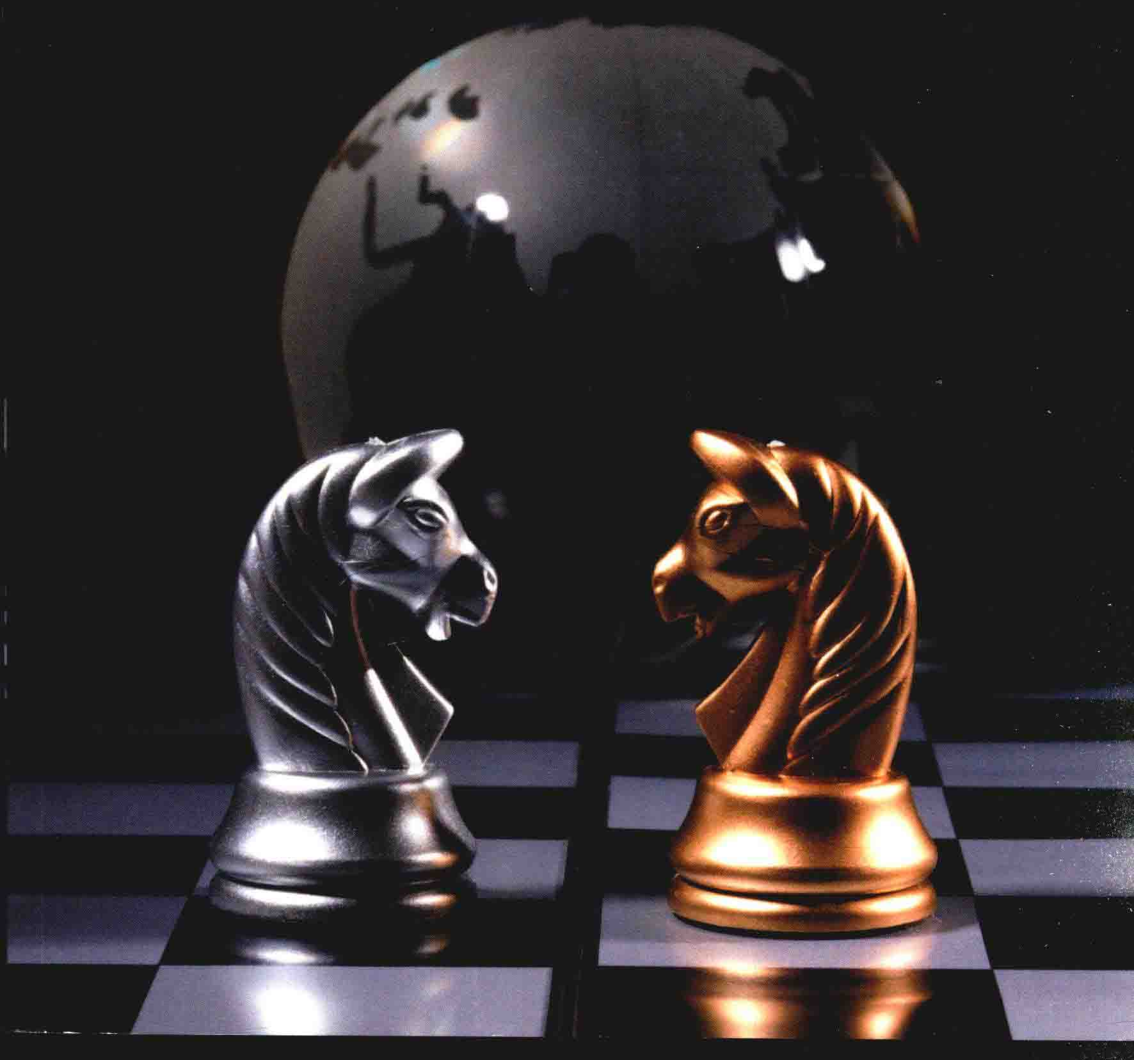
Power Plays

How International Institutions Reshape Coercive Diplomacy

ALLISON CARNEGIE



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How International Institutions Reshape Coercive Diplomacy

Coercive diplomacy – the use of threats and assurances to alter another state's behavior – is indispensable to international relations. Most scholarship has focused on whether and when states are able to use coercive methods to achieve their desired results. However, employing game-theoretic tools, statistical modeling, and detailed case study analysis, *Power Plays* builds and tests a theory that explains how states develop strategies of coercive diplomacy, how their targets shield themselves from these efforts, and the implications for interstate relations. Focusing on the World Trade Organization, *Power Plays* argues that coercive diplomacy often precludes cooperation due to fears of exploitation but that international institutions can solve these problems by convincing states to eschew certain tools for coercive purposes. Yet by constraining the use of some instruments of coercion, institutions cause states to rely on alternative tools, reducing the effectiveness of coercive diplomacy.

