

# Economic Statecraft (DIP 720)

Spring 2013

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Meeting Time: Wednesday, 4:00-6:30  
Meeting Place: Patterson Office Tower, Room 420  
Offices Hours: Wednesday, 1-3:00

This course is designed to familiarize students with the tools 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 economic policy choices to enhance or maintain national power. Special attention will be paid to economic statecraft by the United States, China, and Russia. 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 predict the effectiveness of each policy instrument.

Prerequisite: At least two semesters of undergraduate economic theory with grades of B or better, or the Patterson economics immersion course, or consent of instructor.

**Format:** The class will be taught primarily in seminar discussions. 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 and the *Financial Times* on a regular basis and be prepared to discuss the statecraft implications from relevant articles each class meeting.

**Grading:** Grading will be based on class participation (10%), a take-home exam on economic principles (15%), a midterm (25%), a term paper (25%), and a final exam (25%). Students taking comprehensive exams this semester may request to have the written part of the comprehensive exam be graded by me in lieu of the class final. Students will be graded on a 100 point scale, 90-100 = A, 80-89.49 = B, 65-79.5 = C, and below 64.4 = E.

## Readings:

The main texts will be:

Joseph M. Greico and G. John Ikenberry, *State Power and World Markets*, Norton and Co., 2003, (\$44)

Daniel Drezner, *The Sanctions Paradox*, Cambridge (\$20)

Robert Rotberg, *China in Africa*, Brookings Press (\$15)

Gary Smitt, *The Rise of China*, Encounter Books (\$17)

*2011 Report to Congress of the US-China Economic and Security Review Commission* (free, write to: [annualreportrequest@uscc.gov](mailto:annualreportrequest@uscc.gov) )

Students will be expected to discuss the assigned readings in class each week as well as relevant current events. The readings listed below may be amended as the semester progresses, *readings printed in grey italics are supplemental.*

Of the list below, for readings not in one of the four basic books, I will either give a URL put a copy in the DropBox(DB) for this class, or indicate the reading is available electronically at the Young Library website (YLE).

Class 1 (1/9)

**Economic Statecraft, Economic Policy Goals, and Grand Strategy**

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

Blanchard, Ch 1, "The Political Economy of National Security" (DB)

Klaus Knorr, *The Power of Nations*, Ch 4, "The Bases of National Economic Power", pp 79-103 (DB)

Michael Lind, Ch 13, "The American Way of Trade" in *The American Way of Strategy*, pp 225-248 (DB)

Matthew Goodman, "When the Twain Meet: US Economic Diplomacy towards Asia", ch 11 in *The New Economic Diplomacy*, Nicholas Bayne and Stephen Woolcock, eds. (DB)

Hillary Clinton, "Economic Statecraft", Dec 11, 2011 speech (DB)

Class 2 (1/16)

**Trade Theory, Trade Policy, Trade Statecraft**

Greico and Ikenberry, Ch 2, "The Economics of International Trade", pp 19-56

Stephen Krasner, "State Power and the Structure of International Trade", (DB)

J. Theodore Moran, "Grand strategy: the pursuit of power and the pursuit of plenty", *International Organization*, 50, 1, Winter 1996, pp 175-205 (YLE)

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

Class 3 (1/23)

**International Finance: Theory and Statecraft**

Greico and Ikenberry, Ch 3, "The Economics of International Money and Finance", pp 57-91

Barry Eichengreen, "Hegemonic Stability Theories of the International Monetary System" (DB)

Barry Eichengreen, "Mr. Bernanke Goes to War", in *The National Interest*, Jan-Feb, 2011 (YLE) (or go to [www.nationalinterest.org](http://www.nationalinterest.org))

Brad DeLong and Stephen Cohen, Chapters 1 and 2 from *The End of Influence* (DB)

Drezner, "Bad Debts: Assessing China's Financial Influence in Great Power Politics", *International Security*, 34(2), Fall 2009, pp 7-45 (YLE)

Steil and Litan, Ch 4, "Capital Market Sanctions", pp 48-78 (DB)

**Homework: Take-home test on economic principals covered so far, due 2/8.**

Class 4 (1/30)

**Economic Sanctions 1**

**Introduction to Economic Coercion and the Conflict Expectations Model**

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

David Baldwin, Ch 8 *Economic Statecraft*. Read pp 145-150, 204-205, and study in depth and be prepared to discuss one of the "classic cases,": Megara, Ethiopia, Japan, Cuba, or Rhodesia, that discussed on pages 151-203. (DB).

