

Economic Diplomacy

IR355 | IR489

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How do negotiators get what they want in interstate bargaining on economic issues? Under what circumstances do governments add non-economic issues (e.g., security, labor standards) to economic negotiations? How do weaker governments gain a preferred outcome in asymmetric bargaining? How does a government on the brink of bankruptcy negotiate with international lenders? Can a government gain a better negotiation outcome when there is a leak of sensitive information from the negotiation? Students will examine competing theories in international political economy and *apply* them to historical and contemporary cases in the areas of international trade, foreign direct investment (FDI), sanction, and finance.

This course accomplishes three goals. First, students will critically examine the theories and analytical frameworks relating to decision-making and negotiation in international relations. Week 1 – 5 (Module 1) is designed to help students review major theories in IR, focusing on the role of power, interest, ideas, and institutions in shaping bargaining outcomes.

Second, students will learn how they can adjudicate credible evidence in evaluating academic and policy claims. A major portion of the required readings uses qualitative and quantitative analyses as supporting evidence. Students will learn to evaluate the credibility of the evidence presented in the readings.

Finally, students will analyse pressing policy problems through course discussions and assignments and apply academic insights to policy problems. During Week 6 – 11 (Module 2), students will apply major theories to pressing issues in international politics.

A special effort is made to relate the course material to important historical cases and recent policy events. Most of the required readings are by political scientists who are grappling with international economic policies from political science perspectives. They are recently published journal articles, book chapters, and case studies.

Assessment

- Summative assessment: Take-home policy memo assignment in Spring Term (100%, duration: 1 week).
- Formative assessment: Students must submit a short policy memo in response to one of two prompts during Winter Term (duration: 1 week). The prompts will be released on February 22nd (Thursday) at 9:00AM, and the memo is due on February 29th (Thursday) 11:59PM London Time. Students should submit the memo on Moodle.

Seminars

Seminar meetings are an essential opportunity for students to participate and discuss their views on reading materials. I will post seminar plans on Moodle every Friday, one week prior to each meeting week. Please be prepared to participate. Please see the document titled “*How to participate in seminars*” from the week 1 module on the course website.

Lectures

All lectures will be recorded.

Office hours

My office hours are Thursday 3-5pm. My office is CBG8.09. Please make a booking on Student Hub (<https://studenthub.lse.ac.uk/welcome>).

Course Outline, Readings & Discussion Questions

Module 0. Introduction

Week 1. Introduction – Why economic diplomacy?

Discussion questions:

- Why should we study economic diplomacy through the lens of political science? What is its added value that economics does not address?
- What kind of cooperation problems do governments experience during negotiations?
- When does a government gain leverage in bargaining?
- What makes an international commitment credible?

Essential readings:

- Syllabus

- Thomas C. Schelling, "An Essay on Bargaining." *The American Economic Review*.
- Koremenos, Barbara, Charles Lipson, and Duncan Snidal. "The rational design of international institutions." *International Organization* 55.4 (2001): 761-799.

*** Module 1. Theory ***

Week 2. Perspectives on Economic Diplomacy – Power versus Interest

Discussion questions:

- In this course, we examine questions regarding economic diplomacy using four sets of factors: interests, interactions (power), institutions, and ideas. Explain these factors. Give an example of how each might help inform our understanding of one of the phenomena discussed in the readings.
- The articles we read this week represent two distinct sets of explanatory factors (interests and power) relevant to studying economic diplomacy. Which readings belong to which perspective? Is it possible for some of them to belong to more than one category? Do these approaches complement or contradict each other?
- How do people form their positions on foreign economic policy such as trade and foreign aid? Is it reasonable to assume that people have well-defined interests on these issues?
- The *preference (or interests)* approach highlights the role of individual economic incentives in determining a country's foreign economic policy. Is this approach generalizable to explain the preferences of smaller countries with little bargaining power? Is this approach helpful in explaining state preferences in times of bipolarity à la Gowa?

