of Venezuela in 2016. However, as reported, the "suspension will not affect trade and migration policies."³¹⁶ While the suspension of membership is an example of external pressure acting against a state, the reverse can also happen. These provisions enhance the domestic political bargaining position of civilian leaders relative to the military. Military

³¹⁶ "Mercosur Suspends Venezuela, Urges Immediate Transition." *The New York Times*. August 05, 2017. Accessed August 14, 2017. <https://www.nytimes.com/reuters/2017/08/05/world/americas/05reuters-venezuela-politics-mercosur.html>.

officers would have to consider the costs of not being in the trade area in addition to other burdens inherited under the responsibilities of governing from a coup or similar scenarios.

Balance of Power Dynamics:

Furthermore, the chapter contributes to the literature by incorporating Waltz's concept of the third image, the International State System and emphasis on the importance of the balance of power system.³¹⁷ Often, trade agreements are examined by looking inside out, which enriches our understanding of the dynamics within the state that propel an agreement. Also, bilateral and multilateral factors are considered, but it is essential to measure the influence of the balance of power system on trade agreements. As is commonly known, trade volume and agreements have greatly expanded throughout the international economic world in recent decades. As the following graph shows, there has been a significant increase in the number of trade agreements in the Post-Cold War era. Between 1990 and 2014 there have been about ten agreements annually, whereas between 1960-1989 there were 0.5 average agreements annually. Therefore, this research argues that the balance of power system and the influence of polarities imposes itself on the incidence of trade agreements.

The trade literature has focused on trade volume, while a dataset comparing the occurrences of trade agreements linked to global inflation rates is incorporated into this

³¹⁷ Waltz, 1959. Ch. 6.

research framework.³¹⁸ The finding includes a measure of the correlation of world inflation rates, and the frequency of trade agreements is -0.589 throughout 30 years. This system-level influence is a statistically significant factor. This is possible because low inflation may encourage trade due to less uncertainty from the possibility of inflation imposing additional unknown costs on contractual agreements. Economists like Elhanan Helpman and Assaf Razin seek to account for uncertainty by broadly theorizing its effect without identifying specific forces that influence uncertainty.³¹⁹

Nevertheless, uncertainty, regardless of source, is generally considered to be a subtractive force in relations and productivity. This loss is due in part to risk aversion, as explained by Amos Tversky and Daniel Kahneman.³²⁰ Therefore, this dissertation claims that risk aversion among economic and political actors, seems to become systematized internationally. Risk increases throughout the international state system as the number of polarities increases, which has a negative effect on trade activity, including trade agreements.

Also, low inflation can be considered a statement of international order (or at least less disorder) in the international system, which would stabilize prices and foster an

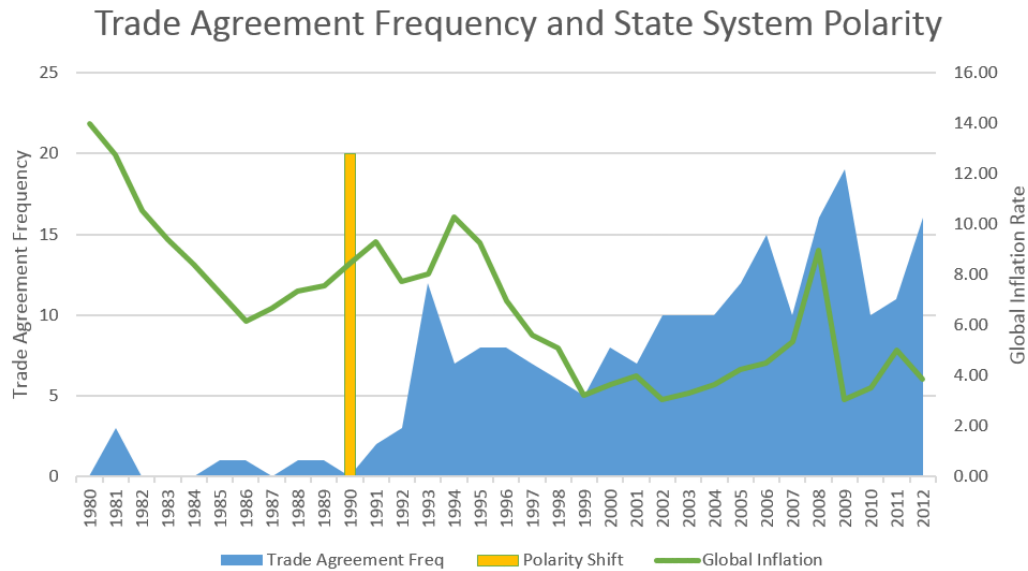
³¹⁸ Data from the World Trade Organization <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx> , February 22, 2015 and the World Bank, *Inflation, consumer prices for the World*, retrieved from FRED, Federal Reserve Bank of St. Louis <https://research.stlouisfed.org/fred2/series/FPCPITOTLZGWLD/>, February 22, 2015.

³¹⁹ Helpman, Elhanan, and Assaf Razin. *A Theory of International Trade Under Uncertainty*. New York: Academic Press, 1978. 1.

³²⁰ Tversky, Amos, and Daniel Kahneman. "Loss Aversion in Riskless Choice: A Reference-Dependent Model." *The Quarterly Journal of Economics* 106.4 (1991): 1039-1061.

environment for trade. At the same time, Philip Lane³²¹ debates the interaction of trade and inflation. (Figure: Polarity and Trade Agreements)

Polarity and Trade Agreements



Also, the United States is frequently mentioned in the literature as an exogenous factor that has contributed to the states coordinating more closely on trade issues. Since the 1990s, the United States has made overtures to South America to develop a Free Trade Area of the Americas (FTAA). While the United States has trade agreements with Mexico, Central America, Columbia, Chile, and Peru, the remaining states, including Brazil and Argentina, remain reluctant to enter into trade relations with the US. In effect, this opposition provides grounds for coordination between the existing states that have, as previously illustrated, complicated relations with the United States. These unit-level

³²¹ Lane, Philip R. "Inflation in Open Economies." *Journal of International Economics* 42, no. 3 (1997): 327-347.

reasons for coordinating exclusionary practices of a hegemon are an interesting way to accept the established order while pushing back against the one guaranteeing the order.³²² Narizny argues that powers distinguish strategic economic policymaking between the core and the periphery of interests.³²³ These interests have the effect of influencing the formulation and internal momentum within Latin America and the perspective of external power forces and the tendency to focus infrequently on the continental space south of North America.

Intersection:

This framework shows the intersection of the security/political, economic, and balance of power influences. For example, in 1991, world inflation rates were nine percent and facilitated some trade agreements early in the decade. This, in addition to the shift in global polarity, molded the trade environment. If inflation rates had been much higher, there would have been a lower likelihood of a trade agreement forming.

Also, the chart shows changes to economic conditions related to increased trade, lower interest rates, and lower global inflation, which facilitated the establishment of MERCOSUR. Within this trade agreement, these changes are modeled from the perspective of the leading states, Argentina and Brazil.

³²² For a hypothetical simulation of a trade arrangement between the United States and the MERCOSUR members argues the states other than the United States would see more changes from but expects fewer changes to the United States. Diao, Xinshen, and Agapi Somwaru. "Dynamic Gains and Losses from Trade Reform: An Intertemporal General Equilibrium Model of the United States and MERCOSUR." *Bulletin Number 96* (1996): 3.

³²³ Narizny, 2007. Ch.3.

Conclusion:

This analysis does not intend to limit the influence of other endogenous and exogenous factors that may contribute, but does contend these are the principal variables that influence the trade relationship between Brazil and Argentina. It is proper to consider security, the balance of power system, and economic issues on a coequal epistemic plane. While they are inherently different, the elements are often intertwined and influence one another.

When revisiting the balance of power mechanisms, as discussed in the introduction of the dissertation, this case reflects these favorable indicators. The choice to adopt this agreement is at least in part due to the reaction to changes in the global market and the expansion of trade agreements. This adoption of an agreement was an effort to apply the trade agreement norm toward efforts to continue restrictive practices involving trade activity. Also, this agreement was aided by the distinct shift in relations between Argentina and Brazil which is an important facilitating condition. However, even though there is lower enmity among the states, the provisions of the agreement seek to favor specific industries and their position domestically and regionally as part of mechanism three. Also, the states involved displayed an awareness of international power competition, market competition, and domestic interests when negotiating the agreement. As a result, they favor conditions that protect domestic sectors while embracing this form of international agreement. This effort to grapple with the coexistence of these three forces shows why it took nearly three decades for MERCOSUR and the EU to reach a trade agreement.

There are further questions in need of examination. Are there epistemological and theory-related problems within International Political Economy literature that preclude frameworks of this type due to the differing disciplinary assumptions regarding human nature? Thus, while there are clear examples of interaction between the areas, there is not a cohesive theory within IPE. Within all of these acts, there is a theoretical, but not behavioral, contradiction. Leaders sometimes say and do things that are not theoretically coherent but are no less politically shrewd. It seems this practice is a puzzle to political scientists when political actors are more comfortable with contradictions.

This research sought to give equal weight to economic and security/political factors, as well as to incorporate the influence of the balance of power through a framework. While the analysis and measures point to a favorable relationship between the parts, in order to be certain this model is useful, more examples are needed. Also, the focus will need to be on historic and contemporary events (and a non-event) to determine the influences to help answer the overreaching question. Future rigorous quantitative methods will be needed to measure the response to types of change that can be organized with Computable General Equilibrium models.³²⁴

Unfortunately, there are also limitations from available data regarding the relations between Argentina and Brazil, as well as internal activity that complicates the distinction of when the states each reached a position where they would be more inclined

³²⁴ Dixit, Avinash K., and Victor D. Norman. *Theory of International Trade: A Dual, General Equilibrium Approach*. Cambridge: Cambridge Univ. Press. 2006. ; Feenstra, Robert C. *Advanced International Trade: Theory and Evidence*. 2003.

to trade with one another. For example, GDP data from both states shows the conditions when MERCOSUR was adopted. However, due to incomplete data, it is difficult to measure previous decades, in order to understand the earlier conditions. Therefore, for measurement purposes, the degree of shift is not known, although the shift did happen. A review of other trade agreements of this nature will aid in research similar to this dissertation.

The next chapter examines the energy relationship between Russia and China. This relationship comprises the 2014 natural gas agreement between the two states during a period of unipolarity.

CHAPTER 5: RUSSIA AND CHINA ENERGY RELATIONSHIP

*“Changes in relative power, which ultimately derive from long-run variations in economic growth, are a mainspring of international political conflict. Economic change redistributes relative power over time, creating a natural tendency for divergences to emerge between power and privilege in world politics, which encourages rising states to challenge the status quo.”*³²⁵ Jonathan Kirshner

Introduction:

On May 20, 2014, the international press, including the *New York Times*, announced that a natural gas deal between Russia and China had failed to materialize. The report said, “commercial concerns continued to dominate—specifically, the price of the gas, which China and Russia have been haggling over for nearly a decade.”³²⁶ The outlook changed on the next day, when both states agreed to a \$400 billion, thirty-year, natural gas deal. According to the reported terms, Russia agreed to provide China with 38 billion cubic meters of gas annually at a price of about \$350 per thousand cubic meters.

