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ΠΕΡΙΛΗΨΗ

Βασικός στόχος της διδακτορικής διατριβής είναι να συμβάλει στη μέχρι τώρα συζήτηση σχετικά με τη σχέση οικονομικής αλληλεξάρτησης και εθνικής ασφάλειας και να εμπλουτίσει τη θεωρία του Ρεαλισμού στο πεδίο της Διεθνούς Πολιτικής Οικονομίας. Έως τώρα, το ζήτημα αυτό κυριαρχείται από προσεγγίσεις του Φιλελευθερισμού και το βασικό τους επιχείρημα είναι ότι η αυξημένη οικονομική αλληλεξάρτηση μειώνει τα επίπεδα της διένεξης μεταξύ των κρατών και συμβάλει στην ειρήνη. Παρόλα αυτά είναι αξιοσημείωτη η απουσία μιας ρεαλιστικής προσέγγισης στο ζήτημα αυτό υπό το πρίσμα της Διεθνούς Πολιτικής Οικονομίας. Η παρούσα διατριβή βασίζεται στην θεωρητική προσέγγιση του Ρεαλισμού και τα δύο κύρια ερωτήματα που απαντά είναι τα εξής: «Σε περίπτωση διακρατικής διένεξης, είναι η Ασύμμετρη Οικονομική Αλληλεξάρτηση παράγοντας εξισορρόπησης για το απειλούμενο κράτος;» και «Μπορούν τα σχετικά οφέλη που προκύπτουν από την ασύμμετρη οικονομική αλληλεξάρτηση να «εξαγοράσουν» τα σχετικά οφέλη που προκύπτουν από την αξία της επίμαχης περιοχής;» Στην παρούσα διατριβή το κύριο επιχείρημα είναι ότι η οικονομική αλληλεξάρτηση είναι στην ουσία ασύμμετρη και δεν μπορεί να είναι παράγοντας εξισορρόπησης ισχύος για το απειλούμενο κράτος. Η βασική υπόθεση είναι ότι τα σχετικά οφέλη που προκύπτουν από την ασύμμετρη οικονομική αλληλεξάρτηση είναι λιγότερο σημαντικά από τα σχετικά οφέλη που προκύπτουν από την αξία της επίμαχης περιοχής. Οι εξαρτημένες μεταβλητές είναι τα σχετικά οφέλη και η αξία της επίμαχης περιοχής, ως προς την ισχύ και την άσκηση επιρροής του απειλούμενου κράτους. Οι ανεξάρτητες μεταβλητές που χρησιμοποιούνται είναι οικονομικές αλλά και με άμεσο αντίκτυπο στην εθνική ασφάλεια και εφαρμόζονται σε περιπτωσιολογικές μελέτες κρατών σε διένεξη με διαφορετικό κάθε φορά επίπεδο οικονομικής αλληλεξάρτησης. Συμπερασματικά προκύπτει ότι ανεξάρτητα από το βαθμό της ασύμμετρης οικονομικής αλληλεξάρτησης μεταξύ δυο κρατών σε διένεξη, δεν είναι ικανή να εξισορροπήσει τα οφέλη που προκύπτουν από την επίμαχη περιοχή, συνεπώς το αρχικό επιχείρημα επιβεβαιώνεται.

Σημαντικοί Όροι: Ρεαλισμός, Οικονομική Αλληλεξάρτηση, Σχετικά Οφέλη, Αξία Επίμαχης Περιοχής, Εθνική Ασφάλεια

ABSTRACT

In this thesis, the aim is to contribute to the discussion on the interaction between economic interdependence and national security when states are in conflict. So far, this debate has been between Liberals and Neo-Marxists, whose argument was that trade promotes peace, for the former, and that asymmetric trade creates either conflictual relations or more cooperation according to the balance of power. However, this thesis is built on the theoretical basis of Realism. By developing an analytical framework, which consists of dependent variables such as relative gains, as defined by Grieco (1988) and the worthiness of the disputed area, meaning the added value the conflictual area gives to the state's influence and therefore to its power, I answer two main questions: "In case of interstate conflict, is Asymmetric Economic Interdependence a power-balancing factor for the threatened state?" and "Can the relative gains which derive from asymmetric economic interdependence redeem the relative gains which derive from the disputed area?" I argue that economic interdependence is always asymmetric and it is not a power-balancing factor for the threatened state, since the relative gains which derive from asymmetric economic interdependence are less important than the relative gains which derive from the worthiness of the disputed area. I examine this argument in three case studies and I conclude that my argument is confirmed.

Keywords: Realism, Economic Interdependence, Relative Gains, Worthiness of the Disputed Area, National Security

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« Μητρός τε καὶ πατρός καὶ τῶν ἄλλων προγόνων ἀπάντων τιμιώτερόν ἐστιν ἢ Πατρίς καὶ σεμνότερον καὶ ἀγιώτερον καὶ ἐν μείζονι μοίρα καὶ παρὰ θεοῖς καὶ παρ' ἀνθρώποις τοῖς νοῦν ἔχουσι. ».

Πλάτων: Κρίτων, 51β.

(This dissertation is dedicated to all those who fought for the freedom of the Greek Nation)

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ACRONYMS

APTA: Asia Pacific Trade Agreement
ASEAN: Association of Southeast Asian Nations
CIA: Central Intelligence Agency
EU: European Union
FDI: Foreign Direct Investments
FIR: Flight Information Region
GBC: Gibraltar Broadcasting Corporation
GDP: Gross Domestic Product
IMF: International Monetary Found
LNG: Liquefied Natural Gas
MIDs: Militarized Interstate Conflicts
NATO: North Atlantic Treaty Organization
OECD: Organization of Economic Cooperation and Development
OPEC: Organization of the Petroleum Exporting Countries
SAARC: South Asian Association for Regional Cooperation
SAFTA: South Asian Free Trade Area
SIPRI: Stockholm International Peace Research Institute
UNCTAD: United Nations Conference on Trade and Development
UNGA: United Nations General Assembly
UNTERM: United Nations Multilingual Terminology Database
USAID: United States Agency for International Development
USD: United States Dollar
USEIA: United States Energy Information Administration

CHAPTER 1. INTRODUCTION

1.1. Introductory Note: The Aim of the Thesis

The aim of the thesis is to reflect on the relationship between economic interdependence and national security. In order to do that I created an analytical framework based on Realism's assumptions in order to answer two main questions: "Is Asymmetric Economic Interdependence a power-balancing factor for the threatened state?" and "Can the relative gains which derive from economic interdependence redeem the relative gains which derive from the disputed area?". In order to answer these questions, it is important first to compare the different theoretical approaches regarding that issue. In the field of International Political Economy, there are more or less the same theoretical approaches as in the field of International Relations, since the former is a specialized version of the latter. The only difference is the point of view, that is to say, that someone can focus on and examine international affairs through a political or economic lens, but without deviating from the main theoretical aspect.

Regarding issues of international economics and politics, Realism is represented by significant scholars with a huge contribution to this academic field, such as Gilpin (1981), Waltz (1979), Grieco (1988), Mearsheimer (2001) etc.; however, issues of economic interdependence and national security are dominated mainly by Liberals and a few Marxist approaches, as it is reflected in the literature review. In addition, Realism considers economics to be an issue of low politics, however I believe that there is a significant gap regarding the use of economics in issues of high politics, such as national security and in non-war situations, such as interstate conflicts. Therefore, I have created an analytical framework based on the principles of Realist theory, in order to take the discussion a step further and enrich the theoretical fields of Realism.

More specifically, my framework of analysis is used in order to examine the assumption that in interstate conflict the relative gains which derive from asymmetric economic interdependence are less important than relative gains which derive from the worthiness of the disputed area because the latter concern the state's capabilities for exercising further influence and power, so it has a direct impact on the state's survival and state's security. The term "relative gains" is used according to Grieco's argument, that states are concerned with how much power and influence other states might

achieve” (Baylis, Smith and Owens, 2008:129) and by the term “worthiness of the disputed area” I mean the importance of the gains which derive from the disputed area for the state’s power and survival. Therefore, I argue that asymmetric economic interdependence is not a power-balancing factor and does not enhance a state’s national security, meaning that in the case of interstate conflict, asymmetric economic interdependence cannot mitigate the threat or the power deficit for the threatened state, if one exists. So my dependent variables are the relative gains and the worthiness of the disputed area. As Major General Parisi mentions in his interview “*Which side does a programme of Confidence and Security Building Measures help? The powerful side or the weak side? In the case of Greece and Turkey, Greece is the weaker side, given that it has the geopolitical scale of Turkey opposite it (surface area, population, economy, armed forces, etc.). What does Greece do? Does it stand to gain from such Confidence and Security Building Measures? It does gain but let’s pay attention to one factor. If as part of the Confidence and Security Building Measures we agree to not have tensions that neither side will fly over the Aegean we lose because Turkey can’t lose what it doesn’t have. We are sharing out a pie that was originally only our own. If we accept that no one is going to eat it, and that we won’t eat from our own pie, we have lost since our rival will simply not be eating from a pie he never had! So if we have Confidence and Security Building Measures in this sense and we agree that neither side will fly over the Aegean, we are backing down, we have lost.*” (Parisi, 2015). In addition, balance of power is important between states in conflict. As the former minister Stylianidis mentions in his interview “*In all events, what I can add here to this question is an analysis that was offered to me by a seasoned German diplomat, who was one of the key players in French-German negotiations, before the French-German axis was created in Europe. I talked to him about the war period and asked him to try to explain to me how both sides, France and Germany, managed to reach a deal ... I wanted to see if that model could be applied to Greek-Turkish relations. He told me quite coldly, in a cynical but realistic manner, that it reminded him of a myth from antiquity, where a goose went to a pig and asked the pig to set up a company together. The pig agreed to the proposal and then the goose said ‘you know what, when a company is set up each side puts something in’. The pig said ‘let’s put in ...’ and the goose said ‘If I put in the eggs, will you put in the bacon?’.* So what did he want to say here? That of course there is a need for rules, mutual respect, etc. but in these relationships when states are involved, there is always the temptation for one

side to play the goose and the other side the bacon, meaning that one of the two will lose out. When there is a balance, there is no problem. Relations between them operate exceptionally well. When there is no balance and the appetite is whetted, things can then become distorted and we can end up with the opposite result from the one sought.” (Stylianidis, 2015).

In order to examine my argument, it is important first to prove that there is asymmetric economic interdependence, therefore the first variable I use relies on economics. I use the term asymmetric because interdependence means that there is an exclusive relationship between two states which cannot be replaced by another, meaning that they are both completely dependent to each other. Nevertheless, this term is economic and does not take into account a significant factor, that of power and more specifically economic power. Each state in the international system has a level of economic power, whether it is little or great power. A state without power simply does not exist because it would have been conquered by another, since it would not have enough resources to maintain its military capabilities. As Major General Parisi mentions in his interview *“Clearly without an economy there can be no armed forces. As Louis XVI’s field marshal said, three things are needed to have strong armed forces: Firstly money, secondly money and thirdly more money. The relationship is interdependent. Support is two-way. It’s like the question of whether the chicken came before the egg or the egg before the chicken. The economy generates strong armed forces but the armed forces create an environment and lays down the conditions that allows the economy to grow. Strong armed forces secure peace, the freedom to develop agriculture, fisheries, hospitals, education, etc. For example, unlike Greece, what schools or healthcare system could develop in Syria?”* (Parisi, 2015). Power is a significant factor because it enables a state to define the level of its dependency on others and since states are rational actors they will never accept or allow themselves to be completely dependent on other states. Therefore, by showing the different levels of economic power between rivals I show that there is an asymmetry between them in line with Waltz’s (1979) definition, meaning that they both somehow affect each other but not completely. I use the term economic power to mean the state’s ability to overcome economic problems and to promote its economic interests and influence. Therefore, I argue that economic interdependence is always asymmetric.

In order to measure economic power accurately I use two kinds of economic indicators. The first kind refers to primary indicators of economic power, such as the

Gross Domestic Product (GDP), the growth in GDP, GDP per capita and Foreign Exchange Reserves because these indicators are directly connected with the state's power. Nevertheless, sometimes states may have almost the same rates on these indicators and maybe it is difficult to clearly define which of them is greater in power. Therefore, in order to avoid this I also use secondary indicators of economic power, such as the Balance of Trade and Exports as a percentage of GDP. In addition, in order to show that there is economic interdependence between the two rivals I focus on indicators at a bilateral level, such as Trade, Foreign Direct Investments, Economic Agreements, Energy Supply and Membership of Economic or Monetary Organizations. The three first indicators as well as membership of Economic and Monetary Organizations have been also adopted by most scholars in order to measure the level of economic interdependence. However, I believe that it is also important to focus on energy and consider it as a vital economic indicator, since it has also a direct impact on a state's national security. As Ambassador Aviram mentions in his interview, *"Another interesting one, is the relations between Israel and Egypt on the issue of the supply of gas from Egypt to Israel. Here you have a product of high national importance, that's oil and gas, that's the source of energy, for electricity, for everything and at the time of Mubarak, the issue supply of gas from Egypt to Israel was very important. Now Israel, even though Egypt was overall a country with peaceful intentions it was never a strategic ally of Israel, was always looked at with good intentions but with a little bit of suspiciousness. The first thing that ended when the Muslim Brothers came to power, the first thing that stopped was the flow of gas from Egypt to Israel. The overall discourse in Israel was how much we are willing to rely on a supplier like Egypt to Israel. History has one more chapter, which is very interesting because it happens these days. The American-Israeli partnership holds the rights to utilization of natural gas in the Mediterranean. They have signed a huge contract with Egypt to supply gas to Egypt. But it was the time of el – Sisi not the time of Morsi. This time it goes the other way round. Israel sells to Egypt. Energy, oil, gas, are products which to my mind stand on the borderline between economy and national security. It is so vital that it cannot be without."* (Aviram, 2015). Additionally, as the Ambassador Mallias mentions in his interview *"Today Turkey has much greater importance for Greece in terms of trade and investments than the Greek market has for Turkey. In the energy sector we can mention natural gas. It's certain that Greece*

needs to have a pipeline to bring in natural gas, which shouldn't pass through Turkey so that we have an alternative solution.” (Mallias, 2015).

The second variable I use relies on military indicators which are directly related to a state's national security. These indicators are Military expenditure, possession of Nuclear Weapons, Membership of Military Alliances and the number of sovereignty violations and disputes using military force, since all of these indicators show whether a state feels more secure.

In order to examine my assumption, that relative gains of economic interdependence are less important than relative gains of the disputed area, I implement my framework of analysis in three cases-studies of interstate conflict, which have to correspond to three criteria. First, the conflict has to be of considerable duration, second, there have to be violations and sovereignty disputes involving military forces and third, there has to be at least a minimum level of economic interdependence between the rivals. It is also important to define the threatened state, in order to answer the main question, which is whether asymmetric economic interdependence is a power-balancing factor for the threatened state, in order to enhance the levels of its national security. When two countries are not in a state of non-war, one side is always more aggressive than the other, therefore, in order to define the threatened side I have to combine one subjective and four objective factors. The subjective factor relies on the conflict timeline. Based on historical data, I have to first determine the start and evolution of the conflict in order to examine which side tended to escalate the conflict. In addition, I develop the objective factors in order to define the aggressive side. These are a review of the status-quo, proximate power, aggregate power and threatening statements. Combining all these factors I can define the threatened state. Then I focus on the worthiness of the disputed area and my aim is to prove that its gains are more significant than the gains which derive from asymmetric economic interdependence.

Last but not least, in order to support my argument further, I include four interviews by four people who are considered to be prominent stakeholders at various levels of decision-making and meet the following four criteria. The first is that the stakeholder has to be related to political decision-making. Therefore, the interviews doctor Dr. Evripidis Stylianidis, former Minister. The second is that the stakeholder has to be related to the military as well as to the diplomatic field and moreover from a country which is not examined in the cases-studies but which is in conflict with another state and faces issues of national security. Therefore, the interviews also include Dr. Ioannis

Parisis Major General (ret) and President of the Academy for Strategic Analyses (ASA), Mr. Alexandros Mallias, Ambassador (ret) as well as Mr. Ram Aviram, Ambassador (ret) BIT-Consultancy-Israel, respectively.

1.2. Reasons for Developing the Thesis

The reasons which led me to develop this thesis were on one hand my interest in the field of international political economy and on the other hand, how the use of economy can either help or not help a state's national security.

More specifically, regarding the first reason, the structure of the state, lobbyists, elites, political regimes, the relationship of political parties with power and citizens and the basic principles of political science which I learned during my first degree, were not only an important basis for understanding the scope and operational functions under which a state operates but it also made me wonder how and in which terms states behave at an international level.

The knowledge I obtained during my master degree in international relations and strategic studies answered that question and made me realize how important is the fact that in order to explain a state's internal behavior sometimes it is necessary for someone to take into consideration the state's external relations first. That is to say, that power and survival are the state's motives within the international system and therefore, their behavior can be explained by analyzing and better understanding these motives. Nevertheless, more knowledge creates more questions, but the difference at this level was that the questions had to be answered by me.

The second reason for developing this thesis is based on the financial crisis in 2007. More specifically, the onset of the financial crisis in 2007 was similar to that in 1929, however, my generation had never experienced a financial crisis before despite the fact that they had experienced and continue to experience issues of national security. Albania, FYROM and Turkey's claims over Greek sovereignty have often resulted in the countries either making controversial statements at diplomatic level, or engaging in conflict escalation, especially with Turkey, with the use of military force.

Nevertheless, Greece's accession to the trilateral support mechanism had direct, serious implications in the financial sector but also, indirectly, impacted on military expenditure and capabilities and therefore, affected its national security. That was the

main reason which made me ask the question “Is economic interdependence a power-balancing factor for a state’s national security?” Although Realism explains almost everything in international politics, it is –however- not perfect as a theory. As Mearsheimer (2001) mentions, all theories have some restrictions. Therefore, in order to contribute to the theory of Realism I develop an original framework of analysis based on Realism’s principles, which is analyzed in the following chapters.

1.3. The Originality of the Thesis

In this section, I am going to analyze the reasons why I believe this thesis is original and I hope it can contribute to the discussion about economic interdependence and national security issues. The first reason, is that up to now, taking into consideration the literature review on this issue, Realism has not focused on interstate conflicts as deeply as it has on the great powers and the international system and little has been said regarding the relative gains on conflictual relations between states.

That is to say that Waltz (1979) and Grieco (1988) introduced a very important theoretical perspective but its implementation was general and mainly concerned cooperation between states, meaning that cooperation entails gains and their contribution can transform a friendly state into a foe. On the other hand, Liberals have relied on their own theoretical perspective focusing on several cases, however, the absence of important variables, such as the state, influence, power and national security is noticeable here.

The second reason which makes this thesis original is the structure and development of the analytical framework. More precisely, as mentioned above Realism’s framework for explaining conflictual relations was general and was based on “the limits of cooperation” (Grieco, 1988) while Liberal analytical frameworks, apart from ignoring important variables, they were also ignoring such causes of the conflict as, power balances, relative gains, the worthiness of the disputed area as well as the level of interdependence, meaning that some of the main indicators of economic interdependence that were used were merely trade, membership of regional trade organizations and capital movements.

Third, there are interviews from stakeholders who meet political, military and diplomatic criteria, therefore, this thesis in addition to including secondary research also includes primary research which makes it original in itself.

Therefore, my thesis introduces an analytical framework, which not only adopts and extends the Realist assumptions regarding the relationship between economic interdependence and national security but also, by implementing it in cases -some of which have not been fully analyzed- opens up a new perspective in the field of international political economy by introducing economic issues into high politics. That is to say, that my thesis introduces an analytical tool which contributes to a field where Realism has not been developed yet, since it considers the economy to be a matter of low politics. However, the point is how a state uses its economy and more specifically the asymmetric economic interdependence in issues of high politics, such as national security.

1.4. Methodology

The methodology of the thesis means that it has been divided into six parts. In the first part the goal is to find a suitable theoretical framework, from which I will support my argument. More specifically, I analyze the main assumptions of Realism and by comparing them with the other basic theoretical approaches of international relations, such as Liberalism, Constructivism and Marxist Theories, I argue why Realism is the best theoretical approach in explaining and forecasting states' behavior regarding security and power issues.

In the second part, I conduct a literature review in relation to the main question of the thesis, in order to further define the main question, to highlight the gaps in existing discussion on this issue and to contribute to the discussion by forming a framework of analysis.

In the third part, I define the terms I use with references to the relevant literature. In the fourth part I highlight the dependent and independent variables I use in the framework of analysis in order to further define my contribution to the discussion. In the fifth part, I implement the framework of analysis in three case studies, in order to examine my argument with concluding remarks and a comparative analysis. Last but not least, in the sixth part, I develop the conclusion as well as issues and questions

which have come up for further research and discussion. Table 1 below summarizes the methodology of the thesis mentioned above.

Table 1. Methodology of the Thesis

| Parts |
|--|
| 1. The search for a suitable Theoretical Framework |
| 2. Literature Review (pointing out factors which have not been taken into account) |
| 3. Definition of the Terms |
| 4. Construction of the Framework of Analysis (Contribution) |
| 5. Implementation of the Framework of Analysis |
| 6. Conclusions and issues for further research |

1.5. Structure of the Thesis

The structure of the thesis is as follows. The first chapter (Chapter 1) contains the introduction and the purpose is to introduce the reader to the thesis and highlight its aim, the main argument, the basic assumption, the questions that I am going to answer, the theoretical basis, the dependent and independent variables I use in order to construct my framework of analysis. I also develop the reasons for carrying out this thesis, I explain why it is original and I also highlight the methodology I have followed.

The second chapter (Chapter 2) consists of the theories of international relations and the aim is to explain to the reader the reasons for choosing the specific theory as a basis for my thesis. The third chapter (Chapter 3) consists of the definitions of the terms and the literature review regarding the issue of economic interdependence and national security. The aim here is double. First, I want to give the reader as complete a picture as possible of what has already been written on this issue and second, I want to highlight the gaps and all the factors which have not been taken into account since this is which legitimizes my contribution on this issue. In addition I highlight my contribution. In the fourth chapter (Chapter 4) I develop my framework of analysis. The aim is to give the reader a picture of how I perceive reality and the way that I am going to examine my argument and answer the questions I set before.

In the fifth chapter (Chapter 5) I examine three case studies implementing my framework of analysis. The aim is to test my hypothesis in different stages and either to confirm or not confirm my initial argument and assumption. Therefore, apart from the separate examination of the case studies there is also a comparative analysis, which leads to safer conclusions.

The last chapter (Chapter 6) consists of the general conclusions. The aim here is to answer all the issues that have been analyzed in the introduction and set new questions and issues for further research. Last but not least, I set out all the bibliographical references I used in the thesis and in the Annex, and also present the original interviews and their translations from Greek into English.

PART A.

**THEORETICAL BACKGROUND, LITERATURE REVIEW AND FRAMEWORK OF
ANALYSIS**

CHAPTER 2. THEORIES OF INTERNATIONAL POLITICS

2.1. Introduction

In international Politics there are many theories which try to explain why states fight each other and what the real causes of war are. The main theories are Liberalism, Marxism and Constructivism, but the dominant theory which best explains world politics is Realism. In this dissertation, I take Realism as the theoretical basis, in order to support my argument that economic interdependence is not a power-balancing factor and does not promote peace. In addition, I illustrate why Realism is the appropriate theory for power and security issues, by mentioning its comparative advantage over the other theories.

2.2. Realism's Basic Assumptions

Realism has its roots in Thucydides and the "History of the Peloponnesian War" (1972) (431-404 BC), between the two Great Powers in ancient Greece, the city-state of Athens and the city-state of Sparta. According to Thucydides, the struggle for power is part of human nature and is the dominant factor which defines international politics, while justice, society and perceptions are not of high significance. In "The Prince" (1988) Machiavelli mentioned that if the political leader can adjust to different circumstances, he will be able to maintain his state. In addition, in "Politics Among Nations" (1948) Hans Morgenthau argued that international politics is nothing more than an extension of human behavior, so, it is defined in terms of power and interest.

Since then, there has not been any theory of world politics; therefore, all the above thinkers form the main core of the Realists' assumptions, which we call Classical Realism, and what they have in common is that they rely on human nature in order to explain international politics. More specifically, for Classical Realism, a state's behavior is a reflection of the human nature of its citizens and its government. Since human behavior is defined by characteristics such as competition, suspiciousness, fear and insecurity it is certain that international politics can be explained from this aspect. Therefore, according to Thucydides and Morgenthau, the struggle for power is a biological process of human nature which is expressed on different levels of people's actions. Moreover, Classical Realism is closer to moral philosophy and the state's

national sovereignty, through its take on the battle between good and evil, than modern Realists.

However, Realism did not remain an obsolete theory but evolved and offered more alternative explanations of world politics without changing its main assumptions, while remaining the dominant theory. The result of this evolution was Structural Realism, or Neo-Realism, and Neo-classical Realism.

Structural Realism is based on the principle that anarchy in the international system, and not human nature, is responsible for war and insecurity, an idea which was first expressed by Rousseau (1991). Structural Realists are divided into two camps: power maximizers (offensive Realists) and security maximizers (defensive Realists). This division emerged over the question of whether states are satisfied with their power (Mearsheimer, 2001).

In 1979, Stephen Waltz developed the logic of self-help, according to which, in order for each state to maintain its security, it should prevent the use of force by other state, since there is not any other higher authority to do so, in contrast to domestic politics, where citizens do not need to defend themselves because the state is responsible for their security by providing a system of sanctions, implemented by the judiciary in case their security is threatened or violated by others. Given that the international system is anarchic, states have to find ways to defend themselves to maintain their survival. Therefore, for Waltz (a defensive Realist), states are more concerned about maintaining their security than about maximizing their power.

On the other hand, John Mearsheimer (2001), an offensive realist, differs from Waltz, arguing that because of the anarchic international system states seek ways to maximize, not their absolute, but their relative power. He agrees with Waltz, as far as the self-help system is concerned, and he also argues that states desire more than the maintenance of the status-quo and the more the power they gain, the more peace they enjoy. Consequently, when states seek to maximize their power and possess credible offensive military capabilities, the levels of uncertainty among them start rising. However, Mearsheimer also notes that being the global hegemon is impossible, and therefore, competition for power among the Great Powers is inevitable.

Neoclassical Realism was created by a group of scholars, such as Rose (1998), Zakaria (1998), Walt (2002) and Schweller (1996), according to whom Structural Realism is incomplete because it does not focus on the domestic politics of each state, which is the intervening variable between the international system and a state's foreign

policy. More specifically, neoclassical Realists argue that the international distribution of power is not enough to explain a state's behavior, so, in order to bridge the gap between systemic and internal factors which determines a state's behavior, they introduced an important intervening variable, which is the leader's perception about the distribution of power within the international system, which, to a large degree determines the state's foreign policy. For example, Germany's transformation from a revisionist state in 1930's to a status-quo power at the end of the World War II shows that states act according to their interests and their behavior depends on the leader's ability to maintain and distribute its resources within the society he rules (Zakaria, 1998). Therefore, states cannot be considered as "like units" but each case should be examined individually.

Last but not least, new aspects of Realist theory have emerged to contribute to the theory's main principles, such as the Embedded Realism, in the field of International Political Economy. According to Sklias (2011), international political economy is a methodological tool which reflects the complexity that characterizes contemporary political, economic and international relations. Therefore, Embedded Realism can contribute to Realism's theoretical arsenal from a new perspective which until now has been ignored. More specifically, according to Embedded Realism, ensuring national security and the national interest remains the dominant factor which determines the state's behavior. However, variables such as new technologies, traditional values, norms and non-state actors interact through a feedback mechanism, whose main objective is the state's empowerment within the international system.

Summarizing, according to Realism, the State is the pre-eminent actor in world politics. The struggle for power is continuous, by promoting the national interest for the state's own survival within the international system. Classical Realists argued that human nature is the dominant factor which defines a state's behavior, in order to become hegemonic power, while Neo-Realists argued that the anarchy in the international system and the distribution of power make states either seek security maximization (defensive Realists) or power maximization (offensive Realists). In addition, Neo-classical Realists argued that both anarchy in the international system and a state's internal variables determine the state's behavior, in order to achieve influence maximization, and according to Embedded Realism, even secondary variables interact through a feedback mechanism in order to empower a state's national security and promote its interests by improving its position within the international

system. The Table 1 below illustrates the basic assumptions of Realism which have been mentioned above.

Table 2. Realism's Assumptions

| Type of Realism | Main Variables | Main Objective |
|-------------------------------------|---|---|
| Classical Realism | Human Nature / State | Power Optimization |
| Structural Realism (Neo-Realism) | | |
| Defensive Realism | International Anarchy / International Distribution of Power | Security Maximization / power as an end in itself (relative gains) |
| Offensive Realism | International Anarchy / International Distribution of Power | Power Maximization / power as a mean for national security maintenance (absolute gains) |
| Neoclassical Realism | International Anarchy / State's internal variables (leaders' perceptions) | Influence maximization |
| Embedded Realism | State / secondary variables (low politics) | State's empowerment / promotion of national interest and security |

2.3. The comparative advantage of Realistic theory

The theory of “comparative advantage” derives from economic theory (Ricardo, 1817), which concerns the potential gains of producing goods with lower cost. In this section, I use this term more from a theoretical than economic aspect, in order to show that Realism is the most appropriate theory, meaning that Realism better explains the state’s behavior regarding security and power issues.

2.3.1. Realism vs Liberalism

As mentioned in the introduction, there are many theories of International Relations whose aim is to provide a specific theoretical framework in order for someone to be able to explain and analyze from a specific perspective the behavior of actors who define world politics. Although the Realist approach has already been analyzed, its comparative advantages, as the most appropriate theory for understanding and explaining international politics, are best pointed out through a comparative approach with the three most commonly used theories of international relations, Liberalism/Neo-liberalism, Constructivism and Marxism.

Liberalism introduced “Idealism” (Dunne, 2008) as a new perspective for understanding international politics. For Liberals, determinants such as individual liberty, interdependence, prosperity, democratic values, free trade, collective security as well as the power of public opinion are what promote peaceful relations among states. Although they agree with Realists that the international system is dominated by anarchy, that is to say by the absence of a power above all which would be able to control repressive mechanisms and maintain world order and peace, Liberals are more optimistic regarding peaceful cooperation among states.

More specifically, Liberals argue that war can be avoided since there are other factors which increase people’s prosperity and cooperation, such as domestic and international institutions and high levels of democratic values. According to Liberals, Kant’s democratic peace remains one of the dominant arguments because if people, and not the prince, had to decide whether to use military force, wars would have decreased or been eliminated since the majority would be reluctant to sacrifice their peaceful prosperity and go to war. Therefore, the spread of democratic values and the high-level function of democratic institutions is a basic precondition for the peaceful

cooperation of states. As Fukuyama (1989) mentioned, liberal states are more stable and peaceful than others.

In addition, Neo-Liberals also built on Cobden's beliefs about the peaceful impact of free trade on states and on Keohane's and Nye's (1972) argument about interaction in several sectors. According to the latter, interests groups, transnational corporations and other actors should be taken into account because these non-state actors not only influence decision-making but also make states more interdependent, by raising the levels of collaboration as well as the costs of a potential withdrawal from these common fields. For example, the Bretton Woods system or NATO represent the institutionalized power of the USA. Also, Keohane's and Nye's complex interdependence (2001) does not agree with Realists' distinction between high and low politics. On the contrary, they mention that there are many interactions among non-state actors which define international politics, and therefore military force is no more efficient as a tool of statecraft.

Moreover, Neo-Liberals' arguments are based on issues with regard to global governance as well as the role of institutions in order to maintain peace and globalization. More specifically, states remain significant but not dominant actors, and seek to maximize their absolute gains through cooperation. However, cooperation between states is not easy because of cheating or non-compliance; therefore, institutions are empowered in order to provide states with mutual gains and bridge the gap between them.

Nevertheless, for Joseph Grieco (1988a) Neo-liberalism's arguments on state cooperation are based on the idea that states are atomistic actors and care only about their absolute gains. In addition, Neo-Liberals do not take into consideration relative gains, which, according to Grieco and other Realists, states focus on together with the absolute gains. Therefore, Grieco mentions that a state will leave a joint arrangement when its partner starts having greater relative gains and that is the response of Neo-Realists to Neo-Liberals regarding cooperation. Neo-Realists argue that even if states cooperate with each other, their ultimate goal is to empower their position. Consequently, one more significant barrier which makes cooperation between states difficult, apart from "cheating", is the "relative gains achievements", that is to say a state's potential friend today may become its main foe tomorrow (Grieco, 1988a:487).

Furthermore, Neo-Liberals focus on secondary issues such as environment and human rights in contrast to Neo-Realists, and Realists in general, who focus on national

security issues and are concerned about the distribution and configuration of absolute and relative gains which emerge as a result of international cooperation. Moreover, the Realists' approach is based on suspiciousness between states which are cooperating, arguing that any cooperation which happens is because states want it to happen, while emphasizing at the same time the maintenance of capabilities which are important for the state's national security and survival. Last but not least, Liberals/Neo-Liberals argue that the significant actors in the configuration of international politics are institutions and political regimes and that the main concern is economic well-being and not the state's survival, while Realists/Neo-Realists argue that only states are the dominant actors in international politics and the struggle for power is continuous in order to secure their survival within the international system.

2.3.2. Realism vs Constructivism

Initially Constructivism emerged as a social theory and not as a theory of international politics. However, it rapidly managed to establish a new theoretical approach to world politics and to the field of international relations. The main core of this theory is based on how ideas, norms and perceptions shape the international structure and how this structure shapes the interests and behavior of states and non-state actors.

More specifically, Constructivists argue that instead of a single objective reality, reality is intersubjective, meaning that material reality is defined by ideas, symbols, language and interpretation of these factors. For example, the balance of power has no objective meaning; on the contrary, norms, ideas and perceptions determine its meaning and, consequently, the actions and behavior of states. Moreover, the concept of *state* is artificial, since human beings create History.

In addition, holism is also one more characteristic element of Constructivism, according to which some factors have some autonomy which allows them either to construct or to reshape and transform existing structures (Wendt, 1999). For instance, during the Cold War, although the USA and the Soviet Union were determined to exterminate each other, the improvement in relations between their leaders allowed a transformation of the structure of world politics to take place (Barnett, 2008). On the other hand, strategic social construction, carried out by activists for example, is also a

significant factor, through which specific norms can be affected or altered in order to redefine state interests (Finnemore and Sikkink, 1999).

Furthermore, according to Wendt (1992) a security dilemma is nothing more than a social structure which consists of different perceptions of reality and as a consequence, states are suspicious of each other. If the social structure of states was enhancing and disseminating common perceptions, states would feel more secure and they would trust each other. Therefore, Constructivism can offer a different aspect regarding global transformation and politics.

Another key point of Constructivism is that of the meaning of *actor*. Based on Max Weber's (1949) argument that people are cultural beings, Constructivists argue that culture is a significant factor which determines the different meanings people give to their actions and choices. States fight each other because they have different meanings and they perceive reality in a different way, therefore, their adversity concerns the preponderance of meaning. More specifically, Constructivists adopt a method of causality and explanation in order to understand the meanings that actors give to their behavior and how these behaviors interact with the social structure (Barnett, 2008). For example, sovereignty is not itself the reason why states behave in a particular way but, instead, it provides specific capabilities, which lead to specific behaviors.

As far as national security is concerned, Constructivists argue that national security derives from the culture and national identity of each state as well as from the state's policies in that field. In addition, they focus on the norms which affect deterrence through the maintenance of nuclear weapons and in regard to military interventions, they argue that it is a matter of interaction among institutions and the extent to which they encourage such actions or not (Katzenstein, 1996).

However, Constructivism offers explanation and causality more than a forecast of regularities or tendencies because its assumptions are based only on intersubjective and not objective reality. The greatest disadvantage of the Constructivist theory is that it refuses to admit objective variables which define reality. For example, national interest, in most definitions, has an ideal dimension, however, since this idea is measurable by economic and military power or anything that affects these two elements in a positive way, it exists objectively no matter what anyone believes about it. However, this point of view reflects a wider debate about methodological approaches between positivism and post-positivism which I am not going to further analyze because it lies outside the scope of this thesis.

On the other hand, according to Gilpin (1981) the definition of the national interest can change because of economic or political changes; however, each state considers that by ensuring some of its interests is a matter of high significance for its security and survival. Or according to Hawtrey (1952:19), “When a political leader says that war is necessary in his country’s vital interests, what he usually means is that war is necessary to acquire or to avoid losing some factor of national power.” As Neoclassical Realists argue, an important intervening variable is how leaders perceive the distribution of power, therefore, states cannot be considered to be “like units”.

In addition, according to Rose (1998:147) “power analysis must therefore also examine the strength and structure of states relative to their societies because these affect the proportion of national resources that can be allocated to foreign policy”. He also argues that there is common ground between the Neoclassical Realists and Constructivists. Although the former accept the interaction between systemic constraints and internal (unit-level analysis) behavior, the latter reject the existence of objective international reality.

In addition, according to Adler (2008) Constructivism is still in a preliminary stage as a concrete theory of international relations because there is an absence of a methodological linkage between theory and research and there is more to be done regarding the combination of normative theory and explanatory theory as well as the combination of practical and political consequences.

2.3.3. Realism vs Marxist theories

Marxist theories are the outcome of the transformation of classical Marxist theory in the field of International Relations. Gramscianism, Critical theory and New Marxism are Marxism’s attempt to disengage from the limitations of the characteristics of domestic societies and explain world politics.

Gramscianism, or the Italian School, was developed by Antonio Gramsci in the field of International Political Economy. Gramsci (1971) took the Marxist analysis a step further by looking at superstructural issues in order to give another explanation of hegemony. According to Gramsci, hegemony reflects power. More specifically, based on Machiavelli’s conceptualization of power as a centaur, Gramsci argued that hegemony consists of coercion and agreement. However, although Marxists

considered that coercion, or the fear of coercion, was keeping societies away from overthrowing the system, which was the main cause for their suffering, Gramsci argued that this was true only for less developed countries while in more developed countries the system was maintained too, and therefore, consent was confirmed for these cases.

Moreover, Gramsci argued that consent, as well as the system, survives because it is re-created domestically by the ruling class in each society. Because of hegemony, the ruling class can spread its moral, political and cultural values to subordinate groups, so-called civil society, since this network is more autonomous than others. As a result, these institutions accept the system's values as if they were their own. Therefore, social transformation can only be achieved by successfully challenging the system's hegemonic position.

Critical Theory has its roots in the Frankfurt School and it was mainly developed by the representatives of the first generation of that school, such as Herbert Marcuse and Jurgen Habermas and mainly concerns international society, international ethics and international security. Critical Theory, in contrast to other Marxists, is based on superstructural analysis and rejects three basic assumptions of positivism. More specifically, Critical Theory rejects objective reality, the distinction between subject and object as well as social science without values. In addition, history plays a significant role, since anything that is related to societies, including international relations, develops in time and space. Therefore, all theories of international relations are nothing more than a means of promoting the specific ideas, interests and values of those who advocate them (Cox, 1981).

In addition, Critical Theory mainly focuses on power and sovereignty and its basic assumption is that humanity must be released from the international political and economic structure which derives from hegemonic capitalistic powers, such as the USA, through revolutionary approaches in order to achieve emancipation. More specifically, emancipation can be achieved in terms of a unified political community, without states maintaining their existing ethical significance (Linklater, 1990a), (Hobden S., Jones, R., 2008)

Security Studies combines some of the assumptions of Gramscianism and Critical Theory based on peace research. In this perspective states are part of the security problem because of the reasons mentioned above, and therefore only emancipation can

provide peace and security by placing humans and not states at the center of analysis (Jones, 1995) and overthrowing the international political and economic status-quo.

Nevertheless, the main problem with Marxist theories in the field of international relations is that they are more political than scientific and consequently, there is no objective way to decide whether a theory is academically appropriate or not (Jackson and Sorensen, 2003). In addition, the argument that the cause of imperialism is capitalism so the solution for less war and more peace is the elimination of capitalism is wrong. According to Waltz (1979:35), “They (Marxists) reinterpret the world to make it fit their misinterpretations of an old theory. “Theories” of the neocolonial sort can be rejected as offering not explanations but redefinitions designed less to account for the phenomena than to salvage a theory”. In other words, Marxists theories focus on economic explanations in order to explain the state’s external behavior but they fail to give an explanation of why interstate conflicts and wars occur.