Allison Carnegie is an assistant professor of political science at Columbia University. She received a joint PhD in political science and economics from Yale University and was a Postdoctoral Research Fellow at Princeton University from 2013 to 2014. Her work has been published in the *American Political Science Review*, the *American Journal of Political Science*, *Political Analysis*, and the *Election Law Journal*, among other outlets. Carnegie has been awarded the Provost's Grant from Columbia University, along with fellowships from the Bradley, Falk, Ethel Boies Morgan, and Kaufman foundations. Her essay on foreign aid delivery won the Global Development Network's Next Horizons Essay Contest, which was cosponsored by the Bill and Melinda Gates Foundation.

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1

Introduction

In 1876, the United States signed a trade agreement with the Kingdom of Hawaii which eliminated high U.S. sugar tariffs. Hawaii responded by ramping up sugar production for export to the United States, so much so that these exports increased fivefold from 21 million pounds in 1876 to 114 million pounds in 1883. Boosting sugar production required a large investment: sugar producers adopted new sugar-processing technologies, bought government and private land, undertook large-scale irrigation projects, and invested in fertilizers. The Hawaiian government signed the treaty expecting other markets for its sugar exports to open up soon thereafter. However, when the treaty expired in 1883, Hawaii had no viable alternative export market.[1] Thus, during negotiations over the treaty's renewal, the United States demanded exclusive rights to Pearl Harbor; otherwise, the United States threatened to reinstate the high sugar tariff. The Hawaiian government conceded.

Almost 140 years later, this type of pressure remains a widespread phenomenon. Consider several recent examples: the European Union (EU) threatened not to renew trade agreements with Mongolia, Sri Lanka, Vietnam, and Nepal unless they improved their human rights records; the United States warned that it would not renew trade agreements with China, Vietnam, Cambodia, Romania, and Russia until they made political concessions; and China refused to renew many of its trade agreements unless its partners supported its "one China" policy.[2] Indeed, incentives to renege on agreements abound as the intermingling of political and economic arrangements offers many opportunities for states to coerce their partners into making foreign policy concessions.

[1] For a full account of this case, see Croix and Grandy (1997) and Kuykendall (1953). Note that Australia had become a sugar exporter and the Canadian population was too small to serve as a substitute (Croix and Grandy 1997). Additionally, Continental Europe had begun producing large quantities of beet sugar as a substitute for imported cane sugar (Rolph 1917).

[2] See Dumbaugh (2008). China frequently requires its partners to recognize it as the legitimate government of the area encompassing both China and Taiwan.

These examples of coercive diplomacy – the use of threats and assurances in combination to influence another state's behavior – highlight the dangers of cooperating with other states in the international system: states may hold their partners hostage at a later date to extract concessions from them. Yet the possibility that states will be taken advantage of has an unfortunate consequence: states often refuse to cooperate in the first place, preferring to "go it alone" rather than be subjected to extortion. When states cannot promise to refrain from holding their partners hostage, cooperation failures abound, making states worse off than they would be if they could commit to not exercising coercive diplomacy over their partners.

Making this kind of commitment is difficult, however, because coercive diplomacy is such a useful tool. In countless situations, one state seeks a concession from another and therefore turns to coercive diplomacy as the most expedient way to extract it. Coercion has been widely used by many states throughout history, as efforts to promote national interests and obtain political goals without resorting to war preoccupy leaders around the world. Thus, as a result of its ubiquity and centrality in international relations, the exercise of coercive diplomacy is a controversial and hotly debated topic. Yet despite its place at the core of interactions between states, coercive diplomacy is not well understood. When do states attempt to coerce their partners, and what problems does this cause? How do states address these issues, and what are the political and economic consequences of their actions?

This book takes up these questions in detail, examining coercive diplomacy's effects on bilateral interactions and assessing its implications for states' abilities to influence their partners. To date, most analyses of coercive diplomacy have concentrated on understanding whether and when states achieve their desired results by applying coercive methods. However, by employing game-theoretic tools, statistical modeling, and detailed case study analysis, this book builds and tests a theory that explains the mechanisms underlying these dynamics to provide a more complete and nuanced account of coercive diplomacy. With a particular focus on the World Trade Organization, the book argues that the potential for coercive diplomacy creates political hold-up problems – difficulty cooperating due to fears of exploitation – but that international institutions can solve these problems by enabling states to commit to not employing certain tools for coercive purposes. Yet, by limiting states' manipulation of some policies for coercion, institutions cause their members to rely on alternative, often weaker instruments. International institutions thus have the power to enhance cooperation among members, but they do so specifically by diminishing states' abilities to coerce their partners.