Essential readings:

- Gowa, Joanne. "Bipolarity, multipolarity, and free trade." *American Political Science Review* 83.4 (1989): 1245-1256.
- Carnegie, Allison, and Nikhar Gaikwad. "Public opinion on geopolitics and trade: Theory and evidence." *World Politics* 74.2 (2022): 167-204.
- Hicks, Raymond, Helen V. Milner, and Dustin Tingley. "Trade policy, economic interests, and party politics in a developing country: The political economy of CAFTA-DR." *International Studies Quarterly* 58.1 (2014): 106-117.
- Milner, Helen V., and Dustin H. Tingley. "Who supports global economic engagement? The sources of preferences in American foreign economic policy." *International Organization* 65.1 (2011): 37-68.
- (Short press reading) Sevastopulo, Demetri, and Alex Rogers. November 15, 2023. "Joe Biden halts plans for Indo-Pacific trade deal after opposition from Democrats." *Financial Times*.

Recommended readings:

- Krasner, Stephen D. "State power and the structure of international trade." *World Politics* 28.3 (1976): 317-347.

- Rho, Sungmin, and Michael Tomz. "Why don't trade preferences reflect economic self-interest?." *International Organization* 71.S1 (2017): S85-S108.

Week 3. Perspectives on Economic Diplomacy – Institutions

Discussion questions:

- What characteristics do the readings assign to “good institutions” that support economic cooperation?

- Is cooperation a function of coercion by powerful countries? Or can governments design international negotiations in such a way to mitigate cooperation problems and enhance the likelihood of cooperation? Are institutions a reflection of state power or do they mitigate the effect of power?

- How do domestic political institutions affect negotiation outcomes?

- Do politicians in democracies and autocracies develop different preferences for trade liberalization?

- British and European fishing industries faced high uncertainty about the future during the Brexit negotiations. What were the sources of uncertainty? How did they attempt to mitigate the uncertainty problem?

- In 2020, the fishing industry was worth less than 0.1% of the UK's GDP. But, the EU's access to British waters was the main obstacle to the conclusion of the Brexit deal. Why do you think the fisheries issue was more challenging to resolve than others (e.g., finance)? Would we have seen a different outcome if this negotiation had taken place in a different institutional environment (e.g., the WTO)?

Essential readings:

- Davis, Christina L. "International institutions and issue linkage: Building support for agricultural trade liberalization." *American Political Science Review* 98.1 (2004): 153-169.

- Koremenos, Barbara. "Contracting around international uncertainty." *American Political Science Review* 99.4 (2005): 549-565.

- McKibben, Heather Elko. "The effects of structures and power on state bargaining strategies." *American Journal of Political Science* 57.2 (2013): 411-427.

- Chen, Frederick R., Jon CW Pevehouse, and Ryan M. Powers. "Great expectations: the Democratic advantage in trade attitudes." *World Politics* 75.2 (2023): 316-352.

- (Short press reading) Stephanie J. Rickard, “Why did Trump agree to a temporary hold on further China tariffs?” December 10, 2018. *The Washington Post*.

- (Short press reading) Moens, Barbara and Cristina Gallardo. "EU and UK agree on fisheries access after late scramble." December 24, 2020. *Politico Pro*.

Recommended reading:

- Putnam, Robert D. "Diplomacy and domestic politics: the logic of two-level games." *International Organization* 42.3 (1988): 427-460.

- Bailey, Michael A., Judith Goldstein, and Barry R. Weingast. "The institutional roots of American trade policy: Politics, coalitions, and international trade." *World Politics* 49.3 (1997): 309-338.

- Carnegie, Allison. "States held hostage: Political hold-up problems and the effects of international institutions." *American Political Science Review* 108.1 (2014): 54-70.

- Mansfield, Edward D., Helen V. Milner, and B. Peter Rosendorff. "Why democracies cooperate more: Electoral control and international trade agreements." *International Organization* 56.3 (2002): 477-513.

Week 4. Perspectives on Economic Diplomacy – Ideas

Discussion questions:

- Many IPE scholars emphasise the role of “preferences” in explaining economic diplomacy. Are those preferences a function of material interests or non-material factors (e.g., bias, identity)?