The press exchange is just one illustration of the complexities of the energy relationship between Russia and China. This chapter explores the nuances of the China and Russia trade agreement involving natural gas. To elucidate this energy relationship a

³²⁵ Kirshner, Jonathan. "The Tragedy of Offensive Realism: Classical Realism and the Rise of China." *European Journal of International Relations*: 53-75.

³²⁶ Perlez, Jane. "China and Russia Fail to Reach Deal on Gas Plan." *The New York Times*. http://www.nytimes.com/2014/05/21/world/asia/china-russia.html?_r=0.

research perspective will be employed to consider the intersection of economic, political, and balance of power system perspectives. Examining through each of these lenses allows for research to highlight how the absence of the balance of power factor makes the analysis incomplete. This process will reveal that intersecting factors influenced this trade agreement. *When examining the recent energy relationship between Russia and China, what economic, political, and balance of power factors contributed to the 2014 natural gas deal?*

In November 2014, Russian and Chinese stakeholders signed an additional non-binding accord during a time when petroleum and natural gas prices were low. The parties also agreed the natural gas would be purchased in Chinese Renminbi. This arrangement is particularly important because, it is believed that the terms of the agreement assess the value of the Russian natural gas relative to global petroleum prices. The gas will flow from Siberian natural gas fields across the eastern route, as agreed to from the previous terms, and along the western route under the new accord. The pipeline, which is expected to take years to complete, will only take longer with the delays that seem likely because of lower revenue for Russia. With lower natural gas prices, Russia may be less motivated, while China may be even more motivated to buy natural gas. This circumstance will possibly accelerate China's relative shift from petroleum to natural gas, which in the long-run may make China still dependent on Russia. Also, the price is likely to influence how China decides to develop its shale reserves, which may have a more lasting influence in the Russia–China energy relationship.

Historically and more recently, Russia and China were involved in other significant energy exchanges, including petroleum, coal, and hydroelectric. The nature of

the agreement involves a prolonged commitment between the two sides. Therefore, it will be useful to develop an understanding of the context of the energy relationship, which is imperative to contextualize the dynamics to determine its origins and durability. Also, to understand why this agreement occurred it will be necessary to consider the influence of the balance of power system. For example, many analysts have pointed to the EU–US sanctions on Russia in response to the Russian annexation of Crimea as part of the impetus for the agreement.

In addition to these changed conditions that resulted in the agreement, the gas sold to China will have lower transport costs than to other sites because of its source in Siberia. The means of transport also creates another layer of complexities, as routes pass through the territory of disaffected peoples. These peoples include the Uighurs, as well as the intersections of other politically contested territories in the Pacific. As this dissertation will continue to theoretically develop, measure, and illustrate, the domestic political conditions and constraints played a role in influencing decision makers in Russia and China.

The prices in the energy market may also slow China's interest in developing extraction capabilities, if doing so is less financially viable. It would be useful to understand the forces behind the agreement. Doing so will help determine what direction it will follow and to weigh the costs and benefits of self-sufficiency versus efficiency for China. If China picks efficiency, it will help illuminate the level of trust between the two states. Also, under these lower prices, it will be important to consider how Russia will act, since sanctions have already proven costly. States can respond in a multitude of ways depending on conditions, but resources can often constrain some, but not all of

those options.

These considerations of change influencing other changes in markets and political relations are all second and third-degree calculations that are subject to error. Therefore, the time horizon of these changes covered in this chapter is limited. No doubt, Russian and Chinese leaders will be thinking along similar lines, in part due to the temporal element of the arrangement. As with most long-term projections, large variations in outcomes are possible for Russia and China. These developments will be occurring as they develop intertwined relations involving natural gas. Also, this will happen as they simultaneously hedge against anticipated and unanticipated challenges inside and outside the evolving bilateral relations.

Accordingly, long-term delays in the project may jeopardize its status with China looking to Central Asia, especially the Caspian Sea, and coastal drilling in the South China Sea. For Russia, with these circumstances in mind, building the necessary infrastructure will be critical. Russia's financial resources are tighter, because there are few alternatives available for an economy that sustains itself on fuel exports. Part of Russia's difficulty is the liquidity preference,³²⁷ where firms or states have a desire to hold resources during times of turbulence and uncertainty. However, at the same time Russia has more significant needs that draw on these funds.

Russia faced difficulties, especially when leaders in November 2014 decided to stop allocating resources to support the Ruble. Therefore, this situation shows diminished financial resources in an environment where the state would desire liquidity

³²⁷ Tobin, James. "Liquidity Preference as Behavior Towards Risk." *The Review of Economic Studies* 25, no. 2 (1958): 65-86.

for flexibility to address numerous obligations, including military spending and pensions. Russia's reserve was tested to determine if public finances could be sustained for over two years without robust revenue from natural gas and petroleum.³²⁸ Therefore, in those circumstances, it was more difficult for Russia to invest in gas delivery infrastructure. However, from a state power system perspective, as will be examined more closely, Russia may have few alternatives, other than to invest in the natural gas infrastructure. Therefore, China, as seen in the natural gas deal, has stronger leverage, but because of its own energy needs, there is an asymmetric reliance within the energy relationship between the two states. Before examining this relationship in detail, it is important to look at how natural gas as an energy source has risen in prominence so quickly and how this influences political and market forces in China as well as Russia.

Natural Gas Trends:

To advance a clearer understanding of the development of current natural gas technologies an examination of Chinese experience with extracting the resource will be helpful. As Mark Kurlansky explains, since second century China water has been forced beneath the earth surface to extract natural gas.³²⁹ This practice was a precursor to a contemporary energy revolution driven by directing pressurized water beneath the surface to draw out pockets of another resource: natural gas. This account provides a helpful

³²⁸ Korsunskaya, Darya, and Elena Fabrichnaya. "As Oil Falls, Russia Choked by Military, Social Spending." *Reuters*. December 30, 2014. Accessed January 5, 2015. <http://www.reuters.com/article/2014/12/30/us-russia-crisis-budget-idUSKBN0K80EK20141230>.

³²⁹ Kurlansky, Mark. *Salt: A World History*. New York: Walker and, 2002. 25-26.

illustration of self-sufficiency as well as the influence of the invisible hand, which is pushing the current global demand for natural gas.

Global natural gas production from 2007 to 2012 grew by 16% to 3,354 billion cubic meters for 2012.³³⁰ In the same period, the United States saw an increase in production by 20%.³³¹ Much of this expanded production is from hydraulic fractured drilling. In this practice, drilling goes thousands of feet vertically and horizontally below the surface. Water, with a mix of chemicals and sand, is pressurized beneath the surface to expose pockets of gas, which are released and rise to the surface. This hydraulic fracturing process has resulted in an energy revolution in the production of petroleum and natural gas. Also, it should be noted China, Argentina, Algeria, United States, and Canada are the leading potential producers of shale gas, according to a report from June 2013, by the United States Energy Information Administration.³³²

These innovations, along with the continued growth of pipelines across the Eurasian continent and developments a few years earlier in liquidized natural gas (LNG), have resulted in two effects. Both increased the global supply of natural gas as well as the avenues to reach various customers. When natural gas is liquefied, it takes up about 1/600 the size, thus allowing greater transport of gas and less sole reliance on pipelines. The natural gas system interacts and overlays the International State System, notably

³³⁰ "Natural Gas Production." *Oil and Energy Trends* 38, no. 5 (2013)

³³¹ "U.S. Natural Gas Gross Withdrawals (Million Cubic Feet)." U.S. Natural Gas Gross Withdrawals (Million Cubic Feet). Accessed November 24, 2014. <http://www.eia.gov/dnav/ng/hist/n9010us2a.htm>.

³³² "U.S. Energy Information Administration - EIA - Independent Statistics and Analysis." U.S. Energy Information Administration (EIA). Accessed November 24, 2014. <http://www.eia.gov/analysis/studies/worldshalegas/>.

where each state is drawing resources internally and externally. However, in an anarchic system, a state's future growth depends on resources. This dynamic can complicate conditions where there is greater demand for the resource and the resulting increase in the state's influence. Simultaneously, though, these interests among the states can become intertwined where influence and interactions increase. These points form a system, which is of interest to academics and policymakers. Many Liberal scholars would conclude that this interconnectedness of economies means the interests would intersect as well. The following content will assert this assumption may not always be the case.

Continuing with an examination of the nature of natural gas, Mathias Reymond believes that the relatively low cost of natural gas from 1985 to 2000 spurred long-term contracts and pipelines, thus providing much of the global natural gas infrastructure.³³³ The natural gas boom has benefited from the reality that some states have disfavored other energy sources such as petroleum, nuclear, and coal. "Australia is emerging as a new LNG powerhouse,"³³⁴ in response to many Asian states possessing regasification terminals, including China with 11, Taiwan with two, South Korea with four, and Japan with 32.³³⁵ As regularly portrayed in the news, natural gas is prominent in European–Russian relations, United States–Canada relations, Latin America dynamics, issues in North Africa, changes in politics between and within the Middle East and the world, and

³³³ Reymond, Mathias. "European Key Issues Concerning Natural Gas: Dependence and Vulnerability." *Energy Policy* 35, no. 8 (2007): 4169-4176.

³³⁴ Yergin, Daniel. *The Quest: Energy, Security and the Remaking of the Modern World*. New York: Penguin Press, 2011. 332.

³³⁵ As of 2014

Russia and China. These regional dynamics underscore the point from Bobo Lo, “Energy, perhaps more than any other single factor, has come to symbolize the new geopolitics of the twenty-first century.”³³⁶

Kumar, Kwon, Choi, Cho, Lim, and Moon in their work in *Energy Policy* estimate that the global gas demand will increase by 1.4% annually from 2008 to 2035.³³⁷ The natural gas explosion in development due to technological change leads to questions about whether natural gas politics are similar to the politics that surround other resources. If the demand and supply curves are similar to historic points for petroleum, global circumstances may turn out similarly, or the political environment may produce a different outcome. Next, we examine the recent energy relationship between China and Russia within the context of a framework that examines why the parties agreed to the natural gas deal. Also, through this case, the concepts and measures will be further developed to show the interaction of factors as part of the broader ideas of the dissertation.

A Conceptual Framework:

China’s demand for natural gas is growing more rapidly than that of other sources of energy, and natural gas is expected to grow from 2% of China’s energy consumption

³³⁶ Lo, Bobo. *Axis of Convenience Moscow, Beijing, and the New Geopolitics*. Washington, D.C.: Brookings Institution Press, 2008. 132.