Daniel Drezner, *Sanctions Paradox*, Chs 1 and 2

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

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

Richard Haas and Meghan O'Sullivan, ch 1, "Introduction" from *Honey and Vinegar* (DB)

Class 5 (2/6)

**Sanctions 2: Russian Coercion in the 90s and the 2000s**

Drezner, Chapter 3. Also, each student should study one of the country cases in chapter 6 and be prepared to discuss in terms of the Conflict Expectations Model.

Hillebrand, Bervoets, Closson, and Farley, "A Post Sample Validation of Drezner's Conflict Expectations Model", 2013, in draft (DB)

Class 6 (2/13)

**Sanctions 3: Iraq, North Korea, Cuba etc.**

Drezner, Chapter 8,

Stephen Haggard and Marcus Noland, “The Political Economy of Denuclearization and Proliferation”,  
Asian Survey, Vol 50, No. 3 (2010) (YLE)

George Lopez and David Cortright, “Containing Iraq: Sanctions Worked”, *Foreign Affairs*, July/August,  
2004 (YLE)

Susan Kaufman Purcell, Ch 2, “Cuba” in *Economic Sanctions and American Diplomacy*,  
Richard Haas, ed. (DB)

Richard Haas, “Conclusion and Recommendation” in *Economic Sanctions and American Diplomacy* (DB)

Class 7 (2/20)

**Sanctions 4: Iran Sanctions**

Meghan O’Sullivan, “Iran and the Great Sanctions Debate”, *The Washington Quarterly*, 33(4),  
Oct 10, 2010, pp 7-23 (YLE)

Ruel Marc Gerecht, “The Logic of Iran Sanctions”, *The Weekly Standard*, Jan 3, 2011, pg 11-15 (YLE)

Eric Edelman, “The Dangers of a Nuclear Iran”, *Foreign Affairs*, Jan/Feb 2011 (YLE)

James Lindsay, “After Iran Gets the Bomb”, *Foreign Affairs*, March/April 2010 (YLE)

Kenneth Pollack and Ray Takeyh, “Doubling Down on Iran”, *Washington Quarterly*, Fall 2011 (YLE)

*For more details, see*

*Blackwill: Iran: The Nuclear Challenge (2012) E-book available for \$2.99 from BN/Nook*

*Katzman. Iran Sanctions, Congressional Research Service (2012) (DB)*

Class 8 (2/27)

**Energy Security**

John M. Rothgeb, Ch 7, pp 143-161 from “Oil and Turmoil” from *US Trade Policy* (DB)

Daniel Yergin, Energy Security and Markets, Ch 2, pp 51-64 in Kalicki and Goldwyn’s *Energy and  
Security* (DB)

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

David Victor and Rebutts, “What Resource Wars”, *The National Interest*, Nov/Dec 2007 and Jan/Feb,  
2008 (DB)

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

Eugene Golz and Daryl Press, *Energy Alarmism: The Myths That Make Americans Worry About Oil*,  
April 5, 2007, (DB) or available at [www.cato.org](http://www.cato.org), search under Gholz.

Philip Verleger, “The Amazing Tale of US Energy Independence.”, *The International Economy*, Spring  
2012 (DB or YLE)

Class 9 (3/6) **Midterm**

**Week of March 13, Spring Break**

Class 10 (3/20)

**China 1: Economic History and Institutions and Policy**

Gary Schmitt, “Introduction” in *The Rise of China*, edited by Schmitt, pp vii-xii

Robert Kagan, Ch 1, “Ambition and Anxiety” in *The Rise of China*, pp 1-23

Ashley Tellis, Ch 2, “China’s Grand Strategy” in *The Rise of China*, pp 25-51

Minxin Pei, *China’s Trapped Transition*, Chapter 1 (DB)

Mark Leonard, Ch 1, “Comprehensive National Power”, from *What does China Think?* (DB)

Yue Jainyong, “The United States and China in the Age of Globalization”, *Chinese Political Science*, 27  
July 2003, (DB)

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)

**Term Paper:** Start thinking now about your term paper. Pick any Chinese topic discussed in Classes 10-13, and explore it further. Discuss what China is doing, evaluate its significance and its chances for success. Discuss US policy responses—actual or potential. Use the conflict expectations model, if possible. Distinguish between long term and short term effects. Relate the efforts of both China and the United States to strategic goals. The paper should be 7-10 pages, double spaced; due on 24 April.

