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## BEYOND COMMERCIAL LIBERALISM

*Conceptualizing the Political Economy of Transitions to Peace*

SINCE THE END OF THE COLD WAR, there has been growing interest in the links between economics and security. The literature dealing with these links has focused on three issues: the links between economic interdependence and conflict, economic statecraft (most notably the use of economic sanctions), and the broadening of the concept of security to include economic and social factors.<sup>1</sup> Much of the debate about the power of economic interactions to advance peace is a reflection of traditional debates between the two main paradigms of international relations: realism and liberalism.

In recent years there has been a growing body of literature that developed the so-called commercial liberalism argument, according to which there is a positive link between trade (or economic interdependence) and peace. Most of this literature, however, does not focus on the promotion of peace but rather on the prevention of war and militarized conflict. This focus on preventing armed conflict leaves unexplored the positive side of the liberal argument, namely that economics can actually be used to promote peace. Furthermore, most of the literature assumes a preexisting level of interdependence and then goes on to examine whether this economic link does or does not have an impact on militarized conflicts. This assumption leaves out many cases of adversarial bilateral relations in which the transition to peace requires building a basic level of economic interdependence that did not necessarily exist before the conflict began. The current interdependence and peace literature does not have much advice to offer decision makers or scholars who try to manage, advance, or study such cases.

This situation is unfortunate since much of the third world would fall into the category of parties that lack even basic economic interdependence with their rivals. Consider, for example, the following questions: Can and should Israel actively promote economic engagement with the Palestinians or with its other Arab neighbors in order to promote the peace process? Will the grand U.S. scheme of creating a regional free trade area in the Middle East (MEFTA) actually help to promote regional peace? Do the European economic initiatives in the Middle East and North Africa offer a better path to peace? In the face of growing strategic competition between Japan and China in northeastern Asia, will Japan be successful in its ongoing efforts to ensure peaceful relations with China via economic diplomacy? Can economic tools be used to help India and Pakistan in their transition to peace? Can and should third parties such as the United States, the European Union, or international organizations invest in promoting economic cooperation among states in Africa in order to reduce the risk of more bloodshed between and within states in the region? If third parties are indeed to offer support for building regional economic cooperation, what form should it take? What are the obstacles? What is the impact of globalization on all these questions? These are but a few of the questions that decision makers must address in today's world. However, the theoretical literature of commercial liberalism has only limited answers to offer.

Unfortunately, the excessive focus on the realist versus liberal paradigmatic debate often leads us to ask the wrong questions. Focusing too much on whether it is politics driving economics or economics driving politics obscures the more complex interplay between economics and politics. As the empirical case studies demonstrate, there are two rationales operating in this process, sometimes simultaneously. The first is that economic considerations (e.g., globalization pressures or domestic economic crises) guide political decisions (e.g., the need to move toward peace with a former enemy). The second rationale is that political considerations (such as the desire to promote and stabilize peaceful relations with a former enemy) guide seemingly economic decisions and lead to the use of economic tools according to a political logic. There are thus two discrete aspects of the economics of peacemaking. The first aspect fits more comfortably with the standard arguments of commercial liberalism literature regarding the power of economic interaction to promote peace. The second aspect shows how economic tools can be used to help achieve peace, but this path is quite different from that charted by standard liberal arguments.

Furthermore, there is a need to distinguish between two stages in the transition to peace: first, the initial transition to a “cold peace,” most often (though not always) symbolized by the decision to sign a peace (or friendship) treaty, and second, the process of normalizing relations (that is, the development of “warm” or stable peace). In each stage, economic factors play a different role, and these roles can be better understood by referring to three basic hypotheses. These hypotheses outline the role and influence of economic factors within each state’s domestic politics (the balance between domestic winners and losers from the transition to peace), between the two states (the impact of economic power disparities between them), and in the economic actions of extraregional players. The three hypotheses are tested using a qualitative cross-regional comparison of transitions to peace in the Middle East, Asia, and Europe.

### The State of the Art on Interdependence and Peace

The debate about the connection between trade and peace is an old one and already well documented.<sup>2</sup> It is also one of the basic debates between liberal and realist scholars.

The trade-peace link is at the heart of the commercial liberal argument and is associated with the work of Joseph Schumpeter but actually dates back to Immanuel Kant’s *Perpetual Peace* and his argument about the “spirit of commerce.” Liberals suggest a strong, positive link between the expansion of trade among states and peace, and they offer several causal arguments to substantiate their claims. One argument suggests that as states achieve high levels of trade interdependence, the cost associated with severing these ties in the event of a conflict becomes so high that rational decision makers will be extremely reluctant to choose violent means to resolve their differences. Such reluctance may also be strong if domestic special interest groups that benefit from foreign trade exert pressure on decision makers to avoid any interruption in business. Ruth Arad, Seev Hirsch, and Alfred Tovias develop the notion of “irrevocable interdependence” between states that would lead to the creation of a balance of prosperity—the positive and commercial equivalent of the balance of terror. When such a balance is achieved, they argue, the benefits of bilateral cooperation are enormous, the losses associated with discontinuing cooperation are unacceptable, and so peace is secured.<sup>3</sup>

A second argument for the link between trade and peace suggests that increased trade and interdependence between states reduce the value of the use of force and of conquering territory and instead create new, nonmilitary strategies for pursuing states' goals and advancing their international position.<sup>4</sup> This argument has recently been sharpened by a discussion of the ability of economic interdependence to provide new channels for signaling resolve in nonviolent ways.<sup>5</sup>

A third argument is based on the neofunctional logic of spillover. It suggests that cooperation in a certain issue area creates pressures to expand cooperation to adjacent issue areas. Cooperation then spills over to other issues and expands. This argument has been applied and demonstrated mostly with regard to cooperation within the economic sphere. The big question of whether spillover can occur between economic and either political or security-related issues has surprisingly not been rigorously tested on empirical cases.<sup>6</sup>

All of these explanations focus on the changing material incentives of rational decision makers and welfare-seeking citizens. They are deeply rooted in the rationalist perspective of international politics. Indeed, the bulk of the commercial liberalism literature is based upon these rationalist premises. A different version of the liberal argument, associated with the work of Karl Deutsch, is rooted in an ideational, more interpretive perspective. It focuses on the impact of trade and economic interdependence on people's perceptions of self and other. Commerce creates greater interaction among states and people. Interaction breeds familiarity and exchange of ideas. Familiarity leads to mutual appreciation, curbs national prejudices, and consequently reduces or eliminates warlike attitudes. Commerce thus civilizes and pacifies states and their citizens.<sup>7</sup>

Deutsch's early work on integration in Europe has been further developed and updated in more recent work by Emanuel Adler and Michael Barnett on the notion of "security communities." They focus on the sociological processes that gradually lead to the development of a community of states. Adler and Barnett point to the importance of various transactions (including economic transactions) as factors that contribute to the development of mutual trust and collective identity, which, in turn, are necessary conditions for the development of dependable expectations of peaceful change. Rooted in a social constructivist perspective, their argument suggests that a qualitative and quantitative growth of transactions reshapes collective experience and alters social facts.<sup>8</sup> However, beyond this observation, there is no significant discussion on the specific role of economic factors in the building of security communities. In fact, the literature

on security communities does not intersect with the literature on the commercial liberal peace, as the former takes a clear constructivist path and the latter, a clear rationalist path. This book responds to the rationalist debate between proponents of commercial liberalism and proponents of the realist school. The hypotheses tested here address that basic debate and are therefore rooted within the rationalist perspective. However, in laying out each case I have tried to remain attentive to the ideational factors that either constrained or were influenced by economic interaction and changes in material incentives. In this sense, the book critically explores how far one can take the rationalist approach in explaining the impact of economics on peacemaking.