³³⁷ Kumar, Satish, Hyouk-Tae Kwon, Kwang-Ho Choi, Jae Hyun Cho, Wonsub Lim, and Il Moon. "Current Status and Future Projections of LNG Demand and Supplies: A Global Prospective." *Energy Policy*: 4097-4104. 2011.

in 1996 to 11 percent in 2020.³³⁸ Also, according to Daniel Yergin, “As China continues to grow, so will its oil demand. Sometime around 2020 it could pull ahead of the United States as the world’s largest oil consumer.”³³⁹ Russia emerged from its lost decade, the 1990s, with a new leader, Vladimir Putin, who sought to utilize its natural assets through exports of petroleum and natural gas. During this lost decade, energy sales from Russia to China and the broader trade of goods were negligible, with an uptick in the latter part of the final decade of the twentieth century.

Around the same time, during Putin’s tenure in the Mayor’s office in St. Petersburg, he learned about the influence of resources. He also recognized the need for controlling, “business networks and physical infrastructure needed to purchase, transport and sell.”³⁴⁰ By 2003, Russian and Chinese companies endorsed an oil pipeline agreement to link the East Siberian to the Pacific Oil pipeline. Months after the agreement was developing, leadership started a shift as Putin asserted dominance over Yukos by arresting the CEO, Khodorkovsky. The final breaking point for Putin’s involvement in the energy economy came when Japan offered a counterproposal. The terms would allow Russia to diversify its suppliers, including Japan, as well as granting access to Asian markets due to the pipeline's coastal endpoint. Putin’s move also further consolidated his position against the oligarchs who learned by example not to challenge him directly.

By the completion of the 2014 natural gas deal both parties, Xi Jinping and

³³⁸ Downs, Erica Strecker. *China's Quest for Energy Security*. Santa Monica, CA: Rand, 2000. 5.

³³⁹ Yergin, 2011. 192.

³⁴⁰ Hill, Fiona, and Clifford G. Gaddy. *Mr. Putin: Operative in the Kremlin*. 2013. 225.

Vladimir Putin, were in much stronger domestic political positions to negotiate internationally than their predecessors. For both parties, long-term deals seem more likely in environments where other sources or lines of supply are less stable. This includes China's efforts to diversify access to Middle East energy. To help understand the agreement there will be an examination of the constituent parts of the deal and a conceptual framework. This outline assumes that Russia and China are self-interested actors, and the framework will examine elements of the deal while recognizing, like most models, it is not sufficiently explanatory.

The more dependent a state is on a resource, the more often the good's demand is less responsive to changes in price, and the more instability of sources and routes that exist: the likelihood of international agreements and contracts increases. The following text will explain how the negotiations between China and Russia illustrate the framework of economic and political elements that converged in order for this deal to happen. In addition, the text will show how the balance of power variable enhances the explanations behind the occurrence of this agreement. China's demand for resources has continued in efforts to fuel and support its expansive economy in recent decades. As a result, China draws energy from coal, petroleum, nuclear, hydroelectric, and increasingly natural gas as well as expansion in wind and solar.

With strong national demand for energy, economists³⁴¹ have measured energy demand as inelastic and therefore increasing the likelihood China would seek a natural gas deal. Importantly, China's demand for energy, including natural gas, is highly

³⁴¹ Lin, C.-Y. Cynthia, and Jieyin (Jean) Zeng. "The Elasticity of Demand for Gasoline in China." *Energy Policy*: (2013) 189-197.

inelastic.³⁴² In many states this demand-driven condition where goods are more difficult to substitute like energy, health care, and transportation, there is often more state involvement in these sectors. In 2014, China responded to these demand pressures by implementing price controls on goods including tobacco and natural gas.³⁴³ As a result, there is a closer relationship between economic and political actors decision-making. The actors are responding to the respective conditions related to their distinct factors.

Not only are the perceptions an influence on the present, but China likely incorporated its expectations of future natural gas prices into its thinking. Simultaneously, China, like all states, desires a stable environment for accessing resources. When there are no certainties of reliability or unexpected events, a deal helps mitigate, but not fully alleviate, this uncertainty. Furthermore, the risk of interrupting supply along various access routes for natural gas is increasingly possible. As the volatility of these two elements increases, China would be more inclined to reach a long-term commitment. Keohane also talks about the costs of uncertainty being a motivator for agreements, “since general conformity to rules makes the behavior of other states more predictable.”³⁴⁴

These factors meet to help explain the formation of this natural gas deal. With hindsight, this approach shows the convergence of political, economic, and balance of

³⁴² Elasticity = percentage change in quantity / percentage change in price

³⁴³ "China." Regulatory/market Assessment. Accessed March 14, 2015. [http://country.eiu.com/article.aspx?articleid=572942241&Country=China&topic=Regulation&subtopic=Regulatory/market assessment](http://country.eiu.com/article.aspx?articleid=572942241&Country=China&topic=Regulation&subtopic=Regulatory/market%20assessment).

³⁴⁴ Keohane, 2002. 30.

power components to help understand the factors that led to the deal. International Political Economy scholars like Robert Gilpin believe it is appropriate to bring these key points together. Gilpin argues, “both economic and political analyses are necessary for an understanding of the workings of the international economy.”³⁴⁵ This conceptual framework helps explain the natural gas deal, but it faces some limitations. It may not be perfectly explanatory due to the nuances of politics, markets, and the elements of the deal, which may not be known.

Secrecy is a common factor in international events. However, International Relations scholars face the task of seeking to understand the International State System and its complexity as well as actors’ behavior involving secrecy. “In Russia everything is a secret, but there is no secrecy.”³⁴⁶ Massie’s quote could apply to many state agreements throughout history. It is also appropriate to match the intersecting factors in this chart. This is because while China and Russia have different economic systems, the principal actors creating the deal have a strong command over both the economic and political factors in each state.

When applying a similar framework for looking at Russia’s perspective for the natural gas deal, it is useful to examine the resource supply factors within Russia. Russia’s supply of natural gas is also inelastic. As previously explained, Russia’s economy is heavily reliant on energy production. In other words, regardless of the global price of energy, Russia is in a precarious position that forces it to produce even when it is

³⁴⁵ Gilpin, Robert, and Jean M. Gilpin. *Global Political Economy: Understanding the International Economic Order*. Princeton, N.J.: Princeton University Press, 2001. 4.

³⁴⁶ Massie, Robert K. *The Romanovs: The Final Chapter*. New York: Random House, 1995. 73.

less profitable to do so. A recent example of this can be seen in decisions by Russia (and OPEC states who accepted independently) to continue petroleum production even though global prices fell in 2014 to, “40 percent since June.”³⁴⁷

These economic factors explain part of Russia’s decision to reach the natural gas deal. Therefore, it is essential to incorporate the political elements of this agreement, because when just considering China’s demand Russia may have had more leverage in the deal-making. However, with lower energy prices Russia faced more profound constraints. As a report from the U.S. Energy Information Administration outlined, “Oil and gas revenues accounted for 52% of federal budget revenues and over 70% of total exports in 2012.”³⁴⁸ In the political sphere, two crucial elements are at play: the increase of available competitors to Russian natural gas and the expected frequency of adverse events like sanctions that could constrain Russia. These elements meet where a probability of the deal is conceptualized and, in this case, realized. This example shows, as the price of natural gas increased and supply was constrained, both parties, for their reasons, concluded that an agreement was beneficial.

In this circumstance where the interests intersected, a deal occurred in May 2014. Applying this conceptual model indicates how, in previous negotiating rounds, neither party found the right convergence of economic and political factors to compromise. For example, China was in a political position to agree to a natural gas deal, but the price

³⁴⁷ Matlack, Carol. "Why Russia Said 'No Deal' to OPEC on Cutting Oil Production." *Bloomberg Business Week*. November 26, 2014. Accessed December 1, 2014. <http://www.businessweek.com/articles/2014-11-26/russia-wont-cut-oil-production>.

³⁴⁸ "U.S. Energy Information Administration - EIA - Independent Statistics and Analysis." Russia. Accessed March 14, 2015. <http://www.eia.gov/countries/cab.cfm?fips=RS>.

Russia was probably offering may have been too expensive. Likewise, Russia, as explained, likely reacted due to political factors that marginalized its access to markets.

Given these factors and the benefit of hindsight, it is easy to conclude this deal was a foregone conclusion. However, it was, in fact, complicated and there were factors which kept a deal from being reached for years. Can we be sure, knowing we never can be certain in a counterfactual framework, that the needs for both states would have been met by the other at some point? This is likely the case, especially when considering China's energy demand. This framework, though, assumes there are some constants in a dynamic world. Throughout the twentieth century, natural gas was not a major energy source, but this changed as a result of the expansion of new resource extraction technologies. As this text will further examine, there are important factors that may complicate the implementation of the agreement. If Russia shifts to a much more passive posture as interpreted by its neighbors, especially in Europe, it may have less interest in upholding the agreement with China. Also, the possibility of China's economy slowing down from 8% growth, and the resulting decrease in energy demand, could complicate the relationship and the 2014 agreement. Next, an examination of each state's position that propelled them to support this agreement, as well as factors that could influence the implementation of the natural gas deal.

China:

According to Robert Sutter, “China today depends fundamentally on a healthy world economy in which Chinese entrepreneurs promote economic development.”³⁴⁹ This reliance invites recurring friction and cooperation, depending on China’s economic need. As a result, this is all derived from what political commentators have asserted is China’s principal political concern: domestic stability. As China shifts from a Chinese-Marxist economic system to a Chinese-market economic system, this change can create instability. In both cases, to maintain stability, Chinese nationalism is a constant, though troubling element, to its neighbors. To aid in this transition, Sutter points to efforts to build, “cooperation and partnerships with all states around China’s periphery.”³⁵⁰

One area of note is the need for energy resources to support the transition from foreign to domestic consumption of goods. Many Chinese view natural gas as a way to diversify and therefore are prepared for supply shocks to ensure energy security, or at least lessen exposure to instability. This determination is made because, “domestic resources will not be able to meet China’s rising demand for energy.”³⁵¹

China is the world’s largest producer and consumer of coal, which accounts for about 70% of its energy supply.³⁵² This large energy share has sparked interest in

³⁴⁹ Sutter, Robert G. *Chinese Foreign Relations: Power and Policy Since the Cold War*. Lanham, MD: Rowman & Littlefield, 2012. 2.

³⁵⁰ Ibid.

³⁵¹ Downs, 2000. 6.