2.4. Conclusions

The more states fight each other for power and to promote their own national interest, the more Realism will continue to be the most concrete and appropriate theory for international politics, either for explaining or forecasting states’ behavior. In contrast to other theoretical approaches, Realism focuses on states, considering them to be the dominant actors in international affairs, without underestimating, at the same time, other actors who may not be of high significance yet play a secondary role in the survival of states. In addition, Realism focuses on the substance of foreign policy, which is the maintenance or maximization of power compared to other states because they are suspicious. This suspiciousness is enhanced by the fact that the international system is anarchic, meaning that there is not any global central authority that is able to control states’ behavior and impose sanctions when this is necessary.

On the other hand, although Realism has weaknesses as a political theory, it has managed to become the most comprehensive and verified theory in almost all cases of international politics. More specifically, Realism was the uncontested winner in the first great debate against “idealists”. As a result, Realism gave a more practical and scientific aspect to the field of international relations and the occurrence of war. However, Realism, as all theories, simplifies reality, so there is a danger of ignoring

some factors which sometimes play a significant role in decision-making but these limitations also apply to social theories (Mearsheimer, 2001).

Nevertheless, Realism's limitations are much fewer than those of other theories which focus on less important aspects and are unclear and incomprehensible. Realism elucidates in a scientific way all the important aspects of international politics and states' behavior and, therefore, is the most appropriate theory especially for national security and power issues because these issues are vital for the survival of states.

CHAPTER 3. DEFINITIONS OF TERMS AND LITERATURE REVIEW

3.1. Introduction

In this section, it is critical to define the terms economic interdependence, asymmetric economic interdependence, balance of power and national security in order to create the framework for conceptualizing these terms and understanding the interaction between them.

3.1.1. Economic Interdependence

According to Keohane and Nye (2001), “interdependence affects world politics and the behavior of states” (Keohane and Nye, 2001:5) and they define it as “mutual dependence”, that is, when a state is “significantly affected by external forces” (Keohane and Nye, 2001:7), which occur either among states or non-state actors. Interdependence is not the same as interconnectedness, since the former depends on the effects of transactions, constraints as well as the upcoming cost, which derive from these factors. When the effects of interruption of either symmetric or asymmetric transactions are costly, then there is interdependence. On the contrary, when there are no significant costs of the transactions, then there is interconnectedness.

However, in order to give a broader definition, Keohane and Nye argue that interdependence limits autonomy; therefore, all relationships which are characterized by interdependence will always engage some cost.

In addition, as far as the politics of military security and economic interdependence is concerned, Keohane and Nye argue that there are significant differences. Thus, while there is no need for military interdependence to be zero-sum, if allies seek to enhance security levels for all of their partners and maintain the balance of power, in economic interdependence, competition exists, even when the gains of cooperation are large. Therefore, there is no mutual dependence as an absolute concept with a strict meaning but instead asymmetries are a significant factor which affect the actors in terms of power. More specifically, the less dependent actors are more powerful than their partners who might be more dependent and, therefore, they can promote their interests on an issue or affect other issues and actors, always with regard to their interests.

However, Keohane and Nye argue that regarding cost, “there is no guarantee that military means will be more effective than economic ones to achieve a given purpose” (Keohane and Nye 2001:14). That is because they distinguish two dimensions of interdependence: sensitivity and vulnerability. From the perspective of the former, interdependence can be social, political and economic, meaning that there are “contagion effects” (Keohane and Nye, 2001:11) which can transform economic as well as political life within societies and the costs are imposed from outside and by exogenous factors. From the perspective of the latter, vulnerability interdependence applies more to economic and political relationships and “[...] rests on the relative availability and costliness of the alternatives that various actors face.” (Keohane and Nye, 2001:11), meaning that external events can have significant impacts on the cost which will be imposed on a domestic actor. These two types also define asymmetric interdependence by affecting power sources and cost on different levels and under different constraints.

Nevertheless, Keohane and Nye are opposed to Realists’ assumptions arguing that they are “an ideal type of world politics” (Keohane and Nye, 2001:20) and they can challenge all of their arguments through another ideal type which is called “complex interdependence”. According to this, societies interact through multiple channels, such as interstate and transnational relations, there are no high and low politics, meaning that there is not a clear hierarchy among issues of interstate relations but only domestic and foreign issues, and third that military force is useless for governments when interstate relations are dominated by complex interdependence because things can be more complex. However, they do not exclude the use of military force in extreme cases, when an “issue becomes a matter of life and death” (Keohane and Nye, 2001:25).

According to Gilpin (1981), on the other hand, national security has given its place to economic welfare as the main objective of societies, which can be achieved only through economic growth, international cooperation as well as the rational usage of resources. However, Gilpin does not agree that the current form of economic interdependence defines international politics because groups and states have managed to ensure and maximize their gains both at domestic and international level. In addition, in contrast to those who believe that economic growth and prosperity can gain control over war between states, Gilpin argues that economic interdependence has not managed to eliminate the struggle for power and suspiciousness between states.

On the contrary, when the levels of economic interdependence start rising, states become more suspicious regarding the loss of their autonomy and the costs involved, as the result of interdependence because societies care more for their gains and they are not willing to sacrifice their welfare in favor of interdependence.

According to Wagner (1988), asymmetrical economic interdependence does not necessarily imply that the stronger actor, meaning the less dependent one, will manage to impose its influence on the weaker one, that is, on the more dependent actor. That is because he distinguishes the real causes of economic dependence. More specifically, he argues that asymmetrical economic interdependence does not correspond to cases where political influence is nothing more than the exchange of mutual economic benefits. In addition, the level of asymmetric interdependence cannot be used as a tool for domestic political influence because economic interdependence is used in order to benefit both parties by mutually distributing economic resources. As Wagner claims, “Thus most discussions of ‘asymmetrical interdependence’ involve a confusion between unexploited market power and unexploited opportunities to trade economic resources for political concessions. These two things may be associated with each other, but need not be.” (Wagner, 1988:473).

Crescenzi (2003) argues that economic ties include interdependence, globalization and integration, and that this is based on welfare gains which derive from the open access of markets and trade. He also examines the political ramifications of economic ties in the use of military force. More specifically, Crescenzi’s model suggests that economic interdependence leads to bargaining power and restricts states from making political claims. However, he admits, that economic ties, or economic interdependence, cannot deter states from using their military forces in order to resolve their disputes. He claims that “the analysis of the model reveals an interesting interaction between potential exit costs and the willingness of states to endure these costs in the event of a dispute.” (Crescenzi, 2003:89).

According to Rosecrance and Stein (1973), the term “economic interdependence” is problematic since there is no agreed definition, despite the fact that there is a common perception, which is the interaction of loss and gain, meaning that if one state changes its position on an issue, then the other state will be affected either negatively or positively. However, in order to define “economic interdependence”, Rosecrance and Stein argue that the four sectors which are critical in understanding and defining this term are trade, investments, financial operation as well as political relations among

states. As far as the first sector is concerned, trade affects the state's economic development since there is a tendency to rely upon own production and less on imported goods. However, according to Rosecrance and Stein's data, developed countries not only continued trading with each other but also increased their levels of dependence on some countries.

The investment sector is also a significant factor of interdependence, since the gains of developed countries have risen because of Foreign Direct Investments and not from portfolio investments. In addition, technology transfers are a significant part of Foreign Direct Investments; therefore, if the cost of interrupting the growth of FDIs is high, it follows that economic interdependence is also at high levels, meaning that the cost of interruption is proportional to the level of interdependence.

The financial sector has developed since World War I and according to Rosecrance and Stein's data, the value of world exports has increased at more than double rates and the same can be said for the rates of foreign-exchange holdings. This is an outcome which, according to Rosecrance and Stein, not only shows the increasing rates of trading goods and holding of foreign exchange but also represents a significant increase in the levels of international interdependence.

Last but not least, the political sector also plays a crucial role because of alliances. More specifically, in the twentieth century most states used to count on their capabilities in order to reduce their dependence on others, however, after World War II, states realized that they cannot ensure their defense capabilities and in combination with the failure of ideology to deal with real social problems, leaders had to communicate more in order to solve their domestic problems, and therefore the levels of intergovernmental cooperation and interdependence increased. As Rosecrance and Stein mention, "The most satisfactory measure of interdependence is not the cost of breaking the relationship, but the degree to which economic interests are direct functions of one another. [...] Economic effects are now fully comprehended within the political realm. Thus, politically significant interdependence is much higher today than it was during the nineteenth century." (Rosecrance and Stein, 1973:12).

Baldwin (1980) does not suggest any new definition for "interdependence", however he develops a set of rules and a framework according to which this term can be analyzed. Baldwin argues that the concept of "interdependence" has to be analyzed first by defining the conceptualization of its nature. He first analyzes the term "dependence" in a more general sense, arguing that there are two basic meanings.

According to the first, “dependence” is used in a causal sense to refer to situations in which an effect is contingent on or conditioned by something else (Baldwin, 1980:475) and according to the second, “dependence” is also used to refer to a relationship of subordination in which one thing is supported by something else or must rely upon something else for fulfillment of a need (Baldwin, 1980:475).

Nevertheless, the scholarly usage of this term by economists and scholars of international relations has different aspects. The former, “think of interdependence in terms of the mutual sensitivity of economic variables” (Baldwin, 1980:477), however, there is lack of a clear definition, and so far nothing has been done by economists to include an analytical definition in their terminology. Instead, they use the term in its commonsense meaning. Economists use the term “interdependence” but its concept “is often accused of having a normative bias and of being ill-defined” (Baldwin, 1980:482) because they cannot discern the concepts which might derive from norms or facts. In addition, scholars of international relations used the term “interdependence” when they are referring to self-sufficiency or to the state’s vulnerability to external factors, such as international trade.

Thus, as Baldwin (1980) argues, “Conceptual analysis can help by clarifying the nature of interdependence, but it cannot answer questions regarding the magnitude, rate of change, direction of change, or consequences of interdependence. Only empirical research can do that.” (Baldwin, 1980:506)

According to Katzenstein (1975), international interdependence and international transactions are not identical because the latter is an indicator which determines the levels, the rise as well as the changes in the field of international interdependence. In addition, taking into consideration specific indicators of international transactions, international interdependence has risen in recent years. International interdependence is based on world-wide trade, capital flows, the international movement of people and international communications and its rise is mainly due to recovery from World War I and World War II.

On the other hand, international transactions are not irrelevant to domestic transactions. Katzenstein argues that the emergence of new states determined the GNP ratio which was interwoven with trade because the level of interdependence in trade, between colonies and mother countries, was very high. As he argues, “Among the most heavily trade-dependent states the trade/GNP ratio declined in six of seven cases;

among the least trade-dependent states the ratio increased in six of seven cases” (Katzenstein, 1975:1033).

Hirschman (1945) argues that foreign trade is an important variable because not only does it define the national power, meaning the state’s potentials to impose, mainly economic, sanctions, but it also defines the relationships of dependence and influence and therefore it can become a strong instrument of national power. Foreign trade has two effects, the “supply effect” and the “influence effect”. First, the “supply effect” enhances military capabilities. As Hirschman argues, “By providing a more plentiful supply of goods or by replacing goods wanted less by goods wanted more (from the power standpoint), foreign trade enhances the potential military force for a country” (Hirschman, 1945:14). Second, the “influence effect” operates as source of power, meaning that foreign trade can supplant war, through coercion between sovereign states. “Economic warfare can take the place of bombardments, economic pressure that of saber rattling” (Hirschman, 1945:15).

In addition, gains between trading countries also play a significant role. More specifically, increased trade also indicates increased gains. Hirschman relies on Marshall’s definition about gains of trade, according to which, “The direct gain which a country derives from her foreign trade is the excess of the value to her of the things which could have made for herself” (Hirschman, 1945:18). Therefore, in order for a state to promote its influence it will expand its foreign trade and as a result, the gains will be increased as well as dependence. On the other hand, in order for a state to sustain its influence on others through foreign trade, it should take into consideration the volume of trade. If a state wants to keep a stable market, then the volume of exports and imports should not be diminishing, in order to prevent the provision of substitutes, in terms of markets and supplies. Therefore, “An increase of wealth through foreign trade leads to an increase of power relative to that of other countries” (Hirschman, 1945:5).

According to Cooper (1968), interdependence is “quick responsiveness to differential earning opportunities resulting in a sharp reduction in differences in factor rewards” (Cooper, 1968:152) because there are important economic implications on domestic policies, especially after the establishment of the North Atlantic Free Trade Area. Such agreements were the outcome of the already close economic integration among states, however, this did not mean that this was a conscious process. The continued increase in transactions had an immediate effect on the growth in living

standards, however, it caused serious problems in the implementation of economic policy domestically. The first reason was the balance of payments. The openness of the world economy was affecting domestic policies in the balance of payments and vice-versa. The second reason was capital movements, and especially those which were free, between states in the agreement. The free movement of capitals enabled firms to not comply with the policy requirements, taxes and labor regulations. Nevertheless, Cooper argues that internal balance does not necessarily mean external balance and concludes that governments should promote more co-operation between themselves regarding their economic policy.

According to Waltz, the argument that close interdependence promotes peace is false because close interdependence creates similarities and therefore, the likelihood of conflict is increased. On the other hand, many economists believe that the levels of international interdependence are increasingly growing; however, they ignore its real repercussions.

For Waltz, the meaning of “interdependence” “is always a marginal affair” (Waltz, 1970:206) and “The political significance of interdependence varies depending on whether a realm is organized [...] or remains formally unorganized” (Waltz, 1979:104), meaning that the units in an organized realm do not have to worry about everything; instead, they are free to develop their interests, from which others depend and therefore, the cost of breaking this interdependence would be high. However, states in the international order have similar functions, so they can be considered as homogeneous units, therefore, their differences are based upon their varied capabilities, meaning “high inequality among like units is low interdependence” (Waltz, 1970:207). In addition, interdependence allows the development of specialization, however, this depends on the system’s structure. For example, in anarchic realms the function of the units is similar in order to maintain their interdependence and autarchy, in contrast to hierarchic realms, where the units are highly differentiated and specialized, while the process of interdependence develops.

In order to measure the levels of interdependence, Waltz focuses on trade and investments. As far as trade is concerned, he argues, that states which used to have close ties in trading goods, such as Germany and Great Britain, became the greatest adversaries in World War I. That happened because the economic and political significance of trade depends on shifts in the products of which it is comprised. More specifically, if a state relies on imports it does not necessarily mean that it is dependent

for four reasons. First, the state's level on autarchy cannot be measured by imports but reliability of access is what it counts more. Second, the numbers of suppliers is also vital and not their location because the level of trade is proportional to the numbers of its suppliers. "The larger a country's trade, in absolute terms, the larger the numbers of its suppliers is likely to be" (Waltz, 1970:211). Third, there are domestic factors and interests which try to control the reduction of prices and fourth, dependency can decrease since new technologies provide substitutes which replace the initial materials.

As far as investments are concerned, Waltz argues, that "When the Great Powers of the world were small in geographic compass, they naturally did a higher proportion of their business abroad" (Waltz, 1970:214), and mentions that the route of businesses is intertwined with the difficulties that their governments have to face. In addition, corporations which are based in a state and use the state's capabilities and human resources, as American corporations do in the USA, promote their nation's perspective because of the suspiciousness among them and the level of limited cooperation which can be achieved. "Nations do not easily bring their policies into concert, and that is a comfort for the nation whose operations are global" (Waltz, 1970:220).

Defining "interdependence", Waltz argues that the differences in structure give rise to two dimensions, interdependence within and among nations, so he uses the term "integration" to describe the condition within nations and "interdependence" to describe the condition among them (Waltz, 1979:104). According to Waltz, in a self-help system each unit tries to protect itself against others rather than promoting its goods because it only worries about its survival. As Waltz mentions, "Even the prospect of large absolute gains for both parties does not elicit their cooperation so long as each fears how the other will use its increased capabilities" (Waltz, 1979:105).

On the other hand, a precondition for interdependence is cooperation but states are suspicious and worry that the division of their gains may empower others more than themselves. Also, this cooperation may make states dependent on others, regarding transactions such as goods and services, and the more a state specializes the more it depends on others. Consequently, states seek to limit their imports and exports. However, this does not apply to weaker states which are heavily dependent and worry how they will secure and maintain access to the goods they depend on.

Waltz also points that the behavior of states can be explained through vulnerability, which is the consequence of high levels of interdependence. That is to say that states try to control the levels of their dependence and therefore, they become more autarchic

and that is why they try to extend their interests. More specifically, Waltz argues that “interdependence” as a term is usually undefined; therefore, someone should first examine the common concept of interdependence, which is interdependence as sensitivity and vulnerability.

The term “interdependence” was most used by economists in market terms in order to describe the fact that everything in the world could, more or less, affect someone or something. In addition because of the internationalization of economic transactions, there was a belief that economic interdependence could lower the political significance of national boundaries. At this point, Waltz argues that the concept of interdependence in market terms should take into consideration the economic interaction of the units but without being affected by the ability of someone to use more capabilities or influence the market. Of course, this does not happen because economies operate under political orders and as Waltz argues “One cannot understand an economy or explain its workings without consideration of the rules that are politically laid down and the economic inequalities that prevail” (Waltz, 1979:141).

Furthermore, the higher the levels of sensitivity, the more states have to control the levels of their reliance on both foreign and domestic production and the more domestic economic policies should be adjusted to external economic conditions. In order to understand the level of interdependence, it is critical to focus on “the politics of international economics and not on the economics of international politics” (Waltz, 1979:142). However, competence among states and differences in their powers and capabilities form the field of study of international relations; therefore, the concept of interdependence should take into account two main points. The first is the structure of the international system and the way it affects the development and the actions of the units, which are states, and second, the variations of interdependence according to each nation’s capabilities. Nevertheless, despite the fact that interdependence as sensitivity entails vulnerability, it makes two errors. First, it considers the world as a whole and, second, it considers each unit either independent or dependent on different levels but all somehow interdependent.

On the other hand, considering “interdependence” as mutual vulnerability entails reciprocity among two or more states, meaning that both parties are mutually dependent. As Waltz mentions, “They are interdependent if the costs of breaking their relations or of reducing their exchanges are about equal for each of them” (Waltz, 1979:143). At this point, Waltz divides interdependence into quantity and quality.

Quantity refers to parties which are mutually dependent on large supplies of goods and services and quality refers to parties which are mutually dependent in more important and vital goods, which cannot be found elsewhere. In addition, he mentions that interdependence as mutual vulnerability has two components, total gains and losses, as a result of the interaction between the two parties, and the level of equality, according to which these gains or losses are distributed.

However, while states may act like units they do not interact like units because of their similarity and therefore, they might become more dangerous than useful to each other. Again, the cause is the structure of the system. When it changes, the extent of interdependence also changes because capabilities start distributing in different ways within the system. Moreover, interdependence is determined by the inequality of national capabilities and therefore, Waltz describes it as “relations among equals” (Waltz, 1979:144). The international system and its capabilities rely on the number of Great Powers so the more the Great Powers diminish, the more the level of interdependence decreases. Therefore, those who examine interdependence at a unit-level and through the lens of complexities, ignore a significant factor, which is none other than the system structure which affects states’ actions. Yet, the concept of interdependence has to be carefully used because economic interdependence depends more on the size and less on the number of Great Powers, “The larger a country, the higher the proportion of its business it does at home” (Waltz, 1979:145).

As for asymmetric interdependence, Waltz argues that everything affects everything but the critical point is the degree of this influence. For example, two states might not be mutually dependent, however they both affect each other. As he mentions, “The term “asymmetric interdependence” suggests that one notices this but wishes to avoid blunt reference to the unequal condition of nations” (Waltz, 1979:157).

3.1.2. Balance of Power

According to Bull (2002) the term “balance of power” describes a situation in which none of the powers can impose its own will and laws on the others and usually it refers to military power. However, there are four points which have to be mentioned, in order to give a clearer meaning to this concept. First, Bull distinguishes simple balance of power, which consists of only two powers, from complex balance of power, which

consists of three or more units. More specifically, the simple form of balance of power quite necessarily needs equality or parity regarding power, while this is not necessary with the complex balance of power because in case of inequality, smaller powers will create a coalition against the great power. As Bull states, “it has usually been held that complex balances of power are more stable than simple ones.” (Bull, 2002:98).

Second, he distinguishes the general balance of power, when there is not a preponderant power within the international system, “from a local or particular balance of power” (Bull, 2002:98), in a specific area or section of the international system. In addition, this distinction between general and local balance of power should not be confused with the distinction between dominant and subordinate balances and the dominant balance continues to be a particular balance and should be identified with the international system’s general balance.

Third, it is important to distinguish the subjective from objective existence of the balance of power. More specifically, it is different for someone to say that it is generally believed that there is no state which is preponderant in military power and different to say that in fact, there is no such a state “The problem of maintaining a balance of power is not merely one of ensuring that a military balance exists, it is also a problem of ensuring that there exists belief in it” (Bull, 2002:99).

Fourth, another distinction which has to be drawn is between the balance of power which is fortuitous and that which is contrived. As far as the first is concerned, it occurs without any conscious attempt by states and reflects a deadlock between two powers, where each of them fights for its own aggrandizement and therefore, each power acts rationally. On the contrary, a contrived balance of power occurs after the conscious political choices of, at least, one or both sides and usually, the one power tries to prevent the other from further developing its military capabilities and becoming more powerful, known as “holding the balance”. “This is a policy which presupposes an ability to perceive the plurality of interacting powers as comprising a single system or field of forces” (Bull, 2002:101).

Regarding the functions of the balance of power, the balance of power has fulfilled three main functions in the history of international system, whose positive effects were under criticism in the last century. In the first function, the balance of power prevented the transformation of the international system “by conquest into a universal empire” (Bull, 2002:102). Second, local balances of power protected the independence of states which could have been threatened by local preponderant powers and third, general and

local balances of power created the best conditions in order to preserve the operation of the institutions which compose the international order.

However, the main function of the balance of power is not the maintenance of peace but the preservation of the state system. War can occur only when this is the way to check a dominant state, therefore, the maintenance of peace is a subordinate objective of the balance of power but stable balances of power can remove any attempt or motive which can lead to war. Nevertheless, “the principle of preservation of the balance of power has undoubtedly tended to operate in favor of the great powers and at the expense of the small” (Bull, 2002:103).

In addition, Bull argues, that many advantages can be obtained through an advantageous position in international trade and investments, which can enhance the levels of military security, while a weak position in the field of nuclear deterrence operates as an impediment on the available options in other fields. Therefore, total power cannot be determined precisely, since its strategic, political, economic as well as psychological factors, cannot be measured.

On the other hand, a special aspect of the balance of power is nuclear deterrence. According to Bull, deterrence is credible if it fulfills three conditions. First, when there is a threat of punishment or deprivation from state A to state B, if the latter goes ahead with a specific action, second, when state B could possibly go ahead with this action, in a different case, and third, when state B considers that state A has the capacity and willingness and determination to realize its threat against it, then state B decides not to proceed with its initial action because the cost will be higher than not proceeding. Moreover, mutual deterrence does not necessarily concern nuclear or military power but it may include a wider range of actions under continuing threats. Also, it may concern both simple and complex relationships, that is, between two powers or more than three.

As far as the relationship of mutual nuclear deterrence and balance of power is concerned, Bull mentions that the idea is similar, however under other aspects is different. More specifically, between two powers, mutual nuclear deterrence is only a part of their balance of power, since the latter also involves other significant factors, which derive from national power. Second, unlike the balance of power which provides equality and parity, regarding military power, between two powers, mutual nuclear deterrence requires only enough nuclear weapons in order to deter a nuclear attack.

Third, while the balance of power as a concept is mainly objective, mutual deterrence is subjective, meaning, that the former depends on the real absence of a preponderant power and not on the belief of the existence of this absence. Fourth, while the main function of the balance of power is to maintain the international system and state independence, mutual deterrence has, as its primary objective, the maintenance of nuclear peace, that is to say a peace which is based on nuclear deterrence. As Bull mentions, “The preservation of peace among the major powers by a system in which each threatens to destroy or cripple the civil society of the other, [...], reflects the weakness in international society of the sense of common interest” (Bull, 2002:121).

According to Morgenthau (2006) the balance of power is a stabilizing factor among sovereign states and, as a general social principle, all units, which compose a society, owe their autonomy to the functions of the balance of power. Morgenthau divides up the social equilibrium, which is a synonym for “balance”, by dividing the balance of power into universal and domestic politics. As far as the universal concept is concerned, he argues that, “it signifies stability within a system composed of a number of autonomous forces” (Morgenthau, 2006:180), meaning, that equilibrium is in human nature, therefore, when a force tries to change the system, the latter tends to maintain the existing balance or create a new one.

Equilibrium, which also concerns economics and other social sciences, has two fundamental assumptions. First, all elements which are balanced are vital and necessary for societies and second, in case of an unbalanced condition, an element will attempt to establish superiority over others and will probably destroy them. Therefore, the main objective, for the stability of each system, is to maintain its equilibrium without, at the same time, destroying the different elements from which it is composed. “The means employed to maintain the equilibrium consist in allowing the different elements to pursue their opposing tendencies up to the point where the tendency of one is not so strong as to overcome the tendency of the others but strong enough to prevent the others from overcoming its own” (Morgenthau, 2006:181).

Regarding the balance of power in domestic politics, Morgenthau argues, that it is the next important application, after the international system. More specifically, a system of balance of power has developed within parliaments, which is composed of legitimated minorities and majorities, in order to promote the interests of each social group and at the same time to control the different interests of the others.

In addition, he mentions that there are two patterns with the struggle of power, where the balance of power plays a crucial role; the first concerns direct opposition and the other concerns competition. Regarding the first pattern, the balance of power fulfils two functions, the first is to promote and defend the stability of power among nations and the other is to prevent a nation from dominating others, thereby ensuring its freedom. “[...] the independence of the respective nations can rest on no other foundation than the power of each individual nation to prevent the power of the other nations from encroaching upon its freedom” (Morgenthau, 2006:186).

As far as the pattern of competition is concerned, although the function of the balance of power is identical with the first pattern, it is differentiated when it concerns a weak state where there are two powers fighting each other in order to dominate it. Therefore, the independence of a weak state depends on the power relations among other imperialistic powers. Nevertheless, Morgenthau points out that the independence of a weak state, not only depends on this function of the balance of power but also depends on “the preponderance of the protecting power” as well as on “their lack of attractiveness for imperialistic aspirations” (Morgenthau, 2006:188).

Furthermore, Morgenthau distinguishes four methods of maintaining the balance of power, which are “divide and rule”, compensations, armaments and alliances. According to the first method, a state tries to keep its competitors divided in order to distribute and separate all these factors which raise their power, and, in other cases, could become a real threat. Compensations, were mainly implemented in the eighteenth and nineteenth century and their objective was more to preserve rather than to make a concession of territorial sovereignty. In that way, a nation could exercise its influence without opposition from the other and vice versa, however, no nation would agree with compensation if there were not any expectations or “proportionate advantages” (Morgenthau, 2006:192), in return. The arms race, on the other hand, cause greater insecurity and fear, therefore, armaments are connected both with a state’s power and with maintaining or re-establishing the balance of power.

Regarding alliances as a method of achieving the balance of power, Morgenthau argues that they are necessary in a system composed of many nations, which consciously choose to enter into an alliance with each other, unless the cost of joining the alliance is higher than the distributed benefits, which reflect the struggle for power. In addition, alliances require common interests, which are mainly translated into common concerns of the enemy's determination and aggression, and rarely concern

measures which serve common policies on behalf of their interests. However, treaties play a significant role in that because they specify the terms under which cooperation will take place. Therefore, alliances can be distinguished according to their objectives and limitations, either mutual or one-sided, and their operation depends on the importance and strength of interests among the nations of which they are composed.

Another method of achieving the balance of power is called the “holder of the balance” or “balancer”, which is usually the third factor in a two-scale system but it is not determined by one or more nations’ policies. After distributing its weight according to which scale tends to sink more, the balancer’s main objective is to maintain “the relative position of the scales” (Morgenthau, 2006:205) and consequently, the balance of power, regardless of the policies the balance serves. Therefore, it consciously chooses isolation, becoming at the same time both the friend and the foe of the major powers, but, on the other hand, turns out to be the key determinant of the outcome of the struggle for power, as an “arbiter” of the system, and becomes the most significant factor in international politics because in that way it protects not only its own independence but also the independence of other states.

The structure of the balance of power consists of dominant and dependent systems. This derives from the fact that the international system is composed of subsystems which interact but dominant systems weigh more compared to the others because they are composed of dominant states. Therefore, dependent systems have greater autonomy away from the core of the struggle for power, which is carried out by dominant states in the dominant system.

Nevertheless, the balance of power can be measured only by quantitative criteria in order to be comparable with that of others, if one wants to be assured of whether a nation is revisionist or wants to maintain the balance of power. However, since no state can have concrete information at any moment, it should at least ensure that its errors will not put it at a disadvantage by strengthening the enemy’s position.

According to Mearsheimer (2001), when a power wants to prevent its opponent from changing the balance of power, it takes three measures. First, a state can send signals to its opponent through bargaining, that it is willing and determined to preserve the existing balance of power. Second, threatened states can cooperate by creating a defensive alliance, known as “external balancing” in order to impede their enemy. Third, in order to balance against their rival, threatened states can mobilize their

resources, by raising military expenditure or via conscription, known as “internal balancing”.

In addition, another option for balancing is buck-passing, which is a significant countervailing factor, and concerns states which make others deter their opponent for them while they remain on the sidelines. Buck-passing is an attractive choice especially for states which have to face many rivals and do not have the military capabilities required to deal with them. There are four measures that can make buck-passing operational. First and foremost, threatened states can have good diplomatic relations or improve existing ones with the aggressor, hoping that it will focus on the “buck-catcher”. Second, states which are the buck-passers, compared to their aggressor, have cool diplomatic relations with the buck-catcher because they do not want to get involved in war on their side.

Third, great powers can mobilize more of their resource in order to make buck-passing operational, by enhancing its defense capabilities and making the buck-catcher an easier target for the aggressor. Fourth, sometimes buck-passers allow and enhance the power of the buck-catchers, in order to successfully impede the aggressor, without the former getting involved.

In addition, regarding nuclear deterrence, Mearsheimer mentions that although states with nuclear capabilities will not dare to attack each other, security competition is not eliminated at all because the conventional forces of the land power will still be the most significant determinant of military power.

Waltz (1979) argues that the basic assumption of the theory of the balance of power is that states are unitary actors and their main objective is either their own preservation or world domination. Therefore, states focus on either internal efforts by increasing their economic, military and strategic capabilities, or external efforts by increasing their alliances or diminishing the power of the opposing side. “Balance of power theory is microtheory precisely in the economist’s sense. The system, like a market in economics, is made by the actions and interactions of its units, and the theory is based on assumptions about their behavior” (Waltz, 1979:118).

Moreover, theory of the balance of power does not offer any explanation about states’ behavior, which is why it is often criticized. Instead, it focuses on the motives of the states and explains their results, however, it is not necessarily the case that these intentions of each unit produce the specific result. “To contrive and maintain a balance may be the aim of one or more states, but then again it may not be” (Waltz, 1979:119).

Therefore, for Waltz, although the theory of the balance of power does not explain states' interests and motives, it explains constraints, which, in combination with internal characteristics, can offer many clues about the expected reaction of states. In addition, Waltz argues that the imbalance of capabilities within the international system is critical for both strong and weak states because the former may seek to extend their control. Therefore, maintaining the balance of power is a significant factor for states' safety, regardless of their power. "Each of the states within the arena of balance will have at least a modest ability to maintain its integrity" (Waltz, 1979:132).

3.1.3. National Security

Especially during the Cold War period the concept of security mainly concerned national security, which was determined by a state's military capabilities. However, many scholars developed their arguments by extending the initial ethnocentric concept of security. More specifically, Buzan argued that security also concerns environmental, political, economic and other domestic factors. "Unless the internal dimension is relatively stable as a prior condition, the image of the state as a referent object for security fades into a meaningless blur" (Buzan, 1983:69) and "security is taken to be about the pursuit of freedom from threat and the ability of states and societies to maintain their independent identity and their functional integrity against forces of change which they see as hostile" (Buzan, 1991:432).

Additionally, Buzan (1983) places the concept of security on three levels because it remains a relative concept. The first concerns individual security, the second, a state's (national) security and the third international security. In addition, he mentions, that threats, and the international political and economic system are important determinants of security.

As far as the first level of security is concerned, Buzan argues that individual security is a social problem because any threat which affect human's life has social implications and they are unavoidable. These threats are physical, economic, threats to rights and threats to status. However, a state can also become a threat against the individual and this, according to Buzan, is a paradox, which can be explained if one considers that the state has two natures. One nature is based on John Locke's principles for a social contract, so in this case individuals compose the state, and the other nature is based on

the assumption that the state exists by itself and should be considered “more than the sum of its parts” (Buzan, 1983:22). Therefore, the threats of the state against the individual concern domestic law-making and enforcement, political action, control over the state machinery as well as external security policies.

As far as the second level of security is concerned, Buzan considers the state as an object of security, meaning that, “National security cannot be considered apart from the internal structure of the state” (Buzan, 1983:69), since the latter’s base is physical and depends on individual. In addition, states because of their different components are also vulnerable to different kinds of threats. If these threats affect the institutional expression of the state, then it becomes weak. Whether a state is strong or weak “is vital to any analysis of national security” because a state’s power refers to economic and military capabilities. (Buzan, 1983:66).

Regarding the third level of security because of the relative concept of security, the anarchical international system and all of its complexities as well as the security dilemma, will not let any actor attempt to increase the levels of its own security. “The weakness of the national security strategy by itself is that it cannot escape from the interactive consequences of its own effect on the system” (Buzan, 1983:219). In addition, given that states are suspicious of each other, a strategy of international security would be doomed because it would be based on states’ relationships. Therefore, the most appropriate tool for threat reduction is alliances, which are part of the balance of power because not only do they distribute power but also put national security policies together. Nevertheless, “Any regime with access to cash will still have access to supplies of modern weapons” (Buzan, 1991:445).

According to Wolfers (1952) because of the Cold War and the threats of aggression, the concept of “national interest” was synonymous with “national security”. However, national security has a symbolic concept. It is an “Ambiguous Symbol” mainly expressed by those who do not trust the efficiency of international cooperation and believe that their government underestimates the external dangers. The relationship between national security and power and wealth is direct because it depends both on maintenance of the state’s resources and the state’s degree of influence upon others, in order to promote its interests. Therefore, national security is specified by the absence of threats and fear, which allow a state to survive or to maintain its position within the international system.

On the other hand, the sustainability of national security has social repercussions. More security requires more armaments and more armaments require higher tax rates and less social benefits. In addition, it is doubtful if this effort for more security is efficient because it makes other states suspicious about the real intentions of the state which supports these actions. Therefore, “[...] nations will be inclined to minimize these efforts, keeping them at the lowest level which will provide them with what they consider adequate protection” (Wolfers, 1952:488).

Moreover, Wolfers argues that the real cause of why states seek security is the demand for more power. Assuming that security can operate as a deterrent for aggressive external threats, it means that the threatened state must at least raise the levels of its military power in order to be able and capable of facing its enemy or deterring attack. Of course, these decisions will depend on internal variables such as ideology, expectations and the objectives of the policy makers. Additionally, “Security [...] may be an intermediate rather than an ultimate goal” (Wolfers, 1952:492). According to this argument, values such as justice, individual liberty and peace can also be considered equal to the traditional values of national security for a state’s independence.

3.1.4. Conclusions

The concepts of economic interdependence, balance of power and national security have been analyzed in order to highlight the different approaches to them. As far as the first concept is concerned, there are two points which have to be mentioned. First, when someone refers to economic interdependence among states, he actually means asymmetric interdependence. That is because trading goods and capital, regardless of the sector they are intended to be used in, can be found either from other partners, since the world is dominated by world trade, or can be substituted by similar products.

The concept of “interdependence” mainly concerns situations of mutual dependence in vital products. For example, if there is a country which is the only one which produces A but lacks B and another country which is the only who produces B but lacks A and these products are vital for the states’ survival, it can be argued in this case that there is pure interdependence between the two countries. This, should not be confused with “dependence” which occurs when one state needs vital products which are produced

only by another state and the latter does not necessarily need the former's products in order to survive, nor with "asymmetric interdependence" which occurs when, according to Waltz, two states are not mutually dependent, however they both affect each other, meaning that there is either a high or low cost in case of disruption.

Second, as a consequence of the first point, from a Realist perspective, the existence of asymmetric economic interdependence in international politics cannot reduce the struggle for power among states, which is vital for their survival. Given that all states are unequal, regarding their levels of power, more cooperation and interdependence means less control and influence especially for the weaker side. According to Waltz (1979), suspiciousness among states does not allow them to cooperate on a large scale because they fear that the absolute gains from cooperation will lead to the development of the other's capabilities and, therefore, to a rise in its power and the extension of its influence.

Regarding the balance of power, from a Realist perspective, a state can either deter aggression from another state or eliminate the lack of power in relation to another state. Therefore, the balance of power is vital for the system's stability because it deters world domination by one power. In addition, the balance of power can be achieved from a state-balancer or by buck-passing from states which do not want to get involved in war or similar situations. Moreover, another method of balance is nuclear deterrence. Given of the sheer scale of the disaster they can cause, nuclear weapons deter an escalation of a crisis which could lead to war. However, as Mearsheimer (1991) mentions, this does not provide security because land forces remain the most significant factor of a state's power.

At this point, it is important to mention that the balance of power does not necessarily concern only large-scale issues. All of its functions which have been mentioned concern great powers and the international system before war. Nevertheless, someone should take into account the role of the balance of power in situations of disputed areas during interstate conflict and how it is promoted, even between nuclear powers, such as India and Pakistan, in order for the threatened state to maintain its national security.

Furthermore, the concept of security is complicated because international relations are comprised of theories which perceive reality from different perspectives such as Realism and Liberalism, or which consider that there is no external objective reality but that reality is determined by how man views it, such as the theory of Constructivism,

for example. Consequently, the definition of security presupposes a combination of an assumption about the status quo as well as the causes which led to that situation. For example, acceptance of anarchy in the international system presupposes the existence of states as dominant actors which promote their interests.

In addition, security is a concept which exists in all aspects of human activity. For example there is individual security, social security, cultural security, political security, national security and international security. Each sector is aimed at different sets with different features and how one ranks their importance varies depending on how one perceives reality. For the Realist perspective, national security is of high significance because it maintains a state's conditions for survival. In each case, regardless of the differences in the forms of security, there is one common aspect which imbues and utterly determines the meaning of the concept, and that is fear of change in the status quo for the worse. This fear exists innately in the individual, in society, in political regimes, in the state and in the international system, as a survival impulse.

In the case of state and national security, the impact of any change directly affects most of the state's internal structures, either in the short or long term. Therefore, anything which can change a state's capabilities for maintaining its power and influence for the worse can be considered to be a matter of national security.

3.2. Literature Review

3.2.1. Introduction

In this section, it is critical to review what has been already examined regarding the relationship between economic interdependence and interstate conflict. The aim is to create a clear picture about this issue and moreover, to highlight the gaps and all the factors that have not been taken into consideration.

3.2.2. The discussion on the relationship between economic interdependence and interstate conflict

The discussion on whether trade promotes peace is still unclear and has not been examined yet in all its theoretical aspects. More specifically, from 1996 to 2013, this discussion was dominated by liberal and a few neo-Marxist approaches while the absence of Realism was noticeable.

The main point is that there is a direct connection between trade and conflict, in other words, between economic factors and security issues. Most of the authors argue that not only does trade promote peace, but also that conflict decreases trade (Long, 2008). According to the Liberal Interdependence approach, the division of labor in the international economy is the main determinant, creating high levels of interdependence between states thereby preventing them from engaging in militarized conflict and war. The Liberals are based on Keohane and Nye's (1977) complex interdependence approach, on the role of International Institutions as well as on Democratic Peace.