1.1 THE ARGUMENT IN BRIEF

My argument rests on the idea that the potential for coercive diplomacy restricts interstate cooperation, as it induces states to reduce otherwise productive investments to avoid providing their partners with political leverage. For example, a state may decide not to build a factory to produce a good for export to a partner state if it worries that, ex post, the partner will threaten to raise tariffs on the good unless the state gives in to additional demands. A state may similarly refuse to accept loans, engage in trade, or permit foreign direct investment if it anticipates that its partner will breach these agreements unless it makes further concessions. These political hold-up problems pervade interstate relations, preventing mutually beneficial exchange.

As a result, states commonly seek credible ways to commit to not extorting concessions from their partners. Membership in international institutions represents one such solution. For example, WTO membership deters states from holding their partners up due to the WTO's strong enforcement capacity. The WTO thus allows members to guarantee that they will not to use their WTO-regulated trade policies to wring concessions from their partners.

However, international institutions do not affect cooperative relations among all states equally; rather, they mostly affect pairs in which one state has the capability and incentive to exercise coercive diplomacy against its partner. In particular, a state that wields more power than its partner is better *able* to extort concessions from that partner, and a state that experiences political tensions with a partner is more *willing* to do so. States with disparate interests and capabilities therefore most often engage in coercive diplomacy and thus find cooperation the most difficult outside of international institutions. Institutions thus reshape relations between these states in particular.

Although international institutions solve political hold-up problems by allowing states to commit to not using certain tools for coercion, members do not simply give up on influencing other states. Instead, they *shift coercion* to an area unregulated by the institution. To be sure, states have many instruments at their disposal, such as trade policies, foreign aid provision, foreign asset treatment, diplomatic measures, and military force. Generally, states select the most effective methods, weighing factors such as public opinion, probabilities of success, monetary costs, potential retaliation, and lobbying by domestic groups. Although the precise calculations vary on a case-by-case basis, these considerations figure in the decisions of virtually all states that seek to shape their partners' behaviors. Membership in international institutions, however, changes the cost-benefit assessment, leading states to craft new ways to coerce their partners. In doing so, international institutions thereby alter the ways that states use power in the international system.

In effect, because members of a particular international institution limit their manipulation of those tools which the institution regulates, they experience fewer political hold-up problems in these areas. At the same time, institutions push coercive behavior into alternative realms that typically offer less potent levers of influence. Removing certain instruments from states' foreign policy tool kits restricts their options for exerting pressure on their partners, resulting in diminished coercive abilities. International institutions thus represent a distinct trade-off for many states: they permit cooperation within the institution but restrict states' leverage over other members.

In the remainder of this introduction, I offer a preliminary account of the argument advanced in this book. The discussion elucidates the key intuitions that ground my argument regarding the effects of political hold-up problems on coercive diplomacy. I begin by depicting the nature of the cooperation problems that occur due to states' desires to extract political concessions from their partners and describing how international institutions can solve these issues. I then explain how coercive tactics change as a result of membership in these institutions and characterize the implications for cooperation and coercive behavior in these areas. After situating my argument in the broader theoretical context and describing its scope conditions, I conclude the chapter with an overview of the book.

1.2 COERCIVE DIPLOMACY AND INTERNATIONAL TRADE

To make this argument, I begin by explaining the nature of coercive diplomacy and highlighting the particular salience of trade as a coercive tool. At its core, coercive diplomacy is an indispensable practice in international affairs in which states seek to alter other states' behaviors. Coercers may offer concessions if a given target complies with their demands or may enact penalties if it fails to do so. Coercive diplomacy thus consists of threats and assurances, either explicit or implicit, and can therefore be considered a form of extortion or blackmail.

When exercising coercive diplomacy, states choose among a variety of instruments, including bilateral foreign aid provision, trade policies, financial regulations, foreign direct investment (FDI), foreign asset treatment, diplomatic maneuvers, military tools, environmental policies, technology sharing, immigration regulations, and intelligence cooperation. How do states select which policies to use? Scholars have shown that states do so based on the tools' associated costs and benefits, which depend on many factors, such as national security concerns, the preferences of domestic groups, potential retaliation, the partner country's likely response, and lobbyists' and constituents' interests. Though all coercers face these types of considerations, their circumstances and constraints differ such that each state makes a unique calculation when selecting its tactics.

However, while the precise factors involved in adopting a specific policy vary by state, trade-policy manipulation represents a particularly salient and widely used tactic because of its universal importance and primacy in the international system. Moreover, scholars have long recognized that trade can serve as a key tool of extortion (Baldwin 1985; Hirschman 1969) and have linked trade to economic growth, political power, military capabilities, and even state survival. I therefore maintain a focus on trade as an especially potent instrument of coercion.