- Do you think negotiation outcomes can change depending on negotiators’ identity?

- Political science research focusing on populism and domestic politics find that biases against women and ethnic minorities play a significant role in shaping domestic public policies. Are elites immune from such biases? How can we test the existence or non-existence of such biases in economic diplomacy at the elite level?

- How should we define and operationalize “identity” in our research? The identities of negotiating parties often shape prominent narratives during negotiations. Consequently, narratives related to identity can sometimes become significant sticking points in economic negotiations. Can you provide an example?

Essential readings:

- Mansfield, Edward D., and Diana C. Mutz. "US versus them: Mass attitudes toward offshore outsourcing." *World Politics* 65.4 (2013): 571-608.

- Hemmer, Christopher, and Peter J. Katzenstein. "Why is there no NATO in Asia? Collective identity, regionalism, and the origins of multilateralism." *International Organization* 56.3 (2002): 575-607.

- Smith, Karen E. "Missing in analysis: Women in foreign policy-making." *Foreign Policy Analysis* 16.1 (2020): 130-141.
- Post, Abigail S., and Paromita Sen. "Why can't a woman be more like a man? Female leaders in crisis bargaining." *International Interactions* 46.1 (2020): 1-27.
- Mutz, Diana, Edward D. Mansfield, and Eunji Kim. "The racialization of international trade." *Political Psychology* 42.4 (2021): 555-573.

Recommended readings:

- Freeman, Bianca, D. G. Kim, and David A. Lake. "Race in International Relations: Beyond the "Norm Against Noticing"." *Annual Review of Political Science* 25 (2022): 175-196.
- Mansfield, Edward D., Diana C. Mutz, and Laura R. Silver. "Men, women, trade, and free markets." *International Studies Quarterly* 59.2 (2015): 303-315.
- Bush, Sarah Sunn, and Amanda Clayton. "Facing change: Gender and climate change attitudes worldwide." *American Political Science Review* 117.2 (2023): 591-608.
- "United Nations in race row after survey lists 'yellow' as an option for staff" August 2020, *The Guardian*. <https://www.theguardian.com/world/2020/aug/19/united-nations-race-row-survey-yellow>

*** Module 2. Application ***

Week 5. Issue Linkage: Linking Trade and Human Rights

Discussion questions:

- Under what circumstances do governments add non-economic issues (e.g., security, human rights) to economic negotiations?
- Under what conditions do issue linkages promote cooperation? What makes an issue linkage credible?
- How do the US and the EU design issue linkages differently? Which linkage style do you think is more effective in promoting stricter labor standards in partner countries?
- In 1993, the Clinton Administration facilitated cooperation with China by tying human rights conditions to MFN approval. In what ways did the issue linkage enhance the likelihood of cooperation? Do you think this strategy will be effective in today's political climate?
- Should the US and the EU link human rights conditionalities to their trade policy towards China?

- While the IR literature has generally viewed issue linkage as vital to successful negotiations, the WTO leadership has recently attempted to keep negotiating agendas separate. What has changed?

Essential readings:

- (Repeated reading) Davis, Christina L. "International institutions and issue linkage: Building support for agricultural trade liberalization." *American Political Science Review* 98.1 (2004): 153-169.
- Poast, Paul. "Does issue linkage work? Evidence from European alliance negotiations, 1860 to 1945." *International Organization* 66.2 (2012): 277-310.
- Postnikov, Evgeny, and Ida Bastiaens. "Does dialogue work? The effectiveness of labor standards in EU preferential trade agreements." *Journal of European Public Policy* 21.6 (2014): 923-940.
- Hafner-Burton, Emilie M. "Sticks and stones: Naming and shaming the human rights enforcement problem." *International Organization* 62.4 (2008): 689-716.
- Case study: Auger, Vincent A. "Case 201 – Human Rights and Trade: The Clinton Administration and China." Institute for the Study of Diplomacy ([Link](#)).