³⁵² "U.S. Energy Information Administration - EIA - Independent Statistics and Analysis." Factors Affecting Gasoline Prices - Energy Explained, Your Guide To Understanding Energy - Energy Information Administration. Accessed March 08, 2019. <https://www.eia.gov/todayinenergy/detail.php?id=16271>.

developing clean coal technologies. China continues to seek increases in energy sources and increases in available energy, while also focusing on environmental concerns. These stresses have contributed to domestic unrest, which has increased in recent years and become a top issue for the Chinese population and the government.³⁵³ One possible solution for China is to shift toward consuming more natural gas. As Yu, Zheng, and Han point out; China has been increasing its natural gas demand in recent years. They note that China's natural gas demand increased by 15% between 2010 and 2011.³⁵⁴

China's reliance on external sources is shown in one, "key variable in the world economy that the Chinese leadership does not control, including the scarcity of energy."³⁵⁵ Also, China's leaders cannot be certain of other states' trade policies and the global environment. As a result, China's leaders, "eschew major risks."³⁵⁶ Taking this approach is no easy task, as China's economy remains enmeshed with the rest of the globe. China's use of direct resource contracts shows an uneasiness with commodity markets and a desire for greater certainty for China and trading partners.

China, like some developing states, has solved this dependency dilemma before by inviting new technology and quickly adopting it in a manner that is efficient, and equally important, self-sufficient. Therefore, this approach follows Deng Xiaoping's

³⁵³ Xu, Beina. "China's Environmental Crisis." Council on Foreign Relations. Accessed November 30, 2014. <http://www.cfr.org/china/chinas-environmental-crisis/p12608>.

³⁵⁴ Yu, Yihua, Xinye Zheng, and Yi Han. "On the Demand for Natural Gas in Urban China." *Energy Policy*, no. 70, (2014) 57.

³⁵⁵ Sutter, 2012. 69.

³⁵⁶ Ibid.

interest in, “economic interchange with the outside world.”³⁵⁷ Interestingly, Russia has played a major role in supporting the development of oil for China, and the technology was quickly adopted. Also, in the 1950s, Russia helped finance the advancement of dam building technology. In retrospect, this transfer, while not the top item in the 1950 Sino-Soviet Treaty of Friendship and Alliance, was of greatest lasting influence. Under follow on agreements, China agreed to assist with dam and water construction projects including on the Amur River in Eastern Russia.

Contemporary observers have noticed China is the largest builder of dams in the world. China has constructed the largest dam in the world, Three Gorges, but has even built more dams than all of the other states of the world combined.³⁵⁸ What is equally amazing is that hydroelectricity only accounts for 6% of China’s energy consumption. Also, this shows the magnitude of China’s energy needs at a time when China’s current oil fields have matured. As a result, this is linked to domestic stability as, “Experts say that the electricity crisis of 2003-2004, during which areas of China suffered from shortages and blackouts, surprised Beijing and drove a new approach to managing China’s energy security.”³⁵⁹ To satiate this demand, China is aiming to expand the number of nuclear energy reactors to 40 by 2020.³⁶⁰

³⁵⁷ Ibid. 19.

³⁵⁸ Bremmer, Ian. *Every Nation for Itself: Winners and Losers in a G-Zero World*. New York: Portfolio/Penguin, 2012. 105.

³⁵⁹ Downs, Erica. *The Brookings Foreign Policy Studies Energy Security Series: China*. December 2006 <https://www.brookings.edu/research/brookings-foreign-policy-studies-energy-security-series-china/>

³⁶⁰ Nakano, Jane. "The United States and China: Making Nuclear Energy Safer." *Center for Strategic and International Studies* (2013). 4.

Before China can get to a stage of self-sufficiency, it needs partners to provide for its near-term energy needs and long-term goals. A key objective is the development of new technology to extract shale, particularly from Tarim, Yangtze, and the area where natural gas was accidentally discovered in the second century, Sichuan. A Rand study from 2000 said China's infrastructure for well development and reserves was insufficient.³⁶¹ As a result, in recent decades, China has signed agreements with Central Asian states to boost its supply of energy. China and Kazakhstan have signed agreements worth nearly \$10 billion to develop two oil and gas fields, as well as the construction of pipelines in Kazakhstan.

Rail is also an important link in the regional agreements that can be utilized for energy transport when necessary. Relations with Central Asia are part of a broader strategy to demilitarize borders and encourage regional stability through energy trade. China receives a share of its gas from the Turkmenistan-Uzbekistan border through Kazakhstan and into the Xinjiang province. With the cultural ties of Uighurs, which accounts for a significant minority population in western China, the deals draw the Uighurs in neighboring states closer to China, thus tempering the potential for domestic unrest. The Central Asian states therefore now have a stake in not encouraging Uighur dissent because of the energy ties. Russia and China have a shared stake through the Shanghai Cooperation Organization of increasing communication between each other and the Central Asian partners, allowing China to make better decisions with more information. It is also more difficult for the Central Asian states to play the major powers

³⁶¹ Downs, 2000. 34.

off each other, which lowers costs for China and Russia. Also, the contemporary disputes over islands in the South China Sea are part of a broader effort for China to get natural gas and petroleum reserves. Estimates show the South China Sea as energy-rich, with a possible eleven billion barrels of petroleum and natural gas expected to be 190 trillion cubic feet.³⁶²

China is also looking beyond its periphery as it seeks to meet its energy demand. As Daniel Yergin has noted, “Chinese companies have negotiated, at least on paper, tens of billions of dollars of contracts for investment in the Iranian oil and gas industry that would provide access to substantial oil and gas resources, but they are not moving fast.”³⁶³ The China–Iran gas relationship through the 2010s is fueled by a \$3 billion deal to develop a natural gas field, and this may explain the reluctance of China and Russia to impose sanctions on Iran for its nuclear program. Chinese ports and gas pipelines from Kyaukpyu, Burma are also a reflection of China’s concerns about access. Unforeseen events could lead to the blocking of naval choke points like the Straits of Malacca, which would disrupt China’s access to raw materials and energy. China is not immune from the influence of global events and crises.

China also saw a stronger recovery to the 2008 Financial Crisis, though the events highlighted China’s dependence on international exports. The Chinese leadership has worked to insulate the state by encouraging increased domestic demand, therefore developing a deeper form of self-sufficiency. Of course, whether the consumers of

³⁶² "U.S. Energy Information Administration - EIA - Independent Statistics and Analysis." U.S. Energy Information Administration (EIA). Accessed December 2, 2014. <http://www.eia.gov/countries/regions-topics.cfm?fips=SCS>.

³⁶³ Yergin, 2011. 222.

Chinese products are domestic or foreign, energy will be of great concern for modes of production and the shift to consumption needs. In the 2013 paper from Pritchett and Summers, “Asiaphoria Meets Regression to the Mean,”³⁶⁴ the authors expect growth for China to slow in the future due to the concept of regression to the mean.

While no doubt a state’s economic growth moving to an average number is compelling, it is not clear when this may happen or what the average long term economic growth is for China. In the paper, the authors give a broad timeframe for this change to happen and acknowledge it is, “on very weak scientific footing.”³⁶⁵ Though they do expect growth to slow to 6.3%³⁶⁶ by the end of the decade, consumption of energy will still be very significant. As shown by Jin Zeng,³⁶⁷ localized decisions in Chinese firms may allow for more flexibility. As a result, this approach provides a more accommodating environment, which would allow for more robust economic growth rates than accounted for by Summers and Pritchett.

Nevertheless, to promote domestic growth and deeper international ties, China announced the establishment of a \$40 billion Silk Road infrastructure fund.³⁶⁸ It will be

³⁶⁴ Pritchett, Lant, and Lawrence H. Summers. “Asiaphoria Meets Regression to the Mean.” *NBER Working Paper*. 2014.

³⁶⁵ *Ibid.* 2.

³⁶⁶ While regression to the mean has a very compelling logic if employed in examining future growth in either the 90s or 00s estimates would have clearly missed their mark. Pritchett and Summers need to present a compelling case for why a new mean in China’s growth will happen other than saying it just happens.

³⁶⁷ Zeng, Jin. *State-Led Privatization in China*. Routledge, 2013. 40.

³⁶⁸ Carsten, Paul, and Ben Blanchard. "China to Establish \$40 Billion Silk Road Infrastructure Fund." *China to Establish \$40 Billion Silk Road Infrastructure Fund*. *Reuters*. November 8, 2014. Accessed December 1, 2014. <http://www.reuters.com/article/2014/11/08/us-china-diplomacy-idUSKBN0IS0BQ20141108>.

important to consider if this development is a challenge to the World Bank or more of a rejection of the BRICS bank where two of the states are struggling economically. Reymond pointed out in 2007 that Russia possessed 27% of the world's natural gas reserves and sought a market in Asia. The Eastern Siberia field's proximity to China would be a natural connection.³⁶⁹ Furthermore, if Russia continues to face challenges due to lower natural gas prices and liquidity strains, they may find themselves visiting the Chinese Bank for a loan with natural gas as collateral with terms possibly similar to loans between China and Venezuela.

Russia:

In *Axis of Convenience*, Lo illustrates how Russia focuses on the security of demand due to its dependence on energy exports, and China is concerned with the security of supply, as it is increasingly dependent on outside sources of energy.³⁷⁰ Furthermore, Khudoley and Tkachenko point out that Russia's share of the global economy has dropped from 10% to 1%.³⁷¹ In the mid-1960s, natural gas was discovered in Northwestern Siberia, thus making permanent Russia's interests in the region. Despite its vast territorial presence in Asia, little more than a quarter of Russia's population resides in Asia.

³⁶⁹ Reymond, 2007.

³⁷⁰ Lo, 2008. 133.

³⁷¹ Khudoley, Konstantin, and Stanislav Tkachenko. *Imagining Asia in 2030: Trends, Scenarios, and Alternatives*. Edited by Ajey Lele and Namrata Goswami. New Delhi: Academic Foundation, 2011. 494.

Around the middle of the last decade, a shift occurred internationally when many developing and developed states could not meet internal needs through domestic production; at this point Russian natural gas filled much of the global demand. For example, in 2009, 26% of primary energy consumption for Europe was from natural gas. “Europe’s growing dependency on natural gas from more distant sources may also impact its future policies to ensure security of energy supplies,”³⁷² says Kumar et al. Russia, while a leading energy-producing state, has to be concerned with the political flexibility other states possess through liquidized natural gas technology. More Western European states including Italy, Spain, and France are significant users of LNG. This share alone diminishes Russian leverage and may have contributed to Putin and Russia’s leader’s constraints in its arrangement with China.

Gvosdev and Marsh have characterized Russian foreign policy interests as intertwined with business to form a, “state capitalist”³⁷³ system. Hill and Gaddy in *Mr. Putin* often characterize the Russian leader as a Survivalist who, in understanding positive power, actively prepares for various cataclysmic events.³⁷⁴ They contrast this with a survivor who is passive and subject to exogenous conditions. No doubt, he has developed the skills of a survivor by learning from his own and others’ mistakes in informing his major energy dealings. His first two presidential terms focused on oil, but

³⁷² Kumar, Satish, Hyouk-Tae Kwon, Kwang-Ho Choi, Jae Hyun Cho, Wonsub Lim, and Il Moon. "Current Status and Future Projections of LNG Demand and Supplies: A Global Prospective." *Energy Policy* 39, no. 7 (2011): 4097-4104.