While there is little direct reference to the implications of commercial liberalism for the more specific case of former enemies making the transition to peace, it is possible to draw several conclusions regarding this issue. An argument grounded in the commercial liberalism view is likely to suggest that economic cooperation would be a good starting point for building ties, which may eventually promote cooperation on higher and broader political and security issues. Trade is likely to create a positive incentive for citizens on both sides to avoid lapsing back into conflict. It is likely to help create new and fruitful channels of communication between the two hostile societies, communication that will break through preexisting negative images and create new bonds of familiarity and friendship. Furthermore, as Schumpeter has argued, and as many liberals still believe, the encouragement of trade and international economic interactions can indirectly encourage a domestic shift to democracy, as citizens develop a rational, private material interest in openness and trade and gain political power that may undermine the central power of the state. If war and protracted conflicts are about passions, pride, and hate, then economic interaction can inject the necessary rational, individualistic, welfare-seeking approach needed to end such conflicts.<sup>9</sup>

Realist scholars, on the other hand, are skeptical about all of these arguments, suggesting either that trade has little or no impact on serious, high-politics issues or that trade in fact raises the potential for conflict. They argue that spillover cannot take place between “low-politics” economic issues and “high-politics” political and security issues. Liberals, argue the realists, have it backwards. Spillover may occur, they say, but it would flow from high-politics issues down to economic ones. As Geoffrey Blainey notes, the factors that liberals stress as causes of peace may in fact be the effects of it.<sup>10</sup>

The stronger realist argument suggests that there is indeed a link between interdependence and conflict, but it is a negative one. Liberals assume that interdependence is symmetrical or that asymmetries are not an important problem. Realists suggest that this is not the case. Given preexisting disparities in economic capabilities, different states will gain unevenly from foreign trade and other forms of economic interaction. Uneven gains, of course, become problematic in a realist world where states are concerned mainly with relative gains. If one state gains more economic benefits from trade, it can use these relative gains at some point against its partner. Enhanced economic capabilities can be translated into military capabilities. Furthermore, uneven interdependence can be used as an instrument of power for the purpose of increasing political leverage.<sup>11</sup> Since interdependence is, in fact, a form of dependence for the smaller state, it is likely to try to avoid it. Conversely, stronger states are likely to try to take political advantage of the leverage created through trade relations. Trade and interdependence, then, merely create an additional playing field for power politics, with both new issues to generate conflict and new tools of influence.

Consequently, realists are likely to see a very limited role for economic factors in transitions to peace. The realist premise, stressing the overwhelming impact of the anarchical environment on the likelihood of cooperation due to concerns over both cheating and relative gains, is accentuated when we are talking about relations between two states that were recent enemies. In such cases, it is quite clear that the concerns about relative gains will be greater. After all, one need not have much imagination to think about how new economic gains can be translated into military force or plain political leverage, given the memory of very recent conflict. We are likely to find little trust between former enemy states, and between two such societies there is likely to be very little familiarity or friendship. Realists would therefore argue that the road to conflict reduction or to peacemaking runs through the resolution of the major political and security obstacles. If economic cooperation is pursued, and even if it is successful on some issues, it is unlikely to have a significant effect on the status of the conflict as a whole. Thus, the functional notion of spillover cannot operate across the low-politics economic issues and high-politics security issues divide. This argument is quite intuitive if the major political issues between the states are indeed unresolved. However, it becomes more complex once a peace treaty is signed, meaning that most of the basic political issues, though not all of them, have been resolved. Consider, then what happens when a peace treaty has been signed but

other political problems remain. Can economic interaction then play a role? Realists are silent on that question.

There are three main limitations to the existing literature on commercial liberalism: its heavy quantitative emphasis, its assumption of some preexisting economic interdependence between the parties, and its focus on explaining lack of conflict rather than the development and upgrading of peace.

The bulk of the research in this field is of large  $n$ , quantitative nature. However, it remains inconclusive. Scholars such as Solomon Polachek or Bruce Russett and John Oneal have found a negative correlation between trade and conflict. Others, most notably in the recent work by Katherine Barbieri, came to an opposite conclusion that in fact interdependent dyads are more likely to engage in militarized conflicts than those with less extensive ties.<sup>12</sup> In the past few years this literature has become increasingly complex and refined. However, to better understand the causal mechanisms through which increased trade relations may or may not influence the likelihood of violent conflict, it is also important to examine the trade and peace question through qualitative case studies.<sup>13</sup> The statistical nature of this research, while allowing various elaborate formal manipulations, limits its ability to truly unravel the causal mechanisms through which increased trade relations may or may not influence the likelihood of violent conflict.

Surprisingly, though, few scholars chose to focus more carefully on these causal mechanisms and examine them through in-depth case studies. Dale Copeland, for example, suggests that interdependence serves as a brake on aggression only as long as the state has expectations that trade will continue in the future.<sup>14</sup> Paul Papayoanou suggests that while trade relations may not prevent violent conflict, they do complicate the ability of state leaders to efficiently and quickly act against a potential aggressor with whom they have high interdependence.<sup>15</sup> Norrin Ripsman and Jean-Marc Blanchard offer an in-depth analysis of the impact of economic interdependence in the crisis of 1914 and during the Rhineland crisis of 1936. They make a point similar to the one offered here—that the debate on trade and war is carried out in an empirical vacuum. They offer a modified realist approach, concluding that during those crises, economic interdependence and sensitivity played no role in decision makers' deliberations.<sup>16</sup>

One of the rare examples of research examining the specific question of economic interaction and its impact on positive foreign policy change is an article by Papayoanou and Scott Kastner, who argue that cultivating economic ties with a nondemocratic great power can either help elicit cooperative foreign policy or

lead to conflictual policies, depending on how much influence internationalist economic interests in the nondemocratic state have on policy formation compared to other domestic-oriented economic interests.<sup>17</sup> That article addresses the ongoing policy dilemma of whether to engage China economically, despite its rising strategic rivalry with the United States. It also demonstrates the question's relevance to relations between great powers. Finally, Ripsman examines in detail the case of Franco-German reconciliation after World War II, suggesting that realist factors are responsible for the transition to peace, while liberal factors, including economic interdependence, are responsible for the endurance of peace.<sup>18</sup>

What is common to all of these qualitative attempts to unravel the trade-peace link is their emphasis on the impact of foreign trade on the deliberations of various domestic actors. Beth Simmons best captured the importance of this factor by arguing that if we are to better understand the theory of commercial peace, we need to develop a theory of the state that would provide a plausible mechanism linking private trade to public conflict behavior. The domestic scene has recently gained importance in the quantitative literature, but in-depth case studies are better for shedding light on the politics underlying the trade and peace link. It is the politics that often gets lost in statistical analysis.<sup>19</sup>

Both the quantitative and the qualitative research described so far is insufficient if one wants to explain the impact of economic interaction on the transition to peace between two states. The question most of these works seek to answer is whether high levels of interdependence can, at times of crisis, constrain states from turning to violent means in order to resolve their differences. This is a sensible focus, since crises indeed offer the hardest test for liberal claims and are supposedly an easier case for realist claims. The problem, though, is that this focus limits the range of relevant cases to those states that already share a certain level of economic interdependence. Furthermore, by focusing on the impact of existing levels of interdependence, this literature neglects the dilemmas of leaders of former enemy states with no economic interdependence, where the goal is the very establishment of some level of economic interdependence to begin with. Such situations highlight the political nature of seemingly economic decisions.