Recommended readings:

- Spilker, Gabriele, and Tobias Böhmelt. "The impact of preferential trade agreements on governmental repression revisited." *The Review of International Organizations* 8 (2013): 343-361.
- Liu, Rigao, Jiakun Jack Zhang, and Samantha A. Vortherms. "In the Middle: American Multinationals in China and Trade War Politics." *Business and Politics* 24.4 (2022): 348-376.
- Bastiaens, Ida, and Evgeny Postnikov. "Greening up: The effects of environmental standards in EU and US trade agreements." *Environmental Politics* 26.5 (2017): 847-869.
- (Short press reading) Beattie, Alan. "Trade Secrets: Battling to define success after the WTO summit" June 20, 2022, Trade Secrets, *Financial Times*.

Week 6. Reading week

- No class

Week 7. Coercive Diplomacy

Discussion questions:

- How does a rising power choose between military and economic coercion?
- Economic sanctions are costly for the sender country as well as for the target country. What are the costs? Who bears the cost of sanctions domestically in the sender country?

- How does the sender design its sanction policy? How do they choose the target industry?
- How does a sanction change public opinion in the target country? Do sanctions change public attitudes on the sender country in a positive or negative way? As researchers, how can we measure public attitudes in this context?
- Is the rally- 'round-the-flag phenomenon salient in your own country? How is it similar or different in your country compared to the description in Kagotani & Wu?

Essential readings:

- Zhang, Ketian. "Cautious Bully: Reputation, Resolve, and Beijing's Use of Coercion in the South China Sea." *International Security* 44.1 (2019): 117-159.
- Kim, Sung Eun, and Yotam Margalit. "Tariffs as electoral weapons: the political geography of the US–China trade war." *International Organization* 75.1 (2021): 1-38.
- Kagotani, Koji, and Wen-Chin Wu. "When do diplomatic protests boomerang? Foreign protests against US arms sales and domestic public support in Taiwan." *International Studies Quarterly* 66.3 (2022): sqac043.
- Sung, Rena, and Jonghyuk Park. "How Do Economic Sanctions Affect Public Opinion and Consumer Behavior in Target States? Evidence from China's Economic Sanctions on South Korea." *International Studies Quarterly* 66.3 (2022): sqac023.
- (Short press reading) White, Edward, Klasa, Adrienne, and Madeleine Speed. January 5, 2024. "China targets French brandy imports in escalating trade disputes." *Financial Times*.

Recommended readings:

- Grinberg, Mariya. "Wartime commercial policy and trade between enemies." *International Security* 46.1 (2021): 9-52.
- Hultman, Lisa, and Dursun Peksen. "Successful or counterproductive coercion? The effect of international sanctions on conflict intensity." *Journal of Conflict Resolution* 61.6 (2017): 1315-1339.

Week 8. Diplomacy in International Organisations: Membership, Exits, and Performance

Discussion questions:

- Why do political leaders threaten to leave an international organisation (IO)? When do they follow through with their threat and when do they back down?
- What explains government decisions to join or exit an IO? Some scholars argue that governments exit an IO when their strategic preferences deviate from those of the rest of the members. Others emphasise the role of outside options available for potential exiters. Which one do you think better explains the case of Brexit, the renegotiation of NAFTA, and the establishment of the Asian Infrastructure Investment Bank? Why?

- Much of the debate on IO membership has centered on high-profile organisations such as the EU and NAFTA. Consider other IOs such as the International Coffee Organization (ICO) or International Labour Organization (ILO). Do the existing theories – especially the one on geopolitics – account for exits from lower-profile organisations?
- The UK recently concluded the negotiations to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Do you think Brexit has affected the UK's ability to negotiate the terms of accession?
- Not all IOs are alike. Some IOs specialise in issues that require high expertise; some outsource their tasks to private entities; or some IOs are better positioned to attract talents. Do these IO-specific factors affect state decisions to leave an IO?