³⁷³ Gvosdev, Nikolas K., and Christopher Marsh. *Russian Foreign Policy: Interests, Vectors, and Sectors*. Los Angeles: CQ Press, 2014. 39.

³⁷⁴ Hill and Gaddy, 2013. 88.

his current, and possibly successive, terms will be more driven by natural gas. According to Gvosdev and Marsh, for Russia, it is, “through economic means that foreign policy objectives can be met.”³⁷⁵

Putin borrowed liberally from a business book by King and Cleland, *Strategic Planning and Policy*, in writing his dissertation on resource development and the elements of state power. Gaddy and Hill explain how the business text influenced Putin through concepts like the hierarchy of decision-making, market share percentage, time of development, costs, and goals.³⁷⁶ King and Cleland also explain how all these concepts intersect and interact. By Putin’s behavior, it seems he prefers to be the point of intersection for economic and political decisions. Putin’s dissertation³⁷⁷ focuses on Russia’s economic growth as a source of its national power. Therefore, a vital role for the state is the development of its natural resources. He also believes that when the state played a passive role in natural resource development, it resulted in a low point for the Russian economic system.

Furthermore, Putin’s elimination of rival businesses is a way to control for agency costs where the business may not have behaved as he wished. In addition, due to the high price of oil and natural gas, Russia was able to capitalize on, “rents generated by oil and gas [that] were leveraged by other Russian economic sectors.”³⁷⁸ Nevertheless, Kaplan

³⁷⁵ Gvosdev and Marsh, 2014. 39.

³⁷⁶ King, William Richard, and David I. Cleland. *Strategic Planning and Policy*. New York: Van Nostrand Reinhold, 1978. 198.

³⁷⁷ Putin, Vladimir. "Strategic Planning of the Reproduction of the Mineral Resource Base of a Region under Conditions of the Formation of Market Relations." Leningrad State University. 1997.

³⁷⁸ Hill and Gaddy, 2013. 90.

believes Russia's future empire will be weaker due to the relative increase in the strength of its neighbors.³⁷⁹

The Russo–German relationship, a key determinant in Russo–European relations, declined under Schröder. Under the previous chancellor, there was closer coordination including pipeline routes that would bypass Central and Eastern Europe through the Nord Stream pipeline. Also, the Russian South Stream project went forward with support from Italy, Germany, and France. One event that may have influenced Russian decision-making and contributed to the deal with China is the natural gas pipeline that bypasses Russia and runs through the Caucasus and Anatolia. The Baku-Tbilisi-Erzurum pipeline connects the natural gas-rich Caspian Sea to the Mediterranean Sea with the possibility of the Trans-Anatolian Gas Pipeline extending to Europe.

Furthermore, Russia objects to a proposed Trans-Caspian pipeline that would allow the West greater access to non-Russian natural gas. There continues to be a standoff, on drilling rights in which Russia plays a part, between the states bordering the Caspian. This dispute serves to magnify Russia's comparative advantage. This happens through marginalizing competitors, extracting political concessions from neighbors, and keeping the global supply of natural gas and petroleum down, thus keeping the market price higher. This region should get renewed recognition as Mackinder's Pivot Area. It is inaccessible to sea power and this area around the Caspian and Central Asia will alter

³⁷⁹ Kaplan, Robert D. *The Revenge of Geography: What the Map Tells Us About Coming Conflicts and the Battle against Fate*. New York: Random House, 2012. 184.

power arrangements via, as Colin Gray points out, “railroads and air routes.”³⁸⁰ No doubt, natural resources will fuel this transition.

Russia is also seeking to create certainty with its long-term contracts, and its pipeline plans, including the completion of the Norway Barents Sea gas deal. In addition, the EU is working to collectively negotiate natural gas deals with Russia to try to get a lower price and minimize Russia’s political influence over Eastern European states.

Russia also faces sanctions from the United States and European Union that are in response to the Russian annexation of Crimea, direct Russian involvement in Ukraine, and the downing of the Malaysia Airlines Flight 17 by pro-Russian separatists. In July 2014, U.S. President Obama announced sanctions on Russian finances, and energy sectors that have incrementally expanded in response to Russian action. According to Rebecca Nelson with the Congressional Research Service, in, “2013, just 0.71% of U.S. exports of goods went to Russia and 1.19% of U.S. imports of goods came from Russia. Less than 0.5% of U.S. overseas investment was in Russia in 2012. At the end of 2013, Russia accounted for 1.1% of outstanding U.S. bank loans overseas.”³⁸¹ The effects throughout Europe may be more significant, “In 2013, more than 50% of Russia's exports of goods went to EU countries, and Russia purchased 46% of its imports of goods from EU countries.”³⁸²

³⁸⁰ Gray, Colin S. *The Geopolitics of the Nuclear Era: Heartland, Rimlands, and the Technological Revolution*. New York: Crane, Russak, 1977. 21.

³⁸¹ CRS Insights *U.S.-Russia Economic Relations* Nelson, Rebecca M. Specialist in International Trade and Finance (rnelson@crs.loc.gov, 7-6819) August 1, 2014 (IN10119)

³⁸² Nelson, 2014

Of particular concern in the Russian economy is the financial sector, which is linked to European banks. It is also one of the areas of the targeted sanctions. These sanctions, though, have not fully hindered Russia's access to the European continent as the continued work on the pipeline through Turkey and recent Russian natural gas contracts with Greece show. As a result, the commercial relationship with Turkey will complicate initiatives from some figures in Washington who want to sell LNG to Ukraine. Turkey may be less inclined to allow passage through the Bosphorus if that would influence relations with Moscow and affect the pipeline. Russia may have less flexibility since the annexation of Crimea, but the global demand for energy ensures Russia has a market, although a portion of that market is shrinking. As Lo explains, "While political agendas are important, the Russian government and major energy concerns," are, "aware of profit for its own sake."³⁸³

Profit and international politics also motivated the actors within the joint consortium in the Sakhalin I energy enterprise. The arrangement involving multiple partners from Russia, India, and Japan, shows some durability of such ventures. Under the agreement, natural gas goes to Russia's market while also selling petroleum on Asian markets. By extension, the Sakhalin II agreement allowed Russia to create its first LNG port, where Japan, South Korea, and the United States are customers. While the enterprise is interesting to examine, it is important to consider the larger share of gas within Russia. Much of Russia's natural gas comes from the Kovykta field in the eastern Siberian region of Irkutsk. Some estimates of Siberia's natural gas reserves are 1,680

³⁸³ Lo, 2008. 135.

trillion cubic feet, while for comparison the Sakhalin Island project is about 96 trillion cubic feet. The estimated Siberian reserves are 17 times the size of Sakhalin.

Balance of Power:

Russia and China each have extensive, notable periods where they had a preponderance of power and global influence. Their respective memories also have eras of decline that each experienced separately, as explained by Gilbert Rozman.³⁸⁴ Perhaps due to this history, there is a record of agreement and distrust between Russia and China. Rozman asserts that the two states have been more in agreement when their national identities are similar. There are contemporary examples where this is not the case.³⁸⁵ They shared similar economic/political systems and adopted a Treaty of Friendship.

In the 1970s, the United States exploited deep distrust between these neighbors and opened relations with China. Since then China has undergone a market economic transformation. As of the writing of this text, China's emergence, as fueled by its economy, is leading some academics to discuss a shift from a world of unipolarity to one of bipolarity. To a different degree, Russia is also projecting significant influence in its region. This shift means that, if bipolarity happens, it will be China supplanting the role of Russia in the international order that characterized the Cold War.

While both states centralized domestic power in previous eras through the politics of famine, this research highlights how the balance of power system conditions

³⁸⁴ Rozman, Gilbert. *The Sino-Russian Challenge to the World Order: National Identities, Bilateral Relations, and East Versus West in the 2010s*. Washington, D.C.: Woodrow Wilson Center Press. 2014.

³⁸⁵ Ibid. 13.

outcomes.³⁸⁶ This work looks at factors in addition to points from Rozman as well as Wemheuer's observations on endogenous factors molding politics. Specifically, future research can explore if unipolarity is the least restrictive arrangement for trade among states. This is because the adverse effects from the magnitude of state power competition increases with each addition of a polar unit.

This period of unipolarity has seen more agreements between Russia and China. While not discarding a legacy of enmity, the two states have reached agreements based on opportunities and not bound by liberal concepts. This reflects political activity, defense procurement, the development and commitment to SCO, and the natural gas deal. These areas of agreement never aligned during bipolarity even with shared revolutionary Marxist ideas (with caveats). However, under unipolarity these agreements did happen without revolutionary or similar ideational ties. The reaction to this development comes in the form of Russia seeking a market for its goods and China learning from Russia's experience with reform and the conditions that led to the unraveling of the U.S.S.R.

Mandelbaum argues that Russia, China, Japan, and the U.S. constitute a distinct sub-system of competition.³⁸⁷ Through this lens Japan is added to his concept of the triangle of critical relations between Russia, China, and the US, Legvold explains how the four powers each have, "compelling stakes in its relations with the remaining three, stakes that coexist with, complicate, and, in good measure, counter balance."³⁸⁸

³⁸⁶ Wemheuer, Felix. *Famine Politics in Maoist China and the Soviet Union*. Yale University Press, 2014.

³⁸⁷ Mandelbaum, Michael, Mike M. Mochizuki, David M. Lampton, and Robert Legvold. *The Strategic Quadrangle: Russia, China, Japan, and the United States in East Asia*. Council on Foreign Relations, 1995.

³⁸⁸ Legvold, Robert in Mandelbaum, Michael, Mike M. Mochizuki, David M. Lampton, and Robert Legvold. *The Strategic Quadrangle: Russia, China, Japan, and the United States in East Asia*. Council on

As this case has explained for both Russia and China, energy issues immediately intersect with the balance of power. This is evident in China's energy policy in the Middle East as well as Russia's response to events in Ukraine and its need to find alternative customers in China. These conditions help demonstrate why the costs and challenges of global power competition make engaging through natural gas the practical choice.³⁸⁹ The following balance of power dynamics also condition the rationale behind the natural gas deal between Russia and China.

Russia and China are readily aware of the relative position they have, compared with the United States. Even during the period of disagreements between the two states in the 1990s, there was consensus that the United States was a great power, and they each sought to change this dynamic. However, it seems evident through these declarations and behavior that neither state saw itself as sufficient to conceive of the power system. The balance of power system was not a fungible concept that can quickly alter through definition. However, it was a signal to all states that the intent to change the order was very apparent.