Finally, while most scholars talk about the idea of “trade leading to peace,” they all end up examining how foreign trade, or economic interdependence, limits violent conflicts. Again, this approach is not unreasonable. “Peace” is indeed an extremely difficult concept to define. Detecting and measuring the occurrence of violent conflicts is much easier, especially for the purpose of quantita-



tive research. This bias may also be driven partly by the fact that the agenda of this debate is dominated by realist claims. Therefore, since realists focus on the phenomenon of violent conflict, the goal of liberal scholars as well is to establish that interdependence can indeed influence the likelihood of war or other militarized disputes.

However, as noted at the outset, this focus on interdependence and conflict leaves much of the liberal argument undeveloped. It focuses only on the negative side of the liberal thesis—that the more economic interdependence there is, the less likely it is that militarized disputes will occur. It completely ignores the positive, constructive side of the liberal thesis—that is, that economic interaction, trade, and interdependence can bring about peace or help upgrade peace. It is left unclear what this approach actually means, whether it actually works, and, if so, under what circumstances it works. This bias also created a wide gap between the classic liberal policy prescriptions calling for increased trade and economic interaction in order to “foster peace,” the theoretical research that focuses only on the impact of preexisting interdependence on the likelihood of militarized conflicts, and the important policy dilemmas facing decision makers who want to develop economic interaction between former enemies as a means of pacifying their relations. This book takes a step toward filling this gap.

### The Meaning of “Transition to Peace”

Peace is one of those murky concepts that everyone loves to talk about but few care to define. It is telling that within the subfield of peace studies there is still an ongoing debate about what peace really means.<sup>20</sup> The meaning of peace is not only an academic question but can also be a very political one when conflicting sides hold different perceptions of what peace should be. In fact, different expectations about peace may have a detrimental impact on the process of peace building. This situation becomes apparent in any discussion of the transition to peace in the Middle East.

Most scholars do agree that peace comes in different variations or different degrees. Several attempts have been made to distinguish among these variations. Kenneth Boulding distinguishes between unstable peace and stable peace, the latter defined as “a situation in which the probability of war is so small that it does not really enter into the calculations of any of the people involved.”<sup>21</sup> Alexander George distinguishes between precarious peace (a conflictual situation

in which peace means little more than the temporary absence of war), conditional peace (a less acute conflict relationship in which general deterrence plays the predominant and effective role in maintaining peace but parties do not rule out the use of force), and stable peace (a situation in which both states consider it unthinkable to use military force in any dispute involving them).<sup>22</sup> Arie Kacowicz distinguishes between negative peace (a mere absence of war in which peace is maintained by negative means such as threats or deterrence), stable peace (in which there is no expectation of violence and peace is maintained on a reciprocal and consensual basis), and a pluralistic security community (in which stable expectations of peaceful change are shared between the states that decide to abandon the policy option of war as a means of resolving conflicts between them, based upon their shared norms, values, and political institutions).<sup>23</sup> A somewhat different typology is offered by Benjamin Miller, who distinguishes between three types of peace. Cold peace, in his view, is characterized by the absence of war and of threats of force among the parties, with the main issues in conflict being mitigated but not fully resolved. With cold peace, there are intergovernmental channels of communication and strong limitations on transnational activities, significant revisionist groups exist, and the possibility of a return to war is present should international or domestic changes occur. His second category is normal peace, a situation in which the likelihood of war is lower than that in cold peace because most, if not all, of the underlying substantive issues have been resolved. With normal peace, relations between states have begun to move beyond pure intergovernmental relations but war has not been completely excised from regional politics. The last category is that of warm peace, a situation in which war is no longer an option for resolving disputes among the states and in which there are extensive transnational relations and a high degree of interdependence.<sup>24</sup>

Instead of talking about “peace,” Adler and Barnett discuss the creation of a pluralistic security community, defined as a transnational region comprising sovereign states whose people maintain dependable expectations of peaceful change.<sup>25</sup> They also make a distinction between three stages in the development of such security communities. The first stage is a nascent phase in which governments begin to consider how they might coordinate their relations in order to increase their mutual security, lower transaction costs associated with their exchanges, and encourage further exchanges. This stage is characterized by various diplomatic, bilateral, and multilateral exchanges. The second stage is the ascendance of the security community, characterized by increasingly dense

networks, new institutions and organizations, cognitive structures that promote “seeing” and acting together, and the deepening of mutual trust. The last stage is that of a mature security community in which regional actors share an identity and entertain dependable expectations of peaceful change.<sup>26</sup>

The most recent attempt to create a peace scale was made by James Klein, Gary Goertz, and Paul Diehl. They create a scale ranging from rivalry to negative peace and positive peace. Negative peace roughly parallels the notion of cold peace, whereas positive peace at its extreme parallels the notion of warm peace or a pluralistic security community. Their article clearly reflects the importance of understanding the degree of peace as a scale rather than as an absolute condition. Indeed, within their three categories they also offer different levels or degrees of either negative or positive peace. Thus, for example, within the range of positive peace there are situations of low-level positive peace, in which there is an expectation of peaceful resolution of conflicts but only a low level of institutionalization of relations or of functional integration. Their project, going beyond the well-developed quantitative rivalry literature, is an important contribution to building a more elaborate and refined data base of peaceful relations between states, an issue largely neglected by quantitative researchers.<sup>27</sup>

These different typologies highlight the complexity of the concept of peace. They also support my basic claim that, instead of discussing the general connection between trade and peace, it is important to distinguish analytically between different stages in the development of peace and their relationship to economic factors. However, none of these typologies provides a perfect fit for the discussion in this book, so I examine the impact of economic factors on two stages in the transition to peace. The role of economic incentives and considerations in the initial stage of the transition to peace is most often symbolized by the dramatic decision to sign a peace treaty that will officially end the conflict. This first stage in the transition can be identified with Miller’s cold peace, Kacowicz’s negative peace, or Klein et al.’s negative peace.

The second stage of the transition to peace encompasses the move to the different variations of stable peace described above as well as Miller’s normal and warm categories of peace. My interest is in examining the process through which the initial cold peace is or is not being upgraded in the direction of a normal or stable peace. Kacowicz and Yaacov Bar-Siman-Tov themselves suggest that it is best to treat the notion of stable peace as an ongoing and dynamic process rather than as a single situation.<sup>28</sup> Adler and Barnett also stress that the development of dependable expectations of peaceful change should be seen as a process. To cap-

ture the dynamic nature of this stage, I describe the second stage in the transition as the stage of normalization. It is reminiscent of Kacowicz and Bar-Siman-Tov's description of the dual processes of stabilization and consolidation of stable peace. While stabilization is a process that is closely linked to the first stage of the transition and is aimed at managing this difficult feat, consolidation refers to the long-term process of reaching stable peace.<sup>29</sup> By looking at normalization, I can focus on the process of stabilizing and deepening relations rather than on identifying certain ideal types of "peace."