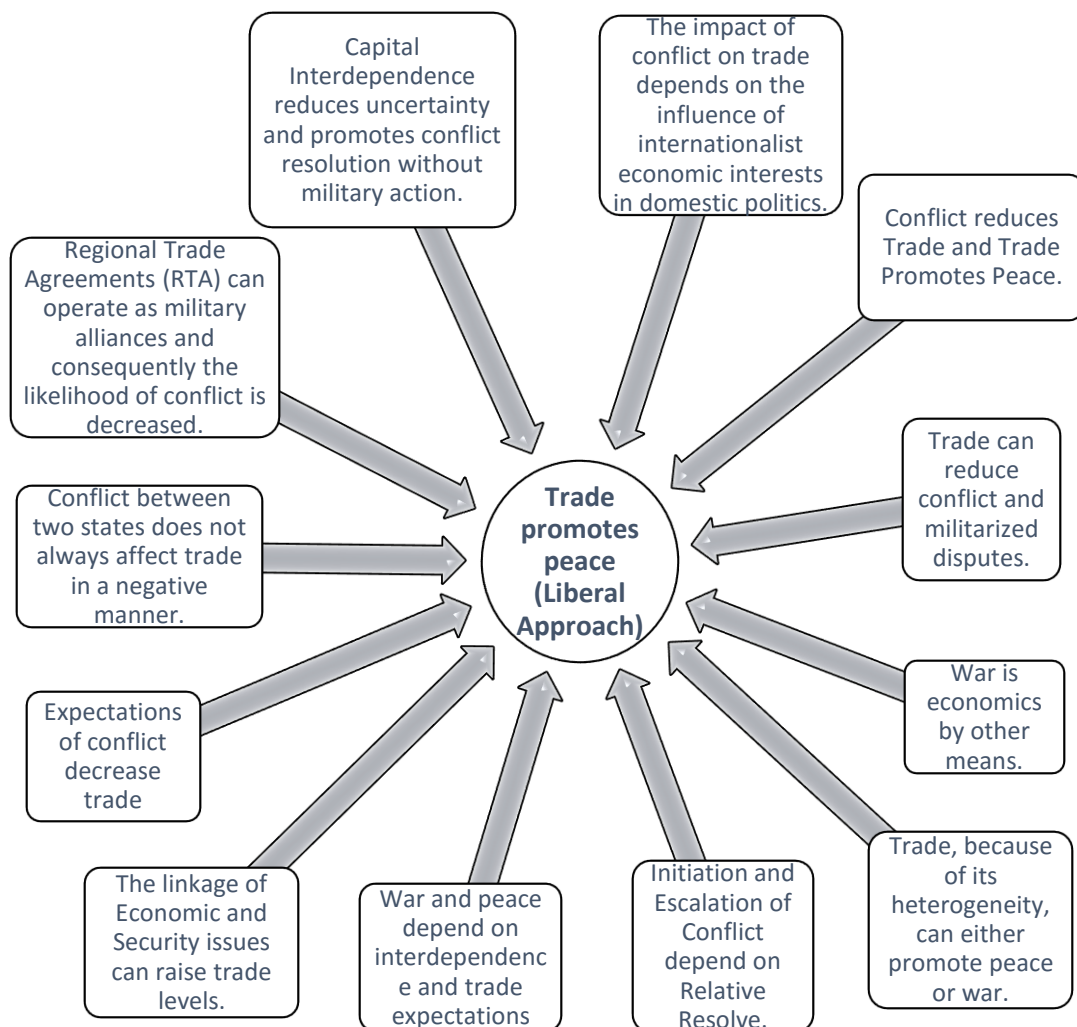
As far as complex interdependence is concerned, some of the arguments are that prosperity is more important than security issues, economic and institutional means are more efficient and useful than military power and within the international system, transnational actors and not states are the dominant players. For example, Martin, Mayer and Thoenig (2008) have argued the globalization of trade flows is the main factor which defines the nature of conflict.

Regarding the International Institutions, Liberals argue that cooperation among states is determined by international institutions because they act independently, providing international cooperation. Thus, suspiciousness among states is reduced and consequently, in case of disagreement there can be a peaceful resolution. For example,

Powers (2004) has argued that Regional Trade Agreements (RTA) can operate as military alliances and therefore can decrease the likelihood of military actions.

As far as Democratic Liberalism is concerned, Liberals argue that peaceful relations between states depend on the level of their democratic regime. Between Democracies, the levels of economic cooperation and interdependence are high because of their common perceptions about peace and other fundamental ideas, and therefore they always prefer a peaceful resolution to their differences. In addition, democratic peace is more a dynamic process than a stable situation, and the more states embody democratic structures, the more they promote peaceful relations between them. For example, Long (2008), in order to support his argument, is based on a state's democratic regime and its influence on trade and firm's expectations regarding the configuration of the conflict. All these assumptions are illustrated in Figure 1.

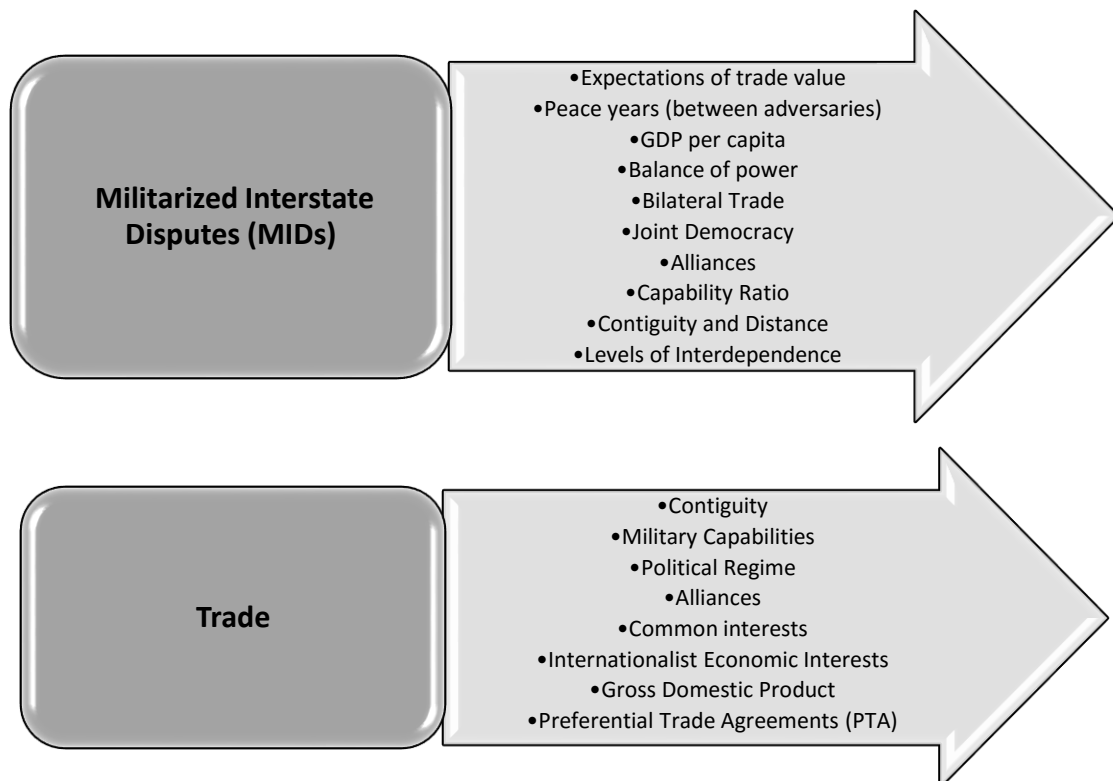
Figure 1: Liberals' Arguments



On the other hand, the independent variables of low politics defined the analytical framework under which Liberals supported their arguments, and they examined their hypotheses through econometric models and statistical analysis. More specifically, alliances, trade flows, Gross Domestic Product, contiguity as well as political regime have been the most common variables, among others, used by the Liberals as observables factors. Some other authors differentiate their approach by taking into consideration variables such as trade expectations (Copeland, 1996), common interests (Li and Sacko, 2002), interaction between domestic politics and the international system (Kapstein, 2003), income ratio (Martin, Mayer and Thoenig, 2008) as well as Preferential Trade Agreements (Herge, Oneal and Russet, 2010; Long, 2008).

There are also some differences regarding the dependent variable since half of the Liberals have considered trade to be the dependent variable (Barbieri and Levy, 1999; Long and Leeds, 2006;) compared to others (Copeland, 1996; Oneal and Russett, 1999; Gartzke, Li and Boehmer, 2001; K. Powers, 2004; Martin, Mayer and Thoenig, 2008; Li and Reuveny, 2011), who considered Militarized Interstate Disputes (MIDs), as the dependent variable. The variables that have been used are set out in Figure 2.

Figure 2: Liberals' Independent and Dependent Variables



Apart from the Liberals, there are also some other approaches which contribute to the discussion, by focusing more on relative gains and cooperation, the role of international political economy on security issues, economic policies and their role on national security (Lieberman, 1996; Mastanduno, 1998; Kirshner, 1998) and also, some Liberals examine the opposite question, which is, whether conflict affects trade, using the same methods and variables (Li and Sacko, 2002; Kastner, 2007; Herge, Oneal and Russet 2010; Long, 2008) but these approaches can also be viewed as part of the discussion on conflict resolution. Table 3 below summarizes the key points that have been made so far, with regard to the relationship between economic interdependence and conflict, in line with the points mentioned above.

Table 3: Key points of Liberal approaches

| Author | Argument | Dependent Variable | Independent Variables |
|-------------------------------|--|--|---|
| Liberman (1996) | Relative economic gains do not affect cooperation in a multipolar international system | Restriction of economic cooperation | Political-military relationship. Offence-defense balance. System structure Wealth. |
| Copeland (1996) | War and peace depend on interdependence and trade expectations | Likelihood of War | High levels of interdependence. Expectations of trade value. |
| Mastanduno (1998-1999) | Economic policies are supportive of security issues | Intersection between studies of international security consequences and economic interaction among states. | International Structure. State's position in International Economic Competition. The role of the policy-makers. Economic sanctions |
| Kirshner (1998) | International political economy should not be distinct from security studies. | The Economic Sustainability of Security | Coercion. Influence. Dependence. Autonomy. |
| Rowe (1999) | Economic expansion affected the ability of the Great Powers to enhance their | National Security | International Economy. Economic constraints. Trade |

| | | | |
|---------------------------------------|--|---|--|
| | security means in Pre-World War I Europe. | | |
| Barbieri and Levy (1999) | Realists and Liberals' arguments are not sufficient to examine economic interdependence and conflict. | Dyadic Trade Relationship During War | Dyadic Trade Relationship. War Level. War Rate. |
| Oneal and Russett (1999) | Trade can reduce conflict and militarized disputes. | Disputes Decision-makers | Economic Interdependence. Joint Democracy. Alliances. Capability Ratio. Contiguity and Distance |
| Morrow (1999) | Initiation and Escalation of Conflict depends on Relative Resolve. | Resolve (Game-theoretic model) | (Observable Factors) Trade flows. Contiguity. Military Capabilities. Political Regime. |
| Gartzke, Li and Boehmer (2001) | Capital Interdependence reduces uncertainty and promotes conflict resolution without military actions. | MIDs | Bilateral Trade. Regime type. GDP per capita. Contiguity. Allies. Balance of power. (Correlates of War) |

| | | | |
|--------------------------------|---|---|---|
| Li and Sacko (2002) | Conflict between two states does not always affect trade in a negative manner. | Trade | Disputes. Common interests. Democratic regimes. Security alliances. |
| Kapstein (2003) | War is economics by other means. | Economic Influence on National Security | Economics of conflict. Interaction between domestic politics and international system. Trade. Alliances. |
| K. Powers (2004) | Regional Trade Agreements (RTA) can operate as military alliances and consequently the likelihood of conflict is decreased. | Militarized Interstate Conflict | Contiguity. Trade flows. Allies. |
| Long and Leeds (2006) | The linkage of Economic and Security issues can raise trade levels. | Dyadic Trade | Common foreign policy interests. Military alliances |

| | | | |
|---|---|---|---|
| Kastner (2007) | The impact of conflict on trade depends on the influence of internationalist economic interests in domestic politics. | Trade | Distance. Conflicting Interests. Gross Domestic Product. Strength of Internationalist economic interests. |
| Martin, Mayer and Thoenig (2008) | Globalization of trade flows defines the nature of conflict. | Occurrence of Militarized Interstate Conflict | Bilateral and Multilateral trade over income ratios |
| Long (2008) | Expectations of conflict decrease trade | Exports | GDP. Geographic Contiguity. Allies. Domestic Political Regime (Democracy). Preferential Trade Agreements (PTA). |
| Herge, Oneal and Russett (2010) | Conflict reduces Trade and Trade Promotes Peace. | Long's Gravity Model | Gross Domestic Product. Preferential Trade Agreements. Balance of Power. |
| Li and Reuveny (2011) | Trade because of its heterogeneity, can either promote peace or war. | Conflict MIDs | Contiguity. Alliance. Balance of Power. |

| | | | |
|-----------------------------|--|------|--|
| Goldsmith (2013) | Trade interdependence is capable of deterring the initiation of conflict but trade volume makes onset of a conflict more likely. | MIDs | Democratic Regime. Military alliances. Military capabilities. Power ratio. Political regime. Distance and Contiguity. Peace years (between adversaries). |
|-----------------------------|--|------|--|

More precisely, Liberman (1996), focuses on relative economic gains. He examines when states are forced because of security issues, to restrict economic cooperation and argues that it is doubtful for relative economic gains to interfere with cooperation, in a multipolar international system. He also argues that wealth is the most important determinant for both military capability, and many other means of influence and cooperation among states which are formed around wealth, affect both prosperity and security. States, as rational players, will first evaluate the consequences of any cooperation on their security and then they will plan their economic foreign policy.

Relative gains are affected by three factors. First, the political-military relationship, second, the offence-defence balance and third, the structure of the system. States are both more or less sensitive to relative gains and according to Griego (1990) and Mastanduno (1991), there are some cases of relative gain conflicts which are motivated by security issues. On the other hand, according to Gowa and Mansfield (1993), trade between allies is higher than that with non-allies given that the international system is bipolar. Liberman refers to the above in order to highlight his argument that when there is a small gap in relative gains, it is enough to change the relative power, while at the same time increasing the duration and the importance of the threat.

Liberman considers that if, in a multipolar international system, relative-gains concerns did not manage to interrupt commercial relations between states, especially under a threat of war, then it would be impossible to eliminate cooperation among much more secure states. Especially now that nuclear deterrence works, the Great Powers would be unlikely to stop their economic cooperation over security concerns unless the military self-sufficiency was at stake.

In order to assess his argument, he first examines the interaction between relative gains and national security. The issue of relative gains derives from the Realist approach, according to which factors such as political and military relationships, system polarity and defence-offence balance, determine a state's behavior towards adverse relative gains. Furthermore, states which gain less than their potential enemy will reconsider or limit their cooperation. Consequently, since gains contribute to military power, trade among allies is safer than trade with adversaries.

A state's sensitivity to relative gains depends on three factors. As far as the first is concerned, Liberman focuses on the magnitude of the threat. When it seems impossible that war will happen, states do not worry that much about changes in relative gains. On the contrary, states fear relative gains of other more powerful, armed state located

closer to them because the threat is affected both by geography and military technology and its credibility is significant for goal achievement. Regarding the second factor, the duration of the threat also affects a state's sensitivity to relative gains and its repercussion on national security. That is because with a short-term threat states react immediately, while with long-term threats capabilities in the military and economic sector are always of high importance and consequently competition between states in conflict is continuous.

The third factor is the structure of the international system. The variability and the direction of the threat is affected by system structure because a potential bilateral economic conflict would negatively affect not only the states involved but also other states which cooperate with each other. Given that allies and rivalries change over time in a multipolar system, the relative gains are reduced because each state avoids dealing with the cost of reducing cooperation with a rival for security reasons. On the contrary, in a bipolar system the rivalry of the two Great Powers is continuous and permanent because only the one side can credibly threaten the other, making them seek out ways to enhance their relative power. As a result, superpower and smaller states begin to create alliances within the system, and the latter must be generous and loyal to the superpower in order to maintain their security.

Lieberman also points that states can negotiate equal gains through trade because the gain that derives from the exchanged goods depends on the size of the state's economy, its level of development and resources. Furthermore, some goods are more important than others and have a multiple impact on the state's economy. Consequently, by embargoing such products the economy of the dependent state will be damaged and conversely, by exporting such goods, the importer state enjoys more relative gains.

Therefore, states with small economies seem to have the greatest gains among other trading partners in contrast with states with equal economies, in which relative gains are balanced. Moreover, states do not trade goods of strategic importance with their enemies because only exports of military technology can alter the military balance of power given that the impact of gains from trade is not immediately reflected in the economy and it takes many years of economic cooperation for states to reach a point of threatening others. Actually states fear future threats and how they are going to shape their economic cooperation unless some slight changes in military capabilities are enough to provoke security issues. In any case, the impact of economic gains is

low in a multipolar international system so states will focus on both prosperity and the political objectives of trade.

Liberman also examines the sources of relative gains concerns, such as the pursuit of security and welfare, in order to contribute to the general discussion. He argues that because of their continuous economic competitiveness for prosperity it is possible that states will fight not over security issues but for relative gains. Also, according to the strategic trade theory, states use subsidies in order to enhance their national economic growth and the economic competency among them is not affected by system structure, the offence-defense balance or the political and military relationships but is affected by economic variables, such as market advantages and transferred technologies.

He also claims that the Realist approach applies only in cases where security concerns threaten relative gains and that Criego's (1990) and Mastanduno's (1991) studies about the "security-motivated relative-gains conflicts" showed that that happened only for economic power and competitiveness. For example, in the 1980s the United States was concerned not so much about military security but about its effectiveness in the Japanese market. On the other hand, he argues that there are two problems regarding the conflicts observed by Criego (1990) and Mastanduno (1991). The first is that there are no evidence proving that it was all about autonomy and not prosperity, which led the decision-makers to implement their policy. Second, the connection between relative economic gains and autonomy is unclear, as is the question of how gaps in the former affect the latter.

In order to show that security issues do not affect the sensitivity of relative-gains in a multipolar international system that much, given that the fall of economic warfare in the 1960s is compatible with his hypothesis that "sensitivity depends on the degree of specific threats", Liberman focuses on two case studies. The first is the relations between Britain and Germany before World War I, from 1890 to 1914 and the second is the relations between the USA and Japan in the period 1930-1941. In these cases, at least one side was facing security issues and unfavorable gains, and the international system was multipolar.

As far as the first case is concerned, Britain had a powerful navy to defend its territorial integrity but a few years later Germany threatened the balance of power, by empowering and expanding its military capability. Britain responded by bringing back its navy from overseas and increasing naval spending. On the other hand, although the British economy remained larger than Germany's, for British policymakers, trading

with Germany was of great importance. So, despite the security fears, economic cooperation between the two countries remained and Britain depended on military hardware imported from Germany. In addition, there were few trade restrictions and the British policy of free trade was increasingly promoted.

As far as the second case study is concerned, although Japan was a smaller power than the USA, it was militarily capable of changing the balance of power and of threatening the US' interests. The United States responded, as expected, by raising military spending and intensifying diplomatic talks. Even in this case study, all the above had little effect on bipolar trade between Japan and the USA. Commerce not only increased but also the US government admitted that Japan depended on US trade and especially on oil. The US did not manage to impose any economic sanctions such as embargoes or tariffs on Japan and trade between them finally stopped after Japan's invasion of southern Indochina.

Lieberman concludes that states did not restrict trade with their enemy which was gaining relatively more. On the contrary, they continued their economic cooperation by controlling the rival's relative gains without using strict economic sanctions because they thought that this would provoke their enemy and then they had to face a serious security issue. On the other hand, factors such as vulnerability in some sectors of the Great Powers and the influence of the decision-makers may limit the research, but the international multipolar system does not provoke economic war with the same degree of intensity that Realists have argued for. Summarizing these points, the Table 4 below illustrates the main argument that Lieberman makes in his paper.

Table 4: Liberman's Argument

| | |
|--|--|
| MAIN ARGUMENT | “Relative economic gains do not affect cooperation in a multipolar international system” |
| Variables | <p>Dependent:</p> <ol style="list-style-type: none"> 1. Restriction of economic cooperation <p>Independent:</p> <ol style="list-style-type: none"> 1. Political-military relationship. 2. Offence-defense balance. 3. System structure. 4. Wealth. |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. if relative-gains concerns did not manage to interrupt commercial relations between states, especially under a threat of war, then it would be impossible to eliminate cooperation among much more secure states 2. Wealth. 3. State's sensitivity to relative gains. |
| Outcomes | <ol style="list-style-type: none"> 1. States worry more about the cost of ending economic cooperation with their enemy unless there is military inefficiency. 2. Security issues do not affect trade and economic cooperation. 3. Multipolar system does not provoke strict economic conflicts. |

Copeland's (1996) main question is, if and whether economic interdependence increases or decreases the possibilities of war among states. The reason for this question is the fact that by the end of the Cold War trade levels between the two main powers, Russia and the United States, started growing. His main argument is that high levels of interdependence and expectations of future trade are the variables which help a state decide either to go to war or remain peaceful.

Regarding the theoretical approach, Copeland tries to combine the Liberal's argument with that of the Realists, claiming that both of the arguments can be verified. Liberals argue that interdependence is a sufficient factor which deter states going to war, simply because the cost of limiting trade will be bigger. On the other hand,

Realists argue that high interdependence actually provokes states into going to war because in an anarchic international system, states worry about their security. In order to ensure access to vital resources, they will not allow high levels of interdependence because they can be blackmailed and this puts their security at risk.

For example, before World War I, although trade levels between the great Powers was high, war was not prevented. However, during the interwar years, Germany and Japan were led into war when their interdependence reached a lower level. According to his theory, there is a new variable, the expectation of future trade, which affects the decision of states about whether or not to go to war. Furthermore, high interdependence can also lead either to war or peace depending on the expectations of trade. If a state expects that the trade levels will rise, meaning that it has high trade expectations, then the argument of Liberals is verified. On the other side, if there is high level of interdependence and low level of expectation, the argument of the Realists is verified. With the proposed model, Copeland explains why high levels of trade did not prevent Germany attacking in 1913-1914 in order to ensure her access to vital resources. In addition, it also explains the fact that during the Cold War, from 1970 to 1989, the Soviets had high levels of trade expectations with the USA because of positive signs which led the two countries to cooperate and reduced the possibilities of war.

In order to extend his analysis, he first focuses on the assumptions made by the Liberals and Realists and compares them regarding economic interdependence and war. For the former, trade gains are so important that they overcome the potential gains of war. As Richard Rosecrance mentions, states must choose their position in the international system under the prism of trade or military capabilities, and separates them into "*trading states*" and "*territorial states*". In any case, trade is more profitable than war.

On the other hand, Copeland develops the realistic approach, according to which high levels of interdependence heighten the likelihood of security issues because states, which depend on vital resources, will do anything in order to ensure their access to them will be continuous. As Kenneth Waltz (1979) argues, states must control their vulnerability within the international system by eliminating their dependency on vital resources. Also, for Mearsheimer (1992), states that are dependent on critical supplies will try to assure their access by extending their control over the source of these supplies. In other words, they will be willing to sacrifice peace for their survival.

By comparing the assumptions of the two theories, Copeland emphasizes his analytical framework, according to which each state is a rational actor in an anarchic international system which focuses on the future expectations of costs and benefits in order to maximize its wealth and therefore its security. In case of high interdependence and low trade expectations, the state probably will go to war. On the contrary, in case of high interdependence and optimistic expectations for future trade, the state will continue its cooperation and peaceful development.

As far as the Liberals are concerned, Copeland argues that their theory lacks a critical question, which is how the decision-makers choose to combine the future expectations of trade between war and peace. The same can be said for the Realists too, taking into consideration that both of them consider the future according to their preconditions. For this reason, he argues that his theory explains how a state takes its decision to opt for war or peace, by providing a new variable - the expectations of future trade - which has not been taken into consideration by the two theories mentioned above.

At this point he mentions a very significant precondition: the state's ability to foresee whether the expectations of trade will be high or low. For example, when a state trades it specializes in the products that it exports, and this gives it a comparative advantage which then returns as an internal benefit. Consequently, the potential cost of a sudden trade limitation will be high enough for a state to consider that the expectations of future trade are becoming lower.

Furthermore, the level of dependence must also be taken into consideration as must the value of trade. For example, if we have two states with compatible economies where one lacks vital resources that the other produces and exports, then the first is highly dependent. In this case the dependent state must consider future expectations in order to maintain free and open trade, otherwise the trading cost will be high enough to provoke conflict between the states. Consequently, expected value is the determinant which affects the state's decision about war or peace.

In order to examine his working hypothesis, according to which war or peace is predictable depending on the expected value of trade, Copeland gives four examples and then moves on to look at two case studies. In the first, German leaders in 1914 were convinced that German trade would be undermined by the other Great Powers. In the second, the Soviets, during the Cold War, were dependent on western technology and that gave them more reasons to believe that the expected trade value would be high.

Regarding the next two examples, Copeland also focuses on a Realist approach, according to which no conclusion can be drawn without considering the relative balance of power. For example, Iraq invaded Kuwait in 1990 because it was militarily able to do so and it could successfully absorb Kuwait's economy. On the contrary, in the Peloponnesian War, where the two powers were equal, the war was costly and consequently the expected value was negative.

As far as the case studies are concerned, Copeland focus on Germany in World War I and World War II for two reasons. The first is that Germany lost the wars, so, internal documents are available in order to release the grand strategy of a Great Power. The second reason is that wars between Great Powers "*minimize the problem of overdetermination*" because, apart from Great Powers, there are also smaller powers involved in the wars.

In first case study, Germany saw its economic cooperation with Britain collapsing after the British "*denunciation*" of the 1865 Treaty, and it was clear to them that the United Kingdom would be against them in any economic activity. On the other hand, the German population was growing. Consequently domestic resources would no longer be sufficient. In addition, there was a major obstacle to German trade because the other Great Powers, France and Russia, tried to isolate the German economy, by preventing it from penetrating into the Middle East and France. Thus, the fear that high dependence on vital goods was growing combined with economic restrictions imposed by the rest of the Great Powers.

At this point, trade expectations were declining, German dependence on vital goods was high and it was inevitable that it would seek out new economic areas. All these factors contributed to and reinforced Germany's decision to go to war. In the second case study, there are similar characteristics. Although Germany was capable of exercising military power, it still depended on others for vital resources, and this perception legitimated a war for survival. In addition, there were continuous economic constraints, such as high tariffs, which once again led Germany go to war.

Copeland concludes firstly that the level of dependency is a significant indicator which interacts with trade expectations. When these expectations are positive, then states invest more in cooperation because they believe that they will continue to absorb relative gains through this process. On the contrary, if states have negative expectations, meaning that they fear losing the vital goods on which they depend, they behave aggressively and they are willing to either engage in conflict or go to war. Of

course, the restrictions of the theory are high levels of interdependence and low trade expectations, giving some various examples, such as Russia with the countries of the Former Soviet Union and USA with Iraq, and supports the liberal view, rejecting the view of Realists, who argue that interdependence causes conflicts between states. Summarizing, the Table 5 below illustrates the main argument that Copeland makes in his paper.

Table 5: Copeland’s Argument

| MAIN ARGUMENT | “War and peace depends on interdependence and trade expectations” |
|--|--|
| Variables | Dependent: <ol style="list-style-type: none"> 1. Likelihood of War Independent: <ol style="list-style-type: none"> 1. High levels of interdependence. 2. Expectations of trade value. |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. In the case of high interdependence and low trade expectations, the state will probably go to war. In the case of high interdependence and optimistic expectations of future trade, the state will continue its cooperation and peaceful development. |
| Outcomes | <ol style="list-style-type: none"> 1. The level of dependency interacts with trade expectations. 2. The view of Liberals is confirmed and reinforced by the specific theory. |

Mastanduno’s argument in “Economics and Security” (1998) is that economic policies are supportive of security issues and that they are primarily based on three variables. The first is the structure of the International System, the second is the role of policy-makers and the third is the state’s position in international economic competition. Regarding the first variable, the international structure is important because the system determines if a state will be cooperative in order to achieve further integration or the opposite. More specifically, a bipolar system provokes the separation of economics and security because states, and much more Great Powers, tend to be more independent. On the other hand, a unipolar system urges the dominant state to protect its sovereignty and its position within the system.

Regarding the second variable, it is important to evaluate policy-makers' perceptions about national security and economics. In the USA for example, when there was immediate pressure on their security strategy, policy-makers tended to integrate the methods of statecraft. On the contrary, the more peaceful the international system was the more US officials promoted both economic and security interests separately. This occurred mainly during the Cold War. When the US strategy of containment was threatened, the utility of economic statecraft was remarkable in order to enhance security objectives.

The state's position within the international economic system is the third variable. Mastanduno again gives the example of the USA. The more dominant the state was the more economic statecraft was used only complementarily in national security objectives. On the other hand, when the dominant position of the US was threatened, foreign policy was used in order to secure national economic objectives.

Furthermore, Mastanduno (1999) argues that there is an intersection between studies of international security consequences and economic interaction among states, for example, in how a state shapes its economic statecraft in order to achieve its strategic objectives and vice versa. This is based on three levels: a) negative economic sanctions are used to defend the national interest, b) positive economic sanctions are the key for national security and c) intervening variables, which combine the existence of peace or conflict and economic interdependence.

As far as the first level is concerned, Mastanduno argues that economic coercion after World War I made many scholars believe that it was a reliable alternative to military force because of the interdependence between states that would make them reluctant to risk their economic stability and the benefits of trade inflows and outflows. But this perception did not last long, especially after the end of World War II. During the 1960s and 1970s, there were many economic sanctions between states, for example US sanctions against Cuba and Arab sanctions against Israel; although they caused serious problems they did not change the state's behavior.

A decade later, according to Mastanduno, David Baldwin (1985) took this view one step further arguing that the use of economic sanctions is a set of many different parameters, conditions and goals and the success or failure of these sanctions depends on the balance between the cost and benefit of economic statecraft.

Taking this into consideration, Mastanduno gives another factor: the question of whether or not economic sanctions are effective and under what conditions. In order

to give an answer to his question he cites four determinants. The first is that sanctions depend on objectives, so the first thing we should do is to identify the sender's objectives. Giving the example of the USA and the Soviet Union during the Cold War, he notes that the USA's economic sanctions imposed on Soviet Union had many objectives, such as to damage the Soviet economy or make its military to have deficiency of supplies. Consequently, the utility of economic sanctions was not clear for the USA. Furthermore, he points out that focusing on only one objective is not only the threshold for success but that it may also lead us to erroneous results and vice versa. So, it is necessary to clarify which objectives and targets are primary and which secondary.

The second determinant is the understanding of economic pressure, which is usually used for political pressure. The general perception about this is that the more the economic "pain" the more the chances of change in political behavior. But this, for Mastanduno, is not necessary because one has to examine two further issues. First, under what circumstances can economic pressure be translated into political change and second, which kind of sanctions can be implemented against political regimes. As far as the first issue is concerned, the key is how much the domestic political regime is willing to comply. If the political regime refuses any kind of compliance, then economic sanctions will be used as a means of "assured destruction" and Mastanduno argues that this use of sanctions is not only costly but also counterproductive, since they affect the sender as well as the target. Regarding the second question, it is important for one to design economic sanctions in this way to avoid collateral damage and to achieve higher success rates. There are three tasks required in order to achieve this objective. First, it is necessary to understand the connection between the political system, elites and societies, second, it is vital to understand the differentiation in characteristics of each sanction and third, one must take account of the fact that selective sanctions are not applied easily in contrast to comprehensive sanctions.

The third determinant for Mastanduno is the multilateral sanctions. For him, multilateral sanctions are more effective than unilateral ones because they manage to isolate the government, leaving it without allies. Furthermore, the sender government is strengthened because it avoids conflict with its domestic private sector.

Target vulnerability is the fourth determinant. Although the size of the state's economy counts it is not a sufficient factor. Taking into consideration the cases of Cuba or Israel, despite their vulnerability in economic terms, these countries managed

to find external protectors and balance the negative effects of the sanctions. On the other hand, the political regime plays a crucial role in these economic situations. Democracies, in contrast to authoritarian regimes, are more vulnerable because they are based on the survival of each caste and this makes the political pressure of economic sanctions a major factor. This in turn will enhance the role of political elites, who are going to act according to their own interests, either to oppose or impose to the sanctions, in order to dominate.

In addition, Mastanduno mentions that is more likely that the sanctions will be effective between allies than between adversaries. That is because adversaries probably will not compromise with the idea of sanctions being imposed by their enemy. Allies, on the other hand, worry more about their reputation regarding the negotiations inside their alliance and they are always prepared to face a potential change in power distribution.

The fifth determinant is that economic sanctions are part of total statecraft. For example, Baldwin (1985), as summarized by Mastanduno, when discussing foreign policy provides a comparative analysis of military statecraft, economic statecraft, and diplomacy from a cost-benefit perspective. Mastanduno argues that there is no interaction between sanctions and other means of statecraft in order to produce outcomes. More specifically, the use of military force enables the effectiveness of economic sanctions and economic sanctions may contribute to policies regarding the use of military force. Of course, sanctions by themselves are not enough to produce any remarkable result but in combination with other instruments of diplomacy, they may provide valuable outcomes.

As far as the second level is concerned, the general principle is that positive economic sanctions are the key for national security. Many scholars argued that in order for a state to achieve its objectives it should focus its argument on the use of economic incentives. For Mastanduno, this was a "*reaction to developments in international politics*" because economic inducements played a major role during the Cold War. For example, Germany used economic statecraft in order to achieve a rapprochement with Poland and make clear its intentions regarding its relations with Russia, by supporting the latter through food aid, economic credits and commercial relations with the Eastern Germany. Therefore, not only were positive sanctions effective, but also contributed to the national security of Germany, helping the country's reunification. Consequently, economic relations are placed in high politics

and the relations of Great Power politics are characterized by positive economic statecraft and the connection between economics and security.

According to Mastanduno, positive economic sanctions produce benefits in order to change the political behavior of the target-state. He argues that there are two types of positive statecraft. The first promises economic concessions and the second focuses on reconfiguration through economic benefits for the target-state. The state which is going to impose the economic sanctions expects that this engagement will produce a desirable outcome. Examples are the case of the USA when they offered reconstructions loans to the UK, or the Marshall Plan, or the coal exports in Western Europe in order to expel the Soviet threat over energy through gas pipeline deals.

Moreover, specific sanctions have short-term goals in contrast to the long-term sanctions, which provide step-by-step benefits which are going to transform the domestic political interests. Between a stronger and a weakened state, interdependence affects the latter and over time domestic policy will be formed in such a way as to satisfy the sanctioning state that is to say the stronger state. Mastanduno concludes that increased interdependence may lead to an economic version of the security dilemma. More specifically, there is a risk of misunderstanding. The dominant nationalists of the target state may perceive cooperation as a threat and react unpredictably or it is possible to wake up with a revision of foreign policy objectives.

Additionally, long-term engagement may create two more problems. First, policy-makers may not be able to control the effects of interdependence, and second, the fragile consistency of sanctions may create another dilemma, whether to adopt a more aggressive foreign policy or not. In this case someone could wonder which kind of sanctions, positive or negative, is more effective. For Mastanduno, the utility of negative sanctions is plausible because of the cost effect but on the other hand he mentions that negative sanctions provoke resistance within the target government. On the contrary, positive sanctions encourage the government, create allies within the target state, do not need multilateral support or alternative economic partners and manage to coincide with business interests, by expanding economic interdependence and interaction.

He also mentions that studies in this field tend to focus only on economic versus military coercion, without providing a systematic answer. From his point of view, negative and positive sanctions can be considered as means of statecraft because the former can be the opportunity for implementing the latter, and the latter can create a

sustainable environment for further economic interdependence. In any case, it is rather difficult to implement a strategy by combining negative and positive sanctions, rather than by implementing them separately.

Mastanduno highlights the Liberal and Realist approach to economic interdependence and security. Liberals suggest that economic interdependence raises the cost of a potential war and Realists on the other side, suggest that interdependence creates political frictions and raises the chances of conflict between states. He argues that both theories can find empirical support. In the Liberal's case, in 1850 the development of international trade was inversely proportional to the appearance of conflict between the Great Powers (Mansfield, 1995) and in the Realist's case, interdependence in mineral imports provoked aggressive strategies. And not only that, he also mentions that in order to find the variables of economic interdependence, which lead states to war or peace, it is necessary to understand the economic interaction of Great Power security relationships. Focusing on the studies of Papayoanou (1996) and Copeland (1996), Mastanduno argues that economic interdependence and security goes further than what Liberals and Realists have assumed; economic interdependence and security can be characterized primarily in terms of levels of trade, and trade barriers in peacetime cannot possibly affect the level of security, trade arrangements decrease the likelihood of conflict among sovereign states, and interdependence leads to peace according to the offense-defense balance. Summarizing, the Table below illustrates the main argument that Mastanduno makes in his paper.

Table 6: Mastanduno’s Argument

| MAIN ARGUMENT | “Economic policies are supportive of security issues” |
|--|---|
| Variables | Dependent: <ol style="list-style-type: none"> 1. Intersection between studies of international security consequences and economic interaction among states. Independent: <ol style="list-style-type: none"> 1. International Structure 2. State’s position in International Economic Competition. 3. The role of the policy-makers. 4. Economic sanctions: Positive Negative |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. Sanctions depend on the objectives. 2. Understanding of economic pressure. 3. Multilateral cooperation of sanctions. 4. Economic sanctions are part of total statecraft. |
| Outcomes | <ol style="list-style-type: none"> 1. The role of domestic politics is high. 2. Economic statecraft remains a matter of high politics. 3. Economic statecraft and national security is both on Realists and Liberals side. 4. Trade agreements decrease potential conflict between states. |

Kirshner (1998), focuses on the sharp distinction between the field of security and international political economy. He argues that this distinction must be re-examined and explains how these issues did not attract much attention during the Cold War. Military conflicts did not concern scholars of political economy and, on the other hand, security scholars were not interested in economic relations, except for “economic containment”.

His objective is to explore the interaction and relationship between political economy and security and more specifically, how the former affects the latter. In order to achieve this, he first carries out a review of International Relations theory and its concerns. Second, he highlights issues which have been raised by the international economy after World War II and finally, he focuses on issues regarding the theory’s traditional concerns.

The political economy of power, the economic causes of war and the role of the national budget on the Grand Strategy are the classical issues where political economy interacts with national security and lays the foundations of liberal theory. As far as the political economy of power is concerned, Liberals have argued that although there is a balance between wealth and power, wealth is nothing but a production capability, which is fundamental for military maintenance and power. The latter, in combination with economic power and growth, is one of the main concerns of national security.

Regarding the economic causes of war, at the beginning of the 19th century, there was a negative relationship between war and free trade because access to markets and resources was raising the levels of competition.

For Kirshner, there are three circumstances under which economic factors are the starting point of the war. The first is the changes in relative economic growth and national economic strategy. Sometimes states want to enlarge their power through economy and, as a consequence, they cause a security dilemma.

The second, is internal economic dislocation. According to the author, when some states face hard times and want to draw the attention to another field away from their failed domestic policies, they choose to raise the levels of their military spending, in order to be engaged in military activities. In that way they believe that they will face the domestic problems by expanding their influence through military actions.

The third factor is incompatible national strategy. Kirshner claims that sometimes states unintentionally enter into conflicts because of the economic policy effects and furthermore, economic strategies may have a negative result different from one that

the state expects. Japan, for example, during the interwar period caused a confrontation with Britain and the USA and France all during the same time, and instead of influencing German policy, probably distorted her own objectives.

As far as the role of national budget and Grand Strategy is concerned, Kirshner focuses on key issues. The first is how a Grand Strategy can be formed and the second is, what kind of constraints can be imposed on a rival state, when economic resources are already limited because of the military actions. What he claims, is that the Grand Strategy depends on and is formed according to the economic approach. The crucial point, for a successful foreign policy, depends on how policy-makers mobilize domestic resources, by keeping the balance of payments and the national economy stable.

Because of the interaction between national security and political economy, states were seeking ways to balance their wealth with security but this was difficult, taking into consideration the fact that the international economic interdependence was growing and by the end of the Cold War, new states had emerged within the international system. Thus, according to the author, small states, in contrast to larger one, feel economic issues (which concern the modern issues in international theory) more intensely.

At this point, Kirshner focuses on economic coercion and punishment. He argues that economic coercion and sanctions are not of the most interesting areas for scholars because of their inefficiency. In addition because of their limited utility, economic sanctions have not been studied in depth. There are three reasons which show why economic sanctions do not work. The first is that no one considers why they have been enacted, the second is that the cost of their imposition has not yet been evaluated and the third, is that the context has not been examined.

