

Economic Statecraft (DIP 720)

Spring 2009

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Meeting Time: Section 1: Wednesday, 10:00-12:30
Section 2: Wednesday, 4:00-6:30
Meeting Place: Section 1: Van Room
Section 2: Van Room
Offices Hours: Wednesday, 1-3:00

This course introduces students to a range of economic foreign policy tools. The goal is to familiarize students with the toolbox of economic statecraft including the creation of international economic “rules,” dispute resolution mechanisms for enforcing international agreements, foreign aid and economic sanctions intended to further both economic and political ends, and other measures to enhance or maintain national power. At the end of the course, each student should understand the conditions under which each policy tool is likely to be appropriate and successful. Each student should also be able to explain the research strategies that allow analysts and policy-makers to explain and predict the effectiveness of each policy instrument.

Prerequisite: DIP 740 or at least two semesters of undergraduate economic theory with grades of B or better.

Format: The class will be taught primarily through lectures and class discussions, although it will also include some instruction in the use of formal economic and statistical tools. Students should be fully prepared to participate in every class, which includes having done the readings ahead of time.

Each student will be expected to read *The Economist* magazine on a weekly basis and be prepared to discuss the statecraft implications from an article to be selected by the instructor from the current issue of the magazine. (Students will be held accountable for only one section of the magazine each week—announced in advance—but are encouraged to read more).

Any student with a disability who is taking this course and needs classroom or exam accommodations should contact the Disability Resource Center, 257-2754, room 2 Alumni Gym, jkarnes@uky.edu.

Grading: Grading will be based on class participation and homework (15%), a midterm (30%), a take-home exercise on sanctions (20%) and a final exam (35%). The first test, on 2 February, will be a multiple choice/short answer test on the economic and political underpinnings (Part 1 of the course). The final exam will be structured like the Patterson School comprehensive exam. You will have to answer—with a well-organized essay—applying all the tools learned in the class to some of the problem areas discussed during the semester

Readings:

The main texts will be:

Joseph M. Greico and G. John Ikenberry, *State Power and World Markets*, Norton and Co., 2003, (\$48)

Daniel Drezner, *The Sanctions Paradox*, Cambridge U. Press, 1999 (\$35)

Robert Rotberg, *China into Africa*, Brookings Press (\$22)

The Economist magazine is available in the Van Room. It is also available on line through the Young Library, browsable, with a week's delay, through ABI/INFORM. You may also want to buy some basic international textbooks such as Krugman and Obstfeld's, *International Economics, Theory and Policy* (7th edition), and Perkins, Radelet, and Lindauer's *Economics of Development*. These are both expensive but if you plan on working in an international economics-related field you should have these or something like them on your shelves. You should also acquire a copy of Gary Koop's *Analysis of Economic Data* if you don't already have it.

Of the list below, for readings not in one of the three basic books, I will either give a URL, post it in Blackboard, indicate the reading is available electronically at the Young Library website (YLE), or in an electronic reserve for this class (ER). We will use sections of the following five books this semester but you might want to obtain your own copies, the first two are theory classics, the last three are recent accounts of key areas of interest..

Robert Gilpin, *Global Political Economy*

Klaus Knorr, *The Power of Nations*

C. Fred Bergsten et al, *China's Rise: Challenges and Opportunities*,

Anders Aslund, *Russia's Capitalist Revolution*

Jan Kalicki and David Goldwyn, *Energy and Security*

Note: after the first time a book is mentioned in this syllabus it will usually be referred to in the reading assignments by the author's (or the first author's) last name.

Note: All the readings listed are required and will be testable **except** those listed as "extra". Reading those supplemental works cited as "extra" is encouraged.

Note: The user ID for the Electronic Reserve is **hidip720** and the password is **EconDIP1**. *If a reading is listed as ER but is not actually on ER it can be found in the box in the student room.*

Part 1: Economic Underpinnings and Trade Policy

Class 1 (1/14)

Economic Statecraft and Economic Policy Goals

Greico and Ikenberry, Ch 1, "Introduction", pp 1-18

Gilpin, Chapter 1, "The Global Economic Order", pp 3-24 (ER)

Michael Lind, Ch 1, "The American Way of Trade" in *The American Way of Strategy*,

pp 225-248 (ER)
Mark Amstutz, Ch, “The Economic Rules of the Game” in *The Rules of the Game*, pp
121-146 (ER)

Homework: Key Economic Principals

Class 2 (1/21)

Review of economic theory and empirical methods

Greico, Ch 2, “The Economics of International Trade”, pp 19-56

Klaus Knorr, *The Power of Nations*, Ch 4, “The Bases of National Economic Power”, pp
79- 103 (ER)