Methodologically, it is easier to identify the first stage in the transition, since it is marked by the public signing of an official peace agreement. The second stage is harder to operationalize. In order to identify the normalization process I look for different indicators, such as the expansion of economic cooperation in terms of scope of issues and actors involved; the development of interaction and interest in interaction on the official level only; an increase in diplomatic interaction and coordination; the development of interaction on the private level (trade, investment, tourism, etc.), among big businesses, and then among smaller business actors and consumers; the development of institutionalized links and especially the growth of institutionalized nongovernmental ties; and cognitive changes within both societies regarding the use of war and the dividends of peace. The last point touches upon another aspect of the transition to peace that is not being explored here: the process of reconciliation. Reconciliation refers to the social-psychological process of changing the motivations, goals, beliefs, attitudes, and emotions of the great majority of society members regarding the conflict. It is closely linked to the achievement of stable peace. Discussion of reconciliation is also related to the literature on the creation of security communities, particularly in the special case of relations between former enemies. However, exploring this aspect properly is beyond the scope of this project.<sup>30</sup>

I do not suggest that economic factors on their own can lead to a stable peace. The development of a stable peace requires various political, strategic, cultural, cognitive, and other conditions. Bar-Siman-Tov, for example, points to four conditions that are prerequisites for a stable peace: (1) mutual satisfaction with the peace agreement; (2) the development of supportive structural-institutional conditions, such as common political or normative characteristics, a high level of interaction and cooperation, and joint institutions and organizations; (3) strategic learning on the part of the leaders, followed by social learning by various elites and the public; and (4) reconciliation.<sup>31</sup> Clearly, there is more to peace than beneficial economic conditions. However, trying to discuss all of the factors that in-

fluence transitions to peace, across several cases, is likely to lead to a discussion that is too general to generate any new insights regarding the role of each factor. Therefore, this book is dedicated to an in-depth examination of the political dynamics of economic considerations in the process of transitions to peace. Exploring the political economy of transitions to peace is a worthwhile endeavor because economic considerations influence nearly all stages of the transition. If one looks at Bar-Siman-Tov's conditions for the development of stable peace, one can see how economic considerations affect each one of them. The degree of mutual satisfaction will be influenced by the perceived economic gains from peace and the way they are distributed. The development of economic ties between business groups on either of two previously warring sides can play a significant role in building the supportive institutional conditions. Similarly, economic pressures (e.g., the pressures of globalization) can play an important role in pushing leaders toward the crucial strategic learning that leads them to peace. As for reconciliation, the potential impact of economic interaction is more debatable. If one accepts Deutsch's communication thesis, as described above, then economic interaction can help promote reconciliation, if it is equitable and if it reaches broader segments of society and not only the elites.

Given those assumptions, the case studies presented here also demonstrate the limits of the influence of purely economic incentives. For example, very active trade did not lead to a warm peace between Japan and South Korea, and potential economic benefits (albeit not dramatic) were insufficient to push Egypt to greater economic cooperation with Israel. The underlying goal of this project is to focus on the economic dynamics surrounding the process of peacemaking, with the purpose of revealing their potential as well as their limits.

Breaking down the discussion of the dependent variable into the two stages of transition to peace is important because when assessing the impact of various economic incentives, there is a difference in the economic factors that can promote the first stage versus those that can enhance the second stage. In fact, the same factors that can contribute to the signing of a peace treaty may not help or may even slow down the second stage of normalization. This is another distinction that is lost in the standard trade-conflict literature. Also, in examining the role of economic factors in transitions to peace, it is important to note that I examine both policy formation at the national level and the strategic interaction between the two former enemies. What follows is an introduction to the three hypotheses regarding the impact of economic incentives on the two stages of transition to peace, which I explore throughout the book.

## The Impact of the Domestic Balance of Winners and Losers from Peace

A transition to peace between former enemies is bound to have some economic effects on both states. With the transition to peace, resources that were dedicated to the conflict can be redirected to other economic and social activities. The end of the conflict may also inspire other economic actors to invest in those countries, given that the risk of doing so is reduced. Furthermore, a transition to peace is usually accompanied by some level of economic cooperation between the parties, opening up new opportunities for trade and investment. The magnitude of such opportunities, however, varies from case to case. Since economic interactions have significant domestic distributional effects, it is important to examine who the domestic winners and losers are as a result of potential or actual economic cooperation with a former enemy.<sup>32</sup> The impact of economic factors on the transition to peace will differ depending on the economic costs and benefits, both for the state and for societal groups.

The discussion of who wins and who loses during transitions to peace is closely linked to the discussion of winners and losers during liberalization. It builds upon Solingen's coalitional argument, which identifies two types of domestic coalitions: internationalist and statist-nationalist coalitions. Internationalist (i.e., liberalizing) coalitions usually include the internationally competitive sectors. They are interested in freeing up resources to carry out reform at home, to weaken groups opposed to reform, and to secure access to foreign markets, capital, investment, and technology. Conversely, Solingen identifies as part of the "statist-nationalist-confessional" coalition groups such as import-competing firms, state-owned enterprises, segments of the military and security establishment, and various ethnic or religious groups. Solingen establishes the link between these groups' aversion to economic internationalization and their interest in the continuation of the conflictual situation. Continuation of the conflict either justifies their continued existence and power or supports their ideological or religious agenda. A transition to peace compels downsized military allocations, erodes statist privileges, and devalues nationalist and confessional myth-making as a political currency.<sup>33</sup> While such groups are likely to exist in any state that has been inward-looking and protectionist for a long time, they are likely to be more entrenched in a state that has been involved in a protracted conflict.

Solingen's argument examines first the impact of globalization on the initial drive toward liberalization and then the impact of the rise of internationalist

coalitions on broader patterns of regional conflict.<sup>34</sup> The argument in this book is more focused on the bilateral level and on the specific issue of the transition to peace. Despite her emphasis that these coalitions are not purely economic, Solingen's argument is still embedded in a strong economic logic (i.e., the pressures of economic globalization). My analysis examines not only situations in which economic pressures of various sorts influence the motivation to move to peace (as in Egypt and Jordan) but also situations in which there is a political motivation to move to peace (perhaps accompanied by economic motivations), thus leading political leaders to mobilize existing domestic coalitions to support the transition to peace (as in Israel and Germany).

A factor that is less prominent in the coalitional analysis is the independent role of the state. In an analysis of transitions to peace, however, the state needs to be accredited with a larger role. In postconflict situations, economic goals are likely to be perceived through ideological lenses shaped over years of conflict and therefore to acquire a strong symbolic meaning, something beyond just economic gains. For this reason, the making of foreign economic policy vis-à-vis a former enemy is likely to be interpreted in political rather than simply economic terms. Because foreign economic policy vis-à-vis a former enemy is likely to be considered a matter of high politics, we are likely to find that in transitions to peace after a long conflict, the state will play a central role. Also, because postconflict relations are likely to feature little or no preexisting economic interdependence, or at least a dramatic decline in the level of economic interaction due to the conflict, leaders have a serious political dilemma over whether to start developing such interdependence or not.

"State interests" may be considered from two perspectives. In the first perspective, the state is a unitary actor, and from this perspective one can examine what the state or, more accurately, the national economy stands to gain or lose from cooperation with the former enemy. What might be gained or lost can be predicted by examining the economic challenges facing the national economy and calculating the expected impact of a transition to peace on the overall health of the economy. The second perspective focuses on state leaders. Here, the analysis turns to what individual leaders stand to gain or lose from a transition to peace and ensuing economic cooperation.<sup>35</sup> I follow the common assumption in the literature that leaders first and foremost seek to remain in office. They will therefore be willing to make a dramatic and high-risk decision to move toward peace only when this strategy is perceived as necessary to ensure their political survival.

Understanding the process of making a transition to peace calls for an analysis of state interest, interests of key societal groups, and the interaction between them. The relative power of each of these actors is a function of both their expected gains and losses from the transition as well as the nature of the institutional arrangements within which they interact. A strong state, with autonomous institutional and bureaucratic capabilities, that faces a dire economic crisis will be both highly motivated and able to initiate the process of a transition to peace. The ability of different domestic groups to organize in support of or opposition to a transition to peace will depend on three factors: their cohesiveness and their ability to overcome collective action problems, as described by Mancur Olson; the magnitude of their expected gains or losses from the process, which will influence their motivation to mobilize and act; and finally, the nature of the institutional environment within which they operate and through which they can interact with the government.<sup>36</sup> Thus, in a strong state like Japan or Germany, for example, with a highly capable bureaucracy interacting with a business community that is well organized into peak associations, we find that close cooperation between government and business characterized the initial stages of the transition to peace with their neighbors.<sup>37</sup> This being said, the required coalitions and the dynamics between state and societal actors, which are most beneficial for a successful transition to peace, are different in the different stages of transition.