As far as the first reason is concerned, economic sanctions not only punish or coerce other states but are also used for “*signaling*”. In other words, economic sanctions also work as a warning, a sign that a state is opposed to specific actions and it ready to react in any case.

Regarding the second reason, economic sanctions do not work simply because everyone has in the back of his head the prospect of military engagement, which is considered as a powerful and more efficient weapon. But military force does not always work. On the contrary, there are many times that military force often fails by making the promotion of a state’s interests a matter of political actions. What has to

be clarified is that there is not a specific strategy which will bring about the desired results. Instead, a state must take into consideration the cost and benefits of each choice, in order to achieve its objectives.

Regarding the third reason, the author argues that it is impossible to estimate the sanction's benefits and power because its success depends on the rival's will, on whether it will reconcile or not. In any case, it is also necessary to examine two additional issues. The first is the relationship between the level of economic imposition and distress of the target state and the second, concerns domestic distress and policy change.

Another issue affecting a state's action and reaction is economic influence and dependence, which is more efficient than coercion. For Kirshner, the strategy of fostering dependence is followed by states which try to achieve their objectives through economic means. Influence and dependence complement each other because the former is the other side of the latter, as a result of asymmetries in economic relations. In addition, smaller states are more sensitive to these asymmetries than larger states. For example, Germany, during the interwar years, improved her asymmetric economic relations, and more specifically asymmetric trade, with smaller states in southeastern Europe, in order to achieve its objectives.

On the other hand, dependence is a means of "*soft power*", which, according to Nye (1990) means you do not impose your will on others but you make them want what you want. By engaging in economic affairs with other larger states, small states not only change their domestic political economy but also their objectives and interests, to ones similar to those of the larger state. This convergence of objectives happens for two reasons.

First, in an economic arrangement, economic strength translates into political power, especially for those who have more relative gains than the others. Second, firms which participate in economic arrangements are guided by economic incentives. If these incentives are transformed because of the economic agreement, firms and other actors will form a political coalition in order to protect their interests and as a result they will exert pressure and influence in the state's administration and therefore, the state's government, apart from political pressures, can reform its interests.

Another further issue in "action and reaction" is autonomy. In contrast to influence and dependence, which concern interstate relations, autonomy refers to the state's ability to act by itself. Moreover, a state's autonomy may be challenged by the global

market forces for three reasons. First, the interests of the domestic private sector may be different from the government's interests. Second, it is doubtful whether the government is legitimated to implement its policies when transnational private actors are involved, and especially when these actors operate in the field of national defense. Third, global markets are capable of undermining the state's preferred policies, especially in the field of foreign direct investments, finance and foreign exchange, thereby seriously affecting defense spending and military force.

Kirshner also focuses on the issues relevant to the relationship between economic growth and national power. Three factors are important for the economic sustainability of security. The first is the economics of defense. According to the author, the relationship between defense spending and economic performance is still complicated because military spending absorbs resources from the social sector, affecting the domestic economy, and at the same time it is affected by the state's level of development and business cycle.

The second is the locus of production and more specifically, what products can give relative advantages to national economic growth. In economies of scale, firms may be excluded from a specific productive sector and this can be countered only by government intervention, through taxes and subsidies, in order to keep both the private sector and society satisfied. However, there is a danger the central government overestimating the significance of trade's strategy in the national economy, by, and a potential failure here can be much more costly than one caused by the markets.

The third factor is the social economy. According to Kirshner, the distribution of resources in the domestic economy is important because it is a fundamental factor for economic growth and national security. The role of government is crucial because it has to define which sectors will produce specific goods in order to have economic growth as an outcome. At the same time, this sustainability affects national security through "*social cohesion*", which is determined mainly by income distribution and the reduction of inequalities.

Kirshner concludes that the issues mentioned above are going to be crucial in the years to come because of the enlargement of international political economy and its impact on the national strategy of states, especially in states such as China and the United States. Summarizing, the Table 7 below illustrates the main argument that Kirshner makes in his paper.

Table 7: Kirshner’s Argument

| MAIN ARGUMENT | “International political economy should not be distinct from security studies” |
|--|--|
| Variables | Dependent: |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. The Economic sustainability of security 1. The political economy of power 2. The economic causes of war 3. Strategy and budget constraints 4. Coercion and punishment 5. Influence and dependence 6. Autonomy 7. The economics of defense 8. The locus of production 9. The social economy |
| Outcomes | <ol style="list-style-type: none"> 1. Political economy should be integrated into security studies. 2. The development of the political economy, at global or international level, will determine state coercion, influence, dependence and autonomy. |

David Rowe (1999) provides another insight into the interaction between economics and national security. Based on Stolper and Samuelson’s theory (Stolper-Samuelson, 1941) according to which exogenous changes affect the economic constraints which determine the national security policy of each state, he suggests that the economic expansion which happened in Pre-World War I in Europe, and especially world trade, affected the ability of the Great Powers to enhance their security means. A very important factor which caused this behavior in states was the distribution of mobilizing resources, without this being a sufficient factor in determining security policy, though. He aims to contribute to the theory of economic interdependence by extending the existing theory about the economic effects of international trade on national security, by focusing on the domestic distribution effects of the international economy and by highlighting the plausibility of the idea that trade encourages states to maintain international peace.

As far as the economics of security are concerned, Rowe argues that because of costly security, states are forced to use resources that are not produced or derived from the domestic economy in order to fund their armed forces and the national security sector in general. Therefore, states are vulnerable to international economic changes because economic constraints may change the allocation of resources.

In order to examine this argument, Rowe develops the following framework. First, once again he bases his ideas on the Stolper and Samuelson theorem, according to which international trade's penetration into the domestic economy can create two dimensions, with negative consequences for different economic groups and positive ones for the groups which the domestic economy depends on. For example, in an economy based more on labor and less on capital, a potential increase in exposure to international trade will affect both groups by increasing benefits for labor rather than for capital.

At this point, Rowe makes two assumptions. In the first assumption, a state is unable to use resources which have been earned from non-security sectors for its national security. That is because the state is forced to compete with others in order to use economic resources in national security because these resources are simultaneously requested by others to cover their own needs. At this point, the role of institutions is very important because they are responsible for the practices of distribution of resources that will follow. As a result, the state is forced to pay higher prices as compensation if it wants to avoid the distribution of resources to other actors, otherwise the state will have to face deficiencies both in terms of the quality and quantity of these resources. In the case of conscription, for example, some of the holders of resources will try to deviate from the state's directives. The state will treat them as deserters while at the same time raising the compensation demands.

In the second assumption, all resources can contribute equally to the improvement of military power. The state's ability to comply with the changing prices, by substituting resources, is limited because these resources must be defined as militarily useful or useless. Rowe makes this assumption for three reasons.

The first reason is because military technology cannot replace cheaper resources. For example, before World War I, infantry could not be replaced by mechanized equipment.

The second reason is that states cannot always replace resources with other resources because of different exogenous strategic circumstances. Britain, for

example, preferred to enhance its navy in order to protect itself rather than using less expensive resources to respond to the rise of capital because of the trade impact involved.

Third, the administrative problems of the army in combination with rare engagement in war or conflict, do not allow for changes to be made and as a result weapons do not keep pace with contemporary military technology and operational concepts remain stuck in the past.

In order to illustrate how national exposure to the international economy affects the economic constraints on state's security, Rowe identifies two variables. In the first, a state's difficulty in mobilizing its copious resources increases when the national exposure to the international economy is on the rise. On the other hand, when the latter is falling the former increases. As highlighted below, these two variables are inversely proportional:

| National exposure to the international economy | | |
|--|---------------|----------------|
| | <i>Rising</i> | <i>Falling</i> |
| State's difficulty in mobilizing locally abundant resources | Increases | Decreases |
| State's difficulty in mobilizing locally scarce resources | Decreases | Increases |

(Source: Rowe D., (1999). World Economic Expansion and National Security in Pre-World War I Europe. *International Organization*, 53 (2), p:195-231.

Furthermore, the author argues that when exposure to the international economy is increased, then states with abundant local resources will experience economic constraints on their security. On the other hand, states with infrequent local resources will experience relaxing constraints and states with both copious and infrequent resources will face a mixed type of constraints.

In order to examine the plausibility of his argument, Rowe explores European powers, such as Austro-Hungary, Britain, France, Germany and Russia before the outbreak of World War I, when the political environment was stable and the economic

environment characterized by innovations in communications and transport, which led to a large increase in both the volume and range of products and services on the world market. He bases himself on Rogowski's (1989) study about trade effects on domestic political alignments and the three-factor model of land, labor and capital. According to Rowe, these three economic factors were especially significant for each country. Land was the least valuable factor which could be contributed to the armed forces. In particular, France, Germany and Britain may have lacked land but were plentiful in labor in contrast to Russia which was plentiful in both land and labor but scarce in capital. On the other hand, Austro-Hungary was also abundant in labor but not in land and capital.

He also makes three assumptions. In the first, Britain, France and Germany would face tightening economic constraints on their security because of the difficulties in mobilizing military resources. In the second, Austro-Hungary and also Russia would face a mixed type of constraints, and third, these countries because of their geographic position and the major importance of their land-based armies, would easily mobilize capital resources for their security but on the other hand, the expansion of the economy would force them to tighten the economic constraints on their security.

By focusing on constraints, he concludes that trade was the main factor which made constraints tighten, making the balance of power more precarious. Moreover, these constraints did not allow an assessment of the threats of the rival states and raised the levels of uncertainty. On the other hand, tightened constraints caused increased military spending and at the same time many difficulties in mobilizing resources, which made it impossible for states to produce internal resources in order to use them for their national security.

Furthermore, modifying the Realists' approach about trade's effects on power, Rowe considers trade to be a determinant which can affect military capabilities. More specifically, he claims that if there is hyperinflation in a state because of trade, then the state's security may be affected negatively even though there is economic growth. Second, as far as the balance of power is concerned, he argues that trade can cause an imbalance in power between states, so they will be forced to create new doctrines and military structures in order to compensate for this power. Summarizing, the Table 8 below illustrates the main argument that Rowe makes in his paper.

Table 8: Rowe’s Argument

| | |
|--|--|
| MAIN ARGUMENT | “Economic expansion affected the ability of the Great Powers to enhance their security means in Pre-World War I Europe.” |
| Variables | <p>Dependent:</p> <ol style="list-style-type: none"> 1. National Security <p>Independent:</p> <ol style="list-style-type: none"> 1. International Economy. 2. Economic constraints. 3. Trade. |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. State is unable to use resources which have been earned from non-security sectors in its national security. 2. All resources can equally contribute to the improvement of military power. 3. National exposure to the international economy affects the economic constraints on a state’s security. |
| Outcomes | <ol style="list-style-type: none"> 1. The state is forced to pay higher prices as compensation if it wants to avoid the distribution of resources to other actors. 2. Land, labor and capital mobilize resources which tighten the economic constraints. 3. Trade causes an imbalance of power and makes constraints tighten. |

Barbieri and Levy (1999), focus on the debate between Liberals and Realists about trade among adversaries during times of war, examining the short-term and long-term impact of war on trade among seven dyads since 1870 using empirical analysis. Their main argument is that conflict, as well as war, has a tremendous impact on trade and that the liberal and realist models because of their paradigms, do not deal with the phenomenon of interdependence and conflict in a sufficient way.

More specifically, for Barbieri and Levy, Liberals argue that trade promotes peace because there are mutual gains for both sides and this makes political leaders avoid conflict between their states. This hypothesis is based on the perception that a potential conflict is capable of reducing trade or affecting its terms, consequently, Liberals imply that the loss of gains is not only affected during war but also from future trade

relations. As a result, if leaders expect that trade after the war will return to pre-war levels, trade's deterrent effects will be limited.

On the other hand, Realists argue that trade between adversaries causes conflict because of the existence of relative gains. Because of suspicion, one state will stop trading with its enemy, preventing it from gaining significant resources which it could use in order to empower its military capability.

According to Barbieri and Levy, Realists do not say what happens after the war or conflict is over. More specifically, they argue that after a war or conflict, there are new conditions under which trade can be developed under new terms but there are also cases in which disputes and threats remain high. Furthermore, although both Realists and Liberals disagree on the effects of trade on conflict, they agree on the opposite, namely the effects of conflict on trade. More specifically, they both agree that economic interchange between states in conflict can be reduced or eliminated by generating a hypothesis at the same time according to which levels of trade can be reduced during the outbreak of war or conflict.

In their approach, Barbieri and Levy argue that most arguments which refer to the impact of war on trade mainly concern the military sector and the fears of escalation of war and consequently they led to the hypothesis that the impact of war on trade would be much larger than militarized disputes on trade, meaning that between adversaries trade should be reduced less before the war occurs than when it takes place. As a result, trading with the enemy during a time of war is more an irregularity of liberal and realist theories concerning interdependence and war, than trading with the enemy in a period of militarized conflict and disputes.

In addition, in order to empower their argument, Barbieri and Levy mention the Netherlands' Eighty Years War with Spain and the Anglo-Dutch Wars. Regarding the former, they focus on the paradoxical relationship between money and national security because the Dutch served as carriers of naval stores for the Spanish in order to earn money and enhance their protection against Spanish attacks. Regarding the latter, British insurance companies were insuring French naval and commercial ships which had been destroyed by the British Navy.

Moreover, their argument is supportive of the Liberals and Realists approach because the Liberals' explanation requires inclusion of political power and the interests of societal groups and the Realists' explanation requires third parties for relative gains. But both of them focus on the dyadic level without considering domestic factors and

that is the main reason which makes them incapable of explaining trade between adversaries and the consequences of economic interdependence in international conflict. By developing the empirical literature on conflict and trade and through a research design which consists of two parts, statistical techniques and empirical analysis, Barbieri and Levy demonstrate that war does not reduce trade levels between adversaries.

As far as the literature on trade and conflict is concerned, the authors stress that little research has been done regarding trade between rivals or the impact of war on trade apart from a few empirical studies. The same can be said also regarding the impact of war on trade. On the other hand, many scholars who focused on the impact of conflict on trade and vice versa, noted that these determinants are interdependent and most of the models so far cannot show the causal relevance between them. So, Barbieri and Levy focus on extended periods regarding the objective of their research.

More specifically, their research is based on the argument that adversaries continue trade between them during and after war. Given that Liberals and Realists imply that after the outbreak of war trade between adversaries will be reduced, Barbieri and Levy examine the extension of trade disruption using a time-series analysis. Using this technique they are able to compare trade levels before and after the outbreak of war. If war affects trade between rivals then trade will be reduced and through the time-series analysis it is possible to examine the hypothesis that war is capable of reducing trade levels and also they are able to examine the long-term as well as the short-term impact of war on trade.

However, there are many methodological problems, such as the reliability of reports taking into consideration the fact that states do not always provide complete reports regarding commercial relations and as a result one cannot quite draw reliable conclusions. Furthermore, states do not provide all of the data and there are also many cases where they intervene in order to create perceptions about their trade relationships which will allow them to legitimize their policies against their rival.

In order to overcome this limitation, Barbieri and Levy use data from both states examined in each dyad, between 1870 and 1992 that are available ten years before and after the outbreak of war. The dyads are Argentina-United Kingdom (1870-1990), United Kingdom-China (1870-1910), United Kingdom-Egypt (1945-1965), Cyprus-Turkey (1960-1990), Greece-Turkey (1886-1911), Uganda-Tanzania (1968-1983) and United States-China (1870-1910). At this point, the authors make an important note,

which is none other than the fact that they examine short wars because long wars have larger and continuous impacts on national economies and this would be an inhibitory factor for their research.

In addition, they use an equation which consists of trade trends and war levels in combination with an empirical analysis. More specifically, they first focus on the time at which war causes a decline in trade. When the coefficient is negative, this means that war has a negative impact on trade, which starts declining, and concerns all of the dyads studied, but only in the dyad Argentina-United Kingdom was there a dramatic reduction in trade levels. On the other hand, in some dyads trade levels started increasing after the start of the war.

According to the authors, this happens for two reasons. First, in one case trade translates into wealth. For example, if there were high restrictions on trade, the value would increase regardless of the volume of goods. Second, the objective of war may be to increase trade relations, as in the case of China. In any case, trade seems to decline with the outbreak of war but this is misleading because there are missing data relating to the effect of illegal trade, and, on the other hand, statistical analysis of the effect of war on trade relations shows that the possibilities of relations increasing or decreasing in a pre-war period is fifty-fifty.

For example, in the case of Greece and Turkey (1886-1911), the coefficient is negative both for war rate and other variables. The low level of trade is a result of repeated and ongoing wars and also because of the fact that there was not enough time for both countries to recover. On the other hand, in case of the United Kingdom and China (1870-1910), although the variable of the war level was positive, trade increased because China's objective was to broaden its access to trade.

Barbieri and Levy conclude that although the impact of war on trade may be negative, it remains temporary because in the post-war period trade recovers. Regarding the pre-war period, they argue that there is no evidence for a reduction in trade taking into consideration the fact that many of the data are limited and not reliable. In particular, Liberals' and Realists' arguments about trade after war are not a logical consequence because trade enlargement could be the objective of the state which is engaged in war, or could be part of its High Strategy regarding the balance of power with its rivals.

Moreover, Realists and Liberals fail to provide a complete explanation of economic interdependence and conflict because according to the findings mentioned above there

is no systematic and consistent reduction in trade between adversaries during war and when that war ends the trade levels start increasing. Summarizing, the Table 9 below illustrates the main argument that Barbieri and Levy make in their paper.

Table 9: Barbieri's and Levy's Argument

| MAIN ARGUMENT | “Realists’ and Liberals’ arguments are not sufficient to examine economic interdependence and conflict ” |
|--|---|
| Variables | <ol style="list-style-type: none"> 1. Dyadic Trade Relationship 2. War Level 3. War Rate |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. Dyadic Trade Relationship 2. War Level 3. War Rate |
| Outcomes | <ol style="list-style-type: none"> 1. The negative impact of war on trade is temporary. 2. In all situations trade recovers between rivals in the post-war period. 3. The decline in trade is not statistically significant. |

Oneal and Russett (1999) argue that trade is a sufficient factor which is able to reduce conflict between dyads. More specifically, they use data from the post-World War II era, from the period 1950-1992, by analyzing dyads and introducing an alternative method of dependence which is supportive of the theory of the Liberals about the peaceful benefits of trade. They also argue that it is of high significance to gather all reports concerning the effects of trade on conflict, in order to combine some suggestions and test the Liberals’ theory. For example, according to Beck (1998) logistic regression is not appropriate for cross-sectional and time-series analysis so the influence of economic interdependence in statistics is not a significant factor. Barbieri (1998) on the other hand, taking into consideration Beck’s approach, claims that interdependence increases the risk of a conflict.

Oneal's and Russett's objective is to not only to test the Liberals’ theory but also to determine whether trade benefits are restricted in their cases, what other

methodological tools can be taken into consideration and in which cases; in dyads with specific characteristics, such as contiguity, interdependence increases the likelihood of conflict. Their analysis is mainly based on testing Barbieri's (1998) techniques using the same measures, taking into account temporal dependence in time-series data in order to examine the relationship between economic interdependence and militarized disputes. The most significant measure in their analysis is that of economic dependence, which results from the division of bilateral trade based on GDP. The main argument at this point is that trade between states with limited interdependence is not a sufficient factor that can prevent a military conflict between the two partners. Furthermore, the state's position in the international economy is of high significance and cannot be ignored because many of its actions are determined by the system in which it is engaged.

Moreover, analyzing dyads is not an easy task, especially for the period after 1950 because of the missing data, but according to the IMF's Statistics Department, missing data actually means zero trade. In addition, other determinants such as geographical proximity, membership of international organizations and alliances not only create high levels of interdependence but also enhance cooperation between dyads, while at the same time decreasing the risk of conflict according to the authors. They also assess coefficients of influence in relation to three fields in their case studies, which are contiguous dyads, major-power dyads and other dyads, in order to assure that irrelevant dyads do not affect their main perception about interdependence.

Oneal and Russett focus their research on dyads on the years in the period 1950-1992 without taking only the politically relevant dyads into consideration. They use two dependent variables, disputes and decision-makers. As far as militarized disputes are concerned, they use the available data from the Correlates of War Project (Bremer 1996) and define disputes as "*an international interaction involving threats, displays or actual uses of military force*". Regarding decision-makers, they argue that leaders act as rational players and this makes them think twice about using military force. That is why all states have established special procedures that will allow them to choose the leaders with the best abilities in order to assess a difficult situation and choose the best option, whether it is escalation of the conflict or domestic changes.

The independent variables are economic interdependence, joint democracy, alliances, the capability ratio and the distance between the dyads. More specifically, for economic interdependence they use the Direction of Trade Statistics of the

International Monetary Fund, and the sum of exports and imports in accordance with national incomes. For the democratic regime Oneal and Russett used autocratic and democratic scales in order to include both of their characteristics, and they take into consideration the influence of the alliance, the balance of power and the military capability in order to measure the capability ratio and, also, the contiguity and the distance between the major-power dyads and the others.

After examining the case studies by implementing the variables in an equation model using logistic regression, they analyzed the conflicts using Barbieri's measures of interdependence and they altered their analysis on four levels. First, the autocorrelation was corrected using the General Estimating Equation, second, they used better controls for geographical distance, third, they took into consideration states that had no bilateral trade and fourth, they considered three fields in which they examined the consequences of interdependency: contiguous states, major-powers and other dyads.

As far as the effects are concerned, for the field of conflict-prone states Oneal and Russett argue that economic interdependence offers them greater benefits so the likelihood of war decreases. In addition, the same can be said for major-power states because the likelihood of disputes decreases by 16% because of economic interdependence. Moreover, according to their findings, a democratic regime is far better than interdependence because it decreases the likelihood of conflict by 70%. On the other hand, interdependence increases the likelihood of conflict for other dyads but its effects remain small, while democratic regimes and alliances contribute to the maintenance of peaceful relations.

Oneal and Russett conclude that trade has major benefits for contiguous dyads but little effect on irrelevant dyads and interdependence decreases the likelihood of militarized disputes between major powers. Furthermore, democracy reduces violence among states and militarized disputes, and in combination with economic interdependence, provides powerful arguments in support of the Liberals' theoretical approach. Summarizing, the Table 10 below illustrates the main argument that Oneal and Russett make in their paper.

Table 10: Oneal’s and Russett’s Argument

| MAIN ARGUMENT | “Trade can reduce conflict and militarized disputes” |
|--|--|
| Variables | Dependent: <ol style="list-style-type: none"> 1. Disputes 2. Decision-makers Independent: <ol style="list-style-type: none"> 1. Economic Interdependence 2. Joint Democracy 3. Alliances 4. Capability Ratio 5. Contiguity and Distance |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. Sum of exports and imports in accordance with the national incomes. 2. Autocratic and Democratic scales 3. Alliances 4. Balance of Power 5. Logistic Regression |
| Outcomes | <ol style="list-style-type: none"> 1. Trade has major benefits for contiguous dyads. 2. Interdependence affects the major powers, promoting peace 3. Liberals’ theory is confirmed. |

Morrow (1999), examines how trade affects conflicts through a game-theoretic approach, focusing on the reasons for which an interstate conflict occurs and escalates. It is his view that the common argument is that international trade affects conflict and, more specifically, prevents states from taking military actions because of the high costs which are going to be faced in the event of a reduction in their commercial relations. However, according to game-theoretic models, there are unobservable factors which make trade effectiveness seem vague because both of the rival states try to interpret the opponent’s resolve. Therefore, his argument is that the escalation of the conflict depends on what one side believes about the relative resolve of the other.

Morrow first analyses conflict theory, according to which factors such as initiation and escalation are the most significant determinants. In addition, and according to the data from the Correlates of War (COW) project, conflict presupposes at least the threat

of using military force which happens through signaling unobservable resolve. Morrow argues that an escalation to violence depends on the interaction of determination, i.e. what one side thinks about the other's resolve. The higher the level of the relative resolve, the higher the likelihood of conflict escalation.

More specifically, according to Morrow, disputes happen because states hope that they can obtain similar gains by threatening and making claims, with minimal cost compared to that of war. The state's economic and military capability of going to war determines whether it will choose to compromise and make concessions. At this point, resolve is the most significant factor. The more resolute the state is, the higher the likelihood of going to war. On the other hand, less resolute states are more willing to make concessions in order to end the crisis. What both state - resolute and less resolute - have in common is that they are uncertain about the other's limits on concessions. This uncertainty concerns unobservable factors in contrast to the observable, which are military capabilities, alliances, contiguity and the domestic political regime and the conflict becomes a contest of relative resolve.

In addition, Morrow also focuses on Powell (1996), according to whom concessions are usually imposed by the state which threatens war. That is because the threatened state will probably assume that its rival prefers to go to war, so it will consider its threat as being credible. Therefore, the more resolved the state is, the more credible the signal and the higher the cost of it, since less resolute states are not willing to suffer the cost of signaling in order to make their threat credible. In addition, the domestic democratic audience of the state is a determinant of high significance because it legitimizes the national leader so his actions seem more credible. However, the audience can punish its leader with the same ease that it legitimated him.

Regarding trade flows, conflict and resolve, Morrow mentions that trade flows belong to observable factors, so they are the dependent variable as far as the model of initiation and escalation is concerned. For example, high trade flows reduce the determination for war due to high costs that would follow a disruption of trade, and consequently, the value of trade flows should be considered as a means of dependence. On the other hand, the cost of trade disruption might also have a negative effect between two trade partners because instead of deterring war, it may frighten one of the two adversaries. Thus, the impact of trade on the initiation and escalation of conflict can be considered vague.

In order to support this argument, Morrow considers three important points. First, he argues that the value of trade loss may be different for both trade partners. Therefore, for the state which attaches higher importance to trade, the relationship between an increase in trade and the willingness to go to war will be inversely proportional. Second, the dissatisfaction which may occur lowers the willingness for disputes and combined with high levels of trade, the threat may possibly not be considered credible by the target. Third, the willingness for conflict could easily grow through the asymmetry of trade. For example, when trade is more important for the one of the two rivals, then its resolve would be easily decreased compared to the other, who would, more easily, initiate a dispute. Consequently, if the value of trade is an unobservable factor, then the interaction between conflict and trade still remains vague.

The same argument also applies to the escalation of conflict. Trade flows can either increase or decrease the likelihood of escalation but the main point is how trade flows can affect the relative resolve of each side. Once again, costly signals are more efficient for highly interdependent states compared to states with few commercial relations. The reason for this is that states with high trade flows have more available tools to use as signals, such as trade sanctions. By imposing trade sanctions on the rival state, its domestic balance would be highly affected since the citizens of the target-state would punish their leader because they would think that he was responsible for causing those sanctions. Also, according to Fearon (1994), signals between democracies are more efficient because the leaders will have to face the consequences of their policies and either be punished or re-elected.

Regarding the correlation between trade and conflict, Morrow argues that although Oneal and Russett (1999) show that there is a significant effect of trade flows on militarized disputes, this correlation is more spurious than real. Morrow's argument is that the main cause of conflict reduction is not trade flows but the signals that derive from them. That is to say, trade is a means of signaling, so the higher the trade flows, the more the signals' effect on conflict. In addition, disputes have no significant impact on trade because economic traders have already realized the poor relations between the states before the occurrence of the conflict, so in a way they did not take any risks and they did not create economic expectations which they then had to roll back because of the conflict. Nevertheless, the correlation between trade and conflict is the result of anticipation by economic actors, since trade flows reflect relations between two

countries in a wider sense. Summarizing, the Table 11 below illustrates the main argument that Morrow makes in his paper.

Table 11: Morrow’s Argument

| MAIN ARGUMENT | “Initiation and Escalation of Conflict depends on Relative Resolve” |
|--|---|
| Variables | Dependent: <ol style="list-style-type: none"> 1. Resolve (Game-theoretic model) Independent: <ol style="list-style-type: none"> 1. Observable Factors (trade flows, contiguity, capabilities, regime) |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. The relationship between trade increase and willingness to go to war are inversely proportional. 2. The threat may possibly not be considered credible. 3. The willingness for conflict could easily grow through the asymmetry of trade. |
| Outcomes | <ol style="list-style-type: none"> 1. Trade is a means of signaling. 2. Conflict between two trade partners depends on the relative resolve of each state. 3. The correlation between conflict and trade flows is spurious because trade reflects the anticipation of economic actors. |

Gartzke, Li and Boehmer (2001) examine how economic interdependence contributes to peace. Their main argument is that economic costs and benefits are not enough to deter militarized conflict between states unless capital interdependence is high. After discussing this issue, they develop a research method based on time-series dyads trying to show how interdependence affects militarized behavior.

According to the authors, the determinants which link international economics with interstate conflict are limited, first because not only trade but also other economic exchanges determine cross-border economic relationships and second, the existing analytical insights concerning the causes of war require new approaches regarding the relationship between economic factors and interstate conflict. The authors focus on democratic peace, trade interdependence, monetary interdependence and capital interdependence because these indicators are the ones most commonly used to examine economic interdependence with interstate militarized conflict.

First, as far as democratic peace is concerned, the Liberals' argument is that democracies never fight each other unlike undemocratic regimes. That is because democracies are determined by domestic factors, such as institutions, political parties and lobbies, which are highly influential on leaders, and prefer negotiation and compromise rather than militarized actions.

Regarding trade interdependence, according to Keohane and Nye (1989) and other scholars, although research has contributed to providing a definition of interdependence, it has not managed to create a precise theoretical framework, by focusing on other aspects such as what are the origins of interdependence. The general assumption is that states are less likely to get involved in militarized disputes when they can absorb economic gains. In addition, according to ONeal and Russett (1999), interdependence and liberalism can lead to peace, reducing the likelihood of disputes more effectively than alliances or democratic regimes, despite the fact that Barbieri and Levy (1999) had argued that trade still exists even between enemies.

As far as monetary interdependence is concerned, the authors mention that it can be a significant factor for interdependence between states. States, through monetary dependency, raise the levels of cooperation while at the same time reducing their autonomy. Thus, the economy becomes the most significant sector for states in reducing the likelihood of militarized conflicts.

Another economic factor of interdependence is capital mobility. According to the authors, the risk of investments is much more serious than the risk of trade in the global

market. That is because, the role of the nationalization of production has a greater impact on investments than it has on trade. Taking into consideration the fact that globalization raises the levels of capital mobility, states focus on economic competency when dealing with the dilemma of whether they should impose capital controls. Limiting capital flows, maintaining the tax base as well as carrying out structural reforms are some of the reasons, why, according to Grilli and Ferretti (1995), states prefer to impose capital controls.

The authors also argue that although the literature up to now supports the view that trade is a sufficient factor which encourages peaceful relations between states, there is not any reference to the interdependence of international capital, which has a larger influence than bilateral trade flows. That is because risk is an economic externality of domestic politics which is indirectly affected by international capital because the latter defines and links different economic aspects domestically. Based on that dimension, their main argument is that capital interdependence creates all the means needed so states do to end up at war, while at the same time rejecting the effectiveness of a combination of opportunity costs and economic benefits on deterrence. More specifically, they first focus on the causes of war and then using the theory of contests show how interdependence reduces militarized disputes.

As far as the causes of war are concerned, the authors mention that according to Fearon (1995) war theories are unable to separate conflict incentives from conflict resolution and although war is costly, states go to war only when they cannot use other cheaper methods. Otherwise, states would seek non-zero-sum settlements. In addition, states' relations are defined by uncertainty, which is the main reason for war, first because of strategic variables and second because it makes weaker states bluff to conceal their weakness. The higher the uncertainty about the consequences of the contest, the higher the likelihood of war.

On the other hand, interdependence can contribute to reducing uncertainty between states through the economic process and by reducing the incentives that can lead to conflict. More specifically, the authors' argument, at this point, is that interdependence can reduce the level of violence in militarized disputes and motivate peace in two ways. Firstly, economic linkages are a significant factor which can increase the likelihood of compromise between rivals because they reduce competition costs and make states able to manipulate risks. Secondly, interdependence is a means of sending credible signals between states which allows for ex-ante negotiations and, as a result, a

settlement can be reached. So, capital and trade interdependence can reduce uncertainty through reliable signals.

Furthermore, in order to make the contribution of interdependence more specific, the authors first mention the ways in which states are interrelated at an economic level, while at the same time distinguishing market and policy interactions. Regarding the influence of markets, first they must have the ability to sabotage any economic benefits and second, they should ensure that both parties will depend on the economic benefits. On the other hand, the authors mention that capital markets are vulnerable to intervention because political risks also affect economic prosperity, so the more interdependent the states, the more reliable the signals for resolution.

As far as the authors' research design is concerned, they are based on Oneal and Russett's (1999) argument, examining 622 dyads from 1951 to 1985 in order to show that examining only commercial relations is not enough and second that signals of risks and costs through capital markets are a sufficient factor which can deter states from military actions. The dependent variable is Militarized Interstate Dispute (MID), which includes threats, use of force or war. In order to measure economic interdependence they argue that domestic politics have foreign externalities and there are different levels of monetary interdependence.

Two variables which show the impact of interdependence on conflict are first, pegging and second, a joint currency area. Examining the first variable, pegging is connected to interstate commitment and less autonomy and depends either on signaling or on the effects of it. In the second, a joint currency area's objective is to measure the level of currency linkage between dyads as well as cooperative arrangements. In their argument, this variable should operate as a restrictive factor on interstate conflicts.

They also argue that the more dependent the state is on international capital markets, the more vulnerable it becomes. For that reason, they created two measures in order to see the level of government restrictions on the markets. They also take into consideration some other control variables, based on Oneal and Russett (1999), such as democracy, trade interdependence, balance of power, alliances and contiguity.

In their results, they show that signals of costs play a significant role in liberal peace. Through trade and Foreign Direct Investments states raise the levels of interdependence and therefore economic linkages have a large impact on the conduct of the conflict. However, democracy does not seem to have a significant role in their

data analysis. Summarizing, the Table 12 below illustrates the main argument that Gartzke, Li and Boehmer make in their paper.

Table 12: Gartzke’s, Li’s and Boehmer’s Argument

| MAIN ARGUMENT | “Capital Interdependence, reduces the uncertainty and promotes conflict resolution without military actions.” |
|--|--|
| Variables | Dependent: 1. Militarized Interstate Disputes (MID) Independent: 1. Bilateral Trade 2. Regime type 3. GDP per capita 4. Contiguity 5. Allies 6. Balance of power (Correlates of War) |
| Working Hypothesis / Determinants | 1. Democratic peace 2. Trade interdependence 3. Monetary interdependence 4. Capital interdependence |
| Outcomes | 1. Trade interdependence and Foreign Direct Investments empower economic interdependence. 2. Democratic regime is not of high significance. |

Li and Sacko (2002) offer a different perspective on trade benefits between states in conflict. Their theory extends the arguments in this field of studies through empirical inconsistency. More specifically, focusing on rational expectations of the firms involved, they try to determine under which circumstances of conflict bilateral trade should either be reduced or not in the time before (ex ante) and after (ex post) the conflict by examining the ex post effects over a longer period and in many more countries than in previous attempts.

The authors’ main argument is that conflict between two states does not always affect trade in a negative manner. They consider importing and exporting firms as rational actors, without ignoring at the same time the role of the state, which intervenes

and affects the profit of these firms. In addition, in order to explain conflict's effect on trade they add a significant factor, which is the causal mechanisms of the conflict. In that way, they can define the interaction between trade and conflict, using the *ex ante* and *ex post* effects. After reviewing previous approaches and theoretical arguments concerning the effects of trade on conflict, they come up with a theoretical model about the way that conflict or militarized disputes restrict bilateral trade.

Furthermore, they argue that most of the findings and arguments are either mixed or competing. More specifically, according to Pollins (1989) cooperativeness and hostility are factors which affect the flows of bilateral trade. Many other researchers, such as Mansfield and Bronson (1997), Barbieri and Levy (1999), Morrow (1999) who studied dyads ended up with different results. For example, Mansfield and Bronson (1997) find that either war or conflict reduces bilateral trade but, on the other hand, Morrow (1999) argues that militarized disputes do not have a significant effect on bilateral trade between two rivals and, if so, this is for a limited time period.

Moreover, according to the exponents of liberalism, like Pollins for example, firms act rationally by selecting partners from friendly nations because both economic and political factors are of the same gravity. On the contrary, exponents of Realism, such as Mansfield, focusing on the state-centric approach about international trade argue that the relative gains which derive from trade are used in order to maximize military force. Therefore, a state would rather choose an ally or a friend for trade than a foe.

For Li and Sacko, these approaches are complementary because both expect that militarized disputes will reduce trade. Therefore, they formulate their theory based on four main arguments. The first is the maximization of the profit by exporting or importing firms, the second is that trade can be reduced even before the conflict occurs in case that firms foresee a negative economic environment between the two countries and realize the potential costs, the third is that firms may revise their expectations "*ex post*" in their efforts to maximize their profits, and the fourth is that traders take into consideration the duration and the intensity of the conflict.

Moreover, regarding the relationship between governments and firms, the authors' claim is that they need to specify when government restrictions affect the firms' profit since in an interstate conflict states fight for their survival but firms fight for their profit. In that case military capability is of high importance. When, between rivals, the commercial exchange does not support military force, the government will impose trade restrictions or other means of economic punishment and economic blockade. On

the other hand, interstate conflict may negatively affect the financial markets even if the government does not impose restrictions. Interstate conflict may cause a financial crunch and devaluation of the national currency, which -in combination with market disruptions- can limit bilateral trade.

The “*ex ante*” and “*ex post*” effects of conflict are dependent on expected profits and military disputes respectively. More specifically, in “*ex ante*” effects, traders take into consideration the likelihood of government restrictions and market disruptions in order to assess the circumstances and take the most profitable decisions. In “*ex post*” effects, the authors rely on three assumptions. First, they assume that there are high proportions of false estimations made by the traders, both about the conflict tension and the risk of profits based on the analytical insight from international conflict studies. Second, firms continuously change their strategy by revising their behavior in order to maximize their profits in any case, and third, the trade before the outbreak of conflict must be at a level higher than zero, according to their definition that is to say, trade must be of an adequate degree.

Analyzing the above assumptions, Li and Sacko also note that although the “*ex ante*” effects derive from traders’ expectations about conflict, the “*ex post*” effects can be actual and expected at the same time because at the outbreak of conflict rival states are legitimized with more motives to interrupt any of their commercial relationships, and consequently markets are going to react negatively by further restricting trade. In that way, they want to clarify that the “*ex ante*” and “*ex post*” effects are inversely related and they can determine whether the effects on bilateral conflict are testable and under what conditions.

They identify the impact of militarized disputes as more and less unexpected. A less unexpected dispute lacks a connection with trade because of the “*ex ante*” expectations and the more unexpected dispute should negatively affect trade. More specifically, a reduction in trade after the conflict is correlated with the expectations before its onset. The more unexpected the dispute is, the greater the reduction in bilateral trade “*ex post*”. On the other hand, the more expected the dispute is, the less the suppressive effects are.

Similar to the above is dispute severity with “*ex ante*” and “*ex post*” effects. Because of different levels of militarized violence, the effects on trade are differentiated. More specifically, the less severe the conflict is, the less the negative effects on trade because both government and firms assess that the situation is

manageable in contrast to high levels of conflict, such as war, which will probably cause restrictions and market disruptions. In accordance with the “*ex ante*” and “*ex post*” effects, in expectedly severe disputes, the larger the “*ex ante*” suppressive effects, the smaller the “*ex post*” effects. On the other hand, in unexpectedly severe disputes, the smaller the “*ex ante*” suppressive effects, the larger the “*ex post*” effects.

The same does not apply to lower intensity disputes. More specifically, the “*ex ante*” suppressive effects in unexpectedly and expectedly mild disputes are large and small respectively, while, in both cases, there are not any “*ex post*” effects, or they are of marginal importance.

In addition, they argue that the duration of the conflict is also of high significance because previous studies did not take into consideration this determinant as well as its interaction with rational expectations on trade. In expectedly long and short duration conflicts, the “*ex ante*” suppressive effects are large and small respectively, while there are not any the “*ex post*” effects. In unexpectedly long and short duration conflicts, the “*ex ante*” suppressive effects are small and large respectively, while the “*ex post*” effects are large and of marginal importance. This is based on the hypothesis that when an unexpected conflict occurs and lasts a long time, it increases the level by which bilateral trade reduces.

Furthermore, Li and Sacko also examine the inconsistency that occurs because of differentiations in the sample in an empirical approach, assuming that militarized dispute decreases bilateral trade, using a longer period and more countries. They also take into account other variables, such as common interests, democratic regimes and security alliances, but without including any domestic political determinants concerning international trade.