Essential readings:

- Von Borzyskowski, Inken, and Felicity Vabulas. "Hello, goodbye: When do states withdraw from international organizations?." *The Review of International Organizations* 14 (2019): 335-366.
- Davis, Christina L., and Tyler Pratt. "The forces of attraction: How security interests shape membership in economic institutions." *The Review of International Organizations* 16 (2021): 903-929.
- Lipsky, Phillip Y. "Explaining institutional change: Policy areas, outside options, and the Bretton Woods institutions." *American Journal of Political Science* 59.2 (2015): 341-356.

Recommended readings:

- Brutger, Ryan, and Julia C. Morse. "Balancing law and politics: Judicial incentives in WTO dispute settlement." *The Review of International Organizations* 10 (2015): 179-205.
- Lall, Ranjit. "Beyond institutional design: Explaining the performance of international organizations." *International Organization* 71.2 (2017): 245-280.
- Gray, Julia. "Life, death, or zombie? The vitality of international organizations." *International Studies Quarterly* 62.1 (2018): 1-13.
- Seabrooke, Leonard, and Ole Jacob Sending. "Contracting development: managerialism and consultants in intergovernmental organizations." *Review of International Political Economy* 27.4 (2020): 802-827.
- Gray, Julia, and Jeffrey Kucik. "Leadership turnover and the durability of international trade commitments." *Comparative Political Studies* 50.14 (2017): 1941-1972.
- Choi, Seung-Whan. "Nationalism and withdrawals from intergovernmental organizations: Connecting theory and data." *The Review of International Organizations* 17.1 (2022): 205-215.

Week 9. Sovereign Debt Negotiations and the Politics of Financial Crises

Discussion questions:

- IR scholars have long posited that cooperation could arise from the threat of retaliation in repeated interactions. Does the repeat-play theory adequately explain how banks and bondholders punish a government for defaulting on their loans?
- How do Tomz and Bunte describe the role of debtor countries respectively? Which one is more convincing to you?
- Why do some countries bail out other countries in crisis? What explains the US decision to bail out Mexico, not Thailand?
- How do country-level financial rescue decisions interact with the IMF? Is it possible that a creditor government modifies its decision based on IMF decisions?

Essential readings:

- Tomz, Michael. "Reputation and international cooperation: Sovereign debt across three centuries." *Princeton University Press*, 2012. Chapter 1-3, pp. 1-69.
- Bunte, Jonas B. *Raise the debt: How developing countries choose their creditors.* *Oxford University Press*, 2019. Chapter 2.
- Schneider, Christina J., and Jennifer L. Tobin. "The political economy of bilateral bailouts." *International Organization* 74.1 (2020): 1-29.
- Chwieroth, Jeffrey M. "Professional ties that bind: how normative orientations shape IMF conditionality." *Review of International Political Economy* 22.4 (2015): 757-787.

Recommended readings:

- Kinne, Brandon J., and Jonas B. Bunte. "Guns or money? Defense co-operation and bilateral lending as coevolving networks." *British Journal of Political Science* 50.3 (2020): 1067-1088.
- Poast, Paul. "Central banks at war." *International Organization* 69.1 (2015): 63-95.
- Brooks, Sarah M., Raphael Cunha, and Layna Mosley. "Sovereign Risk and Government Change: Elections, Ideology and Experience." *Comparative Political Studies* (2021).

Week 10. Foreign Direct Investment: How to Reassure, Mobilize and Regulate Multinational Companies in Anarchy?

Discussion questions:

- Governments seek foreign capital, while foreign investors typically are wary of the possibility of expropriation. How do host governments resolve the commitment problem and reassure investors?
- Do Bilateral Investment Treaties (BITs) resolve the tension? If so, why do we see the spread of bilateral treaties instead of a multilateral investment court akin to the WTO?

- Many governments have recently renegotiated or withdrawn from BITs. What prompted this trend? Why did negotiators—especially, those representing lower-income countries—sign onto BITs with high sovereignty costs?