In order to create the necessary incentives to negotiate a peace treaty and establish cold peace, it is necessary to create what has been termed a “vested interest in peace” or VIP.<sup>38</sup> The first stage of the transition is likely to be centered in and dominated by the state regardless of whether the state is democratic or authoritarian. This consistency is due to both the highly political nature of such a transition, even if economically motivated, and the extreme uncertainty and potential risks associated with the early stages of transition, which are likely to deter private actors. Consequently, the transition requires a domestic coalition of winners comprising state actors and big businesses with ties to the government, which are likely to be the most powerful domestic economic actors. Such a coalition is most likely to lead successfully to a transition to peace when cooperation between the government and the business community is highly institutionalized, as it is in neocorporatist states. Such institutionalized cooperation will facilitate either the use of economic tools to promote peace or the influence of economic considerations on official policy making. Furthermore, such institutionalized cooperation will also promise a more enduring investment in the peace process. Conversely, if the business community cooperates with the gov-



ernment on an ad hoc basis, we are likely to find that coordination is less efficient and that the ability to use economics as a policy tool to promote peace and normalization is greatly impaired. Patricia Davis, for example, argues that Germany's successful use of economic tools (which she terms "the art of economic persuasion") to pacify its relations with Poland stems from the advantages of its institutional structure, characterized by a high-functioning autonomy, coordination and continuity within the bureaucratic process, and the significant degree of coordination between this bureaucracy and the parapublic institutions of organized capital.<sup>39</sup>

However, the development of a narrow yet politically powerful vested interest in peace is not sufficient to move significantly forward in the second stage, that of normalizing relations. We can find a move toward normalization stemming from either a government decision to expand economic cooperation to more fields or from big business's growing interest in expanding the relations. This move will be an important step, but such economic interaction will remain an elitist process. In the long run, in order to stabilize the peace and warm it up, it is important for broader segments of society to feel like winners. For that purpose, it is necessary to target the broader public—smaller producers, consumers, the "man on the street"—so as to develop a vested interest in peace at a broader societal level. Put differently, the average citizen needs to feel the economic dividend of peace if economic cooperation is to have a significant impact on the process of normalization.

Furthermore, if the ambitious goal of reconciliation is sought, then it is crucial that all group members in society share the economic benefits so that all will feel that peaceful relations are worthwhile.<sup>40</sup> If the peace dividends do not trickle down and remain instead at the level of the privileged elite, then societal opposition to peace will persist and remain a source of instability. Economic interaction across a broad range of society is also important because it permits a long-term process of social learning to take place. Adler and Barnett themselves point out that social learning may not be sufficient for the development of a security community unless this learning is connected to functional processes that are traceable to a general improvement in the state's overall condition.<sup>41</sup> While learning and trust building among political elites is extremely important, it is not enough. This is why analyzing the expected and actual distribution of domestic gains and losses from transitions to peace is so important. A broad-based vested interest in peace is not a sufficient condition for such social learning to take place, but I would argue it is a necessary one.

The ease with which normalization can proceed through economic means will depend partly on the objective economic conditions that create observable economic benefits for the broader public. It will also depend on an additional factor: the expectations of the broader public regarding future gains. These expectations will, in turn, be a function of past experiences of cooperation (or the lack of it), government rhetoric, and the nature of the institutional arrangements that guide state-society relations and the distribution of wealth in society. It is here that regime type may become more important. In an authoritarian regime, citizens are more likely to be skeptical that peace dividends will trickle down to them. Intuitively, expectations for sharing the peace dividend should be higher in a democratic regime, which is elected by the public and is accountable to the public. This, however, is not necessarily the case. A democratic state can still suffer from wide internal socioeconomic gaps, and citizens' expectations about reaping the peace dividend are based less on the democratic nature of their regime and more on the specific domestic economic policies used to distribute wealth (including the peace dividend) within society.

### **The Impact of Economic Power Disparities on the Role of Economics in the Transition to Peace**

One of the main critiques of the liberal argument on interdependence and peace is that liberals assume that interactions are mutual and symmetrical or that asymmetry is not very important. However, in transitions to peace between two economically asymmetric states, the economic factor is likely to play a detrimental role, especially in the long run. Håvard Hegre establishes that trade reduces the incentives for conflict most clearly in cases of relatively symmetric dyads.<sup>42</sup> Elsewhere he demonstrates that the relationship between trade and conflict is contingent on the level of development.<sup>43</sup> While most of the quantitative literature on this issue tries to establish statistically whether there is a link between power asymmetry, trade, and conflict, I focus on the impact of economic power disparities on the deliberations and concerns of decision makers and other domestic groups within both states.

Wide economic power disparities have several implications for the transition process. One is that they create a different incentive structure for the two sides. For the more economically powerful state, expected economic benefits are likely to be limited since expansion of trade to the smaller state's market is

not likely to add up to a large percentage of its gross domestic product (GDP) or total trade. At the same time, that power disparity also gives the powerful actor the opportunity to use economic statecraft and positive sanctions in order to help move the transition to peace forward. For the weaker party, this situation creates a dilemma. On the one hand, from an economist's perspective, gaining access to a large and prosperous market will bring absolute gains to the weaker party's own market and society. On the other hand, such gains from asymmetric trade may lead to several potentially serious political problems: the problem of coercive power, the problem of the influence effect, and the problem of agreeing on the meaning of mutual cooperation. Albert Hirschman argued in 1945 that asymmetrical trade relations accrue political benefits to the larger state, giving it coercive power vis-à-vis the weaker state, that is, using the much greater dependence of the smaller state on bilateral trade in order to coerce it to follow certain practices. This situation should be all the more disturbing for a small, economically weak state in creating relations with an economically strong former enemy, given the extreme sensitivity and lack of trust regarding the former enemy's future good intentions.<sup>44</sup>

Asymmetric trade also creates a second problem: it creates an influence effect that benefits the larger state. In asymmetric trade relations, the small state is likely to change its perceptions of its own interests and alter them to conform with those of the large state because trade relations are likely to lead to the creation of new interests and to the formation of political coalitions to advance them.<sup>45</sup> The influence effect is a much stronger and more effective instrument of power than mere coercive power. Consequently, for the economically more powerful state there is a strong incentive to develop economic relations and even to make short-term concessions in order to gain long-term access to and influence over the other state's market. By changing the former enemy's self-interest, it is possible to reduce dramatically the uncertainties and the risk of future defection. At the same time, however, the weaker state in the dyad will hesitate to develop economic relations with a stronger former enemy specifically because of the fear that such an influence effect will be created. This problem is likely to be more salient and politically sensitive in the special case of emerging economic relations between former enemies, where to begin with there is a high level of mistrust and concern over the stronger state's abuse of its relative economic power advantage.

In addition, broad power disparities and the uneven distribution of gains that result create a real difficulty in reaching a common definition of what mu-

tual cooperation should mean, especially in postconflict situations in which there are major concerns about relative gains. One of the fundamental preconditions for stable cooperation is a mutual agreement between the parties about what type of behavior qualifies as cooperation. But wide disparities open the way to disagreements about the appropriate concessions each side should make and about the meaning of “fair gains.” For example, the weaker side may feel that it is gaining less from a trade agreement than its more advanced partner and therefore refuse to sign the agreement or expect the stronger state to make greater concessions in order to advance the relations.

Another potential problem stems from the finding of Oneal and Russett and others that the calculations of the lesser trade-dependent country in the dyad are what matters in predicting the restraining impact of trade. It follows from this observation that trade has the largest impact when it is important to both countries in the dyad. Consequently, in very asymmetric dyads, trade becomes less important relative to other considerations.<sup>46</sup> The relevance of this conclusion is diminished, however, once we consider the political logic of promoting trade within the dyad in order to promote peace, as discussed below. In that case, asymmetry may in fact offer a new policy tool for the stronger state.