More specifically, in order to examine the four hypotheses they create two datasets which consist of 120 countries from the period 1949 to 1992, and 56 countries from the period 1870 to 1992, respectively. The dependent variable is total trade between dyads and militarized disputes are defined as threats, military force or war. Their model is formed in that way in order to absorb the differences which may occur because of the heterogeneity of the dyads. The statistical results show that bilateral trade is significantly affected by the expectation of a military dispute. That is to say, the more unexpected the dispute is, the greater the reduction on bilateral trade between rivals.

Li and Sacko conclude that their theory is confirmed because it is based on several empirical tests and techniques. Moreover, it is differentiated from the traditional

theoretical approaches of Liberals and Realists because they cannot explain why trade is not reduced in some cases during a military conflict. In addition, their research has significant implications for constructing new theoretical approaches and they introduce new determinants such as dispute duration, severity, and “*ex ante*” and “*ex post*” effects while offering a new approach on how to analyze the interaction between conflict and trade. Summarizing, the Table 13 below illustrates the main argument that Li and Sacko make in their paper.

Table 13: Li’s and Sacko’s Argument

| MAIN ARGUMENT | “Conflict between two states does not always affect trade in a negative manner.” |
|--|---|
| Variables | <ol style="list-style-type: none"> 1. Trade 2. Disputes 3. Common interests 4. Democratic regimes 5. Security alliances |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. The maximization of profit by exporting or importing firms. 2. Trade can be reduced even before the conflict occurs. 3. Firms may revise their expectations. 4. Traders take into consideration the duration and the intensity of the conflict. |
| Outcomes | <ol style="list-style-type: none"> 1. Statistics confirm their theoretical approach. 2. They contribute to the theoretical framework by covering the gaps of in the theories of Realism and Liberalism in the specific field of studies. |

Kapstein’s (2003) argument about economics and the study of national security is not far from Hirshleifer’s (1993) argument about the relationship between economics and security studies. For the former, “*war is economics by other means*” and for the latter, “*there are two main methods of making a living...the way of production and exchange versus the way of predation and conflict*”. In fact, Kapstein reviews Hirshleifer’s collected papers on conflict in order to evaluate the economic influence on national security.

Kapstein first examines the progress of the relationship so far between the two fields of study, economics and security, in order to highlight gaps or concerns in the theory. Next, he examines the contributions that were made by other economists by analyzing two case studies about the interaction between international conflicts and domestic politics and the relationship among allies.

Furthermore, he makes three main arguments. The first is that economics had a very important role in the post-war era because both theory and methodology were enhanced, which had been lacking at that time. The second argument is that the “*heuristic device*” of economics in security studies is of great importance because it extends the analysis and engages economists in the debate over defense policy. In his third argument, the field of economics in security remains incomplete because political economy has not developed new tools in order to examine defense policy, military supplies and security issues in general.

According to Kapstein, the study of national security by scholars began between the 1950s and 1960s since security issues had a small influence and they were not considered to be a serious study field until that time. One main reason for this was that security studies lacked a theoretical framework until Schelling introduced game-theory as a strategic theory. From that point on, more and more economic methods began to engage with the field of national security studies.

This engagement concerned twelve topics: economic strength for war, defense budget in peacetime, size of the defense budget, defense resource management, institutional arrangements for efficiency, military development, research and logistics, economics of alliances, foreign economic policy and warfare, mobilization, civil defense and arms control and disarmament. According to Kapstein, only four of these topics (strength for war, economics of alliances, foreign economic policy and arms control) have attracted attention over all these years and have been extensively studied by Mancur and Zeckhauser (1966) and Baldwin (1985).

As far as the economics of conflict are concerned, Kapstein relies on Hirshleifer’s big idea that although economics focus on the analysis of productive activity they should take into consideration the study of conflict and he focuses on the first two of the four main themes, which are the sources of the conflict, and technology and its influence on strategy.

Looking at the first theme, it is important to estimate the others’ intentions. Kapstein highlights three parameters: preferences, opportunities and perceptions.

Preferences specify exactly what an actor desires and Hirshleifer also includes not just material interest, but also irrational factors, such as xenophobia. Opportunities, on the other hand, defines the actor's intentions by showing whether he will choose either to invest in technologies of production or in conflict technologies. Perceptions is a combination of domestic politics and political psychology and determines the actor's strategy.

In these three variables, appeasement plays a crucial role because not only is it part of rational strategy but it also defines the circumstances under which it is implemented. For example, of two states in conflict, the state which is rationally going to seek appeasement is the one which considers a potential war to be costly. Consequently, this state chooses peaceful means to impose its interests. The opposite happened in 1938, when France and Britain underestimated Germany's preferences and perceptions, and consequently the military power of Germany, and they ended up at war.

As far as the technology of conflict is concerned, Kapstein does not focus on the impact of weapons platforms but on demographics and the production process which affect the military formation and the state's strategy. He does that because he claims that economists have ignored factors such as capital and labor which affect military technology. For instance, some countries are able to combine high levels of capital with less labor and others have a comparative advantage by producing capital-intensive goods over labor-intensive goods. If a state increases its military technology then it will probably have a comparative advantage in "*fighting activity*". Furthermore, if this military technology is characterized by increasing returns, then this state will follow an imperial strategy in order to absorb the remaining resources.

On the other hand, one further factor relevant to the source of conflict is small powers. Kapstein highlights Hirshleifer's argument about small powers which exercise disproportionate influence due to the unfavorable position in which they find themselves in regarding their power. Of course, this move may change the preferences of the larger power, taking into consideration the fact that the powerful side does not want to share its gains with the weaker state, although sometimes the weaker side manages to elicit even a little of the gains of its rival.

Moreover, Kapstein emphasizes two factors which advance conflict theory. The first is the interaction between domestic politics and the international system and the second is trade. Regarding the first factor, in an anarchic international system, states

must engage in two types of activities. The first type is to exploit assets which are controlled and the second is to seize and defend a resource base. Consequently, states must develop technologies for production and conflict, enhancing each side according to the needs which may arise and have been defined by the decision-makers. On the other hand, the allocation of scarce resources requires, in terms of microeconomics, equilibrium between production and conflict. In any case, the models that are going to be used derive from game theory and contemporary political economy.

As far as the second factor is concerned, trade plays a key role because of three reasons. First, one state may be able to maintain its military advantage over another, but may lack the internal resources to sustain its population. Second, trade is part of the general strategy because it can engage potential enemies in a game of power and resource sharing, showing in that way the relationship between interdependence and peace (Mansfield, 1994). Third, free trade requires a dominant player who sets the rules for the smaller powers and trading arrangements have a positive impact on their security.

For instance, among three states A, B and C, where A is superior in terms of resources to the other two, but all three are in relative military balance, states B and C will cooperate in order to achieve military advantage over state A. On the other side, state A has two options. Either it will follow the escalation in arms, risking a security dilemma, or it will share its economic gains with states B and C in order to satisfy them through trade agreements. States B and C will probably accept the offer because they will increase their wealth with the lowest cost instead of achieving their goals under the uncertainty of military practices.

Consequently, the causes of war exist in the domestic political system because the anarchy of the international system may collapse either from a state with military advantage over others or from its inability to develop and maintain domestic resources which are necessary for its survival.

In addition, Kapstein examines the interaction between domestic politics and international conflict and alliance relationships through two cases studies. Based on the examination carried out by Michelle Garfinkel about *“the effects of electoral uncertainty associated with political competition on a nation’s allocation of resources among peaceful production activities and military spending”*, he notes that democracies will choose peaceful production regarding military spending and

inadvertently through election systems they will protect their democratic peace by greater disarmament.

On the other hand, relying on the argument of Gregory Hess and Athanasios Orfanides about leaders who reflect public opinion and its interests, Kapstein suggests that even then, leaders legitimated through democratic procedures may be willing to intervene in a war or conflict in order to absorb resources which could hardly be produced domestically. Such a move depends on two circumstances. The first, is that the cost of the conflict is so high that it makes the cost of war seems lower. The second is that a potential war would increase the possibilities of the leader's re-election.

At this point, Kapstein claims that states enhance their democratic peace by joining an alliance. His argument is that in an alliance, apart from armaments cooperation, what brings the allies closer to each other is economic tools or more accurately, defense economics. Second, he claims that cooperation between allies should not be only in terms of defense and military balance, but also in terms of free trade. Trade can be a central base for their procurement policies, since it ensures political and economic homogeneity. As Mansfield mentions, trade can bring resources for defense by enhancing the military power of the members involved.

Consequently, in an alliance free trade would allow to each state to produce the best it could in terms of weapons and other defense supplies. This specialization would not only strengthen the relationship among allies, but also, from a political aspect, would clarify intentions and the importance of each one's value. For example, US officials, according to Walt, argued that a rise in American arms transfers would refresh its relationship with other allies. But so far, allies control imports and exports and they are still suspicious, not only about third parties but also about their allies.

Moreover, Kapstein highlights that the political, economic and security cost of internal arming should not be underestimated or disregarded because the defense sector absorbs resources from social structures. As a result, internal arming is not the best option for security because the state will end up with poorer weapons and low battlefield capability.

The author concludes that little has been done in order to implement models of political economy in defense policy because everyone focus on Military Expenditure and ignores other factors such as the influence of institutions or groups which are able to extract income from government. Also, arms control agreements have drawn little attention since the end of the Cold War, so too has the arms trade. Consequently, by

noting the weaknesses of this field of study, Kapstein tries to contribute in his own way to national security and its interaction with economic models. Summarizing, the Table 14 below illustrates the main argument that Kapstein makes in his paper.

Table 14: Kapstein’s Argument

| MAIN ARGUMENT | “War is economics by other means” |
|--|---|
| Variables | Dependent: <ol style="list-style-type: none"> 1. Economic Influence on National Security Independent: <ol style="list-style-type: none"> 1. Economics of conflict. 2. Interaction between domestic politics and international system. 3. Trade. 4. Alliances. |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. Economics had a very important role in the post-war era because both theory and methodology were enhanced. 2. The “<i>heuristic device</i>” of economics in security studies extends the analysis and engages economists in the debate over defense policy. 3. The field of economics in security remains incomplete because political economy has not developed new tools in order to examine defense policy. 4. Democracies choose peaceful production. |
| Outcomes | <ol style="list-style-type: none"> 1. The causes of war exist in the domestic political system. 2. States must develop technologies for production and conflict according to their needs. 3. Trade increases a state’s wealth with the lowest cost instead of war. 4. Alliances strengthen the relationship among allies through trade. |

Kathy Powers (2004) focuses on a less examined issue, which is Regional Trade Agreements as a form of military alliance. The purpose of her study is to show that Regional Trade Agreements (RTA) can operate as military alliances, as far as the commitments and treaties are concerned, and to examine the influence of Regional Trade Agreements in militarized conflicts between dyads. More specifically she focuses on African states from 1950 to 1992.

Powers' main argument is that the likelihood of political conflict between traditional allies is higher than between Regional Trade Agreement military alliances. That is because, although there are many who demonstrate that alliances lead to war (Vasquez, 1993, p.168, Ray, 1995, p.375) there are also others who mention that alliances lead to peace (Gibler, 2000, p.162). The latter's assumption is based on the fact that alliance commitments are included in Regional Trade Agreements, which are called Regional Trade Agreement military alliances.

More specifically, Regional Trade Agreements are actually Trade Institutions which define the circumstances under which member states form their trade and economic development. Apart from other Regional Trade Agreements, such as the North Atlantic Free Trade Agreement (NAFTA) or the European Union (EU), there are many Regional Trade Agreements whose members are at war or are involved in military disputes. For example, members of the Association of Southeast Asian Nations (ASEAN) are involved in the Spratly Islands' conflict.

Powers focuses on African states because the African Continent has the highest precedence of Regional Trade Agreements, almost 38%, compared to other continents such as Asia which has 14.9% or Europe, which has 8.5%. Furthermore, African Regional Trade Agreements are defined by alliance obligations, its members are less developed countries, which are the majority of countries which sign these agreements, and Africa is the continent which had the largest number of interstate conflicts during the period examined.

In order to answer two main questions, whether Regional Trade Agreement military alliances operate in a different way from completely ordinary Regional Trade Agreements and military alliances and, also, if they have the power to change the characteristics of militarized conflict between member states, Powers examines how the trade and alliance of Regional Trade Agreements function in international conflict. As far as the first is concerned, she mentions that the difference between Regional Trade Agreement military alliances from non-Regional Trade Agreement military

alliances is that they are trade institutions, which define the form of economic and trade factors, such as trade rules and economic policy for development, through economic integration, like free trade agreements and economic and monetary unions.

Moreover and according to the Liberal's theory, the trade institutions help their member states have high expectations regarding economic gains through bilateral trade. On the other hand, Realists and theorists of dependency focus on the hostilities that may occur because of the trade institutions and the negative impact of problematic political relations on markets. According to Powers' argument, the liberalization of trade would increase trade flows between the member states within the Regional Trade Agreement, in contrast to non-Regional Trade Agreement partners, and, consequently, hostilities would be reduced.

As far as Regional Trade Agreement alliances in international conflict are concerned, Powers first defines military alliances. According to her definition, military alliances are "*formal written agreements by two or more states to some future military action.*" (Gibler, 1999, p.47). Military alliances also include promises for further help or cooperation in case of interstate conflict. Moreover, they include treaties, protocols and agreements which commit states to mutual defense or involvement.

It is often the case that Regional Trade Agreement members will also be committed to military alliances *per se* or to Regional Trade Agreement military alliances. However, it is not possible for someone to identify the influence between dyads in Regional Trade Agreements and dyads in ordinary alliances, so Powers examines their influence in the case of militarized interstate conflict between member states of both categories of alliances.

Regional Trade Agreement military alliances influence interstate conflict because of three reasons. First, Regional Trade Agreement military alliances are involved in conflict management, second, they are differentiated in treaties and ambiguous in threats and third, their primary objective is economic integration in trade and not system balance. More specifically, although Regional Trade Agreement military alliances can lead more states from bilateral to multilateral conflict or expand political hostilities, they mainly focus on avoiding military disputes.

As far as African Regional Trade Agreements and international conflict are concerned, Powers' research design is based on examining the consequences of these alliances between African dyads, by considering the impact of the alliance's design on conflict between member states. In this way she contributes to Mansfield and

Pevehouse's (2000) argument on how the militarized conflict is shaped, between member states of the same Regional Trade Agreement.

Using statistical models she examines three hypotheses. The first is that the likelihood of militarized conflict is higher among allies, the second is that states which join the same Regional Trade Agreement military alliance are less likely to face a bilateral conflict than other states and third that states which are both members of Regional Trade Agreement military alliances and traditional alliances are more likely to come into conflict. Militarized interstate conflict is the dependent variable between dyads in time-series and GDP ratio the main indicator, in order to control trade flows.

Powers' results are mixed because many states join both of the two kinds of alliances (RTA and traditional). Conflict is more likely between military allies and the influence of bilateral trade is small and states, which also join any Regional Trade Agreement are less likely to come into conflict. She first concludes that military commitments are incorporated into trade institutions, second that RTA military allies are less likely to face interstate conflict than others and third that the alliances hypotheses had only been tested insufficiently on major powers. Summarizing, the Table 15 below illustrates the main argument that Powers makes in her paper.

Table 15: Powers’s Argument

| | |
|--|---|
| MAIN ARGUMENT | “Regional Trade Agreements (RTA) can operate as military alliances and consequently the likelihood of conflict is decreased.” |
| Variables | <p>Dependent:</p> <ol style="list-style-type: none"> 1. Militarized Interstate Conflict <p>Independent:</p> <ol style="list-style-type: none"> 1. Contiguity 2. Trade flows 3. Allies |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. The likelihood of militarized interstate conflict is higher between allies than others. 2. States which join any RTA military alliance are less likely to come into conflict. 3. States which join RTA military alliances and traditional alliances are more likely to come into conflict. |
| Outcomes | <ol style="list-style-type: none"> 1. Military commitments are incorporated into trade institutions. 2. RTA military allies are less likely to face interstate conflict. 3. There is more to be done in this field of study. |

Long and Leeds (2006) examine the commercial activity of states within military alliances with or without economic provisions. As many scholars have shown, trade among allies is at higher level than trade among non-allies. The authors’ main argument is that there is a connection between security and trade agreements, which helps states overcome their problems and raise the level of co-operation between them. More specifically, they argue that when in an alliance there are military provisions coupled with economic provisions, states are likely to trade more with each other than states which are in a strictly military alliance. In order to substantiate their argument, they focus on European states before World War II.

According to the authors, Realists argue that trade among allies on a larger scale than among non-allies because of the relative gains, which are used for military capability and strength. However, they note that military alliances give economic incentives in order to enhance the military power of the alliance as a whole. Where a treaty of a military alliance includes economic provisions, leaders are more likely to

adopt an interchange policy, which will allow them to either solve economic or security issues.

At this point, Long and Leeds make two assumptions. The first is that, if in an alliance there are economic linkages interwoven with security issues, then the economic exchange will be at high levels. On the other hand, if there are not any economic incentives, then the trade levels will be at a lower level. In order to examine their assumptions, they focused on alliances in which economic cooperation was required and compared the trade levels among their states with trade levels of other allied states but without any special economic ties within their alliance. They also first developed some prior arguments about the relationship between alliances and trade-partners and then they presented their model based on statistical analysis, according to which economic bargains within an alliance are of high significance because they can raise trade levels between allies with subsequent positive effects throughout the alliance.

Regarding the relationship between alliance and trade, they argue that the most important argument is that bilateral trade can produce security externalities. For example, the relative gains from international trade can be exploited in military enforcement with negative consequences for other trade partners, unless they belong to the same military alliance. Consequently, trade can determine the state's behavior and create further partnerships instead of conflicts.

Firms can also play a crucial role. By feeling that their states are willing to cooperate without the possibility of conflict, are more likely to invest and enlarge their commercial exchanges. Furthermore because of the special relationship between firms of the export markets, there is always the risk of cheating by other partners, so, firms are more likely to cooperate or establish other businesses within an allied state. On the other hand, governments give more incentives to their firms to cooperate within allied states, in order to increase their political and military power. However, the authors also mention that commercial cooperation can be a mean of persuasion for an unwilling partner.

Regarding the linkage between security and economic agreements, Long and Leeds argue that there are many scholars who claim that linking agreements are able to propel cooperation between states, by helping overcome fruitless and lengthy negotiations or dilemmas. For example, in many cases states disagree on the division of cost and benefits and, sometimes, the suggested agreement is not the most preferable in order

to change the status-quo. Thus, the interdependence of issues requires an agreement combined with different issues.

For instance, between two states, A and B there are several issues but state A cares more about issue “a” than issue “b”. On the other hand, state B cares more about issue “b” than issue “a”. In that case, only a combined agreement is going to be accepted by the two parties because both will sacrifice the least they can, by gaining more at the same time in terms of costs and benefits. Consequently, leaders either desire a military alliance by offering attractive economic agreements, or because of the economic benefits, they decide to join a military alliance.

However, as in international trade, in this case too the prisoner’s dilemma still exists, given that leaders are interested in protecting their market without losing access to their partner’s market. In addition, none of the leaders will accept an agreement which invokes affront to other partners nor will they cooperate because of the fear of abandonment.

Furthermore, although the danger of termination of the military alliance because of economic issues or the opposite, is important, the linkage of economic and security issues once again provides stability because it changes the security incentives and makes firms more confident about their gains, as far as political stability is concerned.

According to Long and Leeds, there are several empirical examples of linkages between trade and alliance formation. The Treaty of Alliance of 1913, between Greece and Serbia, and more specifically Article 7 refers to the formation of commercial relations between the two countries. The same occurs in other alliances, such as between Peru and Bolivia (1863), France and Poland (1921), and Austria, Hungary and Italy (1934). At this point, the authors mention that the linkage of economic relations within a military alliance varies and is not always a necessary factor between allies but occurs intentionally, especially in cases where economic agreements have significant effects on trade, which is vital for security cooperation.

As far as trade and military alliances in Europe before World War II are concerned, in order to examine how trade increases between alliance partners Long and Leeds make two assumptions. The first is that trade levels in a military alliance with economic provisions are higher than trade levels between non-allied states and the second is that trade levels between allies in a military alliance with economic provisions are higher than trade levels between allies without economic provisions. In addition, they use a statistical test which consists of dyads in time-series, by analyzing

bilateral trade flows and considering as dependent variable which is the annual level of trade among the dyads.

The results confirm their assumptions because their statistical analysis shows that trade levels among allies with economic cooperation are higher than non-allied states and allied states without economic provisions. Moreover, trade between non-allied states is not clearly distinguishable from trade between allies without economic cooperation. They also find that militarized disputes have no significant impact on bilateral trade for the period examined.

Long and Leeds conclude that trade levels are higher within a military alliance with economic provisions than in a strictly military alliance, whose trade levels between its states are not different from that of non-allied states. In addition, their argument is supportive of the claim that the linkage of economic and security issues as well as joint negotiation is the main cause of increasing trade between allies. Summarizing, the Table 16 below illustrates the main argument that Long and Leeds make in their paper.

Table 16: Long’s and Leeds’s Argument

| MAIN ARGUMENT | “The linkage of economic and security issues can raise trade levels” |
|--|--|
| Variables | Dependent: <ol style="list-style-type: none"> 1. Annual level of Dyadic Trade Independent: <ol style="list-style-type: none"> 1. Common foreign policy interests 2. Military alliances |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. Trade levels in a military alliance with economic provisions are higher than trade levels between non-allied states. 2. Trade levels between allies in a military alliance with economic provisions are higher than trade levels between allies without economic provisions. |
| Outcomes | <ol style="list-style-type: none"> 1. Trade between non-allied states is not clearly distinguishable from trade between allies without economic cooperation. 2. Militarized disputes have no significant impact on bilateral trade. 3. Increased trade between allies is the result of the linkage of economic and security issues. |

Kastner (2007) focuses on domestic politics and their effects on trade. He mentions that although conflicts can have a serious impact on the configuration of bilateral commerce between two rival states, like in the Middle East or between India and Pakistan, in the case of Mainland China and Taiwan things are different. His main argument is that when internationalist economic interests are crucial for the domestic political balance, then the impact of conflict on trade is not of high significance.

According to many researchers, like Simmons (2005) and Li and Sacko (2002), trade between two rival states tends to decrease either because of territorial disputes or other conflictual actions. On the other side, states with cooperation on mutual gains and interests trade more than others and consequently, "*trade follows the flag*". For example, there was a large reduction in trade between India and Pakistan after their division and after the United States imposed economic sanctions on Cuba and North Korea.

Kastner also mentions the paradox between Mainland China and Taiwan. Despite the conflictual relations between them, the former is the largest trading partner of the latter. Kastner's working hypothesis is based on domestic policies. More specifically, he argues that when international economic interests have a major impact on domestic politics in the states involved, then trade between rivals will not decrease. In addition, in the case of long-term interdependence, the likelihood of militarized conflict is reduced.

Up to now, little has been done as far as the military effects on trade is concerned. On the contrary, most of the researchers focus on how trade reduces militarized conflict. Although Keshk, Pollins and Reuveny (2004) argue that militarized interstate disputes (MIDs) negatively affect trade and alliances do not have significantly positive impacts on trade flows, Morrow, Siverson and Taberes (1998) claim that militarized conflicts do not affect trade flows that much. Moreover, according to other studies, the type of conflict which affects trade is not necessarily militarized. For example, Long (2003a) argues that strategic rivalry is a sufficient factor which can negatively affect trade flows.

Kastner focuses on international political conflict examining how states with different and conflicting objectives can have increased commercial relations. First, he gives two reasons why conflicting political interests affect trade. According to researchers, trade can cause security externalities and, on the other hand, conflicting

political relations may deter firms from investing or increasing their trade flows with the rival state.

As far as the security externalities are concerned, Kastner argues that the trade effects on security can be thought of as externalities because firms do not take into consideration security issues when they want to import or export goods. Furthermore, the gains from exporting goods can be converted into military power or to generate economic dependency. They also have great influence on domestic politics. For example, trade can change domestic political coalitions by supporting those who promote peace and stability.

On the other hand, conflicting interests can also have a negative effect on trade, despite the security externalities because states impose economic and trade sanctions or embargoes in order to strengthen their bargaining power. The same can also be said for lower levels of conflict. For example, following an incident with a United States' spy plane in 2001, in order to show its displeasure China suggested that it would buy more Airbus planes than Boeings. In any case, trade disruption differs according to the level of conflict and it is used by states in order to cause additional cost to its rival.

At this point, Kastner mentions that there is a paradox emerging between the theoretical arguments and the case of Taiwan. According to his previous analysis, trade follows the flag, meaning that states use trade as a lever in order to promote their interests but in the case of Taiwan things are different. Despite intense conflict with Mainland China on sovereignty issues, the economic ties between the states remained strong. For example, trade flows from 1986 to 2005 rose from almost 1 billion USD to over 76 billion USD and China became Taiwan's most important trade partner. Despite the fact that trade flourished between the two rival states, Taiwan continued to place trade restrictions on China.

According to Kastner this happened for two reasons. The first reason is that security externalities, which derive from commercial integration, benefit China's security and make Taiwan more vulnerable, therefore, the latter imposes economic restrictions. The second reason is that the Taiwanese firms were willing to invest in and continue trading with the Chinese markets because they felt that they were not threatened by political conflict.

Therefore, Kastner argues that domestic political interests are an intervening variable which determine whether interstate political conflict affects bilateral trade between rival states. More specifically, his main hypothesis is that when

internationalist economic interests, meaning domestic actors who benefit from commercial integration, have great impact on domestic politics, then the negative effects of conflict are not of high significance. The reasons are security externalities and the leader's domestic political cost. For example, between two rival states with conflicting interests, there might be technological military dependency of one state on the other. In that case, trade restrictions from one state on the other would immediately affect its military capability, unless the interests of the domestic actors of the state which imposes the restrictions are negatively affected, so they would not allow him to impose economic restrictions on the rival state. In addition, the leader should take into consideration the political cost of that movement if he is dependent on these actors. If he is not dependent on their support, then he has several options about imposing economic sanctions on the rival state.

Kastner implements a quantitative test based on the hypothesis that the effects of conflict on trade are inversely proportional to the influence of internationalist economic interests within the state. When the domestic economic actors have gains by trading with the enemy and at the same time have a significant impact on the leader's decision, then the effects of political conflict cannot affect the bilateral commercial relations of the two adversaries.

More specifically, according to his model, the variables are the trade of each country in light of the size of the economy, as percentage of GDP, and the distance between the two states. The model also examines the bilateral trade flows of 76 countries from 1960 to 1992. Analyzing the conflicting political interests, Kastner highlights the political strength of domestic economic actors focusing on trade barriers. The higher the barriers to trade, the weaker the role of internationalist economic interests domestically.

Kastner's results show that negative significant effects on trade only exist between dyads under economic protectionism. He also concludes that in order to explain the different effects of conflict on trade, it is necessary to focus on the domestic political system and the balance of power between leaders and economic interests. Furthermore, his study is a linkage of domestic actors to international economics and international conflicts. Summarizing, the Table 17 below illustrates the main argument that Kastner makes in his paper.

Table 17: Kastner’s Argument

| | |
|--|--|
| MAIN ARGUMENT | “The impact of conflict on trade depends on the influence of internationalist economic interests in domestic politics” |
| Variables | <p>Dependent:</p> <ol style="list-style-type: none"> 1. Trade <p>Independent:</p> <ol style="list-style-type: none"> 1. Distance 2. Conflicting Interests 3. Gross Domestic Product 4. Strength of internationalist economic interests |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. When internationalist economic interests, have great impact on domestic politics, then the negative effects of conflict are not of high significance. |
| Outcomes | <ol style="list-style-type: none"> 1. In order to explain the different effects of conflict on trade, it is necessary to focus on the domestic political system. 2. His study is a linkage between domestic actors and international conflicts. 3. These two factors interact with and shape the commercial relations between two countries with conflicting interests. |

In their paper Martin, Mayer and Thoenig (2008) analyze the relationship between military conflicts and trade. More specifically, they argue that trade does not always promote peace and that the most crucial factor about trade's ability to deescalate a conflict is whether trade is bilateral or multilateral. That is because when two states prefer to trade bilaterally rather than with others, then the likelihood of conflict escalation is not high because of bilateral dependence. On the contrary, for other countries which choose more open and multilateral commercial relations, the likelihood of dealing with a conflict is higher.

According to Liberals, increased trade flows, free markets and democratic regimes are factors which promote peaceful relationships among states and reduce the likelihood of militarized conflict. Moreover, the main goal of the European trade integration was to be an inhibiting factor in order to prevent states going to war, within a broader global economic environment which was distinguished more by the flourishing of economic cooperation, rather than by conflictual relations. The authors' main objective is to answer the question of why interstate conflicts remain, since globalization, interdependence and the liberalization of trade have increased.

In order to do that, they have created an analytical framework based on a bargaining game, taking into consideration that war is dominated by peace, the fact that some countries have limited access to information and that they are responsible for shaping the negotiation protocol. Thereafter, they use a trade theory model in order to show that the likelihood of militarized conflict between dyads with more bilateral trade is lower than it is between dyads with multilateral trade because of the dependency level. Moreover, another influential factor is globalization. It is capable of changing the nature of conflict because although it decreases the likelihood of international conflicts, it increases the possibility of bilateral disputes.

According to the theory, the impact of trade on war is an old controversial issue, mainly between Liberals who argued that trade promotes peace, and Neo-Marxists who argued that "*asymmetric trade links lead to conflicts*". Taking into consideration that each side perceives reality and gains of trade in a different way, there are many, such as Oneal and Russett (1999), who argued that there is a negative interaction between trade and war and others, like Barbieri (2002), who found a positive relationship. On the other hand, other analysts such as Blomberg and Hess (2006) focus on the examination of the opposite effect, which was the impact of war on trade.

Martin et al. use a theoretical model which excludes the argument of Skaperdas and Syropoulos (2002) that the terms of trade are responsible for the emergence of interstate conflict. According to their working hypothesis, commercial relations and trade gains are highly affected by peaceful stability. In order to examine it, they use an econometric analysis with empirical strategies, focusing on bilateral conflicts from 1950 to 2000. More specifically, they first analyze the model of negotiation as well as the escalation to war under the prism of asymmetric information and how trade is shaped among countries. The dependent variable is the occurrence of Militarized Interstate Conflict, such as troops or ships movements, blockades as well as attacks, and the independent variables are bilateral and multilateral trade over income ratios.

As far as the escalation to war is concerned, the authors rely on the views of rationalists and economists for two reasons. First because they try to explain why states and rational leaders still go to war despite the costs and second because the gains of trade are taken into consideration for such a decision. According to their argument, states go to war because of escalating conflict.

For instance, two countries may go to war if negotiations fail, but the crucial point is that the leader has all the information required about his military capability and the costs, which make him capable of forming the further expectations of his country in case of war. In addition, the likelihood of war is also affected by asymmetric information because countries never show their true intentions and they try either to extract an agreement or to secure the existing one, if one exists, by expressing lower requirements and avoiding war.

Regarding the second aspect about trade relations among countries and war, the authors use a new trade theory model according to which trade costs are highly affected by conflictual sanctions, such as transportation barriers or economic restrictions. They focus on trade costs, first because they argue that multilateral trade defines dependency levels, given that a state will replace its dependency on trade by changing partners, and second because distance between trade partners has a significant role and determines trade benefits. On the other hand, war affects the domestic economy through direct impact on wages and goods, while at the same time reducing the state's resources. In addition, war decreases bilateral trade because of its effects on trade costs and goods consumption.

Based on the above model, the authors make two working hypotheses. According to the first, the likelihood of war between an importer and exporter country is low if

the income of the importer country is positively affected by bilateral trade. According to the second, the likelihood of war between an importer and exporter country is high if the income of the importer country derives from several and multiple trade partners and not just one. By testing these hypotheses in the empirical section, they find that both are confirmed. For example, in the post-World War II period, they found that the impact of militarized conflict did not affect the costs of multilateral trade. Moreover, on the one hand, regional trade agreements decrease the likelihood of conflict within the region but increase the likelihood of conflict with other regions and on the other hand, globalization increases the likelihood of war because it reduces interdependence, and consequently costs, between dyads.

Regarding the effects of military conflicts on trade barriers and vice versa, the authors first examine whether bilateral conflict has a significant effect on bilateral and multilateral trade barriers, by separating trade costs among militarized conflict, policy-related and non-policy-related variables and taking into consideration the number of member states in the World Trade Organization and in General Agreement on Tariffs and Trade. After their research, they find that military conflict has a significant impact on bilateral trade. On the other hand, as far as the impact of trade on militarized conflict is concerned, the authors use the flows of bilateral imports over GDP and find that their working hypothesis is also confirmed because, according to their results, the likelihood of militarized conflict is higher in multilateral trade, since the trade partners affect the escalation rather than the likelihood of conflict.

After confirming their working hypothesis the authors conclude that the most significant factor for maintaining peace between two trade partners is geographical contiguity as well as the balance with international partners. Moreover, international and local conflicts are highly affected by globalization and therefore regional and bilateral trade agreements increase the likelihood of developing cooperation and improved political relations between states. Summarizing, the Table 18 below illustrates the main argument that Martin, Mayer and Thoenig make in their paper.

Table 18: Martin’s, Mayer’s and Thoenig’s Argument

| MAIN ARGUMENT | “Globalization of trade flows defines the nature of conflict” |
|--|---|
| Variables | Dependent: <ol style="list-style-type: none"> 1. The occurrence of Militarized Interstate Conflict Independent: <ol style="list-style-type: none"> 1. Bilateral and Multilateral trade over income ratios |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. Commercial relations and trade gains are highly affected by peaceful stability. (a) The likelihood of war between an importer and exporter country is low if the income of the importer country is positively affected by bilateral trade and (b) The likelihood of war between an importer and exporter country is high if the income of the importer country derives from several and multiple trade partners. |
| Outcomes | <ol style="list-style-type: none"> 1. The most significant factor in maintaining peace between two trade partners is geographical contiguity and the balance with international partners. 2. Globalization affects the nature of conflict. 3. Regional Trade Agreements improve political relations between states. |

Long (2008) examines the influence of conflict on trade, focusing on firms’ expectations. His main argument is that expectations of conflict decrease trade because of the high cost that both the firms and consumers are going to face when the likelihood of conflict is high, independently of the place where it will take place. That means that firms act according to their interests, which is profit, so a potential interstate conflict would raise the costs of trading and according to statistical data expectations of conflict interact negatively with bilateral trade.

At first, the author relies on Morrow’s (1999) and Li and Sacko’s (2002) arguments in order to support his point of view. According to the former, interstate conflict can be anticipated by traders, consequently, trade levels will adjust to reflect political relations so they will reduce. According to the latter, firms do not act so rationally because of different information about the conflict, and they showed that when the likelihood of conflict is high trade levels did not decrease. Long mentions that the effects of the sense of war or conflict on bilateral trade has not yet been examined

thoroughly, so he examines the role of firms' expectations on trade reduction and trade levels.

According to the Realists, such as Gowa and Mansfield (1993), what applies to the international system also applies to trade policy. That is to say that there is a security risk, which derives from the anarchy in the international system, which make states act as rational players, so Long argues that both governments and firms are highly affected by any developments which may arise regarding the conflict, and that bilateral trade is decreased between rivals because of the expectations of violence. In order to support his argument, Long focuses on the micro-foundations of bilateral trade and then examines the influence and the effects of expectations of conflict on trade through a statistical test between dyads from 1984 to 1997.

As far as the micro-foundations of trade are concerned, exports and imports are the basic components of the model of bilateral trade, known as the "gravity model". In order to describe the trade equation, Long makes two assumptions about imports and exports. Imports depend on the national income of the importer country, since the budget of consumption, in accordance with utility, is limited. Exports, on the other hand, define the profit of the exporter country on three levels, which are the value of goods, the cost of production and the cost of transportation. That means that firms seek to maximize their profits but production depends on national income and other expenditures.

In addition, he considers four more assumptions as being necessary in order to define the "gravity model". First, he assumes that flows of bilateral trade are smaller than total trade, second, utility and production are defined by similarity between the dyads, third that perfect substitutability allows one to exclude anything that does not concern bilateral trade prices and fourth that under zero arbitrage the effects of differences of exchange rates on trade can be eliminated. In that way, he can combine the export supplies with the import demands.

As far as expectations, trade and conflict are concerned, Long argues that both firms and consumers care about their profits and they are almost unaware of the political actors. In order to examine the effect of conflict and its expectations on imports and exports, he first focuses on the cost of armed political conflict. In his argument, the effect of conflict on trade is either direct or indirect. Human resources, properties, infrastructure and other facilities are directly affected and the impact on economic growth is also high since private investments start reducing as does the

national income. On the other hand, conflict's indirect impact on trade mainly concerns political stability. More specifically, a potential conflict will cause changes in trade policy by implementing embargoes or other trade restrictions and domestically, economic actors will try to influence the government as much as possible in order to promote their interests.

As far as currency exchanges are concerned, investors and other economic actors become more skeptical when a security issue emerges and, as a result, economic transactions between states start decreasing. Furthermore, conflict also affects all factors which facilitate economic activities and guarantee trade contracts between firms, such as political institutions. Consequently, both the direct and indirect effects of conflict cause serious problems to firms and consumers because, as far as firms are concerned they also must take into consideration the additional cost of the conflict in an already unstable economic environment with decreased trade, and as far as consumers are concerned, they are forced to limit their consumption demands, since conflict affects the level of commercial exchanges.

Long also mentions that firms evaluate the future expectations of profitability, since a new market will show up, and they develop their potential expectations in the new environment with their trading partner. For this argument, he makes two assumptions. In the first, he assumes that firms tend to always maximize their profit and not only for the specific period and second, firms' expectations about conflict are based on any available information at that time and they are a result of rational choice.

More specifically, taking into consideration the possible profits of exporting firms, the likelihood of domestic or interstate conflict is highly affected, since the production and transportation costs will be increased in contrast to the export supplies. This happens for three reasons. First because of the likelihood of property damage or danger to employees during the transportation of goods, firms will choose to hedge the risk by insuring their potential losses, second because high transaction costs entails higher prices for the products and third, the higher the expectation of the conflict, the higher the production costs for the exporting firms because conflict make resources more expensive than they were. Thus, due to conflict expectations, firms have to deal with higher production costs so trading with safer markets becomes a more expensive task.

In addition, Long, based on Li and Sacko's (2002) argument, mentions that the rational-expectations hypothesis can explain conflict's effects on trade because given the fact that firms are uncertain about the likelihood of either interstate or domestic

conflict, the interaction between conflict and trade depends on the firms' access to information. That also explains why in some cases of interstate conflict, trade does not decrease. Thus, expectations of domestic or interstate conflict determine the form of bilateral commercial relations.

In order to examine his argument, Long's research design is based on the gravity model, according to which it is possible to predict trade levels between dyads. He examines 16,496 dyads from 1984 to 1997 through a statistical test, in order to support the following assumptions. First, exports will be negative with respect to domestic conflict and future expectations for the rival states, second, exports will also be negative between rival states and any other third party in the case of interstate conflict and third, exports will be negative in case of interstate conflict for both rival states and for their future expectations. The dependent variable is the country's exports and the other independent variables are GDP, geographic contiguity, allies, domestic political regime (Democracy) as well as Preferential Trade Agreements (PTA).

The results of his analysis show a significant effect of armed conflict on bilateral trade. More specifically, the coefficients for armed conflict, for PTA membership and for external conflict risks are statistically significant, while dyadic conflict has the most significant effect on exports. Therefore, Long concludes on four points. First, according to his statistical analysis, militarized conflicts can significantly affect bilateral trade, second, domestic conflicts not only affect the national economy but also harm the economic cooperation network with other countries, third, according to the rational-expectations hypothesis, trade is highly affected by actual and expected conflict and fourth, conflict expectations are a sufficient factor which can affect trade reduction even to a higher level than the conflict itself. Summarizing, the Table 19 below illustrates the main argument that Long makes in his paper.