Because states often rely on trade as a primary weapon in international relations, the potential for coercive diplomacy can severely disrupt trade relations between states. The dynamics between the United States and Hawaii discussed previously highlight the danger of opening to international trade: a state may be taken advantage of by a trading partner if the profitability of its investments depends on its partner's continued cooperation. To avoid becoming targets of coercive diplomacy, states commonly underinvest in the production of goods that could make them vulnerable to this exploitation. For instance, a state less optimistic than Hawaii would have anticipated the United States's opportunistic behavior and underinvested in sugar production.[3]

Yet, although scholars have long acknowledged that trade can be used for political leverage when the target of such pressure cannot costlessly shift trade elsewhere,[4] it is less well recognized that this possibility leads to underinvestment: the expectation that a partner will either discontinue or threaten to discontinue an agreement to extract political concessions often leads states to refuse to invest and trade with the partner ex ante. Because this trade would be mutually beneficial absent the possibility that a state would be held up for concessions, the decision to refrain from trading represents a market failure. For example, prior to Taiwan's 2002 WTO accession, it restricted economic exchange with China out of fear that such exchange would provide China with political leverage. Similarly, before Mexico joined the institution in 1986, it frequently sought to reduce its vulnerability to the United States's coercive efforts through limitations on trade and investment. Nepal also tried to curb trade with India prior to its 2004 WTO entry because of India's frequent threats to disrupt this trade unless Nepal provided political concessions. I discuss these examples extensively in Chapter 5.

Nonetheless, the linkage of disparate foreign policy issues need not always lead to political hold-up problems. In fact, sometimes bargaining over multiple items helps states to cooperate when it allows them to reach agreements more easily (Davis 2004; Martin 1994; Poast 2012). Political hold-up problems, by contrast, occur when states do not settle such issues jointly. Rather, states fear that once they reach a deal, one side will renege at a later date to extract additional concessions. If an investment's profitability depends on its partner's willingness to stick to the agreement, these concerns may render states unable to cooperate.[5] Thus, unlike haggling over many areas at once, which makes

[3] Although the Hawaiian government was aware that it could be held up when it signed the initial agreement, it hoped that it could open other markets for its sugar by the time the treaty was renewed. Charles de Varigny, the Kingdom of Hawaii's foreign minister, explained, "Seven years [the length of time before the treaty's renewal] would give us time to establish our sugar production on a solid basis. After all, we would have an opportunity through similar negotiations to open up other markets" (Croix and Grandy 1997, 177).

[4] See Hirschman (1969, 13) and Keohane and Nye (1977, 211). Keohane and Nye (1977, 19) argue that this occurs primarily under conditions of "asymmetrical interdependence," which I discuss further in Chapter 2.

[5] This argument builds from Hirschman's (1969) observation that political leverage from trade interdependence requires that the target of coercion face a cost to switching trade partners.

states better off by facilitating agreements, political hold-up problems make states worse off by depressing cooperation because of worries that it will lead to extortion.

Furthermore, these cooperation problems do not affect all states equally because some states are more vulnerable to these pressures than others. First, a state that is much stronger than its partner is better able to engage in coercive diplomacy. When a state wields more power than its partner does, it can afford to make threats and assurances that will convince its partner to provide concessions. Second, states face greater incentives to exercise coercive diplomacy when they have more dissimilar policy goals. If a state wants to garner support for a particular policy, it has little reason to coerce states that already share the same views, but it may threaten to renege on commitments to bully dissidents into adopting its preferred course of action.

As an example of a state extorting concessions from another state once it became more powerful than its partner, consider the relations between West Germany and Poland in 1950. West Germany wanted Poland to allow German family members who had been left behind in Eastern Europe to reunite with their families. Instead, Poland passed the Law on Citizenship, which required Germans in Poland to become Polish citizens. However, West Germany had a trade agreement with Poland that it could use as ransom (Spaulding 1997, 378). It therefore waited until the Polish economy had weakened and Poland had become dependent on the trade agreement to obtain German import credit to make up for critical shortages. It then demanded emigration concessions as a condition of renewing the treaty; failing those concessions, it would terminate its cooperation. Because Poland relied on the trade agreement, it complained about extortion but allowed ten thousand people to return to West Germany (Spaulding 1997, 382).

Relatedly, interactions between the United States and former Communist countries provide examples in which states that experienced political tensions had difficulties cooperating. The United States frequently used its trade policies to try to elicit improvements in many of these states' human rights records but had little incentive to do so with those nations that already respected rights (Pregelj 2005). Coercive diplomacy is therefore most prevalent between asymmetric pairs of states that differ in terms of capabilities and political views.

1.3 WTO REDUCES POLITICAL HOLD-UP PROBLEMS

Owing to political hold-up problems' endemic nature in the international arena, states seek out ways to preempt them. International institutions provide a potential solution, as they can tie states' hands with respect to the policies they govern. Furthermore, because trade represents a key coercive tool and causes especially detrimental hold-up problems, the institution that regulates it plays a critically important role in the international system. Therefore, I pay particular attention to the WTO, the primary multilateral institution that