Wide economic power asymmetries create a dialectic process of competing pressures: for the weaker party they create a temptation to gain aid and/or trade, tempered by the fear of becoming dependent and thus more vulnerable.<sup>47</sup> For the stronger party, they create an opportunity to make political use of its economic power to promote a transition to peace but with much more limited economic incentive. Conversely, when economic power disparities are narrower, concern regarding the development of dependence and vulnerability will be lower. Domestic societal actors in the weaker state will also entertain higher expectations of gain from the economic interaction. When power disparities are extremely wide, those actors are likely to believe that they cannot compete with their counterpart anyway, so any economic opening of their bilateral relations cannot bring them substantial benefits. At the same time, the narrower economic power disparities become, the less likely we are to find states engaging in classic economic statecraft vis-à-vis one another, because the cost of making economic concessions or gestures for political purposes becomes higher.

Broad power disparities create difficulties in both stages of the transition to peace. However, they may be more easily mitigated in the first stage and, at times, can also create initial incentives to sign a peace treaty linked to clear economic benefits. If the more powerful state is interested in using economic in-

centives in order to advance overall political relations and to encourage its former enemy to sign a peace treaty to end hostilities, it can use several strategies in order to ameliorate the negative impact of broad economic power disparities. First, it can offer an uneven bargain that will ameliorate the concerns of the weaker side. This is a good example of a situation in which the political rationale (pacifying relations) may be very different from the economic rationale (maximizing gains.) A second, related strategy is one of providing generous foreign aid to the weaker state, which will create the impression of compensating for the power disparities while at the same time encouraging the development of bilateral trade.<sup>48</sup> A third strategy is to focus on economic cooperation in issue areas in which the power disparities are less stark. For example, it may be easier to focus on infrastructure cooperation rather than on trade cooperation.<sup>49</sup> Finally, the negative impact of broad economic power disparities can be ameliorated or overcome through the involvement of third parties (individual states or multilateral institutions).

The negative impact of these disparities, however, is harder to mitigate at the second stage of the transition to peace. The dangers of creating an influence effect and coercive power are problems that become relevant after a longer period of interaction. They are therefore more likely to have a long-term negative effect on the period of normalization of relations, even if initial problems are overcome. Consequently, the weaker partner is likely to try to extract whatever short-term economic benefits it can by signing a peace treaty, but it will be much more reluctant to move on to a process of full economic normalization, which implies greater and freer economic interaction with its former enemy. This is likely to happen only when groups within the weaker state develop expectations that they can effectively compete (and therefore also benefit from trade) with groups from the other state. In the long run, if a warm stable peace is achieved, then power asymmetries as such are supposed to be less problematic because power considerations will be less dominant. Still, I would suggest that wide asymmetries will play a negative role in the transition, thus prolonging and entrenching old stereotypes and concerns.

There has been much debate within the quantitative literature on trade and conflict about how to measure power asymmetries and economic interdependence and dependence. Barbieri notes that in two decades of research, dependency scholars have come up with more than sixteen different operationalizations of trade dependence.<sup>50</sup> As Hegre argues, the easiest way to conceptualize power asymmetry between two states is to examine the differences in the size of the two

countries' economies. Hegre also notes that asymmetries may be due to differences in the extent to which the two countries' markets or production are substitutable, either in partner or commodity concentration or in the extent to which the countries produce manufactured goods or primary commodities. He argues, though, that such asymmetries are positively correlated with size asymmetry.<sup>51</sup>

There are also different measures for dependence. Barbieri suggests that dependence can be thought of as either the relative importance of a particular trading relationship to that which exists with other partners or to the importance of that trading relationship to the overall economy. Consequently, she uses two types of measures: one is the ratio between the dyadic trade flow and the state's total trade (what she calls "partner dependence"), and the other is the ratio of dyadic trade flow and the state's GDP (an indicator for "economy dependence").<sup>52</sup>

These measures offer some useful guidelines for what is needed to determine the economic asymmetries between the states examined. However, it is important to bear in mind that they have a somewhat limited value when exploring relations between two former enemies. Whereas these measures seek to capture existing patterns of trade relations, the important factor in the cases examined here is the expectations regarding future trade patterns and their impact on interdependence. These expectations are based partly on economic research projecting trade potentials and trajectories and partly on noneconomic considerations, ideological biases, and political manipulation. It is therefore more important for the purposes of this study to understand the perceptions of the relevant actors regarding the disparities between them and regarding their implications, rather than to establish an exact economic measure of these disparities.<sup>53</sup> In each case, we need to examine how economic power disparities translate into actors' perceptions of potential future gains as well as their concern that various types of economic cooperation can potentially generate dangerous dependence.<sup>54</sup>

In making this judgment, actors apply a more complex analysis of dependence and interdependence. First, they dissect and differentiate economic dependence across different issues. Second, they take into account a wide range of economic activities: trade, joint ventures, cooperation on infrastructure projects, economic aid, and others. Whereas standard measures of dependence assess overall trade dependence, I suggest that when examining the interaction between two states in greater detail, it is useful to pay attention to variations in the level of potential dependence across different sectors and different economic

activities. For example, while a free trade agreement may be rejected out of fear of dependence on a stronger partner, a controlled joint venture may be welcomed because it does not generate significant dependence.<sup>55</sup> This can lead to variation in the behavior of the weaker party across different types of economic activities. Furthermore, perceived dependence in one issue area can be balanced by a perceived dependence of the other state on another issue area, therefore mitigating concerns over the political misuse of economic relations in the future.<sup>56</sup>

### The Impact of Third Party Involvement

The relevance of third party involvement in the transition to peace between former enemies is an obvious matter for most regional experts and scholars focusing on conflict resolution. However, most of the commercial liberalism literature has focused on what happens within the dyadic relations with the exception of the focus on the impact of third parties via alliances or preferential trade agreement membership.<sup>57</sup>

Especially in the case of transition away from conflict, a third party can also enhance the effectiveness of economic interaction as a tool of peacemaking by providing political and security conditions that help mitigate or neutralize concerns over relative gains stemming from the process of economic interaction. For example, a strong and reliable security guarantee can mitigate regional security dilemmas and, by doing so, neutralize at least one of the concerns surrounding economic cooperation with the former enemy. However, this in itself is not enough to encourage economic relations between the former enemies. Indeed, American pressure had little direct success in getting Japan's neighbors to trade with it, despite the U.S. military presence in Japan and the neutralization of the security threat Japan had previously posed. Similarly, an American military presence in Europe did play a crucial role in mitigating security concerns regarding Germany, but it had little direct impact on the nature of the evolving economic relations between Germany and France. These broader strategic conditions are considered in the detailed case studies offered in chapters 2 through 7, but the conceptual focus is more specifically on the economic involvement of third parties in the different stages of the transition.

A third party can influence the former rivals' economic interest in the transition to peace by providing incentives, trade-offs, and linkages. By offering economic or political benefits that are linked to the success of bilateral economic

cooperation between the former enemies, a third party can help promote such cooperation. It can do that by changing the conditions described in the first two hypotheses: it can change the composition of the domestic constituencies that support economic cooperation with the former enemy by changing the magnitude of predicted gains and losses from such cooperation. This strategy follows a logic similar to that used by the stronger state in the dyad if it wishes to promote peace through the use of economic tools. If the third party is much more powerful than both actors (usually an extraregional great power), it can play an important role by practicing economic statecraft *vis-à-vis* both sides. The economic role of third parties has been discussed in the context of the literature on economic sanctions. David Cortright, for example, argues that most often the strongest incentive for actors to cooperate is access to improved economic and political relations with the major powers, especially the United States.<sup>58</sup> A third party can also mitigate the various problems associated with the asymmetrical nature of economic cooperation by providing side benefits such as selective market access or foreign aid.