Table 19: Long’s Argument

| MAIN ARGUMENT | “Expectations of conflict decrease trade” |
|--|---|
| Variables | Dependent: <ol style="list-style-type: none"> 1. Exports Independent: <ol style="list-style-type: none"> 1. GDP 2. Geographic Contiguity 3. Allies 4. Domestic Political Regime (Democracy) 5. Preferential Trade Agreements (PTA) |
| Working Hypothesis / Determinants | Domestic Conflict: <ol style="list-style-type: none"> 1. Exports are negative with respect to domestic conflict and future expectations for the rival states. Interstate Conflict: <ol style="list-style-type: none"> 1. Exports are negative between the rival states and any other third party. 2. Exports are negative for both rival states and for their future expectations. |
| Outcomes | <ol style="list-style-type: none"> 1. Militarized conflicts can significantly affect bilateral trade. 2. Domestic conflicts harm the economic cooperation network with other countries. 3. Conflict expectations can affect trade reduction even to a higher level than the conflict itself. |

Herge, O Neal and Russet (2010) focus on the interaction between the effects of conflict and trade, giving a new approach which enriches the Liberals’ theory and shows that trade promotes peace. Their main argument is that trade promotes peace but at the same time it is reduced because of conflict and this can be shown if the gravity model can be taken into consideration in conflict analysis. They also base their argument on economic interdependence, mentioning that conflict and violence in general has a significant effect on commercial relations and this, in cost and benefits terms, makes trade disruption unprofitable and consequently peace is promoted.

The authors also mention Jervis' approach (2002), according to which economic interdependence, international organizations and democracy reduce interstate conflicts, as well as the World Trade Organization's estimation that trade's benefits and institutions are sufficient factors to prevent states from going to war. As Oneal and Russett (2001) had already argued, conflict not only reduces trade gains but also all the necessary information which allow leaders to proceed in mutual understanding because costly signals become more accurate and credible through commercial relations, given that conflict does not promote strong economic ties.

In order to show that the size and proximity of conflict are the basic factors which can highlight the pacific effects of trade on interstate conflict, the authors first focus on the relevance of the gravity model to the causes of war. Most scholars who believe that the Liberal theory is biased and replace the trade variable with another conclude that the coefficient of trade is of low significance and they fail to prove that trade reduces conflict because they omit other important variables, which can alter the equation's result.

More specifically and according to Long (2008) and other scholars, the gravity model consists of variables, such as Gross Domestic Product and population, which are proportional to trade in contrast to the distance between the two adversaries, which is inversely proportional. For example, although consumer demands are proportional to the size of the economy, transportation cost is also proportional to the distance involved, so contiguity, on the one hand, facilitates commercial relations, but on the other hand, is also a strong factor which raises the likelihood of interstate conflict, so it must be taken into consideration by someone who wants to analyze interstate violence (Oneal and Russett, 1999).

Other important indicators for the conflict equation are Preferential Trade Agreements as well as the balance of power between rivals. PTAs have an indirect effect on interstate conflict (Mansfield, Milner and Pevehouse 2007), since their direct effect is on trade, and at the same time they meet the main criterion of the equation of trade. Regarding the second, the authors' proposed equation of trade consists of the size of power between the adversaries, given that equal power as well as high preponderance of one state can deter interstate conflict. Thus, the gravity model must be carefully designed in order to create equations relevant to the relationship between trade and conflict.

Furthermore, they highlight the importance of ongoing measurement of each state's capabilities, first because the sizes of the states can be illustrated more accurately and second because Correlates of War (COW) show the different levels of power between states. By reexamining the statistical test of Kim and Rousseau (2005) regarding liberal peace, the authors have in their view found that the trade-to-GDP variable was of high significance, in contrast to Kim and Rousseau, and not only did they agree on the fact that democracy and alliances increase bilateral trade but also they found that in some cases trade increased during a military dispute, which is inconsistent with the theories of International Relations.

Using Long's (2008) gravity model combined with a two-stage estimator the authors use their new approach in order to show that the Liberal theory is confirmed that is to say, trade has a significant effect on conflict and conflict has a negative effect on trade. Based on Long's (2008) and Li and Sacko's (2002) work about trade expectations, the authors take into consideration variables, such as sizes of nations, contiguity and Preferential Trade Agreements, in order to show that the possibility of trade disruption because of the conflict is high. More specifically, according to the Liberal theory, conflict has a negative impact on commercial relations unless the economic actors have all the necessary information about states' relations and tensions (Morrow, 1999), so trade flows would not be affected due to militarized disputes. However, according to Li and Sacko (2002), conflict has a negative impact not only on trade but also on other variables which affect trade expectations.

Therefore, Herge, Oneal and Russett alter Long's model, first, by adopting a non-directed analysis of total bilateral commercial relations that is to say, total bilateral trade of imports and exports, second by using more elaborated and refined data about Preferential Trade Agreements and third, by taking into consideration the years of peace that is to say the time period during which conflict had not yet shown up. They also include variables such as distance and the configuration of the size of the adversaries as well as trade barriers and tariffs.

According to their results, the initial argument about the interaction between conflict and trade is confirmed, being at the same time one more element which enriches the Liberals' theory on peace. More analytically, they find that trade reduces conflict and vice versa, the uncertainty of economic actors, regarding conflict, is at high levels and this shows that traders act rationally and, since information about war or peace determines their behavior, they can influence the state's national policy.

The authors conclude that, converting Long’s (2008) data into a non-directed approach and by using bilateral trade instead of export data, they revealed new estimations of the Liberal theory, maintaining the Liberal outcome that trade reduces conflict as well as the risk of conflict, and, also, the opposite that conflict reduces commercial relations, and that consequently, trade promotes peace. Besides, leaders would not have counted the economic cost nor would they have taken into account the power of domestic economic actors, if interstate conflict had not been costly for commercial relations. Summarizing, the Table 20 below illustrates the main argument that Herge, Oneal and Russet make in their paper.

Table 20: Herge’s, Oneal’s and Russet’s Argument

| MAIN ARGUMENT | “Conflict reduces Trade and Trade Promotes Peace” |
|--|--|
| Variables | <ol style="list-style-type: none"> 1. Long’s (2008) Gravity Model 2. Gross Domestic Product 3. Preferential Trade Agreements 4. Balance of Power |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. Converting Long’s (2008) Gravity Model in order to create equations which concern the relationship of trade and conflict. |
| Outcomes | <ol style="list-style-type: none"> 1. Trade reduces conflict and Conflict Reduces Trade. 2. Leaders and Economic Actors act rationally and both are dominated by high levels of uncertainty. |

Li and Reuveny (2011) examine whether trade prevents or promotes peace by offering a new theoretical perspective which combines Liberal assumptions with the neo-Marxist and neo-Mercantilist perspective of asymmetric dependence on trade, as an alternative approach to the classical Realists. More specifically, according to their new model, through statistical analysis they are able to predict the impact on five sectors of commercial relations between two rivals at the beginning of the conflict. Their main argument is that because of its heterogeneity trade can either promote peace or war or even nothing of the above and that trade expectations have a significant effect on a state’s decision in beginning a conflict with its trade partner.

According to the authors, up to now none of the known theories have yet managed to explain under which conditions trade affects conflict in a positive or a negative manner because, even though their assumptions seem plausible, they have not focused on the role of markets and the role of the heterogeneity of trade flows. More specifically, according to Liberalism, trade promotes peace because the cost of trade disruption is extremely high, so states avoid conflicts (Russett and Oneal, 2001). On the other hand, according to the Neo-Marxist and Neo-Mercantilist view because of asymmetric dependence on trade, weaker states feel more insecure and powerful states use trade as a tool in order to promote their influence, causing conflictual relations with their trade partners (Waltz, 1970). In addition, according to Classical Realism, the causes of conflict between states derive from political issues and not from commercial relations (Buzan, 1984).

Moreover, previous studies showed three determinants under which trade has a pacific effect on conflict. According to the first, trade in products that have a comparative advantage is of high significance because it creates many economic benefits, so, conflict becomes an inhibitory factor in economic growth. Second, the same can be said for trade in products such as energy and machines. Third, markets seek out stable and peaceful countries in order to give consumers access to more products that they demand.

However, strategic imports, on the other hand, also play a significant role in maintaining either peaceful or conflictual relations, since dependency on high-tech products, such as minerals, fuels and steel, can lead either to conflict or more cooperation, in order for the importer to secure its supplies. In addition, interstate competitiveness in high-tech products also has a significant effect not only on economic growth but also on military power, first because both states seek to enhance their military capability and second because the unequal degree of access to high-tech products creates further inequality in the balance of power.

Li and Reuveny's model combines the theoretical approaches of Liberalism, Neo-Marxism and Realism's outcome. More specifically, they are based on Liberals' assumption that trade reduces conflict when the cost of interrupted commercial relations is higher than the cost of conflict. For example, between two rival states, if one is more dependent on the other, either in terms of imports or exports, then conflict is reduced (Polachek, 1980). According to the Neo-Marxist – Neo-mercantilist approach, asymmetric dependence is the main factor which brings two states into

conflict. For instance, if the balance of exports and imports between two states changes the dependency level between them, then conflict occurs.

In addition, they also focus on the Realists' outcome, as a result of the Realist assumptions that trade does not affect conflict, since trade and other economic means belong to low politics and conflict to high politics, so their theoretical model includes the above Realist outcome in the case that the economic dependency of the two rival states is equal, so there is no economic cost or benefit to affect their conflictual relations.

On the other hand, in contrast to other studies, which argue that insufficient information and trade sanctions are enough to deter conflict, Li and Reuveny claim that this condition is not always true, since some traders may have gains because of the conflict, so the authors' model shows that some trade flows may have a different impact on the conflict.

Taking the above into consideration, Li and Reuveny created their model using dyads and focused on trade sectors such as agriculture and fisheries, energy, chemicals and minerals, manufactured products as well as miscellaneous consumption products, in order to examine their working hypothesis, which is as follows. Focusing on one state's imports and exports, from and to its rival, trade reduces conflict when the imported goods correspond to all the above sectors, apart from manufactured and miscellaneous consumption products, where conflict starts increasing. On the other hand, regarding the state's exports to its rival, trade reduces conflict only in two sectors, agriculture/fisheries and miscellaneous products for consumption, in contrast to other sectors, in which conflict, again, starts increasing.

In addition, the authors examined two dependent variables, (i) Militarized Interstate Disputes (MIDs), which include threats or use of force, and (ii) conflict. The independent variables they used were contiguity, alliances, power balance and democratic regime. Through statistical analysis among 140 countries from 1970 to 1997, the authors find that determinants such as contiguity, political regime and national income are of high significance and play a crucial role in whether a state will choose to initiate a conflict or not. For example, a state is more likely to initiate a conflict when its democratic levels are low and the distance from its rival is short. On the other hand, goods which derive from energy and manufacture are more likely to be the cause for conflict initiation than agricultural or mineral goods.

Li and Reuveny conclude that their theoretic model predicts the impact of bilateral trade on conflict and a combination of imports and exports in specific sectors of commercial relations such as agriculture and fisheries, energy, chemicals and minerals goods, can determine the state’s intention concerning conflict. Moreover, the authors’ theoretical model shows Liberals that trade may also promote conflict, and Neo-Marxists and Neo-mercantilists that asymmetric dependence may also provide more peace, and classical Realists that trade does not affect conflict, not because conflict is a matter of high politics but because of asymmetric dependence. Summarizing, the Table 21 below illustrates the main argument that Li and Reuveny make in their paper.

Table 21: Li’s and Reuveny’s Argument

| | |
|--|--|
| MAIN ARGUMENT | “Because of its heterogeneity, trade can either promote peace or war.” |
| Variables | <p>Dependent:</p> <ol style="list-style-type: none"> 1. Conflict 2. Militarized Interstate Disputes (MIDs) <p>Independent:</p> <ol style="list-style-type: none"> 1. Contiguity 2. Alliance 3. Balance of Power 4. Democratic Regime |
| Working Hypothesis / Determinants | Focusing on one state’s imports and exports, from and to its rival, trade reduces conflict when the imported goods correspond to agriculture and fisheries, energy, chemicals and minerals and when exported goods correspond to agriculture, fisheries and miscellaneous products for consumption. |
| Outcomes | <ol style="list-style-type: none"> 1. Variables such as contiguity, political regime and national income determine whether a state will initiate a conflict. 2. Their theoretical model predicts the impact of bilateral trade on conflict. 3. Their theory extends the basic arguments of Liberalism, Realism and Neo-Marxism on whether trade promotes peace. |

Goldsmith (2013) focuses on trade interdependence and examines in which cases and to what degree different components of trade affect interstate conflict and its escalation. His main argument is that trade interdependence is capable of deterring the initiation of a conflict but at the same time, a high volume of trade makes conflict more likely to occur. He considers a two-level approach to trade and conflict, volume and interdependence, as well as onset and escalation, respectively. Goldsmith also takes into consideration whether the states in conflict are small or large, arguing that under specific circumstances there are dynamics which make trade interdependence more effective in preventing a conflict for small states and, on the other hand, trade volume is more effective in deterring conflict escalation among major-powers.

The author refers to previous studies from Li and Reuveny (2011), Gartzke et al. (2001) and Morrow (1999), and highlights his approach to dyadic trade and conflict. More specifically, he mentions that interdependence is trade's key aspect because it creates costs in case of trade interruption, so, according to the Liberals (Russett and Oneal, 2001), trade has a pacific effect over conflict. On the contrary, Realists (Waltz 1979) have argued that through interdependence, the more powerful states use coercion tactics in order to promote their interests, and consequently, conflicts will occur.

In addition, since little has been said about studies which showed that sometimes trade might increase the likelihood of conflict (Barbieri 2002), Goldsmith's contribution concerns the different aspects of trade and the way they affect conflict itself as well as its escalation and, also that the volume of trade flows is a different factor from interdependence because, the availability of vital goods as well as the amount of goods that has been paid for can easily be directly reflected through trade volume and not through interdependence. Consequently, the volume of trade plays a special role in interstate conflict.

More specifically, as far as interdependence is concerned, Goldsmith argues that it plays a crucial role in the leader's decision, and as a result the likelihood of militarized conflict is reduced because of the opportunity costs. In addition, the author considers that the most crucial point on a disagreement can be reached between two interdependent trade partners, is in signaling (Gartzke et al., 2001) and not in militarized conflict. Both of these factors, opportunity costs and signaling are observable, and consequently, each state can assess the level of their dependency on trade levels. Nevertheless, the factors mentioned above have no impact during the

escalation of a conflict because both sides will turn their attention to the threat of force and the rival's determination.

As far as the absolute volume of trade is concerned, the author argues that it has a dual role. First, at the initiation of the conflict, a high volume of trade may have reverse effects from what Liberals expect because new points of disagreement may occur, so, the likelihood of a conflict starts rising. On the other hand, at the escalation of the conflict, the intentions of the decision-makers seem more credible and as a result, the volume of trade plays a significant role because, at that time, it appears to be the only countervailing factor against war, by giving the real dimension of the cost-benefit terms. At this point, "signaling" is the stage before the two adversaries go to war because they either reduce or raise the volume of commercial exchanges depending on the development of the conflict.

Goldsmith argues that trade volume cannot always deter militarized conflict for three reasons. First, trade can be disrupted even if the state which imposes the economic sanctions does not achieve its goals, second, the intention to disrupt commercial relations is sufficient to prevent conflict, and third, if the adversaries make clear their intentions regarding the effects of conflict on trade, then war may be avoided.

There are many complex dynamics which both affect trade and conflict, therefore, the author makes the following working hypothesis regarding trade volume, interdependence, escalation and the onset of conflict. Trade volume is negatively associated with conflict escalation and positively associated with conflict onset. On the contrary, trade interdependence is negatively associated with conflict onset and it does not play any significant role in conflict escalation.

More specifically, in order to examine the above argument the author created a research design, according to which the main indicator is Militarized Interstate Disputes (MIDs) from the Correlates of War. In addition, he considered three levels of escalation: the threat of, the display of and the actual use of the military force. He also used an econometric model including variables associated with both trade and conflict, such as military alliances, military capabilities, and power ratio, in order to show the balance of power, the political regime of both rivals, more specifically the degree of joint democracy, as well as geographic factors, such as distance and contiguity. Last but not least, the author also took into consideration the peace years between the

adversaries, in order to show the degree by which the likelihood of conflict was reduced because of that period.

The results of the statistical analysis confirmed the author's initial hypotheses regarding the relationship between trade interdependence and conflict. At the conflict onset stage, the factor which is positively associated is the volume of trade, while trade interdependence is negatively associated. On the other hand, the same factor, trade volume, is negatively associated at the time of escalation of the conflict, while trade interdependence is mainly insignificant and has no effect on that level. Consequently, the likelihood of using trade flows as a means to prevent a conflict is higher for large trading states than weaker ones.

The author concludes that trade interdependence mainly affects the onset of the conflict, by inhibiting militarized disputes, and has no relationship with conflict escalation and second that trade volume reduces the likelihood of a more violent conflict. Finally, he asserts that both Realists and Liberals must reconcile their arguments. Summarizing, the Table 22 below illustrates the main argument that Goldsmith makes in his paper.

Table 22: Goldsmith’s Argument

| | |
|--|--|
| MAIN ARGUMENT | “Trade interdependence is capable of deterring the initiation of a conflict but trade volume makes onset of a conflict more likely” |
| Variables | <p>Dependent:</p> <ol style="list-style-type: none"> 1. Militarized Interstate Disputes (MIDs) <p>Independent:</p> <ol style="list-style-type: none"> 1. Military alliances 2. Military capabilities 3. Power ratio 4. Political regime 5. Distance and Contiguity 6. Peace years between adversaries |
| Working Hypothesis / Determinants | <ol style="list-style-type: none"> 1. Trade volume is negatively associated with conflict escalation and positively associated with conflict onset. 2. Trade interdependence is negatively associated with conflict onset and it does not play any significant role in conflict escalation. |
| Outcomes | <ol style="list-style-type: none"> 1. Large trading states are more likely to use trade flows in order to prevent a conflict. 2. Trade interdependence mainly affects the onset of the conflict. 3. Trade volume reduces the likelihood of a more violent conflict. 4. Realists and Liberals must reconcile their arguments. |

3.2.3. Conclusions: Taking the Discussion Further

Up to now, Liberals argue that trade promotes peace, focusing on variables of high significance such as democratic regime and contiguity but the effects of trade on national security are vague. For example, although Oneal and Russett (1999) argue that trade reduces conflict and militarized disputes, the national security levels of the threatened state remain low, meaning that the threatened state “feels” insecure since the conflict has not been eliminated.

On the other hand, they do not consider the state as a determinant, emphasizing only on economic factors which act independently. This is an important omission, since they are examining interstate conflicts. For example, Morrow (1999) examines trade flows, contiguity, military capabilities and political regime, without taking into consideration the state’s position in the international system and the national interest. Furthermore, Liberals do not highlight the causes of conflict. Instead, they examine means of conflict resolution, based on secondary types of power, such as economic interdependence, through trade and foreign direct investments without mentioning determinants of power, such as influence levels and worthiness of the disputed area, meaning the added value the conflictual area gives to the state’s influence and therefore to its power. For example, K. Powers (2004) argues that national security is well established when states join Regional Trade Agreements, since they can operate as military alliances.

In addition, Liberals only argue about the pacific benefits of trade but they do not mention the impact of these effects on relative gains and a state’s sovereignty. That is to say that if a state in conflict chooses to raise trade levels with its rival, in order to avoid conflict escalation and war that means that it shares its relative gains and this can lead to the loss of its sovereignty. For example, Long and Leeds (2006) argue that the linkage of Economic and Security issues can raise trade levels but they do not refer to the impact of this linkage on the state’s dynamics and its ability to promote its influence.

Last but not least, Liberals seem to care more about peace and stability than about a state’s sovereignty and survival within the international or regional system. That is because they examine this issue only from economic viewpoint, trying to raise trade to the sphere of high politics. What is not mentioned is that trade, institutions and other economic organizations may provide cooperation among states but their operation is

limited, since these institutions did not arise spontaneously from independent economic actors, but were the result of interstate negotiations and agreements through which powerful states could secure their domination and promote their influence to their competitors. For example, although Gartzke, Li and Boehmer (2001) argue that capital interdependence reduces uncertainty and promotes conflict resolution without military actions, what is really happening is that the threatened country shares its relative economic gains with its rival through commercial relations, and this has a direct cost on the influence field. The Table 23 below summarizes all the above.

Table 23: What has not yet been taken into consideration

- **State should be considered as an important determinant.**
 - **The causes of conflict should be emphasized.**
 - **The impact of trade's pacific benefits on a state's sovereignty and relative gains should be examined further.**
 - **A state's sovereignty and survival should be the dominant objective instead of peace and trade stability.**
-

Therefore, in order to contribute to the discussion, I adopt the framework of analysis which is analyzed in the next chapter.

CHAPTER 4. FRAMEWORK OF ANALYSIS

4.1. Constructing the Framework of Analysis

Although Liberalism raises certain issues on the topic, I nevertheless consider that the analytical framework it provides is rather limited since it omits certain parameters which I consider as being crucial when trying to understand the issues this thesis attempts to address. More precisely, in order to contribute to the discussion on whether trade promotes peace, I introduce an analytical framework which is based on the basic principles of the Realist approach to International Relations and more specifically in the field of International Political Economy. This thesis confirms and extends Waltz's assumption that relative gains are crucial for a state's survival, arguing that the relative gains derive from the worthiness of the disputed area and no kind of economic interdependence has any effect on these gains. As Waltz says, "A state worries about a division of possible gains that may favor others more than itself" (Waltz, 1979:106).

In order to support my argument that Asymmetric Economic Interdependence is not a power-balancing factor and does not promote peace, I focus on interstate conflicts and I examine the impact of the economic interdependence of the threatened state on its national security, which is defined by configuration of the conflict. The structure of the analytical framework is formed in that way in order to answer the questions, "Is Economic Interdependence a power-balancing factor between two states in conflict?" and "Can the value of commercial relations between adversaries redeem the gains which derive from the disputed area?" and it is developed as follows:

i). Main Assumption

In this thesis, the basic assumption is that the relative gains which derive from the disputed area and have a direct impact on state's power and survival are more important than the relative gains which derive from economic interdependence.

ii). Theoretical Basis

Based on the Realist theory, the state is the dominant actor which struggles for power in order to survive in an anarchical international system. According to Fakiolas (2012),

“The state [...] consists of an organized authority, people and territory, a machinery of power that [...] claims the right to wield the monopoly of the legitimate use of physical force.” (Fakiolas, 2012:28). Therefore, we consider state to be a dominant actor.

iii). Dependent Variables

I consider two dependent variables, relative gains and the worthiness of the disputed area. Regarding the concept of the relative gains, according to Grieco, “Realism’s identification of the relative gains problem for cooperation is based on its insight that states in anarchy fear for their survival as independent actors.” (Grieco, 1988:487) and he also mentions “that states are also concerned with how much power and influence other states might achieve” (Baylis, Smith and Owens, 2008:129). Also, according to Waltz, “A state worries about a division of possible gains that may favor others more than itself” (Waltz, 1979:106). By the worthiness of the disputed area, I mean the importance of the disputed area on the state’s economic power and exercise of influence, in order to define the relative gains which derive from it.

iv). Independent Variables

I use two kind of variables, economic and military. More specifically, regarding the economic variables, the goal is to show that there is asymmetric interdependence between the two rivals. In order to do that, I first have to show the asymmetry in economic power between them. Therefore, I focus on primary indicators of economic power, such as:

- *Gross Domestic Product (GDP)*: GDP is “the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products” (World Bank (a), 2015), meaning that it shows the overall economic activity of a nation.
- *GDP Growth*: GDP Growth indicates the configuration of the state’s economic power.
- *GDP per capita*: GDP per Capita indicates the relative performance of each rival, since a rise in GDP per capita entails a rise in productivity.

- *Foreign Exchange Reserves*: Foreign Exchange Reserves show the economic power of each country and their capabilities to react in order to protect their currency and consequently their economy.

I also focus on secondary indicators of economic power which can help in order to decide precisely and accurately which state has the greater economic power, such as:

- *Balance of Trade*: The Balance of Trade, or Net Trade, shows the state's international transactions, since it is the largest component of the balance of payments.
- *Exports as a percentage of GDP*: Exports as a percentage of GDP indicate which of the two rivals managed to raise its power and consequently its relative gains, against the other.

In addition, in order to show interdependence I focus on economic indicators at a bilateral level, which have a direct impact on the state's power and survival, such as Trade, Foreign Direct Investments (FDI), Economic Agreements, Energy Supply and Membership of Economic or Monetary Organizations.

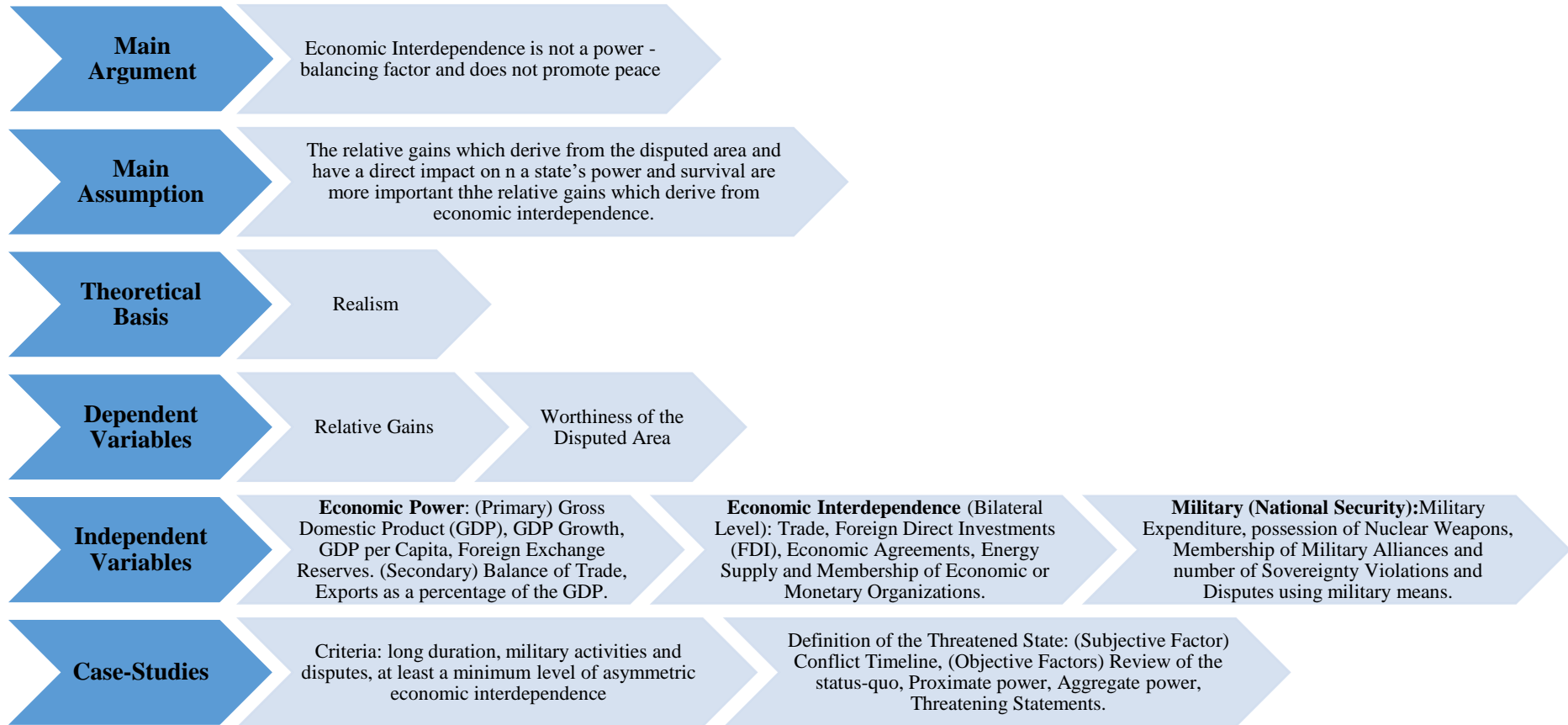
Regarding the military variables, the goal is to show the impact of asymmetric economic interdependence on the formation of national security of the threatened state. In order to do that I have to focus on indicators which directly reflect the state's sense of security or insecurity, such as Military Expenditure, possession of Nuclear Weapons, Membership in Military Alliances and number of Sovereignty Violations and Disputes using military means.

v). Case studies

In order to reinforce my main argument that between states in conflict asymmetric economic interdependence is not a power-balancing factor for the threatened state and does not promote peace, I will examine three interstate conflicts. I define "conflict" as "a state of non-war" that is to say interstate conflicts which involve sovereignty disputes using military means. The case studies have to meet three conditions. The first condition is that the case study has to have been long-term, the second is that there has to be military activities and disputes and the third is that there has to be at least a

minimum level of asymmetric economic interdependence. It is also crucial to define the threatened state, therefore it is necessary to create a timeline of the conflict, in order to observe which of the two sides is more aggressive. Additionally, there are also four objective factors which define the threatened state. These are review of the status-quo, proximate power, aggregate power as well as threatening statements. Figure 3 below summarizes the framework of analysis which was analyzed above. In the next chapter I will apply the framework of analysis to the cases-studies.

Figure 3: The Framework of Analysis



PART B

THE CASE-STUDIES

Introduction

In this section the main objective is to reinforce the basic argument, according to which economic interdependence between two states in conflict does not promote peace since it has no significant impact on the configuration of the conflict and therefore it does not provide a significant enhancement in the levels of national security of the threatened state. The main questions which are going to be answered are, “Is Economic Interdependence an effective power-balancing tool for the threatened state?” and “Can the value of commercial relations between adversaries redeem the value of influence of the disputed area?”

In line with the analytical framework, the two main variables which define the economic interdependence between two states in conflict are relative gains and the worthiness of the disputed area. Relative gains show that economic cooperation is limited because one of the two rivals gains more than the other and the worthiness of the disputed area shows that the gains which derive from the disputed area are vital for the state’s breadth of influence and power, and therefore they cannot be redeemed by any level of economic interdependence.

The three case studies, involving Greece and Turkey, the United Kingdom and Spain, and India and Pakistan, were chosen because they are consistent with the criteria which are mentioned in the analytical framework. More specifically, they are long conflicts, there is asymmetric interdependence between the rivals and there are disputes which take place using military means and therefore have direct implications on the state’s national security. Their structure is based on the analytical framework and consists of two components. The first component confirms and extends Grieco’s theory regarding the implications of economic interdependence in relative gains and the second is the worthiness of the disputed area which defines these gains.

Relative gains result from the interaction of economic interdependence in the configuration of the conflict and answers the question of “What were the implications of economic interdependence in the configuration of the conflict?”, “Did the threatened state gain more security?” “Which of the two rivals gained more from economic interdependence?” As mentioned in the assumptions, if the threatened state is the greater power of the two rivals, then these questions can be answered by continuation of the conflict. If the threatened state is the smaller power between the rivals, then the question of “In which sector is the highest level of interdependence and how important

and vital is this sector for the state's national security and survival?" should also be answered.

More specifically, first, using economic indicators, such as GDP, GDP Growth, GDP per Capita, and the Exchange Reserves it is easy to define which of the two rivals has greater power. Second, economic indicators such as bilateral balance of trade, exports as a percentage of GDP, bilateral Foreign Direct Investments, bilateral economic agreements as well as energy supply, can show the asymmetric interdependence between the two rivals and which sector is more important for the state's national security and survival. However, since each case has different characteristics some of the variables do not correspond to all cases-studies. For example, energy supply only concerns the case of the Greek-Turkish conflict and membership of a common economic organization only relates to the case of the British-Spanish conflict. In addition, indicators of bilateral military relations such as, Military Expenditure and number of sovereignty disputes and violations show the configuration of the conflict and they are variables of the threatened state's national security.

The second component, which is my contribution, concerns the worthiness of the disputed area, meaning that the gains from the maintenance of this area concern the state's power and influence, and therefore are more important and cannot be redeemed against gains which derive from economic interdependence.

In the three case studies, first, there is a historical overview of the conflict, not only focusing on the most important moments but also to determine which of the two rivals is the threatened state, according to the criteria which have been mentioned in the analytical framework. Second, in order to show that there is asymmetric economic interdependence I examine which state from among the two rivals has greater power and what is the structure of their bilateral economic relations. In addition, in order to conclude which side gained more from the economic interdependence and to what degree the national security of the threatened state national was reinforced, I focus on the number of violations and on Military Expenditure, respectively, since the objective is to show the configuration of military power for both countries through Military Expenditure, alliances and possession of nuclear weapons, as well as the configuration of the conflict, meaning military violations over the years.

As mentioned in the analytical framework, this significant aspect is directly related both to economic interdependence and the worthiness of the disputed area, since it reveals the level of the threatened state's national security. This is a significant variable

because it is used in order to define the repercussions of economic interdependence on national security. Last but not least, I focus on the variables which define the worthiness of the disputed area, both in terms of power and influence level, since it plays a crucial role in the configuration of the conflict and defines the relative gains.

CHAPTER 5. THE INDIA – PAKISTAN CONFLICT

5.1. The initiation of the Conflict

The conflict between India and Pakistan started in 1947, after India gained independence from Great Britain. Under the British Empire, Kashmir and Jammu were autonomous states, along with others, but after the dismantlement of the British Empire, their governors had not decided which country (India or Pakistan) they would be part of. The majority of the population in these areas was Muslim, so Pakistan was based on this argument, in order to legitimize its claims. On the other hand, India maintained that in 1947 the Maharaja had agreed that they would join India (Ganguly, 1997). This disagreement resulted in October 1947 in the invasion of Kashmir by armed tribesmen who supported the Pakistan side. India's response to the Maharaja, who asked for armed assistance in return for accession to India through a referendum, was immediate. The war ended two years later in 1949; nevertheless, the referendum was never held, and so the area remain disputed.

In 1962 an effort was made by the USA and the United Kingdom to put forward a peaceful agreement for the two adversaries but this was unsuccessful and in 1965 the hostilities between India and Pakistan started again. Pakistan once again initiated the war, by launching military operations across the ceasefire line known as "Operation Gibraltar" (Schofield, 2003) and India retaliated. A year later, in 1966, both countries, after the intervention of the U.N. decided to sign a declaration according to which they were committed to stopping military actions and solving their differences by peaceful means as well as to return to their previous positions.

Instead of promoting peace, India took advantage of Pakistan's civil war in 1971 by supporting ethnic groups who were opposed to the Pakistani administration who were demanding their autonomy. This resulted in the emergence of Bangladesh as an autonomous and independent state which was recognized by the Pakistanis, and both countries agreed to respect the ceasefire line. Nevertheless, Pakistan did not accept the accord entered into in 1974 between the Government of Kashmir and India, according to which Kashmir was to become part of India.

The disputes continued until 1989, when the Kashmir uprising started. Armed Muslims demanded independence for Jammu and Kashmir and others demanded union with Pakistan. India accused Pakistan of supporting these groups and supplying them

with weapons and called on Pakistan to stop promoting cross-border terrorism. After that, in 1997 the two rivals met in Delhi and agreed to develop an eight point agenda in order to promote a peaceful resolution, although they did not manage to reach an agreement.

The following year, 1998, was characterized by nuclear escalation of the already strained relations. Both rivals, without having made any progress regarding the resolution of the Kashmir conflict began a sharp escalation of the arms race, by conducting nuclear tests at the same time. The USA and Japan reacted immediately by imposing sanctions against both India and Pakistan in order to prevent a nuclear confrontation and a year later, they signed the Declaration of Lahore (Indian Ministry of External Affairs, 2015) according to which they were pledged to resolve all their issues peacefully.

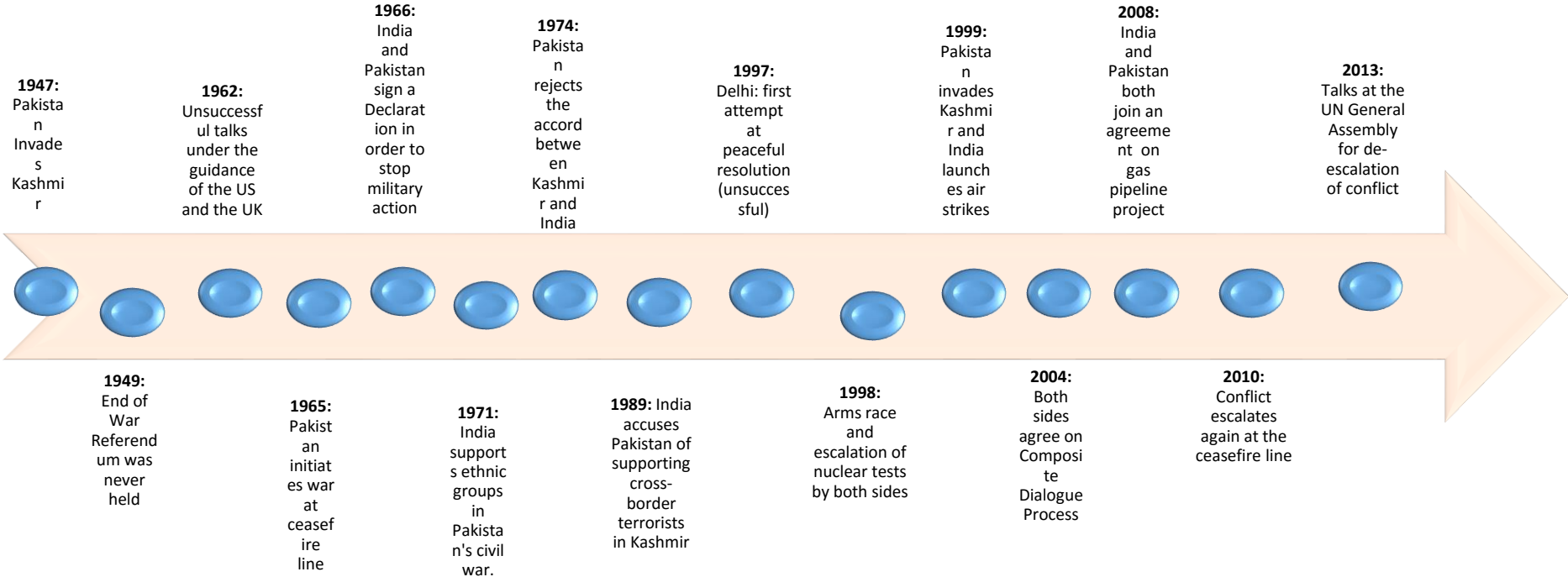
In 1999, Pakistani forces infiltrated into Kashmir and India launched air strikes against them. Once again, conflict broke out, almost 20,000 people became refugees, mainly on the Indian side, and General Pervez Musharraf led Pakistan into a three- year dictatorship. In addition, in 2001, suicide attacks in Kashmir and Delhi caused a serious rise in the number of troops on both sides of the India-Pakistan borders.

In 2004, for the first time both sides agreed on a Composite Dialogue Process in order to promote more dialogue at different levels and the Indian Prime Minister announced that India was willing to withdraw a significant number of troops from Kashmir and both rivals agreed to create a common institutional mechanism in order to combat terrorism. In 2007 dialogue continued in the shadow of bomb attacks, with new issues such as the reduction of the number of nuclear and ballistic missiles, and in 2008 India and Pakistan agreed on bilateral trade routes since they already had a joint framework agreement on the gas pipeline project with Turkmenistan and Afghanistan. Nevertheless, India broke off talks with Pakistan because of new bomb attacks in Mumbai, which had been planned by the Pakistani Intelligence Agency; something that a year later was confirmed by the Pakistan government.

In 2010 the conflict escalated again in Kashmir, where Indian and Pakistani military forces were firing at each other at the ceasefire line. Two years later, talks started again between the two adversaries and in 2013 they met in New York at the UN General Assembly and agreed to promote a de-escalation of the conflict in the disputed area of Kashmir as well as to release trucks with commercial goods which had been detained by both sides. Up to now, the talks have been continuous and both sides believe that

the tension in the area will decrease in order to promote a peaceful resolution of the conflict. (BBC (a), 19/6/2015), (Al Jazeera, 27/5/2014). Figure 4 illustrates the timeline of the Kashmir conflict.

Figure 4: The Timeline of the India-Pakistan Conflict



5.2. The Threatened State

Despite the fact that the definition of the threatened state is subjective, there are some objective factors which help someone to understand which of the two rivals is more threatening to the other. According to the analytical framework, there are four factors which define the threatened state. These are review of the status-quo, proximate power, aggregate power as well as threatening statements.