The complex history for each state was played out through the Zemin and Yeltsin agreement, which opposed unipolarity.³⁹⁰ It reflected the respective aspirations for each state as they tried to move away from contemporary turbulence and toward a more

Foreign Relations, 1995. 19.

³⁸⁹ Downs, Erica in Bellacqua, James, ed. *The Future of China-Russia Relations*. University press of Kentucky, 2010. 146.

³⁹⁰ Gregory Shtraks, T. *Sino-Russian Relations and the Lessons of 1996*. [online] The Diplomat. Available at: <https://thediplomat.com/2015/04/sino-russian-relations-and-the-lessons-of-1996/> [Accessed 10 Sep. 2019].

favorable polar status. The agreement was veiled so neither state was rejecting the status of the other state or even the U.S. This was a relative shift. However, in a zero-sum sense this was received unfavorably in Washington. This shared statement, while not immediately attained by Russia or China, reflects the salient influence on the balance of power in relations within and outside the polarity system.

Zemin and Yeltsin overtly discussed the significance of this power position in state relations. Also, this agreement was influenced by the expansion efforts of NATO as opposed by Russia, and U.S. relations with Taiwan, as opposed by China. Though this is not the only time, the U.S. power competition with these states did play a role. China is deeply affected by the legacy of the open-door policy. Also, the enmity within Russia and U.S. relations can be traced back to when US forces stayed in the U.S.S.R. after WWI.³⁹¹ Meanwhile, much of the U.S. Cold War history had a cultural assumption that the Soviet Union and China were in concert due to the states sharing a similar ideology.

While both Russia and China engage in natural gas trade it is increasingly apparent that Japan is asserting a foreign policymaking posture that is more autonomous from the U.S. Japan is not in profound disagreement, but is no longer in step entirely with the U.S. Both China and Russia engage in energy endeavors with Japan. However, Japan is concerned with China's rise and is responding by coordinating with other regional actors, including India, to balance against China. India was a leader of the nonalignment movement during the Cold War. India's position has shifted toward being a primary balancing partner, with Japan, against China. As a result, they have worked

³⁹¹ Kennan, George F. *Russia and the West under Lenin and Stalin*. Boston, MA: Little, Brown and Co. 1968. 68.

with Russia and the United States. On the other hand, Russia was exploring opportunities for alternative customers rather than Europe while simultaneously, China is focusing on Europe.

Dynamics in the Middle East and Central Asia are also grounded in energy economics and politics, which states in those regions seek to manage through regional groups. However, as an energy provider, Russia views these dynamics in a fundamentally different manner than China, which is an energy consumer. Therefore, through this natural gas agreement with Russia, China gains the value of predictability of the price within the agreement and will not be exposed to exogenous price shocks. Russia gains the predictability of sales with fewer shocks and less turbulence. Furthermore, expectations about production and possible interruptions in the Middle East contribute to these calculations. So, this agreement is a means to account for this recent history and the dynamics from balance of power competition.

Conclusion:

This pact between Russia and China was one of the final steps in the journey to the natural gas agreement of 2014. Further questions deserving exploration include how this deal will affect non-energy elements of the Russia-China relationship. Under the Carter Doctrine, U.S. interests were expanded to include stability in the Persian Gulf.³⁹² Access to petroleum was of paramount importance and was accepted as U.S. policy for

³⁹² Gaddis, John Lewis. *Strategies of Containment: A Critical Appraisal of Postwar American National Security Policy*. New York: Oxford University Press, 2005. 344.

decades. Could a similar framing of interests and ties occur between Russia and China? Is the level of dependence as great? As Keohane notes the, “economic interests of liberal states make them vulnerable to threats to their access to raw materials and to markets.”³⁹³ Are states that partially adopt tenants of Capitalism, like Russia and China, as susceptible to market shocks? It would seem this deal is an effort to make each less susceptible to shocks. Therefore, this reflects the conditions under mechanism one that the states are responding to changing market environments.

While this text shows how there has been a history of cooperation regarding energy matters, Lorenz Luthi in *The Sino-Soviet Split* reveals the divisions between Russia and China because of ideological, national interest, and personal differences.³⁹⁴ No doubt, this was the case, but examining a different relationship at a different time reveals similar divisions. It could be argued that the past elements of shared political and economic ideology and the common perception of Western threats would have galvanized a relationship in previous decades. Tracing this relationship between Russia and China through the lens of energy reveals a business relationship at the strongest points of intersection, which seems to deviate when examining other subjects. As explained, this energy relationship may not be as enduring as the terms of the agreement indicate. Also, the agreement would likely not have advanced without the conditioning influence of the balance of power system. Because of this dynamic of state power competition, both Russia and China had few alternatives other than embracing this

³⁹³ Keohane, 2002. 55.

³⁹⁴ Lüthi, Lorenz M. *The Sino-Soviet Split: Cold War in the Communist World*. Princeton University Press, 2010.

energy initiative that required significant investment. These conditions reflect mechanism two, where diminished enmity exists between the two states.

It is decidedly probable that China will find alternative energy sources, domestically and regionally, which would be a significant loss to Russia. Russia was the party at the negotiating table that had a strong hand but not enough high cards. Current events, which are subject to change, only make Russia's position worse and therefore China's relative position better. According to the conceptual framework presented in this paper, many more interceding events would have to occur to undermine the agreement in order to outweigh the considerable investment each has made in this deal. Russia desires an environment with greater certainty and China strives for greater self-sufficiency.

There will be points of convergence, as was the case with the 2014 natural gas agreement, and possible divergence in energy relations in the future. While the archival records involving these negotiations are not available, the emphasis on this good and the timed response to changes in their environment made an economically unfeasible project viable due to changes in state power relations. These realizations are expected to reflect the relations and negotiating posture that resulted in the agreement. These observations reflect the points in mechanisms three and four.

The final chapter considers these cases as well as theory to discern patterns for future theory development. The chapter will conclude with a summation of observations on the influence the balance of power has on the incidence of trade agreements.

CHAPTER 6: CONCLUSION

This dissertation employs cases to examine how the balance of power influences the incidence of international trade agreements. It shows the existence of factors that influenced the trade agreements that represent contributions from the disciplines of Economics, Politics, and the generally neglected International Relations. As a result, it shows the influence of the specific variable of the balance of power and how it conditions outcomes. This system interacts primarily through a form of nonverbal interaction, that conditions the formation of trade agreements. Agents may or may not be aware, but this force influences the incidence of trade agreements nonetheless.

The dissertation examines three cases and considers existing theoretical claims to help understand the phenomena of international trade agreements and the influence of the balance of power. Also, the work considers related questions to examine the possibility of alternative explanations. Through that process, initial conjectures are provided in this chapter to explain these phenomena. Precisely through these outlined methods, the research examines the factors that contribute to the formation of trade agreements.

This dissertation shows that the balance of power plays a measurable role in causing the incidence of international trade agreements. Existing research within International Political Economy focuses on explanations ranging from institutions to the influence of hegemony. This dissertation instead considers how the dynamics within the balance of power system condition the incidence of international trade agreements. The influence of the balance of power enhances explanations involving the incidence of trade agreements where the variables absence would render the case analysis incomplete.

The cases of Cobden and Chevalier, MERCOSUR, and the Russia-China natural gas deal show the influence of the balance of power as a salient force on the incidence of international trade agreements. This method is not parsimonious though it challenges the existing discipline derived paradigms. Other research tends to emphasize one discipline informed perspective over different perspectives. That approach has contributed to the under-representation of the balance of power variable when explaining events in the discipline of International Political Economy.

Due to temporal differences related to the case selection as well as the types of states involved, research material was more abundant on Cobden-Chevalier than with the negotiations between Russia and China. However, crucial elements of both deals are available as well as the important international conditions each of the agreements are operating within. As a result, the Cobden-Chevalier examination of the leading actors is based both on their expressed sentiments as well as the conditions they operate within. The Russia and China case emphasizes the conditions for Xi and Putin, along with their general backgrounds. MERCOSUR has the benefit of robust contemporary analysis and data that contextualized the agreement.

Comparison:

This section will examine the multiple dimensions of the agreements to isolate patterns learned. The following comparisons emphasize, through cases and theory, the influence of the balance of power on the incidence of bilateral trade agreements.

In every case, there is an element of time and idea development that preceded the formation of the agreement. For these cases, the idea that there are gains from trade

activity and agreements is an a priori condition for negotiations to occur. The theoretical foundation from Ricardo and Smith influenced Cobden and the negotiators in the British and French talks. The influence of idea construction also features within the decades of intellectual discussion in South America around the deliberation on creating a common market. In the first case, the idea began in Great Britain, and in MERCOSUR, the inspiration was from the experience of the European Common Market and its successor, the European Community. However, in both cases, while these ideas germinated, they were not forced either due to British hegemony or European power.

As the cases show, the states in these circumstances, while influenced by ideas, exert considerable leverage in determining terms of agreements. The Russia and China Natural Gas deal also involved the development of a specific concept of trade involving this resource. Also, there was a general disposition where Russia favored the idea of exporting its abundant resource. Furthermore, China's favorable position toward trade had evolved over the years from a rejection of the Open-Door policy toward a policy of being an integral component of global supply chains. Also, all of these states operate within specific systemic norms of behavior. These are institutional norms as well as conditional effects from other states. Norms can often fuse with the overt influence of reciprocity.

In addition to the ideas around trade, there is also the international norm of challenging violators of trade agreements, as applied in these cases. While each state has some degree of autonomy of decision making, they choose to adhere to norms with the expectation that others will also comply with the norm and find the whole set of norms more beneficial. However, certain norms take precedence over others and can be

contested differently, depending on the agreement. This may explain the minimal nature of agreements between China and Russia. At the same time the interaction between France and Britain, and to a different degree, Brazil and Argentina incentivizes a continuity of this minimal form of agreement norm. Adhering to an agreement helps maintain other agreements, which are sufficient to bind the other state as well. This enhances the predictability of relations, as emphasized by Keohane.

Domestic political systems in all cases varied in function and influence. Negotiators like Napoleon III, Putin, and Xi had higher authority and autonomy while negotiating. On the opposite side, Cobden and the British had to respond to a divided parliament and Brazil and Argentina had influential leaders who were experiencing significant domestic transition. In Cobden-Chevalier and MERCOSUR the leaders were seeking domestic legitimacy.

The discussion of power and leverage in the Cobden and Chevalier negotiations are also playing out in the other research cases. It can be deceptive to assume that power presents an absolute edge in negotiating. There are circumstances during negotiations where displaying a selective absence of power (called tying hands) has the virtue of gaining concessions from the other state.