Krugman, pp 207-217 “Political Economy of Trade Policy”, pp 260-266, “Sophisticated
Arguments” (ER)

Koop, Ch 4, “An Introduction to Simple Regression” pp 49-67 in *Analysis of Economic
Data (ER)*

Economist, Section of the week

Homework assignment on regression analysis, due 1/28

Class 3 (1/28)

Review of international finance

Greico, Ch 3, “The Economics of International Money and Finance”, pp 57-91

Steil and Litan, Ch 1, 3, pp 1-10, 31-47, (ER)

Krugman, pp 486-501, 516-544 (ER)

Brad Setser, Sovereign Wealth Funds (skim)

<http://www.cfr.org/content/publications/attachments/SetserZiembaGCCfinal.pdf>

Brad Setser, Bretton Woods Reform (skim)

<http://blogs.cfr.org/setser/2008/12/01/bretton-woods-2-and-the-current-crisis-any-link/>

Economist, Section of the Week

Class 4 (2/4)

Global Political Economy and Key Trade Disputes

Greico, Chs 4 and 5, “The Political Foundations of the World Economy”, and “State
Power and the Promotion of National Interests through Economic Integration”

Theodore Moran, “Grand strategy: the pursuit of power and the pursuit of plenty”,

International Organization, 50, 1, Winter 1996, pp 175-205 (YLE)

Paul Samuelson, “Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream
Economists Supporting Globalization”, *Journal of Economic Perspectives*, Vol
18, No 3, Summer 2004, pp 135-146 (YLE)

Barry C. Lynn, “War, Trade, and Utopia”, *The National Interest*, Winter 2005/06,
pp 31-38 (YLE)

Economist, Section of the Week

Class 5 (2/11)

Midterm

Part II: Coercion and Inducement

Class 6 (2/18)

Sanctions for Coercive Statecraft

Greico, Ch 6, "State Power and the Promotion of National Interests Through Economic Sanctions and Incentives", pp 163-203

Robert Art and Patrick Cronin, "Coercive Diplomacy", Ch 17, pp 299-316 in Crocker, *Leashing the Dogs of War*, (ER)

Chantal de Jong Oudrat, "Economic Sanctions", Ch 19, pp 335-346 in Crocker, *Leashing the Dogs of War*, (ER)

Economist, Section of the Week

Class 7 (2/25)

Sanctions 2: United States: Applying Leverage

Gary Hufbauer, Ch 5, "Sanctions after the Cold War" in *Economic Sanctions Reconsidered*, 3rd edition. pp 125-147 (ER)

Robert Pape, "Why Sanctions Do Not Work," *International Security*, vol 22, no 2 (Fall 1997, pp 90-136 (only 90-109 required) (YLE)

Drezner, *Sanctions Paradox*, Ch. 1-2, "Introduction" and "Model of Economic Coercion" pp 1-54

Review tools, discuss case studies, Chile 73, Cuba, Iran, Iraq, South Africa, Counter terrorism, Multilateral Institutions

Class 8 (3/4)

Sanctions 3: Iran and the Conflict Expectations Model

Meghan O'Sullivan, *Shrewd Sanctions*, Ch 3, "Iran", pp 45-87 (ER)

Michael McFaul et al, "A Win-Win US Strategy for Dealing with Iran", "the Washington Quarterly, Winter 2006-7, pp 121-140 (YLE)

Kenneth Pollack, "Taking on Tehran," *Foreign Affairs*, March-April 2005, pp 20-27 (YLE)

Vali Nasr, "Why Containing Iran Won't Work", *Foreign Affairs*, Jan/Feb 2008, (YLE)

Akbar Torbat, "Impact of the US Trade and Financial Sanctions on Iran", *The World Economy*, Vol 28, #3, March 2005, pp 407-434 (YLE)

For up to date debate see CFR blog forum at

<http://blogs.cfr.org/forum/category/middle-east/iran-nuclear-forum/>

Economist, Section of the Week

Homework exercise using Conflict Expectations Model, due 2/27

Class 9 (3/11)

Sanctions 4: North Korea and the Conflict Expectations Model, Aid

Drezner, Ch 8, North Korea

CIA World Factbook, read the section on the North Korean economy,

www.cia.gov

Scott Snyder, "Response's to North Korea's Nuclear Test: Capitulation or Collective Action?", *Washington Quarterly*, Summer, 2007, pp 33-43 (YLE) or direct at

http://www.twq.com/07autumn/docs/07autumn_snyder.pdf

Nicholas Eberstadt, "North Korea's Weapons Quest", *The National Interest*, Summer 2005, pp 49-52 (YLE)