Essential readings:

- Beth Simmons. 2014. "Bargaining over BITs, Arbitrating Awards: The Regime for Protection and Promotion of International Investment." *World Politics* 66(01), 12-46.
- Poulsen, Lauge N. Skovgaard, and Emma Aisbett. "When the claim hits: Bilateral investment treaties and bounded rational learning." *World Politics* 65.2 (2013): 273-313.
- Andrews, Sarah, David Leblang, and Sonal S. Pandya. "Ethnocentrism reduces foreign direct investment." *The Journal of Politics* 80.2 (2018): 697-700.
- Thompson, Alexander, Tomer Broude, and Yoram Z. Haftel. "Once bitten, twice shy? Investment disputes, state sovereignty, and change in treaty design." *International Organization* 73.4 (2019): 859-880.
- Wilt, James. May 25, 2016. "Lone Pine, Company Suing Canada Over Quebec's Fracking Ban, Aggressively Lobbying in Ottawa." *The Narwhal*.
- (Short press reading) Pitel, Laura. August 20, 2023. "German minister proposes tougher rules on Chinese foreign direct investment," *Financial Times*.

Recommended readings:

- Arias, Eric, James R. Hollyer, and B. Peter Rosendorff. "Cooperative autocracies: Leader survival, creditworthiness, and bilateral investment treaties." *American Journal of Political Science* 62.4 (2018): 905-921.
- Moehlecke, Carolina. "The chilling effect of international investment disputes: limited challenges to state sovereignty." *International Studies Quarterly* 64.1 (2020): 1-12.
- Allee, Todd, and Clint Peinhardt. "Evaluating three explanations for the design of bilateral investment treaties." *World Politics* 66.1 (2014): 47-87.
- Johns, Leslie, and Rachel L. Wellhausen. "Under one roof: Supply chains and the protection of foreign investment." *American Political Science Review* 110.1 (2016): 31-51.
- Zachary Elkins, Andrew Guzman & Beth Simmons. 2006. "Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960-2000." *International Organization* 60-4: 811-46.

Week 11. New Topics in Economic Diplomacy: Secrecy, Framing, and Crisis Bargaining

Discussion questions:

- Compared to much of the 20th century, international negotiations are taking place in a much more open and public-facing environment. Democratization has made public

approval an important condition for successful negotiations. Likewise, the rise of social media and the Internet has made it more difficult to maintain the secrecy of negotiations. Do you think these new features facilitate international cooperation?

- What are the limitations of policy framing? Some scholars argue that policymakers can boost the support of an unpopular international deal by reframing the deal. How far can an issue be reframed and under what conditions would the public believe the reframed agenda?
- During seminar, we will trace a thread of tweets exchanged among negotiators during major negotiations. We will evaluate whether the tweets had any meaningful effects on the negotiations.

Essential readings:

- Tobin, Jennifer L., Christina J. Schneider, and David Leblang. "Framing Unpopular Foreign Policies." *American Journal of Political Science* 66.4 (2022): 947-960.
- Castle, Matthew, and Krzysztof J. Pelc. "The causes and effects of leaks in international negotiations." *International Studies Quarterly* 63.4 (2019): 1147-1162.
- Svendsen, Øyvind. "Theorizing Public Performances for International Negotiations." *International Studies Quarterly* 66.3 (2022): sqac031.
- Carnegie, Allison. "Secrecy in international relations and foreign policy." *Annual Review of Political Science* 24 (2021): 213-233.

Recommended readings:

- Schneider, Christina J., and Branislav L. Slantchev. "The domestic politics of international cooperation: Germany and the European debt crisis." *International Organization* 72.1 (2018): 1-31.
- Vasilopoulou, Sofia, Daphne Halikiopoulou, and Theofanis Exadaktylos. "Greece in Crisis: Austerity, Populism and the Politics of Blame." *JCMS: Journal of Common Market Studies* 52.2 (2014): 388-402.
- Schneider, Christina J. "Weak states and institutionalized bargaining power in international organizations." *International Studies Quarterly* 55.2 (2011): 331-355.
- Jurado, Ignacio, Sandra León, and Stefanie Walter. "Brexit dilemmas: Shaping postwithdrawal relations with a leaving state." *International Organization* 76.2 (2022): 273-304.