Regarding the first factor, the case of Kashmir is not very clear, meaning that there is a special status-quo in this area. Taking into consideration that India and the wider area was under British administration, on the one hand according to India, Pakistan had no *locus standi* in Kashmir and the invasion of 1947 was a hostile act (Schofield, 2003) and on the other hand, according to the Pakistani side, “*The entry of Pakistani forces into Kashmir was necessary in order to protect its own territory from invasion by Indian forces*” (Schofield, 2003:71). In addition, as Schofield mentions, “*Since India was responsible for the security of the state, the problem of demilitarization had to take into account the importance of leaving in the state sufficient Indian and state forces to safeguard the state’s security*” (Schofield, 2003:71). Actually, in this area there was never a status-quo for Kashmir; instead it immediately became a disputed area after the dismantlement of the British Empire.

Despite the fact that the state of Jammu and Kashmir declared its accession to the Dominion of India (Ganguly, 1997), Pakistan's invasion of Kashmir resulted in the partition of the territory along two lines of control by Pakistan and India, as can be seen Figure 5 below. This situation remains the same to this very day, so we consider this as the status-quo. Taking into consideration the timeline, Pakistan is the revisionist state, since it does not accept the Line of Control which was set in 1972 under the Simla Agreement. As mentioned by the BBC, “*Although India claims that the entire state is part of India, it has been prepared to accept the Line of Control as the international border, with some possible modifications. Both the US and the UK have also favored turning the Line of Control into an internationally-recognized frontier. But Pakistan has consistently refused to accept the Line of Control as the border since the predominantly Muslim Kashmir Valley would remain as part of India.*” (BBC (b), 20/7/2015). Therefore, regarding the first factor for defining the threatened state, India supports the maintenance of the status-quo in contrast to Pakistan, which promotes revisionist aspirations.

Figure 5: The Line of Control in Kashmir



Source: BBC (c), 11 June 2015

The other factors (proximate power, aggregate power and threatening statements) serve to reinforce the initial and most valuable factor, which has been already mentioned, in order to define the threatened state. Not only is Pakistan a revisionist state which want to change the status-quo, it is also a proximate power, since it borders the disputed area, and its statements are far from friendly, since it often threatens India with nuclear war (Daily Mail, 18/9/2015), (The national Interest, 8/7/2015). On the

other hand, aggregate power in this case is of secondary significance, since the rivals are both nuclear powers and therefore, despite their resources, their military power can be considered as equal. Therefore, taking the above into consideration, we conclude that India is the threatened state, since Pakistan's behavior corresponds to the objective factors which define the threat, in accordance with the analytical framework.

5.3. Weighing Relative Gains

5.3.1. Economic Power and Asymmetric Economic Interdependence

A. Primary Indicators of Economic Power

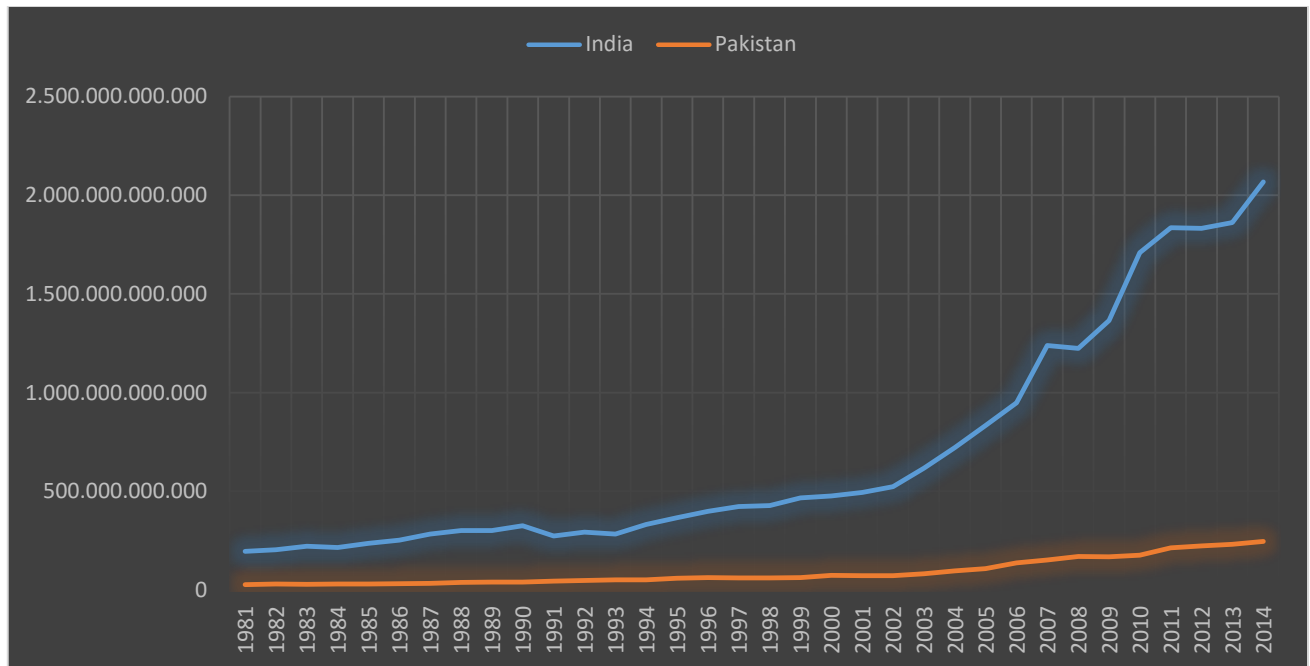
i). Current GDP

According to the analytical framework, one of the most common indicators of economic power is Gross Domestic Product (GDP), however, we should take into account factors such as territorial breadth and population. India's territorial breadth is 3,287,263 sq.km (CIA, 2015) and it is the seventh largest country in the world, while its population is 1,251,695,584 people (CIA, 2015), the second most populous country in the world. Pakistan, on the other hand, is the thirty-sixth largest country with 796,095 sq.km (CIA, 2015) and its population is the seventh largest in the world, with 199,085,847 people (CIA, 2015). That is to say that although India's territorial breadth is larger than Pakistan, they are both among the ten most populous countries in the world. Figure 6 illustrates India's and Pakistan's GDP from 1981 to the present day.

More specifically, from 1981 to 1990, India's GDP rose from 196,883 million USD to 326,608 million USD, meaning that it increased by 65.8%. On the contrary, for the same period, Pakistan's GDP rose from 28,100 million USD by 42.3%, reaching 40,010 million USD. Therefore, for the decade between 1981 and 1990, India increased its GDP by 65.8% and Pakistan increased its by 42.3%. In addition, from 1993 to 2002 India almost increased its GDP full-fold compared to Pakistan which remained at the same levels. More specifically, from 1993 to 2002, India increased its GDP by 84.3% and Pakistan by only 40.4%. However, from 2003 onwards, India's

GDP increased rapidly by 234.2%, reaching 2,066 billion USD in 2014, while Pakistan increased its GDP by 196.5%, reaching 246,876 million USD in 2014.

Figure 6: GDP, current USD



Source: World Bank (a), 2015

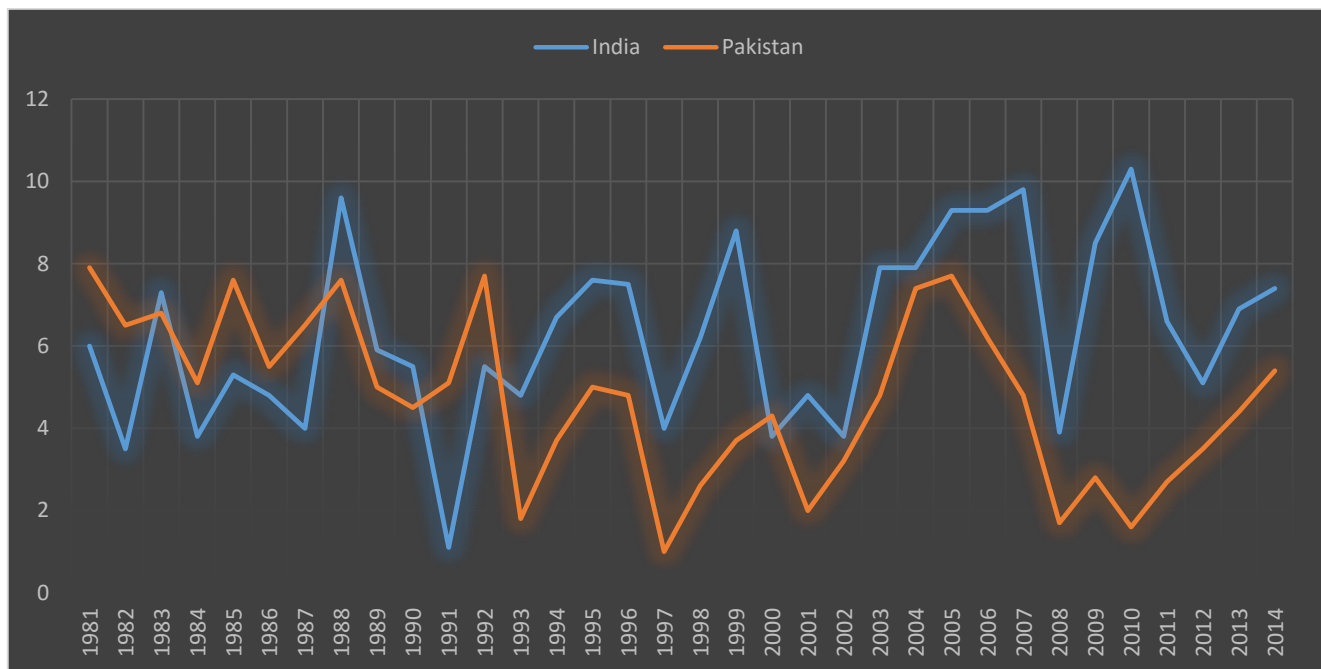
ii). GDP Growth

GDP growth is also an important indicator because it is complementary to the previous indicator, current GDP, and shows the variation in the state’s economic power. Figure 7 below illustrates GDP Growth for both rivals in percentage terms. More specifically, despite the fact they both had many fluctuations, India had higher percentages than Pakistan, especially from 1993 onwards. More specifically, from 1981 to 1987, Pakistan’s growth rates were between 7.9% and 6.5% while its lowest point was in 1984 with 5,1%. For the same period, India’s rates were between 6% and 4%, while its lowest point was 1982 with 3.5%.

However, from 1992 onwards, India always had higher rates than Pakistan. More specifically, from 1993 to 2014, India’s highest rates were in 1999, in 2007 and in 2010 with 8.8%, 9.8% and 10.3% respectively, while Pakistan’s rates for the same years were 3.7%, 4.8% and 1.6% respectively. Pakistan’s highest rates, which were

also close to that of India's, were 7.4% in 2004 and 7.7% in 2005, while India's rates were 7.9% and 9.3%, respectively. On the contrary, the biggest difference was in 2010, when India's rate was 10.3% and Pakistan's only 1.6%, however, this difference began decreasing and in 2014, the growth rates for India and Pakistan were 7.4% and 5.4% respectively.

Figure 7: GDP Growth, (%)



Source: World Bank (b), 2015

In addition, regarding previous years, as Table 24 below indicates, India raised the growth rates from 6.5 in the 1960s to 7.7 in the 2000s, compared to Pakistan which decreased it, from 7.2 to 4.6, respectively.

Table 24: Growth Rates, (% GDP, 1960-2010)

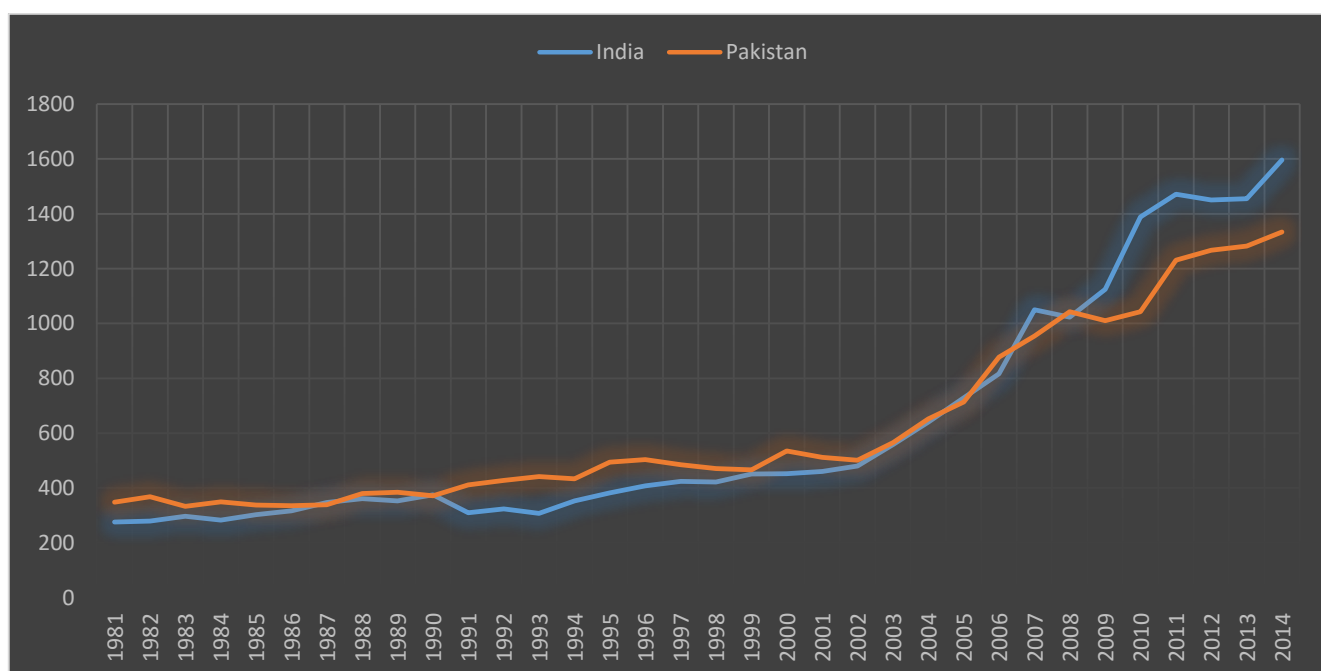
| INDIA | Growth Rate | PAKISTAN | Growth Rate |
|-------|-------------|----------|-------------|
| 1960s | 6.5 | 1960s | 7.2 |
| 1970s | 3.1 | 1970s | 4.7 |
| 1980s | 5.6 | 1980s | 6.3 |
| 1990s | 5.5 | 1990s | 4.6 |
| 2000s | 7.7 | 2000s | 4.6 |

Source: USAID, 2012

iii). GDP per capita

As far as GDP per capita is concerned, it is also an important indicator because, as already mentioned in the analytical framework, it shows how much the levels of growth and productivity have increased or decreased, which are important factors with a direct impact on a state's economic power. Figure 8 below illustrates GDP per capita between India and Pakistan from 1981 to 2014.

Figure 8: GDP per capita, current USD



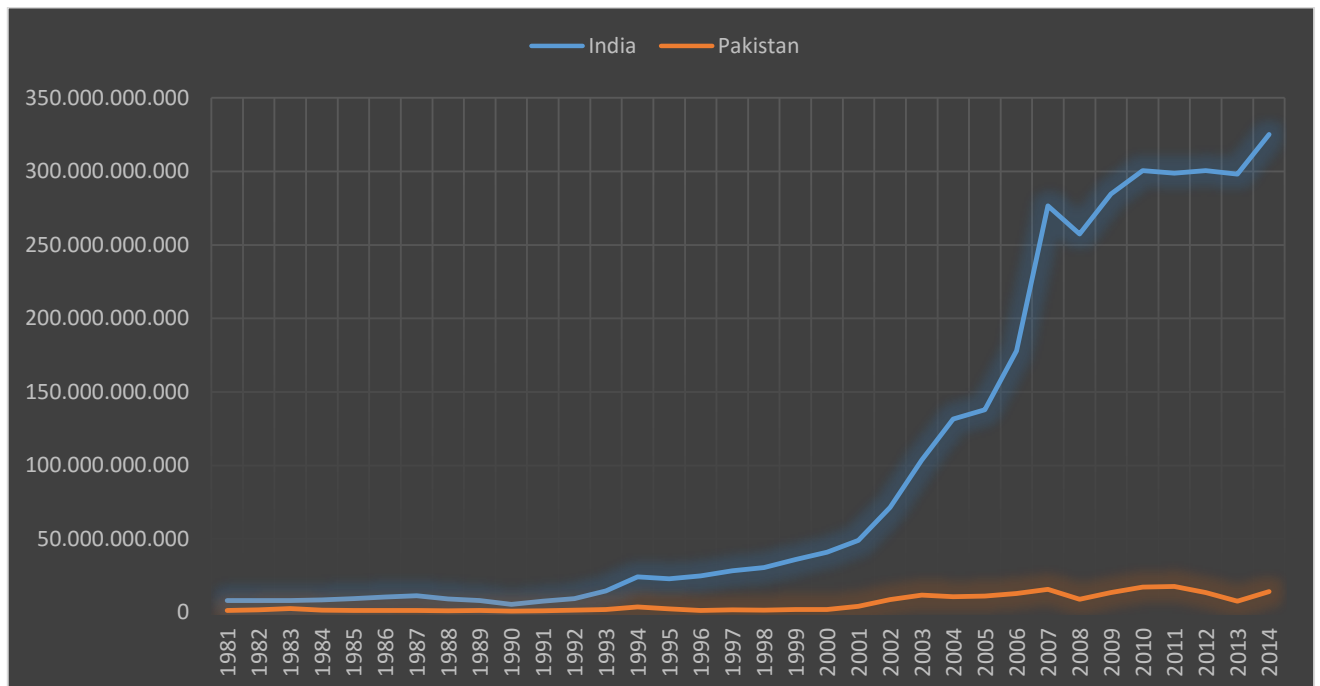
Source: World Bank (c), 2015

More specifically, GDP per capita was almost the same for both adversaries, especially from 1986 to 1990 and from 2002 to 2008. For the years between 1991 and 2001, Pakistan's rates were higher than India's but from 2008 onwards India had higher rates than Pakistan. More specifically, regarding the period between 1991 and 2001, GDP per capita in Pakistan increased from 410,8 USD to 511.8 USD, while the rates for India were lower, from 309,3 USD to 460.8 USD, respectively. Regarding the period between 2008 and 2014, India increased its GDP per capita from 1,022.60 to 1,595.70 USD, while the rates for Pakistan also increased from 1,042.80 USD to 1,334.10 USD, but they were lower than India's.

iv). Foreign Exchange Reserves

Foreign Exchange Reserves are also an important indicator of the state's economic power, since they show the state's economic power and its capabilities to react in order to protect its currency and its economy. Figure 9 illustrates the total reserves of the two rivals, including gold. More specifically, from 1981 to 1991, India and Pakistan were almost at the same level but India maintained slightly more reserves than Pakistan. However, from 1992 to 2001 India increased its foreign exchange reserves by 414% and from 2002 to 2007 there was a rapid rise by 286%. This rise continued from 2008 to 2014 and India increased its reserves by 26.2%, reaching 325 billion USD after a slight decrease in the years between 2007 and 2008. On the other hand, Pakistan did not manage to exceed the 17.5 billion USD, which was the highest rate of its reserves in 2011. Within twenty years, from 1981 to 2001, Pakistan increased its foreign exchange reserves by only 189.8% and from 2002 to 2011 its reserves increased by 101.2%. However, from 2011 to 2014, Pakistan's exchange reserves decreased again by 19.1%, reaching 14.3 billion USD in 2014.

Figure 9: Total Reserves (including gold), in current USD



Source: World Bank (d), 2015

Additionally, foreign exchange reserves as percentage of imports define the state's absolute (or relative, if it concerns another state) gains. For both countries, India and Pakistan, the foreign exchange reserves, as a percentage of imports are almost three times more than they were at the outbreak of the conflict between them. According to Table 25 below, India's reserves decreased in 1990 to 6.5% but increased again reaching 84.1% over the next twenty years. Similarly, but at lower rates, Pakistan increased its reserves to 36.7%, from 4% in 1990.

Table 25: Foreign Exchange Reserves, (as a % of imports)

| INDIA | Foreign Exchange Reserves as a % of Imports | PAKISTAN | Foreign Exchange Reserves As a % of Imports |
|--------------|---|-----------------|---|
| 1970 | 35.9 | 1970 | 17.6 |
| 1980 | 46.7 | 1980 | 9.3 |
| 1990 | 6.5 | 1990 | 4.0 |
| 2000 | 73.6 | 2000 | 13.9 |
| 2010 | 84.1 | 2010 | 36.7 |

Source: USAID, 2012

A). Secondary Indicators of Economic Power

i) Exports as a percentage of GDP

Exports as a percentage of GDP are also an important indicator of a state's economic power, since they show which of the two rivals managed to raise its power and consequently its relative gains, compared to the other. During the period from 1970 to 2010, openness in trade was rising for both countries also as a percentage of GDP, as can be seen in Table 26 the share of exports for India was 3.3% of GDP in 1970 and in 2010 reached 12.7% of GDP and the share of imports was 3.5% and 18.9% of GDP, respectively. For Pakistan, on the other hand, the share of exports was 4.5% of GDP in 1970 and 12.1% of GDP in 2010 and the share of imports was 7.7% and 22.1% of GDP, respectively.

Table 26: Share of Exports and Imports as a % of GDP, 1970-2010

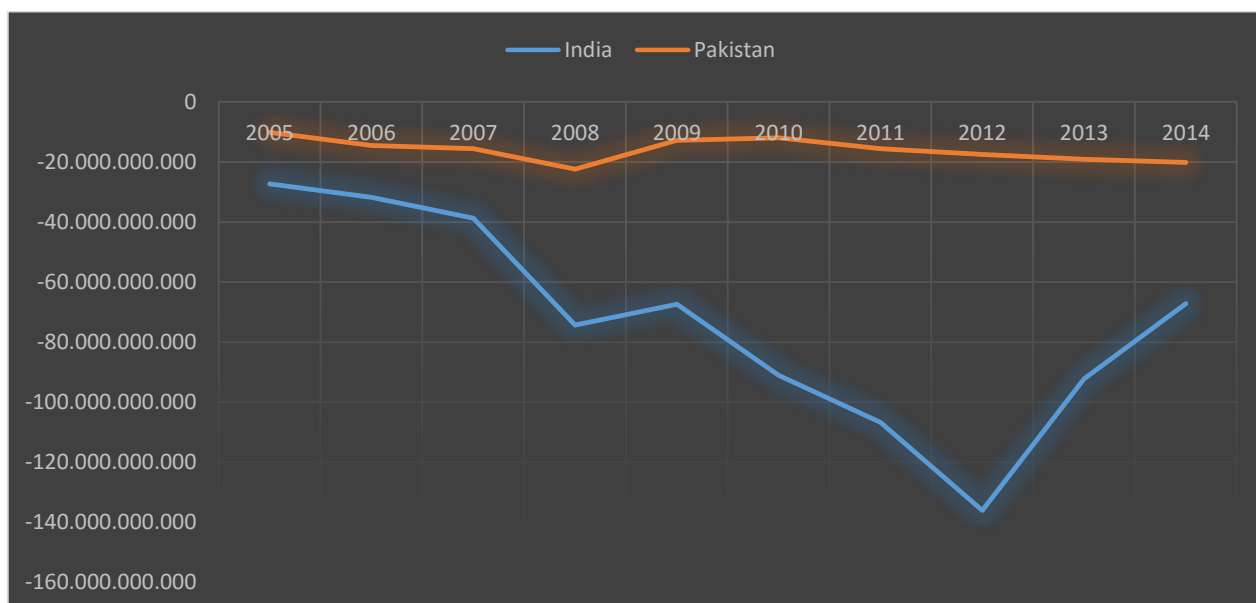
| INDIA | Share of Exports | Share of Imports | PAKISTAN | Share of Exports | Share of Imports |
|--------------|-------------------------|-------------------------|-----------------|-------------------------|-------------------------|
| 1970 | 3.3 | 3.5 | 1970 | 4.5 | 7.7 |
| 1980 | 4.7 | 8.1 | 1980 | 11.1 | 22.6 |
| 1990 | 5.7 | 7.4 | 1990 | 14 | 18.5 |
| 2000 | 9.2 | 11.2 | 2000 | 12.2 | 14.7 |
| 2010 | 12.7 | 18.9 | 2010 | 12.1 | 22.1 |

Source: USAID, 2012

ii). Balance of Trade

Regarding the balance of trade, Pakistan had better rates than India for the last decade, however, both had a trade deficit. Figure 10 below illustrates the net trade between the two rivals, according to the data available from the World Bank. More specifically, from 2005 to 2008 India experienced a continuous decrease by 172% and then the trade deficit increased more by 82.9%, reaching -136 million USD in 2012. Nevertheless, from 2012 to 2014 the trade deficit began decreasing from -136 million USD to -67 million USD, that is to say 50.6%. Pakistan, on the other hand, had fewer fluctuations; however it did not have a trade surplus. More specifically, from 2005 to 2008 its trade deficit increased by 120.8% reaching -22.4 million USD. After a small rise, Pakistan's rates decreased again from 2010 onwards, reaching -20 million USD in 2014.

Figure 10: Balance of Trade, in current USD



Source: World Bank (e), 2015

In addition, in order to have a more comprehensive perspective on the balance of trade, it is also important to take into consideration how the trade relationship of the two rivals with developing countries evolved (Papadimitriou and Pistikou, 2015b). Table 27 below illustrates the share of exports and imports from developing countries for India and Pakistan from 1970 to 2010. According to the USAID Executive Summary (2012), Pakistan increased the percentage of exported goods to developing countries from 29.8% in 1970 to 40.1% in 2010 and for the same years the percentage of imported goods from the same group of countries also rose from 9.4% to 41.7%. India, on the other hand, also increased its trading levels with developing countries. In 1970, the percentage of exports to these countries was 19.5% and in 2010 it reached 35.4%. The same can be said for imports. In 1970, India's imports from developing countries were 18.7% and in 2010 they had risen to 40.4%.

Table 27: Share of Exports and Imports from Developing Countries, 1970-2010

| INDIA | Share of Exports | Share of Imports | PAKISTAN | Share of Exports | Share of Imports |
|--------------|------------------|------------------|-----------------|------------------|------------------|
| 1970 | 19.5 | 18.7 | 1970 | 29.8 | 9.4 |
| 1980 | 17.5 | 28.2 | 1980 | 37.5 | 16.2 |
| 1990 | 9.8 | 14.4 | 1990 | 16.4 | 18 |
| 2000 | 23.1 | 20.9 | 2000 | 18.8 | 25 |
| 2010 | 35.4 | 40.4 | 2010 | 40.1 | 41.7 |

Source: USAID, 2012

Summarizing, India has more economic power than Pakistan because it is in a better place regarding the primary indicators of economic power, such as GDP, the GDP growth rate and Foreign Exchange Reserves. In addition, regarding GDP per capita both rivals are close since they are in joint first place. Regarding the secondary indicators of economic power (trade as percentage of GDP and the balance of trade) Pakistan had better rates than India, however, since India's rates are better in the primary indicators of economic power, we can conclude that India has more economic power than Pakistan.

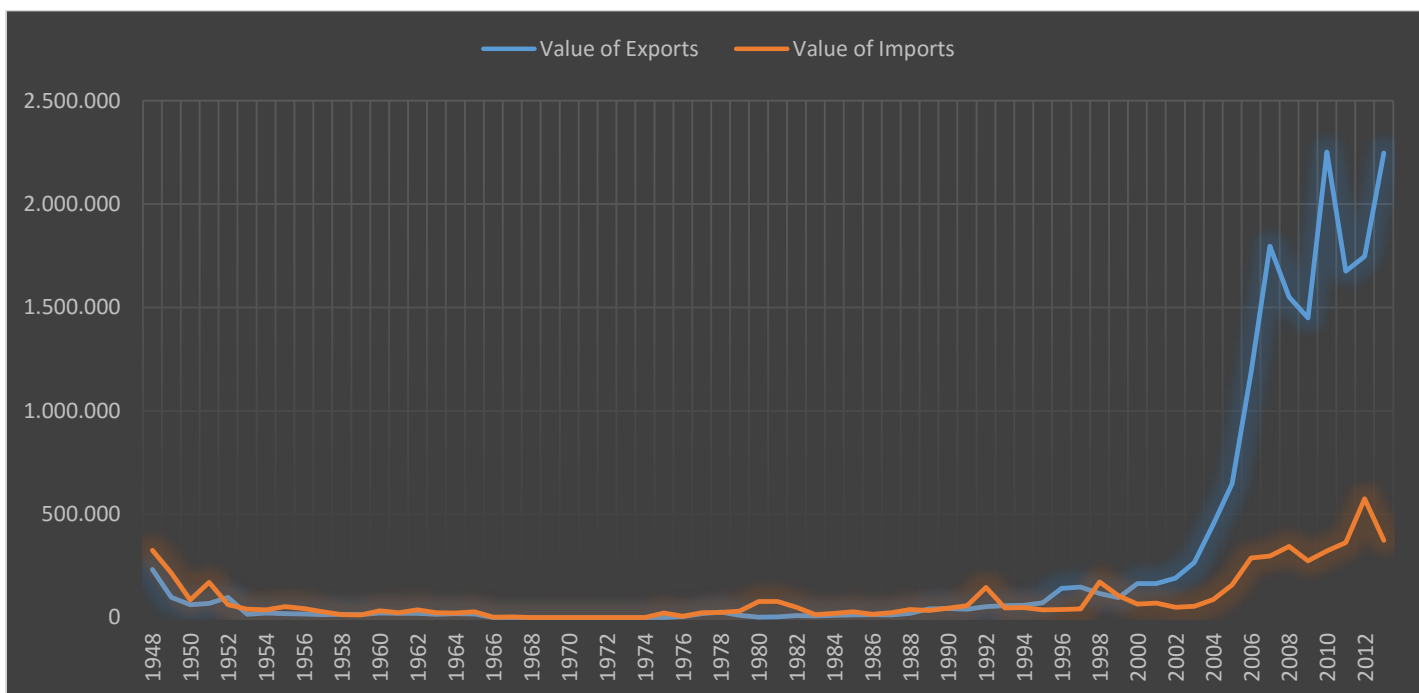
B. Indicators of Economic Interdependence

i). Trade

As mentioned in the analytical framework, trade is one the indicators of asymmetric economic interdependence. Figure 11 below illustrates the value of trade between the adversaries, in order to see the level of interdependence in this sector. More specifically, India's bilateral trade with Pakistan and vice versa, is not that close, and it is characterized by low figures for exports and imports. More specifically, from the beginning of the conflict, in 1948 to 2002, Pakistan has not been a very attractive partner for India. From 1950 to 1996, India's value of exports to Pakistan did not go beyond 140,946 mil. USD and the highest figure for imports was in 1992 with 145,768 mil. USD. Similarly, exports remained low for the same period; their value did not

exceed 140,946 mil. USD. Nevertheless, in 1996, the value of exports started increasing gradually, reaching 2,250,895 mil. USD in 2010 and 2,247,648 mil. USD in 2013, as can be seen in Figure 11.

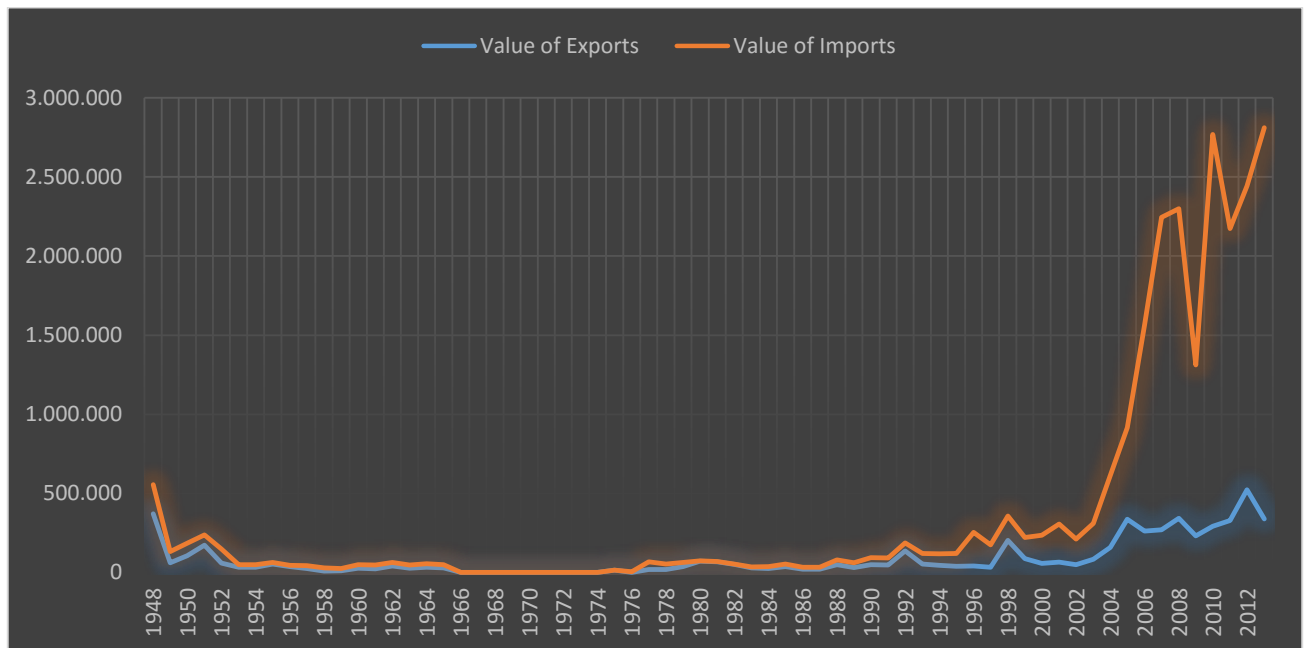
Figure 11: Value of India’s trade with Pakistan 1947-2013 (million USD)



Source: Direction of Trade Statistics (a) (DOTS), IMF

On the other hand, the same can be said with regard to Pakistan but the difference here is that there was a gradual rise in imports from India, especially from 2002 onwards. Despite the fact that the value of exports remained low levels, without exceeding 521,931 mil. USD, which was the highest rate for 2012, the value of imported goods from India rose from 162,526 mil. USD in 2002 to 2,472,413 mil. USD in 2013. Figure 12 below illustrates the value of Pakistan’s trade with India.

Figure 12: Value of Pakistan’s trade with India 1947-2013 (million USD)



Source: Direction of Trade Statistics (a) (DOTS), IMF

On the other hand, Pakistan’s trade partners include India, which is in the fifth place with 2,472.4 mil. USD, while in the first three places are China (mainland) with 12,117.16 mil. USD, Saudi Arabia with 6,382.20 mil. USD and United Arab Emirates, with 6,319.49 mil. USD. What should be mentioned at this point is that Pakistan’s imports from India start rising from 2006 onwards because at that time the two adversaries signed their first trade arrangement which concerned raw materials that could not be produced at a local level. Table 28 below illustrates Pakistan’s top 10 Import Partners from 2004 to 2013.

Table 28: Pakistan's top 10 Import Partners 2004-2013 (million USD)

| YEAR: Country: | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| China (mainland) | 1499.18 | 2348.74 | 4664.81 | 6363.41 | 6590.55 | 3774.17 | 7629.26 | 9281.85 | 10206.93 | 12117.16 |
| Saudi Arabia | 2067.42 | 2819.44 | 3544.56 | 4276.09 | 5620.70 | 3488.41 | 4569.82 | 5803.67 | 6348.23 | 6382.20 |
| U.A.E | 1772.59 | 2619.99 | 3293.81 | 3973.59 | 5223.09 | 3454.14 | 4524.92 | 5746.65 | 6285.86 | 6319.49 |
| Kuwait | 1000.02 | 1263.81 | 1588.85 | 1916.76 | 2519.48 | 1798.24 | 2355.70 | 2991.74 | 3272.46 | 3289.96 |
| India | 455.41 | 577.40 | 1302.96 | 1975.08 | 1957.20 | 1079.91 | 2475.98 | 1843.85 | 1922.07 | 2472.41 |
| Malaysia | 634.01 | 731.71 | 927.16 | 1382.92 | 1905.57 | 1605.65 | 2513.62 | 2805.83 | 2037.79 | 1824.92 |
| United States | 1726.48 | 1531.84 | 2188.45 | 2238.61 | 2192.41 | 1800.59 | 2089.56 | 2204.07 | 1682.01 | 1811.59 |
| Iran | 272.02 | 362.93 | 456.27 | 550.44 | 723.52 | 956.01 | 1252.37 | 1590.51 | 1739.75 | 1749.06 |
| Japan | 1153.03 | 1633.47 | 1936.05 | 1715.65 | 1599.04 | 1284.12 | 1446.28 | 1869.89 | 1860.04 | 1560.80 |
| Indonesia | 470.72 | 684.29 | 807.51 | 1028.51 | 1022.61 | 653.73 | 757.01 | 1029.62 | 1519.93 | 1556.98 |

Source: Direction of Trade Statistics (b) (DOTS), IMF, 2015

ii). Foreign Direct Investments / Economic Agreements and SAFTA

The absence of Foreign Direct Investments on both sides in this sector is noticeable. According to data from the United Nations Conference on Trade and Development (UNCTAD), there are no bilateral Foreign Direct Investments from either India to Pakistan or from Pakistan to India. On the other hand, as far as bilateral economic agreements are concerned, the absence of cooperation between the two rivals is also noticeable. Although both India and Pakistan have joined the South Asian Free Trade Area (SAFTA) there is no economic agreement between them.

More specifically, India's main trade agreements are with Nepal, Finland, Singapore, Malaysia, Chile, Korea, Japan and Sri Lanka and it is also a member of Regional Trade Agreements such as the Asia Pacific Trade Agreement (APTA) and the Association of Southeast Asian Nations (ASEAN) (USAID, 2012). There is only one trading arrangement with Pakistan (USAID, 2012), which was signed in 2006 relating to several goods, especially raw materials which are not produced at a local level. Pakistan's trade agreements, on the other hand, include only countries such as Afghanistan, Malaysia, China, Sri Lanka, Iran, Mauritius and Indonesia and it is also a member of Regional Trade Agreements such as the South Asian Free Trade Agreement and the South Asian Association for Regional Cooperation (SAARC) Agreement on Trade in Services (USAID, 2012).

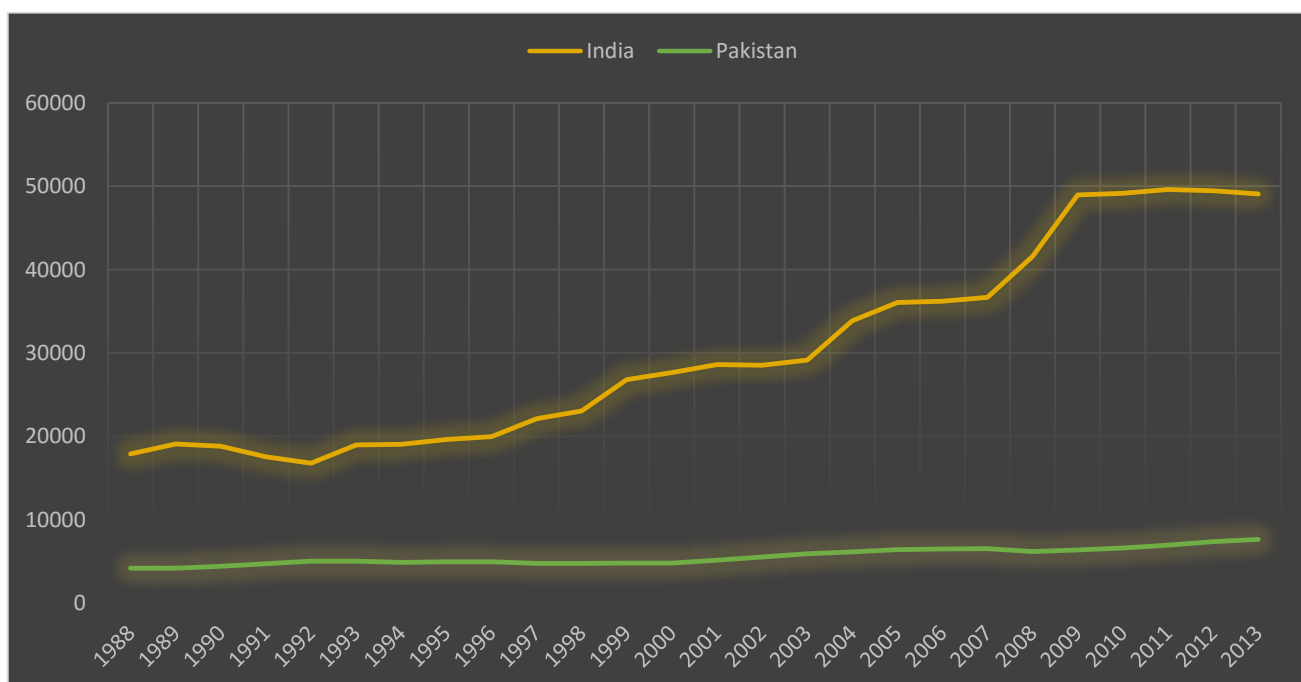
Summarizing, the level of asymmetric economic interdependence is low, since according to the indicators there is only trade in goods and services and there are neither foreign direct investments nor bilateral economic agreements. Nevertheless, the most significant point which shows the asymmetric economic interdependence is the fact that India is Pakistan's fifth largest import partner with continuously rising figures as well as the trade arrangement between them for raw materials that Pakistan cannot produce at a local level.