Class 11 (3/27)

**China 2: China's Energy Statecraft**

Bo Kong, Selections from *China's International Petroleum Policy* (DB)

Mikkal Herberg, China's Energy Rise and the Future of US-China Energy Relations, New America Foundation, 2011 (DB)

US Department of Energy, China Country Brief (DB or online at [www.eia.gov](http://www.eia.gov))

Erica Downs, "Business Interest Groups in Chinese Politics: The Case of Oil Companies" (DB)

Class 12 (4/3) Note: *This class will have to be rescheduled, I will be way on 4/3.*

**China 3: Economic Statecraft in the First World**

Joseph Nye, "American and Chinese Power after the Financial Crisis", *The Washington Quarterly*, Oct 2010, 33(4), pp 143-153 (YLE)

Wu Xinbo, "Understanding the Geopolitical Implications of the Global Financial Crisis", *The Washington Quarterly*, Oct 2010 33(4), pp 155-163. (YLE)

*US-China Economic and Security Review Commission, 2011 Report* (pp 1-8, 21-39,40-63,70-87)

Fred Bergsten, Ch 1, "Summary and Conclusions" from *China: The Balance Sheet* (DB)

R. Looney, "Recent Developments on the Rare Earth Front.", *World Economics*, Jan 1, 2011 (YLE and DB)

Daniel Drezner, "Three Ways of Looking at Chinese Economic Statecraft" (DB)

Adam Segal, "China's Computer Games" *Foreign Affairs*, (March/April, 2012 (DB or YLE)

Greg Mastel, "Washington-Beijing Currency Friction", *International Economy*, (DB)

Class 13 (4/10)

**China 4: Economic Statecraft in the Third World**

Robert Rotberg, *China into Africa*, everybody read chapters 1,2,5,6 7. Select 1 other chapter to read and report on in class.

Class 14 (4/17)

**Russia 1: Economic History and Institutions and Policy**

Anders Aslund and Andrew Kuchins, *The Russian Balance Sheet*, Brookings, 2009

Ch 3, "Russian's Economic Revival", and Ch. 8, "Russia as a Post-Imperial Power" (DB)

Clifford Gaddy and Barry Ickes, "Russia's Declining Oil Production: Managing Price Risk and Rent Addiction;", *Eurasian Geography and Economics* (50-1) 2009

Adam Stulberg, PP 13-16 and Ch. 3, "Russia's Strategic Energy Predicament", from *Well-Oiled Diplomacy* (DB)

Class 15 (4/24)

**Russia 2: Economic Statecraft**

Celeste Wallander, "Russia's Transimperialism", *Washington Quarterly*, Spring 2007 (YLE and DB)

Alexander Shusko, "The Dark Side of Integration", *Washington Quarterly*, Spring 2004 (YLE and DB)

Daniel Frefeld, "The Great Pipeline Opera", *Foreign Policy*, September,October 2009 (YLE and DB)

Tracey German, "David and Goliath: Georgia and Russia's Coercive Diplomacy" *Defense Studies*, June 1, 2009, (DB)

*US Department of Energy Russia country brief* (DB)

**Final Exam (Wednesday, 1 May, at 4:00 )**

**University-Mandated Information**

**Student Learning Outcomes.** Students will acquire a broad knowledge of the theoretical and historical literature on economic statecraft. Students will master the economic theory and other methodological tools necessary to help understand the subject.

**Academic Integrity.** Per university policy, students shall not plagiarize, cheat, or falsify or misuse academic records. Students are expected to adhere to University policy on cheating and plagiarism in all courses. The minimum penalty for a first offense is a zero on the assignment on which the offense occurred. If the offense is considered severe or the student has other academic offenses on their record, more serious penalties, up to suspension from the university may be imposed. Complete information can be found at the following website: <http://www.uky.edu/Ombud>. A plea of ignorance is not acceptable as a defense against the charge of academic dishonesty. It is important that you review this information as all ideas borrowed from others need to be properly credited

**Attendance** is not required at any class, therefore excuses for nonattendance are not necessary. Repeated absences will make it difficult to get a good grade on class participation. If an assignment or test cannot be completed on time, the student must make prior arrangements with me.

**Disabilities:** 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](mailto:jkarnes@uky.edu).

**Major Religious Holidays.** Students are responsible for notifying the Instructor of Record **in writing** of anticipated absences due to their observance of such holidays no later than the last day for adding a class.