In Cobden-Chevalier, there are elements of hand-tying by political actors when Napoleon III promoted the passage of commerce treaty authority. Also, the Most Favored Nation status is a provision that, once adopted, commits the state to future tariff changes outside of those negotiated. Hand tying also is seen in MERCOSUR where the member states exclude nondemocratic members with the intent of binding hands to dissuade coups. States within the agreement can face suspension if a coup occurs. In

these cases, leaders cede some degree of autonomy and authority to minimize more immediate challenges. Even the terms of the Sino-Russian gas deal saw some contractual hand-tying among the parties to ensure delivery of the natural gas.

Because of the unique demand for natural gas, both Russia and China drew from elements of leverage. China's economy is considerably larger. However, China's size did not guarantee the most favorable outcomes for Beijing. Instead, Russia's production of a resource in high demand from China gave Russia influence in the negotiations. This framework of examining the interaction can be studied in the future with archival materials on the negotiations and price expectations as well as projected demand.

Also, in the leverage analysis of MERCOSUR, the differences in respective economies and relative dependence on exports outside of Latin America are apparent. Therefore, there was less power or leverage the two negotiating states held over each other because of the export focus. So, why did they reach the agreement at all? Part of the answer may be more about diminishing the leverage outside powers (particularly those with a colonial legacy) have in purchasing goods. This may explain the restrictive provisions in the agreement on trade with non-MERCOSUR members and the fact that it took nearly three decades for the EU and MERCOSUR to reach a trade agreement. This approach also complements the regional institutional norms that are more apparent than in most other regions of the globe. The parties agree on the elementary principle of keeping other powers at bay.

While these cases focus on the conditioning influence of systems, the distinct role agents play in the trade agreement should be noted. This influence relates to the third mechanism that leaders while negotiating trade agreements are affected by state power

competition. Leaders like Napoleon III and Xi are aware of their respective power and how the populace perceives it. In fact, in each of these cases leaders played a distinct role in seeking the agreement or another agent persuaded them. Often this was in response to conditions and opportunities for each of the states possessing distinct political systems. However, it is important to acknowledge in these cases the role the leaders played in perceiving the domestic and international political environment. While not entirely assessed in each case, leaders focused intently on these issues whether that be Xi and Putin's and the natural gas deal or Napoleon III's negotiations with Cobden. This also relates to Napoleon III's active engagement and awareness of competing demands. This agency dynamic transpires in the personalized shift in Brazil-Argentina relations.

Also, importantly, agents in these deals show an awareness of balance of power dynamics. All of the cases involve the interaction between the interested parties, but also reflect the influence of other states as outlined in mechanism four. This is a system dynamic where multiple states influence and condition the bilateral negotiations. These interactions become consequential when looking at the influence of a specific state, and through this process, additional states also come into perspective.

For example, the influence of France's relations with Austria (both diplomatic and conflictual) spurred Napoleon III's interest in the trade agreement. However, when examining this dynamic it is noticed that this is related also to Napoleon III's designs to annex Italian territory, a move Britain opposed. Furthermore, unbeknownst to Napoleon III, while Britain was opposed to annexation it was unwilling to push the point to conflict. This dynamic minimized, unbeknownst to Napoleon III, the purpose of negotiating the treaty of commerce.

When looking at Brazil and Argentina's relations with the U.S., a similar pattern can emerge highlighting the dynamic with UNASUR states and the EU. However, this does not suggest that one state specifically will prove the image. Instead it is about broadening the perspective of relational influences. Even though there may be two states at a negotiating table, the members of the system of states are along the perimeter conditioning the discussion, as these cases show.

International Conditions and Trade Agreement Negotiations:

None of these analyzed agreements are born from a genesis of alliances. There were no security guarantees among any of the states involved. In fact, within these cases the bilateral relations facilitated the agreement but would not be classified as distinctly harmonious. Brazil and Argentina were on the best terms, but there had been a significant shift in relations a few years earlier. China and Russia have better relations than during the Cold War. They partner in endeavors like the Shanghai Cooperation Organization, but the bonds appear mostly transactional.

For the Cobden-Chevalier agreement, while Napoleon III had a positive perception of Britain, these sentiments were not reciprocated by the British. Specifically, some in the British Parliament feared the French navy – especially one led by Napoleon. Centuries earlier, power competition was involved in the Auld Alliance between Scotland and France out of concern about England. This agreement lasted until the Treaty of Edinburgh of 1560, and Paul Jennings argues the alliance was cemented by wine trade.³⁹⁵

³⁹⁵ Jennings, Paul. *The Politics of Wine in Britain: A New Cultural History*. 2014. Ch. 3.

Also, it would be difficult to extrapolate that security alliances develop as a result of any of these trade agreements. There are stable relations between Brazil and Argentina but no security guarantees. Although the case is recent there have not been tangible relational gains for Russia-China relations since the natural gas deal. The exception to the pattern is the interactions between France and Britain. The relationship across the English Channel continued to progress, but it took four decades until it solidified with the Entente Cordiale. Also, an alliance did not form until World War I.

Therefore, the relational effect on trade activity was distinct, though not uniform, across the cases. Trade among the states involved has not distinctly changed between Russia and China. However, over time trade increased between Brazil and Argentina, but there was a drastic change in trade between France and Britain after their agreement. Geography alone cannot explain this variation. While trade activity may be more difficult between population centers in China and Russia due to distance, Brazilian and Argentine population centers are also not as intertwined. Economic geography theories focus on the importance of proximity, though that is not a guarantee of more significant trade, as these variations show.

Also complimentary with balance of power dynamics are variables that intervene among neighbors. These impact relations where there are robust patterns on display. In the same way there is a *reason of state* that realists use to explain behavior there is also a *reason of system*. States find it in their interest to preserve a system which exists to the benefit of the state. There is also an in-between space of interactions involved within *reason of neighbor*. In *reason of neighbor* the relations are constant and often intertwined and constitute the most frequently observed influences within state relations.

Linking multiple *reason of neighbor* dynamics can reveal the components of a system. A balance of power system is composed of all of these state relations. This is because balance of power dynamics often capitalize on influencing states through neighbor relations. For example, this concept becomes operational when State A has a struggle with their neighbor, State B. State A will often look toward State C, who is also a neighbor of State B, to agree to balance against State B. These relational dynamics among neighbors also relates to the points in mechanism two that reflects these cases that show diminished enmity among trading partners.

For example, the argument within the cases shows a shift in system dynamics in Europe that condition Cobden-Chevalier. Some of this is a result of changes in neighbor relations. This includes regional animosity toward France for the Napoleonic wars, the unifying efforts by Bismarck in Prussia, and the decline of Austria, which facilitated the unification of Italy. All of these types of factors conditioned how the actors in the system saw their respective interests and how they responded. This concept is similar to the arguments provided by Narizny regarding how great powers differentiate priorities in the system. For the Cobden-Chevalier treaty this shift in conditions, in addition to prolonged economic depression, contributed to the unraveling of the trade agreement era at the end of the nineteenth century.

A system exists that influences Russia and China which includes Japan, India, and the EU. A neighbor's actions are expected to feature prominently in state's considerations. This is due in part to political, economic, and cultural ties, but also to the ability of power projection. While generally only great powers can sustain a projection of power globally, a neighbor who is a major power may be able to do so locally. Also,

each case operated within a distinct regional subsystem where many of the interactions and influences transpired. Cobden-Chevalier operated within a European system simultaneously with a western European system. For MERCOSUR, the negotiators worked within a South American subsystem as well as the global system. Similarly, in the case of Russia and China they operate in the regional Asia system and also in a global system.

Some theorists may anticipate that there would be relational factors involving security among the negotiating states. However, that was not the case in the three agreements examined in this dissertation. Russia and China had decades of distrust including the Sino-Soviet rift and post-Cold War divisions. Also, Brazil and Argentina had exhibited decades of enmity, and Britain was suspicious of a France led by a Napoleon. Each case saw a similar relational outcome. The Shanghai Cooperative, improved dialogue between Argentina and Brazil, and lower tensions between France and Britain did not result in alliances. However, relations also did not worsen.

So, it would be incorrect to suggest that relations among these states involved in the respective agreements resulted in harmonious relations. It would also be incorrect to say the relations were conflictual because of the trade agreements. This presents a challenge to the theory that assumes political relations change as a result of trade relations. Within the confines of this study, there seems to be some continuity of relations that are neither acutely conflictual nor harmonious among states that reach a trade agreement. This relates to the previous assertion that there is an epistemological and methodological over-reliance on considering change when continuity of state relations is also prevalent. Barbieri and Levy along with Gowa argue trade continues

among states even when they are at war. Similarly, trade transpires among these case countries also when they are not at war.

Effects of the Balance of Power:

As the respective analysis shows, each of the cases saw influences on states and leaders from international conditions. Furthermore, each case is representative of a different characteristic of the balance of power system, since each occurred under a different classification of polarity.

The Cobden-Chevalier commerce treaty is one example of a trade agreement that happened during a multipolar balance of power system. This dissertation argues that trade agreements negotiated during multipolarity are more challenging to attain. However, one of the first and norm influencing trade agreements occurred during a period of multipolarity. Within these cases this is a principle criticism of the logic of this dissertation research. However, this agreement and those that followed in this period also eventually unraveled. Among the three cases it is also the only agreement to have ended prematurely. As the analysis in the case suggests, the pressures of alliances and rising tensions (in addition to the economic depression in Europe) contributed to the unraveling of the agreement.

Multipolarity makes trade agreements more difficult but not impossible, in the same sense that unipolarity improves the probability of trade agreements but does not make each agreement a foregone conclusion. Part of this is the impact of multiple intervening variables within the cases as well as the conditioning influence of the balance of power. It is impossible, and inappropriate, to argue that the balance of power is the

only causal factor in explaining the incidence of international trade agreements.

However, as shown in the cases, identifying a variable that enhances the understanding of a social phenomenon deserves attention.

Overall the agreements reached in the bipolar era have been durable agreements which lasted longer than those formed under the multipolar order. Overall trade agreements adopted under unipolarity and bipolarity have been durable compared to agreements under multipolarity. Also, the general trade activity under multipolarity is the lowest of the balance of power orders in contemporary measures. An example of a durable trade agreement case under bipolarity is MERCOSUR. This agreement runs contrary to Krasner's argument that small and medium states are unlikely to favor trade unless induced by the hegemon. Instead, this pact placed restrictions on other states, including major and great powers in the system.

Krasner's characterization of state size and policy preferences does not help explain the narrow focus of trade between Russia and China, as it relates to size. Russia is comparatively smaller but is equally concerned with China about the feedback effects of being exposed to market cycles and the possible influence on political instability. However, the reactions from Russia and China show the balance of power variable is a more robust explanation for why trade agreements occur. Furthermore, this agreement seems not to be fostered by the polar leader of the system, the US, and its NATO allies. Instead, the agreement occurred despite the US and its NATO allies, which are major trading partners of China.