Todaro and Smith, Ch. 15, "Foreign Finance, Investment, and Aid," pp 706-40 (ER)
Baldwin, Ch. 10, "Foreign Aid", pp 290-319. (ER)
Economist, Section of the week

Possible additional homework exercise using Conflict Expectations Model, due 3/5

Spring Break, no class March 18

Part III: Key Problem Areas

Class 10 (3/25)

Energy Security

Daniel Yergin, Energy Security and Markets, Ch 2, pp 51-64 in Kalicki and Goldwyn's
Energy and Security (ER)

Michael Ross, "Blood Barrels", *Foreign Affairs*, May/June 2008 (YLE)

Steve Yetiv, "The Chief Guarantor of Oil Stability", Ch 4 in *Crude Awakenings*, 2004,
pp 59-76 (ER)

Eugene Golz and Daryl Press, *Energy Alarmism: The Myths That Make Americans
Worry About Oil*, April 5, 2007, available at www.cato.org, search under Gholz.

EIA or IEA, Global Energy Outlook—selections to be determined

Economist, Article of the week

Class 11 (4/1)

Russia 1: Economic History and Institutions

Anders Aslund, *Russia's Capitalist Revolution*, IIE, 2007, Introduction and Chs 7

http://www.petersoninstitute.org/publications/chapters_preview/4099/00iie4099.pdf

http://www.petersoninstitute.org/publications/chapters_preview/4099/07iie4099.pdf

Clifton Gaddy, *Addiction: The Political Economy of Resource Addiction*, Brookings,
2008, reading TBA

Economist, Article of the week

Class 12 (4/8)

Russia 2: Applying Leverage

Drezner, Ch 5, Russian Power and Preferences, pp 129-152,

Drezner, from Ch 6, "Belarus", "Turkmenistan". "Ukraine", and "Azerbaijan", and
"Georgia"

Dmitri Trenin, "Russian Redefines Itself and its Relations with the West", *Washington
Quarterly*, Spring 2007 p 95-105 (YLE)

Celeste Wallander, Russian Transimperialism and Its Implications, *Washington
Quarterly*, Spring 2007, p 107-121 (YLE)

Yuliy Tymoshenko, "Containing Russia", *Foreign Affairs*, May/June 2007 (YLE)

Economist, Article of the week

Class 13 (4/15)

China 1: Economic History and Institutions

C. Fred Bergsten et al, *China's Rise: Challenges and Opportunities*, Institute for International Economics, 2008, chs 1 and 6
http://www.petersoninstitute.org/publications/chapters_preview/4174/01iie4174.pdf
http://www.petersoninstitute.org/publications/chapters_preview/4174/06iie4174.pdf
Council on Foreign Relations, *US-China Relations*, 2007, pp 1-46
<http://www.cfr.org/content/publications/attachments/ChinaTaskForce.pdf>
John Ikenberry, "The Rise of China and the Future of the West", *Foreign Affairs*,
Jan/Feb, 2008 (YLE)
Economist, Article of the week

Class 14 (4/22)

China 2: Applying Leverage

US-China Economic and Security Review Commission 2007 report, executive summary,
http://www.uscc.gov/annual_report/2008/EXECUTIVE%20SUMMARY.pdf
Yue Jinyong, "The United States and China in the Age of Globalization", *Chinese Political Science*, 27 July 2003, (YLE)
Minqi Li, "The Rise of China and the Demise of the Capitalist World Economy", *Science and Society*, 69, no 3, July 2005, p 420-448 (YLE)
Peter Navarro, Ch 2, "China's Counterfeit Economy," pp 21-43 in *The Coming China Wars* (ER)
Ian Bremmer, "The Dragon Awakes", *The National Interest*, Summer 2005, pp 128-134, (YLE)
Robert Rotberg, "China's Quest for Resources, Opportunities, and Influence in Africa", preface and ch 1 in *China into Africa*, Robert Rotberg, ed. (Brookings, 2008)
Economist, Article of the week

Class 15 (4/29)

China 3: China in Africa

Wenrang Jiang, "China's Emerging Strategic Partnerships in Africa", ch 3 in Rotberg
Obiorah, "China in Nigeria", ch 13 in Rotberg
Harry Broadman, "Chinese African Trade and Investment", ch 5 in Rotberg
Deborah Brautigam, "China's Foreign Aid in Africa", ch 9 in Rotberg
Paul Collier, pg xx-yy in "The Bottom Billion"
Economist, Article of the week

Final Exam (Wednesday, 5/6 at 4:00, both sections, location to be determined)