One should also bear in mind the possibility of a negative impact of third parties, in case there is opposition to the process of peacemaking. Under such conditions, leaders will also have to calculate the treaty's costs, which would stem from negative third party reactions, such as economic or political sanctions. One final possibility to consider is that a third party may pose a mutual threat to the two former enemies and thus indirectly encourage direct cooperation between them. This would be another possible realist pathway for a third party indirect economic impact on a transition to peace. Here, however, I am interested only in the direct, active involvement of third parties.

Third party involvement can come in different forms. It can be initiated by one or both of the states involved in the transition to peace, or it can be initiated by the third party itself, seeking to advance its own interests. It can be directed specifically toward one of the parties or toward both parties, and it can also take place by nesting the economic cooperation of the two former enemies within a broader multilateral context. Under that scenario, the third party will not be an interested major power but rather a multilateral institution or international institution through which various interested states, or the organization itself, can operate to promote, stabilize, and lock in the bilateral transition to peace between the former enemies. The question of the impact of joint membership in institutions has been addressed in the commercial liberalism literature. For ex-



ample, Edward Mansfield, Jon Pevehouse, and David Bearce demonstrate how participation in preferential trade agreements (PTAs) can reduce the likelihood of armed conflict because states will thus anticipate long-term economic gains within the arrangement. Such arrangements also provide a forum for bargaining and negotiations that can dampen disputes, and they can help to create focal points on which to coordinate behavior and avoid the breakdown of cooperation.<sup>59</sup> Bearce demonstrates how mutual membership in commercial institutions can lower the likelihood of militarized disputes between states, because such institutions increase the opportunity costs of war, allow the sharing of more private information between states, and serve as a forum in which leaders can meet, create trust, and reduce misperceptions.<sup>60</sup> By embedding the bilateral interaction in a broader multilateral framework, the two former enemies, as well as interested third parties, find it easier to use issue linkage in order to enhance the expected benefits from economic cooperation. Within such an institution, a weaker party can also find ways to mitigate the impact of the economic power disparities with its more powerful former enemy.

The exact nature of third party involvement, however, will have very different consequences for the two stages of the transition to peace. A third party can play an important role in leading to the decision to sign a peace treaty by promising to provide or by actually providing large indirect economic benefits linked to the signing of a peace treaty (e.g., provision of large sums of aid, tariff reduction, or economic agreements). It could be that the real economic motivation for advancing and maintaining peaceful relations with a former enemy lies not in the direct benefits to be gained from the new bilateral relations but rather in the indirect economic benefits from a third party that follow from such improved relations. This situation suggests that the development of economic cooperation can help stabilize the peace between former enemies by spilling over not into other bilateral issue areas but into relations with other politically and economically important third parties.

Under such conditions, the third party can play a significant role in the efforts leading to the signing of a peace treaty, but this preliminary role will not contribute much to the future normalization of relations and development of bilateral economic ties. In order to influence the process of normalization, a third party has to be able and willing to offer incentives to both sides to continue to interact economically. This can be done either by linking economic or political bonuses to the ongoing process of normalization (rather than to the

signing of the treaty) or by actually investing in the development of bilateral ties between the two former enemies (e.g., providing financial aid or grants for joint ventures or regional cooperation projects). Such a strategy is likely to be complicated and costly and to require a long-term commitment and therefore be more difficult to apply.<sup>61</sup> Consequently, a more effective strategy for promoting economic normalization between the former enemies is likely to be the embedding of their bilateral economic (and possibly other) relations within a broader multilateral framework. Such an institutional context can offer a longer shadow of the future for both parties and provide a more stable basis for them to develop their relations than a reliance on a time-specific policy of a certain great power.

The three hypotheses I have introduced to describe the impact of economic incentives on the two stages of transition to peace can be summarized as follows:

1. If strong domestic players expect significant gains from economic cooperation, then economic cooperation can become an effective tool in promoting peace. Support for the transition to peace will be a function of the nature and magnitude of their potential gains from promoting cooperation. Alternatively, if economic cooperation entails high costs for central domestic players, then the attempt to promote such cooperation is unlikely to succeed or may cause greater instability in the relations.
2. Economic cooperation between former enemies will be more difficult to achieve and will have less of a chance to promote positive relations if the economic power disparities between the two states are very wide.
3. A third party can help promote the transition to peace between former enemies by providing direct economic benefits to one or both parties, but a third party can promote normalization only if it is able and willing to link direct bilateral cooperation between the former enemies to additional economic or political gains it can offer to one or both parties.

The hypotheses presented in this chapter are not competing with each other. The second and third hypotheses operate by influencing the balance between winners and losers from peace. Thus, for example, wide economic power disparities are likely to raise concerns among societal groups that fear losing their jobs or market share if economic cooperation is expanded. Similarly, what third parties in fact do is to offer such incentives so as to shift the domestic balance of winners and losers, expanding the winning circle or compensating losers.

The arguments regarding the different dynamics in the two stages of transition to peace are summarized in table 1.

**Table 1. Summary of the hypotheses**

<i>Relevant factor</i>	<i>Impact on stage I (peace treaty)</i>	<i>Impact on stage II (normalization)</i>
Domestic winners and losers	Strong interest of state actors or a coalition of state actors and powerful business groups is necessary and sufficient.	Expansion of vested interest in peace to broader segments of society (smaller producers, consumers) is necessary. Narrow state–big business coalition may eventually cause societal resentment.
Economic power disparities	Will cause concerns (fear of domination, influence effect and relative gains) for the weaker side but also can serve as an initial incentive to sign a treaty. Can be mitigated through uneven bargains, cooperation in issue areas where disparity is less stark, and third party compensation.	Main dangers associated with asymmetric trade become relevant in the long run; actual expansion of trade (normalization) can enhance strong party's coercive power and influence effect. Prospect likely to create opposition to normalization.
Third party involvement	Can provide substantial economic, political, or security side benefits that would increase the expected value of the peace treaty. Institutional nesting facilitates cooperation. Expected indirect benefits are sufficient to prompt signing of the treaty.	Indirect benefits from third party are insufficient to promote normalization. Normalization requires direct benefits within the dyad. Third party can help by promoting and rewarding such direct cooperation. Institutional nesting can facilitate cooperation.

## Methodology and Case Selection

I use a structured, focused qualitative comparison to examine the three hypotheses introduced above.<sup>62</sup> There is a need to complement the large body of quantitative literature on commercial liberalism with more qualitative research. Only in-depth case studies can actually trace the dynamics of economics and politics in peacemaking. Using this method also enables me to focus analytically on the economic dynamics of peacemaking, while remaining sensitive to other strategic, political, cultural, or ideological factors that are an integral and often unique part of each case. Furthermore, this method allows me to identify, where possible, the impact of economic interaction on political and social processes and to pay attention to the role of interpretation in the process linking economic interaction, politics, and peacemaking.

I chose to examine in depth the political economy of the transitions to peace in six case studies. Two cases are located in the Middle East. One looks at the transition to peace between Egypt and Israel since 1979 and up to the very recent changes symbolized by the signing of the first major trade agreement between the two states (and the United States): the Qualifying Industrial Zone (QIZ) agreement, at the end of 2004. The second case examines the transition to peace between Jordan and Israel since 1994. The next two cases are located in Asia. One examines the transition to peace between Japan and South Korea after the end of World War II, including events leading to the 1965 normalization agreement and its aftermath. The second case examines the transition to peace between Japan and Southeast Asia, focusing on the experience of the Philippines and Indonesia and the developments leading to the peace and reparation agreements (1956 and 1958) and their aftermath. The last two cases bring us to Europe. One examines the classic case of the Franco-German transition to peace, focusing mainly on developments up to the 1960s (a point at which, I argue, normal peace already existed). The second case examines the transition to peace between Germany and Poland. It traces developments since the end of World War II, the breakthrough during the period of *Ostpolitik*, and the second breakthrough following the end of the cold war and German reunification.