It should be noted that polarity could shift a few years after the end of the Russia-China natural gas agreement as well as after MERCOSUR. Specifically, MERCOSUR's

environment saw few macro, material, military, or alliance factors that would indicate the implosion of the Soviet Union. On the other hand, there is considerable discussion related to state power competition between the United States and China and the probability of a bipolar system evolving in the near future.

While power competition among states played a significant role in explaining the incidence of trade agreements, these are only preliminary observations, because each polarity represents only one case. Therefore, considering the challenge these cases seem to present to theory, it presents an opportunity to consider other cases.

Copeland argues that change and expectations play a role in state relations. This pattern repeats in MERCOSUR, Cobden-Chevalier, and the Sino-Russia natural gas deal. There were significant, though unexpected, changes in the bilateral relations, particularly between Brazil and Argentina, but also between France and Britain. However, the agreements were each also influenced by other changes in state relations, but none of the cases speak directly to Copeland's consideration of how interruptions to trade expectations influence an increase in conflict.

In this dissertation, the only case where the agreement disintegrated was Cobden-Chevalier. In fairness, the other agreements were more recent, and all of these deserve thorough future analysis. However, the multipolar system found no mechanism to resolve economic turbulence and its effect on trade beginning in 1873. Meanwhile, in bipolar and unipolar systems, there seem to have been better methods to resolve issues around trade agreements. Some have argued this is a result of hegemony. However, it may be more due to the inverse relationship that multipolar relations have a higher number of unresolvable tensions than would exist in a unipolar system. Hegemonic

theories from Kindleberger, Gilpin, and Keohane argue that a solitary great power can play an oversized role in the international order.³⁹⁶

The ideas of hegemonic stability assert that, through the existence of international hegemonic systems, the behaviors of states (including trade agreements) are easier to manage. If being the hegemon affords states the chance to set up economic systems, why did Britain, with the greatest opportunity, choose not to exert its hegemony over war-damaged Europe? Instead, it did the opposite and approved restrictive corn laws, and let 45 years pass until it signed trade agreements.

Furthermore, other states often sought trade agreements throughout Europe without British direction.³⁹⁷ The argument that a hegemon helps organize the international order and often bends the order to its will was not the case when considering British trade policy in Europe in this era. Therefore, it is useful to consider alternative explanations for these events, including the possible influence of polarity on these cases. It is possible that a hegemon acts and does not act in a system, but it seems more likely that, under multipolarity, taking action on durable trade agreements is more complicated. Therefore, there may be an observation bias in overemphasizing what a hegemon does in a system over what is more challenging to observe in multipolarity, the nonevent.

³⁹⁶A “hegemonic power is both able and willing to establish and maintain the norms and rule of a liberal economic order.” Gilpin, Robert. *The Political Economy of International Relations*. Princeton University Press, 2016. 72.

³⁹⁷ McKeown also argues, “if as Krasner argues Britain was not yet at the peak of her hegemony when she allegedly secured the opening of the trading system in the early 1860s, are we then to conclude that near-hegemonic states can achieve the same sorts of successes as truly hegemonic states? If so, how can we reconcile British success in the near-hegemonic period of the 1860s with British failure to maintain an open system in the near-hegemonic period of the 1880s?” McKeown, Timothy J. “Hegemonic Stability Theory and 19th Century Tariff Levels in Europe.” *International Organization* 37, no. 1 1983: 73-91.

This approach allows for the agency of individual states and their policy choices while suggesting its choices are subject to constraints based on the number of great powers in the system. In other words, unipolarity is consequential in its influence. However, multipolarity makes reaching agreement in multilateral binding terms more challenging. There can be an overemphasis on the power of one hegemon and the influence it exerts within a system, compared to the alliances and power competition that are characteristic of a multipolar system. The influence of causal actors in a multipolar system would be more diffuse, but the overall influence that the states are imposing on one another is expected to be more substantial than under unipolarity. This challenge is especially the case when the system is confronted with resolving collective action problems.³⁹⁸ Under hegemony, states have less relative power to the hegemon but have more freedom to act and solve collective action problems that may or may not entail free-riding on the hegemon. However, there is no formal or informal system to resolve this degree of multipolar power competition that bleeds into the realm of trade agreements. This observation also compliments the general point from Mansfield regarding the nonlinear effects of power distribution on trade activity.

The one period in history where several trade agreements occurred under multipolarity is also the only period where trade agreements quickly unraveled. While the Concert of Europe facilitated issues related to the Balance of Power, there was no

³⁹⁸ Olson, Mancur. *The Logic of Collective Action Public Goods and the Theory of Groups*. Cambridge, Mass: Harvard University Press. 2012. Olsen argues that the size of the group and the size of the units can generally have a negative influence on resolving collective action problems. Where as Poteete, Janssen, and Ostrom assert that cases find context can modify this influence. Poteete, Amy R., Marco A. Janssen, and Elinor Ostrom. *Working Together: Collective Action, The Commons, and Multiple Methods in Practice*. Princeton University Press, 2010. 52.

ability to resolve these deteriorating interactions on the economic front. Lampe argues the elements of most favored nation clause in many agreements created a problem that was, “inherent in this decentralized system.”³⁹⁹

While the Balance of Power system is complex in its interactions, it operates under a core principle that it is in an individual state’s interest to act in a collective to prevent another state from rising in disproportionate power. It is challenging to overlay this with economic trade agreements like those adopted in this period, which were inflexible during economic turbulence. It is not so much about a hegemon doing (which may happen), but that tensions in a multipolar system occur more frequently, and differences are harder to resolve. Under multipolarity, states have less freedom of action during economic or systemic stress. That freedom of action is necessary for resolving collective action problems and negotiations in general. Bipolarity and unipolarity are positions where states may find it more permissible to operate internationally. This is due to different interlocking relations and the complexity assessment determined by the number of poles in the balance of power system.⁴⁰⁰ Therefore, what seems to characterize these cases is not hegemonic stability but rather, multipolar inflexibility which influences relations including trade agreements. Even though Waltz contends it is not very useful to precisely measure systemic variables; further research can show a path

³⁹⁹ Lampe, Markus. "Explaining Nineteenth-Century Bilateralism: Economic and Political Determinants of the Cobden-Chevalier Network." *The Economic History Review* 64, no. 2. 2011: 644-668. Lampe further argues, “This development can be seen as an instance when the desire to liberalize faded, especially due to the incentive to free-ride on the unconditional MFN clause.”

⁴⁰⁰ Chapter 2 outlines this discussion on complexity and the inferences related to the number of polar units and how that influences system stability.

to examine the balance of power's influence on the incidence of international trade agreements.

Future Research:

Goods that continue to be in relatively strong demand (though not absolute), even with increases in price, seem to be the focus of the cases within these trade agreements. Just as Adam Smith was interested in the price of corn to help understand economic and political dynamics, this research points to additional goods for consideration to help understand the nexus of trade relations. While corn is a staple good that generally has demand even when the price increases, there are similar key items involved in trade which share that characteristic. As Alfred Marshall points out, "the case of necessities is exceptional. When the price of wheat is very high, and again when it is very low, the demand has very little elasticity."⁴⁰¹

Types of Goods Involved in the Trade Agreements

MERCOSUR: Agricultural and Machine

Sino-Russian: Natural Gas

Cobden-Chevalier: Iron, Coal, Wine, and Linens

In these cases, because of the type of demand for iron, energy, agricultural staples, and the rest of the goods above (Figure: Types of Goods Involved in the Trade

⁴⁰¹ Marshall, Alfred. *Principles of Economics: Unabridged Eighth Edition*. Cosimo, Inc., 2009. 89.

Agreements) someone purchases only a slightly lower quantity of the good even when the price increases significantly. As a result, the percentage change in the quantity obtained is considerably less than the percentage increase in the price of the good. For example, Russia knows in its European relations that if there is an increase in natural gas prices Europe will only consume slightly less natural gas. That pattern also occurs in the robust British demand for French wine.

This is particularly interesting when the overwhelming share of WTO complaints involve goods with this type of demand.⁴⁰² Also goods with this type of demand constitute a high proportion of the percentage of trade volume. This is also interesting, considering that the volume of economic activity in domestic markets includes these types of goods, but also goods where the demand is more responsive to changes in price. Is there something distinct about the balance of power that explains this difference, where the goods purchased in international trade are disproportionately the types of goods that are less responsive to changes in prices?

It seems possible that the risks and costs associated with the variations of the balance of power can be more easily passed on to consumers if their demand for a specific good is less responsive to changes in price. Whereas firms that engage with products where the change in price more acutely affects demand would be subject to more downside risks from international events. Alternatively, it may be that the demand for these goods is so significant the profit motive pushes firms to engage in activity

⁴⁰² According to an analysis of WTO disputes the most frequently contested goods in descending order are: steel, meat, sugar, textile, aircraft, aluminium, beverages, shrimp, wheat, alcoholic, automotive, iron, oil, poultry, and automobile. All of these goods, except shrimp fit the pattern where demand is less sensitive to changes in price. Source: https://www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm

beyond their borders. On the other hand, it could be that consumers are aware of their strong demand for certain goods and the difficulty of lowering the price and are engaging in a type of arbitrage. That would explain why there is considerable trade activity of comparable goods across states with similar factors of production and other parallel attributes. These patterns of trade have complicated the explanations provided by comparative advantage theories.

These cases and many references to history consider the significance and interplay of power and wealth. It seems that an examination of these two factors can be conceptualized in parallel with the above observation that the preponderance of demand for certain goods is simultaneously about wealth and power.

Also are there factors within the study of international relations, as well as political science, that infrequently change and are therefore conditioning the environment where trade agreements begin? There seems to be a methodological and ontological bias in favor of observing activity. Those behaviors that are not subject to observation can be confused for systems.

Also, it is useful to further consider the interplay between the conditioning dynamics of the international system and Most Favored Nation status. The Cobden-Chevalier case covers the MFN status factor, but it would be worthwhile to consider the interplay of trade agreements under unipolarity. The Russia-China agreement was not about trade beyond a specific energy resource and did not address MFN status. Because of spillover effects, MFN status discourages states from adopting selective tariffs in order to appeal to domestic sectors, because doing so would have across the board ramifications.

Conclusion:

This dissertation shows through analysis of three cases, the conditioning influence of the balance of power on the incidence of trade agreements. The cases explain how agent decisions are influenced by power competition among states and how that affects international trade relations. The significance of this dissertation is that it emphasizes the influence of the balance of power, which is under-represented in International Political Economy literature as a means to explain trade agreements. In the process, findings from the cases challenged some existing assertions involving state relations and how trade agreements happen. The cases themselves do not lead directly to new theoretical claims, only preliminary conjectures. The analysis of these cases shines a light for future research that considers more broadly the role the balance of power has in conditioning a range of social interactions.

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