The choice of both a cross-regional and an intraregional comparison was driven by several considerations. Most of the theories that have been developed regarding commercial liberalism were heavily influenced by the post-World War II Franco-German experience. It is important therefore to move away from this Eurocentric approach and examine the hypotheses on non-European

regions. Also, the classic commercial liberal theory was developed with liberal democracies in mind. Once again, it is important to explore the argument in other institutional settings. The Middle Eastern and Asian cases I have chosen offer such variations.<sup>63</sup> For the same reason, I also chose to address the European cases last. They are thus analyzed in comparison to the other four cases and not vice versa. This way I hope to overcome the Eurocentric bias while being able to bring out similar logics and dynamics, as well as the unique aspects of the political economy of transitions to peace across all three regions analyzed.

While comparative studies of Asia and Europe (Japan and Germany) have already been made, most notably in the work of Peter Katzenstein, the Middle East–Asia cross-regional comparison is less familiar.<sup>64</sup> While much has been written about peace in the Middle East, most of the literature was produced by regional experts and retired practitioners, and relatively little work on the region has been conducted by international relations experts. As I have learned while conducting the research for this book, it is fascinating to examine the literature on the Middle East and the literature on East and Southeast Asia via a common conceptual framework. Such a comparison is not widely available, and despite its limitations, the reader should find extremely interesting insights and similarities in the economic dynamics of peacemaking in all three regions. One of the few existing cross-regional comparisons between the Middle East and Asia has been attempted by Ehud Harari, who, in a seminal paper, compared Japan’s relations with East Asia and Israel’s relations with Arab countries and found significant parallels in the context of trends toward peace, regionalism, and economic globalization. In that paper, he argued that the integration of major former enemies into their respective regions depends initially on the support of a world power, is enhanced by economic globalization, is related to their own contributions to regional integration, and requires the adoption of a low-posture “obliging” style of leadership. In his rich work, Harari examines various factors—economic, political, historical, and cultural.<sup>65</sup> In her book *Regional Orders at Century’s Dawn*, Solingen offers a comparison of the regional dynamics of the Middle East and East Asia (the Korean peninsula) and demonstrates that it is possible to use a common analytical framework to examine cross-regional political dynamics. More recently, Solingen has pursued such comparisons in her book *Nuclear Logic*.<sup>66</sup>

Many regional experts suggest that the Middle East and Asia are simply not comparable, which is what would be called in methodological jargon the “unit homogeneity problem.” The problem is that there are clear and significant dif-

ferences in the nature of the conflict in each case, and in the historical and cultural circumstances.<sup>67</sup> I suggest, however, that by using a careful, rigorous, but empirically sound comparison, it is possible to delineate and fruitfully compare the three causal mechanisms advanced above. The different circumstances of each case will filter into these mechanisms and will be reflected, for example, in the nature of the specific domestic groups involved in the peacemaking process. The goal is not to explain how peace is achieved nor is it to examine the relative importance of economic factors as opposed to strategic or other factors in the process. Rather, it is to trace the distinct impact of economic incentives and the interaction of economic and political considerations on the transition process through careful process-tracing. These elements can clearly be traced under different political and historical contexts. Indeed, one of the goals of the book is to show that, regardless of the political context, there are common, basic causal mechanisms through which economic considerations influence the peacemaking process. By using a qualitative comparative method, I believe that this mission can be achieved without falling into the trap of monocausal explanations.

The six cases offer a variation on the dependent variable, that is, in the level of success in a transition to normal peace. Overall, the German case is often considered the hallmark of a successful use of economic tools to bring about normal peace. The Middle Eastern cases represent a limited level of success in using economic tools in a transition to peace. There is still only a cold peace between Israel and its neighbors Egypt and Jordan, and levels of economic interaction are still relatively low. Japan, in turn, offers an example of moderate to high success. It has managed to normalize its relations with its neighbors via sophisticated economic diplomacy. With South Korea, it managed to reach an impressive level of economic normalization, yet this success has not been translated into cultural or broader societal normalization.

By examining the interaction of three regional states (Israel, Japan, and Germany), each in two sets of dyads, I am able to increase my number of observations while controlling for the various background factors related specifically to Israel, Japan, or Germany. Instead of comparing only the different levels of success across regions, I am able to also examine the variation in levels of success within each region. I can then examine what changes in critical factors might explain the variation. To illustrate, in the two Middle Eastern cases the transition to peace between Israel and Jordan has been more successful than that between Israel and Egypt. That variation is best explained by the variation in the domestic balance of winners and losers in Egypt and Jordan (where only in the latter was

there active support for economic cooperation with Israel by the state monarchy) and by the different role played by the key third party, the United States (which conditioned its economic incentives for Jordan and Israel upon building cooperation between them, via the Qualifying Industrial Zones or QIZs). Conversely, in a comparison between these cases and those involving Japan, the most prominent factor that explains the much greater success in Asia is the different nature of the domestic coalitions that supported the process (the strong state–big business coalition in Japan, Indonesia, and South Korea that supported economic cooperation). In the two Middle Eastern cases, the broad economic power disparities played a negative role. In Japan’s relations with South Korea, the narrower power disparities (compared to the Israeli case) were more conducive to the transition, though they still created problems. Japan’s relations with its Southeast Asian neighbors, in turn, offer an interesting deviating case of extremely wide economic power disparities that did not have negative effects in the long run. This case is extremely helpful in illuminating the importance of actors’ perceptions of power disparities and of their implications. Finally, the German cases offer interesting variations on the power disparities factor. The interesting comparison here is between the dynamics of early postwar, economically ruined West Germany, as opposed to the prosperous and united Germany of 1990. France, while wary of Germany’s power potential, initially perceived the economic power disparities with Germany to be low, a factor that mitigated initial concerns. The process of the transition to peace with Poland, in turn, did begin with West German Ostpolitik (its diplomatic turn to Eastern Europe) in the 1970s but became more intense after German reunification, when once again economic power disparities were wide. The two German cases also offer an interesting variation on the variable of third party economic involvement. In the Israeli cases, the economic benefits came from the United States. In the Japanese cases, despite some American attempts to promote economic cooperation, third party economic involvement played a limited role. In the German cases, we once again find the United States to be an important economic actor, but the crucial factor was the linking of the bilateral German-French or German-Polish relations to the broader multilateral institutional setting of the European Community (EC) and later the European Union (EU).

Despite the fact that three states (Israel, Japan, and Germany) each appear in two case studies, the analysis does not focus solely on them. Rather, each of the six cases examined offers a dyadic analysis of the domestic configurations, motivations, and policy-making process within both states involved in the transi-

tion. As discussed above, different strategic interactions in each dyad have led to different outcomes, also within the same region.<sup>68</sup>

Despite the varying levels of success in transitions to peace in the cases, this study also illustrates the similar problems and challenges that appeared in all of them. For example, in all of the cases, state-level decisions to move toward peace were related to economic considerations but met significant societal opposition. Also, in every case, economic power disparities created societal concerns over domination by the former enemy, which made broader normalization more complicated. An important finding, therefore, is that despite obvious historical and contextual differences, there are indeed many similarities in the logic of the political economy of transitions to peace in different cases across the globe.