C. Bilateral Military Relations

i). Military Expenditure

As mentioned in the analytical framework, it is important to focus on indicators such as Military Expenditure and the configuration of the conflict because they are the most important variable for a state's national security. Figure 13 below shows the Military Expenditure of India and Pakistan. More specifically, India's Military Expenditure has risen since the number of terrorist attacks in Kashmir has increased. In 1988 India spent 17,877 mil. USD for military purposes and after a small decline in 1992, the expenditure rose again by 192.9%, reaching 49,159 mil. USD in 2010 and 49,091 mil. USD in 2013. That is to say within twenty five years the Military Expenditure had risen by 174.6%.

Figure 13: Military Expenditure (million USD, 1988-2013)



Source: SIPRI (a), 2015

As far as Pakistan's Military Expenditure is concerned, there is also an increase from 4,185 mil. USD in 1988, to 7,637 mil. USD in 2013 which equates to a 82.4% rise. As can be seen in Figure 13, in 2001 there was a slight rise from 5,137 to 6,548 mil. USD

in 2007, and from 2010 to 2013 the expenditure also increased by 15.7% because of escalation of the conflict with India.

ii). Alliances/Nuclear Weapons

Neither India nor Pakistan belong to any military alliances (The Diplomat (b), 23/11/2013), however, both India and Pakistan are nuclear forces. Table 29 below illustrates the year of the first nuclear test as well as the total stockpile. More specifically, India carried out its first nuclear test in 1974 and it is estimated that it has almost 90 to 110 nuclear weapons in its arsenal.

Table 29: Nuclear Forces

| Country | Year of first Nuclear Test | Total stockpile |
|--------------------------|----------------------------|-----------------|
| United States of America | 1945 | 7,260 |
| Russia | 1949 | 7,500 |
| United Kingdom | 1952 | 215 |
| France | 1960 | 300 |
| China | 1964 | 260 |
| India | 1974 | 90-110 |
| Pakistan | 1998 | 100-120 |
| Israel | ... | 80 |
| North Korea | 2006 | 6-8 |

Source: SIPRI (b), 2015

India's doctrine about nuclear weapons is based on deterrence on three levels, land-based, maritime and air, as well as on the idea of 'no-first-use' which is to say that India will never start a nuclear war and will only use them if attacked with nuclear weapons (SIPRI, 2015) (Arms Control Association, 2015). Furthermore, India has completed a prototype fast breeder reactor and plans to build more than five in the next years, in order to increase production levels of plutonium, which is the core of its nuclear weapons.

Right after India's first nuclear test in the 1970s, Pakistan, on the other hand, began its nuclear weapons program. It carried out its first nuclear test twenty four years later in 1998, however it maintains more nuclear weapons than India in its arsenal. It is

estimated that it has almost 100 to 120 nuclear weapons in its arsenal and despite the sanctions that had been imposed by the US, Pakistan continued its nuclear program, given that after the 9/11 terrorist attack, the US had to cooperate closer with Pakistan in order to combat terrorism. In addition, although Pakistan has mentioned that nuclear weapons would be the last resort in a militarized conflict with India and that its doctrine is based on the idea of ‘no-first-use’, it’s not clear whether this reflects its real intentions, since Islamabad develops nuclear weapons in order to counter India’s conventional forces (arms control). Pakistan has four reactors and it is unclear whether it is going to develop more.

iii). Violations and disputes

As mentioned in the analytical framework, it is important to take into consideration the configuration of the conflict by focusing on the number of violations in the disputed area which are caused by the aggressive side against the threatened state, which in this case is India. Regarding the conflict in Kashmir, the existing data are insufficient and they cannot give a general view of the configuration of the conflict because although the data refer to ceasefire violations, nevertheless, they only concern the period from February 2013 to July 2013. Table 30 below shows the configuration of the conflict. Therefore, we take into consideration the timeline of the conflict, as can be seen in Figure 4.

Table 30: Number of Ceasefire Violations by Pakistan

| Month (2013) | Ceasefire Violations |
|--------------|----------------------|
| February | 04 |
| March | - |
| April | - |
| May | 08 |
| June | 10 |
| July | 11 |

Source: Ministry of Defense (India), 2015

Summarizing in relation to bilateral relations between India and Pakistan, it is clear that India is more concerned about its national security since its Military Expenditure has been rising continuously, in contrast to Pakistan which kept its Military Expenditure lower at more stable levels. Regarding conventional weapons, India is a greater power than Pakistan, nevertheless, both countries possess nuclear weapons, which means that Pakistan balances its power deficit in conventional weapons and therefore, both sides can be considered as equal in terms of military power. Last but not least, neither of the two adversaries belong to any military alliances and in order to measure the escalation and de-escalation of the conflict, we focus on the timeline of the conflict, since there are insufficient data, which cannot support a justification of the main argument of the thesis that asymmetric economic interdependence is not a power-balancing factor and does not promote peace.

D. The Worthiness of the Disputed Area

i). Kashmir

Kashmir is the area at issue between India and Pakistan because it offers more resources and therefore, more relative gains for the state that will use those resources in order to promote its interests. These gains derive from the Indus River. The Indus' largest tributary, the Jhelum, flows through Kashmir and its second tributary, flows through Jammu. Figures (14) and (15) illustrate the location of Kashmir and the Indus River basin.

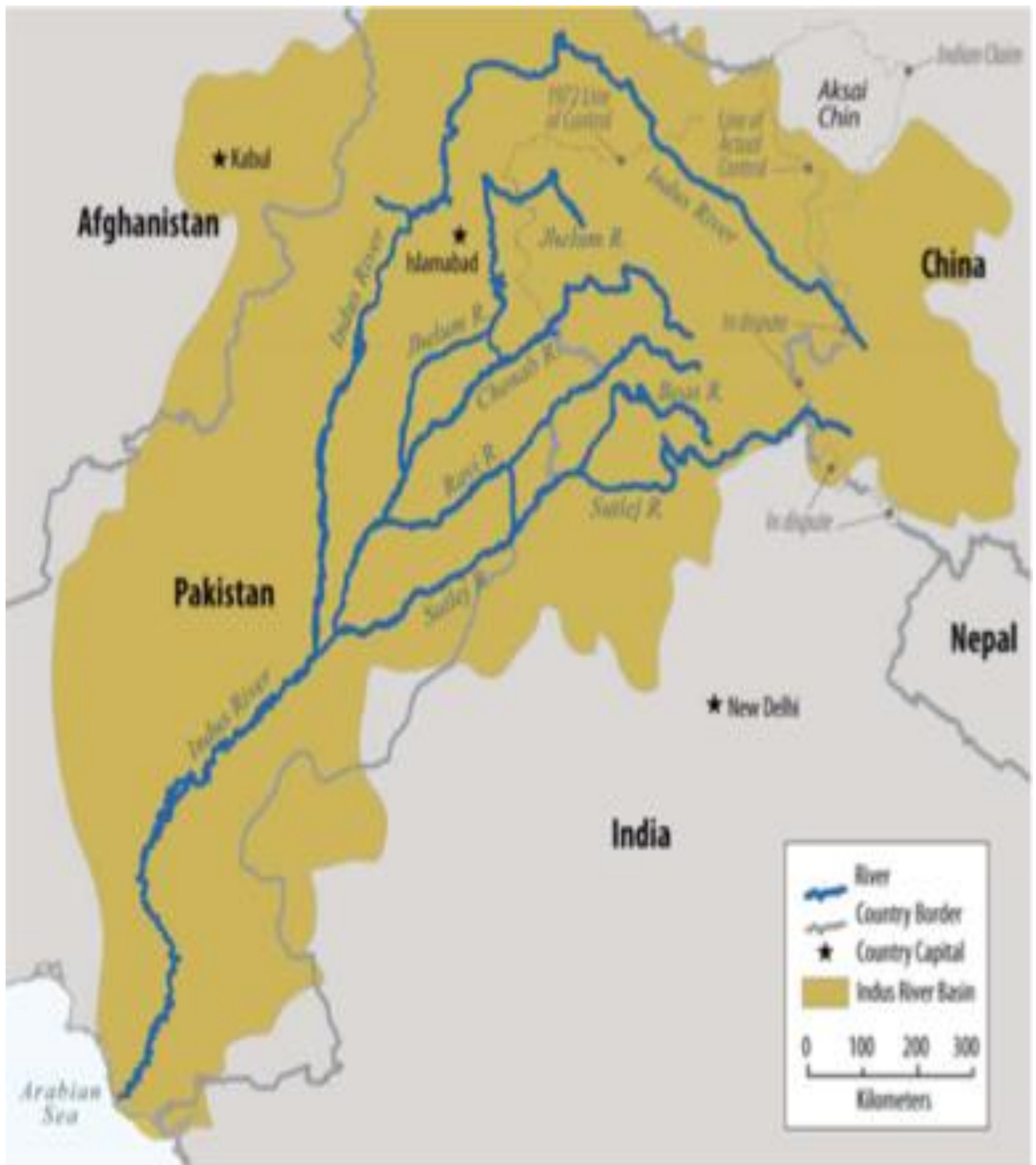
Figure 14: Map of Kashmir



Source: Wars in the World, 2010

Geographically, there are four countries which share the Indus River's basin in differing percentages, which rises in Tibet and empties into the Arabian Sea. Pakistan has almost 60%, India has 20%, Tibet 15% and Afghanistan 5% of the basin area.

Figure 15: Indus River Basin



Source: Committee on Foreign Relations, United States Senate, 2011

The Line of Control between India and Pakistan in the disputed area of Kashmir separates the northern part of the Indus, which is controlled by India, and the Southern part, which is controlled by Pakistan (Al Jazeera, 27/5/2014). India is carrying out a dam project in Bandipora (the Kishenganga Hydroelectric Dam) which is on the disputed line between India and Pakistan. India also plans to build several more dams in the years to come in order to meet its people needs because of its rapidly growing population and to empower its economy.

More specifically, hydroelectric projects are of high significance for India because it has to deal with serious energy problems, such as lack of electricity for its people and industry, which is also an inhibiting factor for the development and vitality of its economy. According to the Committee on Foreign Relations of the United States Senate “*With a population already exceeding 1.1 billion people and forecasts indicating continued growth to over 1.5 billion by 2035, India’s demand for water is rising at unprecedented rates. However, water management in India is extremely decentralized and virtually unregulated.*” (Committee on Foreign Relations of the United States Senate, 2011:7). Figure 16 illustrates the locations of these projects.

Figure 16: Map of Hydroelectric Dam Project in Kashmir



Source: The New York Times, 20 July 2010

On the other hand, Pakistan is worried that this project will exclude it from controlling the water flow and this will have extremely negative effects on its agricultural industry, which is also vital for its economy. As Ganguly mentions, *“At a regional level, with the disintegration of Pakistan and the birth of Bangladesh, India emerged as the dominant power on the subcontinent.”* (Ganguly, 1997:59). More specifically, Pakistan has the largest contiguous irrigation system in Punjab which is the heart of its agricultural industry as well as the largest part of its population because of the many rivers which cross that area. In addition, Pakistan accuses India that through hydroelectric projects it is seeking to manipulate the flow of water and as a result, Pakistan will be blackmailed to follow India’s intentions and satisfy its interests.

According to the Committee on Foreign Relations of the United States Senate, *“Of all the rivers flowing into Pakistan, the Indus is the most essential because of its importance to the agricultural sector. Pakistan’s agriculture relies on the world’s largest contiguous irrigation system fed by the Indus waters; in fact, water withdrawals for agricultural irrigation represent almost 97 percent of all withdrawals in Pakistan. This irrigation network covers an estimated 83 percent of cultivated land in the country and contributes to nearly a quarter of its gross domestic product. Unfortunately, Pakistan has almost fully exploited the surface and groundwater that is crucial for its irrigation, so improvements in management and efficiency are vital.”* (Committee on Foreign Relations of the United States Senate, 2011:6)

Nevertheless, according to the Indus Waters Treaty, which was signed by India and Pakistan in 1960 (Ministry of Water Resources (India), 10/4/2015), both sides agreed to give Pakistan 80% of the waters of the Indus Water System, while India could use water for energy, drinking and farming on condition that it does not store too much. In addition, the Treaty recognizes that both parties have common interests in order to enhance cooperation between them (Indus Waters Treaty, 1960) and also allows the construction of the Kishenganga Dam, which is the most controversial dam. According to the Committee on Foreign Relations of the United States Senate *“[...], the cumulative effect of these projects could give India the ability to store enough water to limit the supply to Pakistan at crucial moments in the growing season.”* (Committee on Foreign Relations of the United States Senate, 2011:9)

However, according to the economist Kaiser Bengali, India is not responsible for Pakistan’s water crisis, since Pakistan does not have modern techniques in farming and water conservation (The New York Times, 2010). More specifically, Water Aid has

already launched a program of safe access to water supplies and sanitation services, which dates from 2006, in cooperation with another seven partner organizations, and carries out projects such as water services for poor urban communities, rainwater harvesting and community-led total sanitation in rural areas. Furthermore, “Water Aid” closely cooperates with government on water policies and action plans, and up to now, has managed to provide 172,000 people with safe water and 338,000 with improved sanitation (Water Aid, 2015).

On the contrary, Pakistan’s Federal Minister for Water and Power, Khawaja Asif, claimed that the Indus Waters Treaty is not in Pakistan’s interests (The Diplomat (a), 21/11/2014). However, according to the Committee on Foreign Relations of the United States Senate “*The treaty quantifies the amount of water both countries will receive from these rivers and serves an important function by managing the use of the rivers for hydroelectric power projects. It lays out guidelines for hydropower on the eastern rivers, allows Pakistan to object to projects, and specifies mechanisms for conflict resolution.*” (Committee on Foreign Relations of the United States Senate, 2011:7). That means that although Pakistan has the right to protect its interests peacefully due to the Indus Waters Treaty, it escalates conflict with India because the former does not want to share any gains with the latter.

Summarizing, Kashmir is a disputed area because it contains vital resources, such as water, which are crucial for the states’ economic sustainability and survival. The area of Kashmir is interwoven with the control over water and therefore over power maximization. The more a state controls the area of Kashmir the more it controls the gains which derive from the Indus River. However, the Indus Waters Treaty has been signed by both adversaries in order to provide for the survival of both of them. Pakistan’s aggression and its continuous efforts to change the existing status quo through conflict escalation can only be explained in terms of power and influence in the disputed area, since in that way it will ensure its relative gains against a stronger rival, India.

5.4. Conclusions

With regard to bilateral economic relations between India and Pakistan, there are two points that can summarize the outcome of their economic activity through their already strained relationship. First, from the time the conflict broke out to the present day, little has been done with regard to economic cooperation between the two adversaries. Although both states show extroversion by entering into commercial agreements, not only at bilateral but also in regional level, they are suspicious about the real objectives of a potential cooperation because the motives are not economic and instead derive from the conflict.

For example, from 1970 to 2000, given that the value of bilateral trade was extremely low compared to other trading partners, India entered into bilateral trade agreements with almost all of its neighboring countries, such as Nepal, Bhutan, China and Sri Lanka but not with Pakistan. Pakistan, on the other side, also entered into bilateral and regional trade agreements with its neighboring countries such as Bangladesh, Iran, Turkey and Sri Lanka but not with India. Only in 2006, after the trade arrangement for products that cannot be produced at a local level did India raise the value of exports to Pakistan but without any significant effects on the relationship between them.

Second, India raised its growth rate as well as increasing its exchange reserves more than Pakistan did, from the initiation of the conflict to the last decade. In addition, India's share of exports, as a percentage of GDP, almost reached that of Pakistan's, while, in terms of bilateral level, India's value of exports to Pakistan was higher than its imports. These indicators show that India over all these years had the opportunity to increase its absolute and relative economic gains, since economic cooperation with Pakistan was not high enough, nor it would be because of the interstate conflict. Consequently, weak bilateral commercial relations and India's increase in economic absolute gains did not affect the configuration of the conflict for the better.

With regard to bilateral military relations between India and Pakistan, there are two main points that can be made. First, both countries feel suspicious and insecure about each other, despite the efforts which have been made in order to de-escalate the conflict. More specifically, there is no reduction in military spending; instead there is increasing competition by both sides, and this leads to a vicious circle of continuous insecurity and uncertainty because, the more the one side increases Military

Expenditure, the more the other side feels insecure, and so it also increases its expenditure.

Second, it is rather doubtful that nuclear weapons enhance the sense of security. Deterrence seems to be vulnerable and not only did the conflict escalate more but also increased Military Expenditure and as a result, the likelihood of war with conventional weapons was enhanced. In addition, the secrecy which is required to develop nuclear weapons, increases the degree of strategic deception and this causes more uncertainty. On the other hand, since there are no relative gains for both sides, none of the two rivals can estimate the other's absolute gains, therefore, by developing commercial relations with their enemy there is a risk of increasing the rival's economic gains against theirs.

Taking into consideration the above analysis there are two conclusions that can be drawn. First, the water issue is the occasion and not the cause of the conflict, between India and Pakistan. That is because, first, Pakistan has ensured its water supply, through the Indus Waters Treaty and second, according to scholars, in order to deal with irrigation problems and enhance its agricultural industry, Pakistan has to modernize its farming techniques. Instead of doing that, from 1948 to 2013 Pakistan has initiated three wars against India, has raised its Military Expenditure by 180% and has also developed nuclear programs, while since 2006 Water Aid has been carrying out projects for water services and supplies.

Second, Pakistan already owns the 60% of the Indus River. By controlling the area of Kashmir it actually controls India's percentage of the Indus River, so mainly controls India's relative gains and further influence there given that India has already mentioned the high importance of the Hydroelectric Dam for its survival. Pakistan, by controlling the 80% of a vital resource, which determines the survival of other states, undoubtedly becomes a regional hegemon because it does not control just a source of water but others' survival as well.

CHAPTER 6. THE GREEK - TURKISH CONFLICT

6.1. The initiation of the Conflict

The conflict between Greece and Turkey has some of its roots in 1821, when the Greek national uprising against the Ottoman Empire started, becoming the starting point of the movement for Greek Independence which was completed with the establishment of the Greek State as an independent state in 1830 (Giallouridis, 2001). Since then, there have been many intervening wars, among them World War I and World War II, therefore there has not been a stable status-quo. The final national boundaries were set at the end of World War II, therefore the initiation of the conflict although old, will be considered from that time onwards.

By the end of World War II, and more specifically by 1947, Greece had expanded its territorial influence and borders since under the Treaty of Lausanne of 1923 (Foreign and Commonwealth Office, 2015), it could regain the islands of the Aegean, and more specifically the Dodecanese, in exchange for keeping them demilitarized. In addition, what was really important was the fact that Greece raised its relative gains compared to Turkey since it could expand its maritime sovereignty to twelve nautical miles and completely restrict Turkey's access to the Aegean Sea (Evagorou, 2010). However, Greece did not take that action. On the contrary, in 1952 both countries became members of NATO (NATO, 2015) in order to promote better relations against their common rival but for Greece it was also a method of balancing its power against that of Turkey.

Nevertheless, peaceful relations with Turkey did not last long. A crucial role in this was played by strained relations in Cyprus between the Greek and the Turkish communities which were also aggravated by British actions. More specifically, Great Britain implemented a "divide and rule" strategy in Cyprus. Despite the fact that Great Britain ruled over Cyprus absolutely as a colony and had great influence there, it decided to engage the Turkish side more in order to restrict Greek claims, which concerned the union of Cyprus with Greece (Evagorou, 2010). As a result, in 1959 both the Greek and the Turkish sides signed the Zurich and London Agreement (UNTERM, 2015), according to which Cyprus was to become an independent democratic state while the British side would retain its sovereignty over two areas where its military

bases were located. On the other hand, the Greek and Turkish side could also maintain small parts of their troops.

This move put Greek influence over Cyprus in danger since the latter was trying to establish its independence further and at the same time Turkey was trying to promote its interests by extending its influence over Cyprus and increasing its gains by controlling that area. Moreover, in order to exert more pressure on Greece, Turkey became more aggressive, ignoring Greek sovereignty over the Aegean Sea and started prospecting for oil in areas of the Greek continental shelf. The escalation of this conflict brought about the Turkish invasion of North-East Cyprus which resulted in the occupation 36.4% of the island by Turkish troops, which continues to this day.

The first period: 1974-1990

The Turkish invasion of Cyprus in 1974 was a crucial point which determined Greek-Turkish relations and complicated already critical issues which had to be resolved. Turkey, as a revisionist power, also focused on the Aegean Sea, in order to expand its sovereignty over the continental shelf. After the Turkish invasion of Cyprus, Greece decided to increase the number of the troops on the Greek islands which are close to the Turkish coastline. The Turkish side claimed that Greece did not have the right to take that action according to the Treaty of Lausanne (1923) and the Treaty of Paris (1947), however, according to the Montreux Convention (1936) sovereign states had the right of self-defense (Evagorou, 2010) as Greece claimed. Therefore, a second issue was raised, which concerned the continental shelf. In 1976, the Turkish ship MTA SISMİK I accompanied by war ships was conducting soundings, thereby disputing Greek sovereignty over the continental shelf in the Aegean (Evagorou, 2010).

In 1983 a new approach was taken by both sides in order to solve their issues through negotiations, however, peaceful relations did not last more than a year. In 1984 there was a new escalation of the Greek-Turkish conflict. During an exercise, Turkish war ships opened fire against a Greek war ship, which was in Greek territorial waters. Three years later, a similar crisis took place in the Northern Aegean in the sea area of the island of Thasos, (Evagorou, 2010), (Rizas, 2006) but in 1987 the two countries had to deal with the most critical crisis since Turkey announced that it was ready to dispatch vessels to prospect for oil in the Aegean Sea. However, Turkey gave up its initial

positions and limited its explorations to its territorial waters (Evagorou, 2010), (Veremis, 2003).

In 1988 the two countries tried to diminish their differences and start a new era of rapprochement, focusing on the cultural and touristic sector. The Davos Declaration (1988), (World Economic Forum, 2015) which promoted rapprochement did not last long, since Turkey in that same year escalated the conflict, raising more issues under dispute, such as Greek Airspace as well as the Flight Information Region (FIR), the militarization of the Greek islands and the minority of Greek Muslims in Western Thrace (Evagorou, 2010), (Veremis, 2003).

The second period: 1990-today

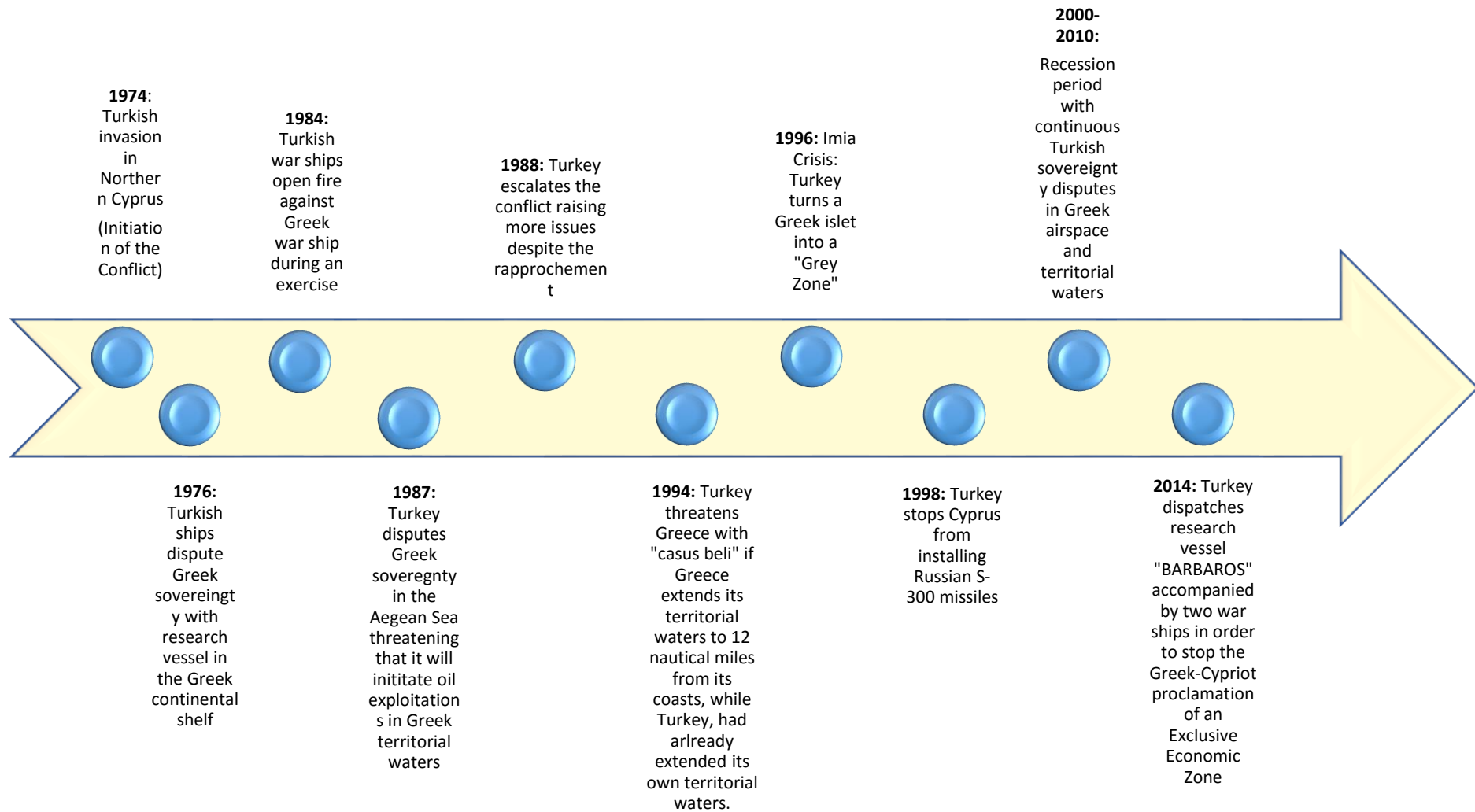
By the end of the Cold War and the disintegration of the USSR, the Turkish Grand Strategy remained the same, since it was now easier for Turkey to establish itself as a regional hegemon. Therefore, in 1994 Greece and Cyprus developed the Doctrine of Joint Defense Space as long as Turkish troops remained on Cyprus. In response, Turkey threatened Greece, saying there was a “casus belli” if the latter extended its territorial waters (Evagorou, 2010). On the other hand, Turkey had already extended its territorial waters to 12 nautical miles from its coast in the sea area of the Black Sea and Cyprus (Veremis, 2003). Turkish aggression finally materialized two years later, in January 1996, over the Imia islets. The result was that a part of Greek territory was neither Greek nor Turkish, however, Turkey was the winner because it successfully implemented a “Grey Zone” policy, meaning that it managed to restrict Greek influence (Veremis, 2003).

This conflict escalation resulted in 1997 with Madrid Declaration (1997) under NATO and under the USA’s influence, according to which both states agreed on four points. First, to respect each other's sovereignty, second, to respect International Law and international treaties, third, to respect each other’s vital interests in the Aegean Sea and fourth, to commit that they would resolve their conflict by peaceful means (Evagorou, 2010). In 1998, Cyprus announced that it was going to install Russian S300 missiles in order to enhance its defense system. Turkey took the view that this action was threatening and threatened Cyprus that it would destroy the missiles because they could easily be used against Turkish territory. Cyprus gave up its military plan, and once again, Turkey managed to impose its will (Giallouridis, 2001), (Syrigos, 2015).

In 1999 at the European Union Summit Meeting in Helsinki, Greece tried to pass the buck on issues with Turkey to the European Union, by promoting Turkey's accession (Syrigos, 2015), but without receiving any serious commitment about the latter's intentions regarding the issues in the Aegean. Nevertheless, Military Expenditure for both countries remained high, which demonstrated mutual insecurity. Furthermore, the war in Iraq distracted Turkey's attention from the Aegean and the Greek-Turkish conflict was in recession (Veremis, 2003). However, Turkey did not stop disputing Greek sovereignty, since flyovers over the Greek islands and violations of Greek airspace and territorial waters continue right up to this day and Turkish troops remain in occupied Northern Cyprus.

In addition, in 2014 Turkey did not hesitate to threaten Greece with an "incident in the Aegean" (Greek-Europe Reporter, 3/1/2014) if the latter started prospecting for hydrocarbons and proclaimed an Exclusive Economic Zone in the area between Kastellorizo and Cyprus. In response Greece and Cyprus signed the Cairo Declaration (2014) with Egypt in order to boost energy cooperation among them. In response, Turkey, dispatched the research vessel "BARBAROS" accompanied by two war ships, in order to dispute Greek territorial waters (The Guardian (b), 10/11/2014) and demanded a stop to Greek-Cypriot prospecting in order to withdraw "BARBAROS" (TO VIMA, 9/11/2014). "Turkey, which supports a breakaway state in north Cyprus, disputes Nicosia's rights to search for gas" (Reuters (b), 7/11/2014). Figure 17 below illustrates the main points in the Greek-Turkish conflict from 1974 onwards.

Figure 17: Timeline of the Greek-Turkish Conflict



6.2. The threatened state

According to Dokos-Protonotarios (1994) Turkey raised the number as well as the quality of its military weapons, becoming more aggressive and creating a security dilemma. In addition, it also adopts a more aggressive strategy against weaker adversaries, such as Greece and Armenia, and consequently the balance of power is affected by the rise in Turkish military power. As they mention, “*according to Ambassador M. Dounta, Turkey continues to have a stable policy of expansion, initially a policy of influence and rights and finally a policy of domination*” (Dokos-Protonotarios, 1994:139 (trans.)).

Moreover, according to Dokos and Tsakonas (2005) after the Turkish invasion of Cyprus in 1974 -taking into consideration its revisionists intentions (Platias, 1999) over the Aegean Sea as well as the serious crisis close to war from 1955 to 1996- Greek governments concluded that “*Turkey’s main objective is to dispute Greek sovereignty over the Aegean Sea and the common exploitation of its wealth resources and the ultimate goal is the regional domination*” (Dokos-Tsakonas, 2005:100) (Evagorou, 2010). Therefore, in order to balance the “threat from the east” (Tsakonas, 2010) Greece developed its own military capabilities, as an “internal balance” and joined international organizations in order to increase its political power, as an “external balance”. On the other hand, although Turkey claims that Greece is a threat for its objectives, it must be seen only as a potential threat, meaning that Turkey cannot implement its high strategy for regional hegemony because of Greece (Evagorou, 2010). The same can be said for all of Turkey’s neighbors, since it considers them as a threat.

Nevertheless, there are also some objective factors which determine the threatened state, despite the fact that this definition is subjective. The first significant factor is aggregate power. According to Walt “*The greater a state’s total resources, the greater a potential threat it can pose to others*” (Walt, 1985:8). It is an undeniable fact that Turkey is a powerful state compared to Greece, both in the military and economic sector, since its power is seven times larger than that of Greece as we shall analyze below. As Ifestos mentions, “*(for Greece), Eastern revisionism will become more and more threatening.*” (Ifestos, 2013:235).

The second factor is the will to change the status-quo, through initiation and escalation of conflict. Turkey’s grand strategy shows that it is a revisionist state whose dominant objective is regional hegemony so it raises issues and shows its aggressiveness, through sovereignty disputes as well as clear threatening statements, such as use of the words “casus belli” (Giallouridis, 1999). The third factor is proximate power. Both Greece and Cyprus are close to the Turkish coastline, so it is easier for Turkey to become a threat. However, this factor is

of secondary significance and should be taken into account with the previous one. Therefore, one can conclude that regardless of the extent to which someone perceives the threat, there are objective factors which can determine the “threatened” and the “threatening” state. In this case, Greece is the threatened state, since Turkey’s behavior corresponds to the objective factors which define the threat in accordance with the analytical framework.

6.3. Weighing the Relative Gains

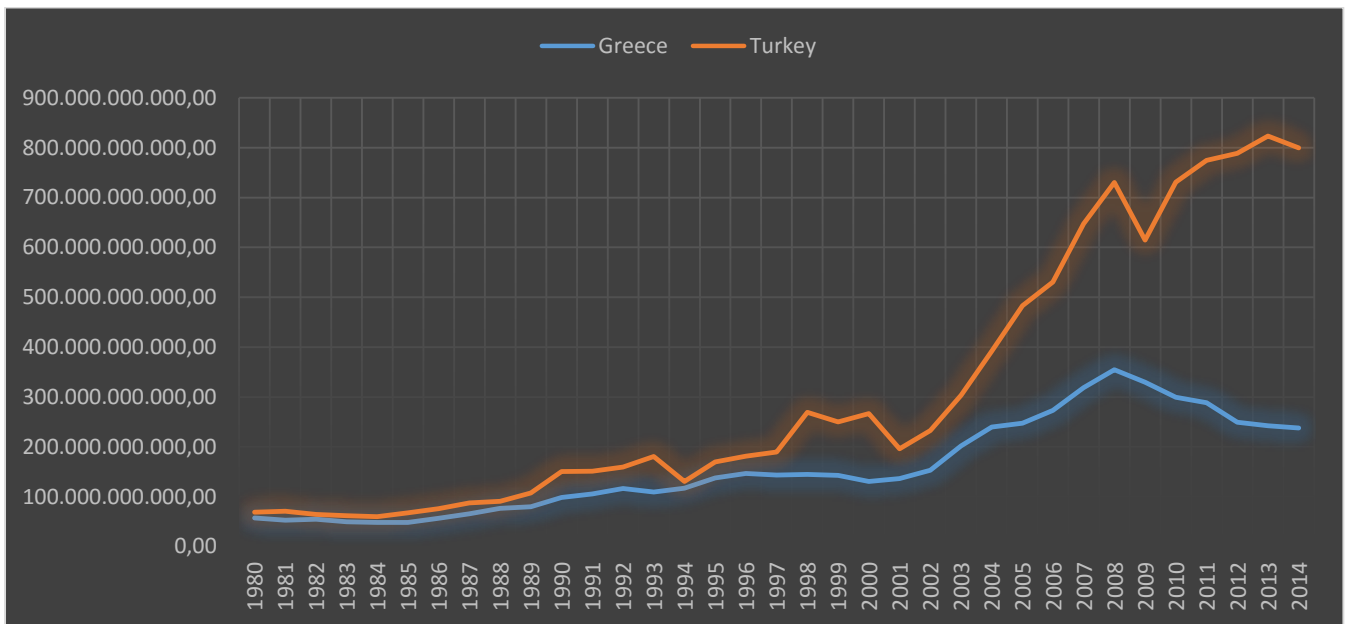
6.3.1. Economic Power and Asymmetric Economic Interdependence

A. Primary Indicators of Economic Power

i). Current GDP

According to the analytical framework, in order to define which of the two rivals has greater economic power, it is critical to take into consideration not only the primary but also the secondary indicators of economic power. The first is Gross Domestic Product (GDP), however, it is also important to highlight the differences regarding the population and territorial breadth. More specifically, Greece’s population is 10,775,643 (CIA, 2015) while Turkey’s is 79,414,269 (CIA, 2015) which is almost seven times the Greek population. Also, regarding territory, including all land and water areas Greece is in ninety-seventh place with 131,957 sq.km. (CIA, 2015) while Turkey is in thirty-seventh place with 783,562 sq.km. (CIA, 2015) which is again, seven times larger than Greece. As illustrated below, Figure 18 indicates the general development of the states’ economic power.

Figure 18: GDP, current USD



Source: World Bank (a), 2015

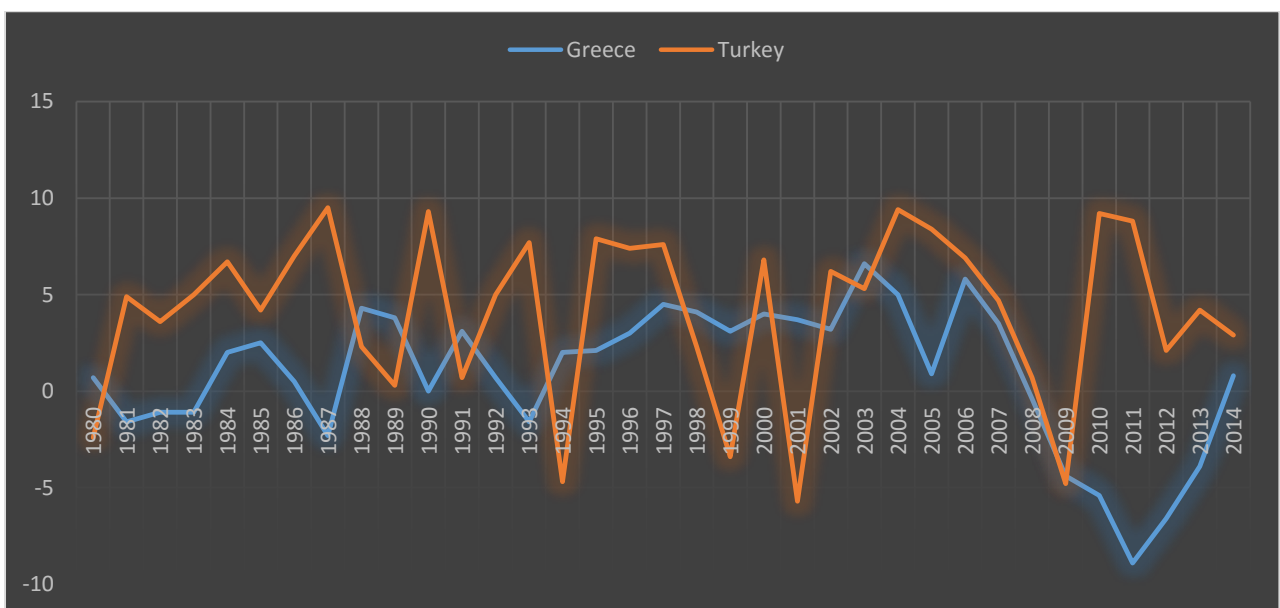
More specifically, from 1980 to 2000 the rates of GDP between the two countries were close, especially in the years 1980-1990 and 1994-1996. However, from 2000 onwards, Turkish GDP more than doubled compared to Greek GDP. For example, in 2000 Greek GDP was 130 billion USD while the Turkish GDP was 260 billion USD approximately. Fourteen years later, in 2014, Turkish GDP increased by 200% compared to 2000, reaching 799 billion USD in contrast to Greek GDP, which increased by 81.9% and reached 237 billion USD approximately. In addition, Greek GDP growth had fewer sudden fluctuations than Turkish GDP growth, however from 2009 to 2014 it further decreased by 27.9% while Turkish GDP increased in the same period by 30.1%, meaning that the more Greek power was diminishing, the more Turkish power was increasing.

ii). GDP Growth

GDP Growth indicates the configuration of a state's economic power, which is to say how much two rivals increased or reduced their power. Figure 19 below indicates GDP Growth between the two adversaries. More specifically, the period from 1994 to 2007 Greek GDP growth ranged from 2 to 6% while Turkish GDP growth in the same period ranged from -4.7 to 4.7%, meaning that the Greek economy was steadily increasing in contrast to the Turkish

one which seemed to be more unstable, especially between the years from 1989 to 1994. In addition, from 1996 to 2008, Greek GDP growth had fewer fluctuations than that of Turkey, meaning that the distribution of economic power was more stable and, therefore, more effective. However, from 2008 to 2014, the Greek percentages were negative, due to the financial crisis of 2007 and in 2011 reached -8.9%, while the Turkish figure was 8.8%. Nevertheless, Greece managed to increase its percentages, reaching in 2014 the 0.8% in contrast to Turkey, which reached 2.9%.

Figure 19: GDP Growth, (%)



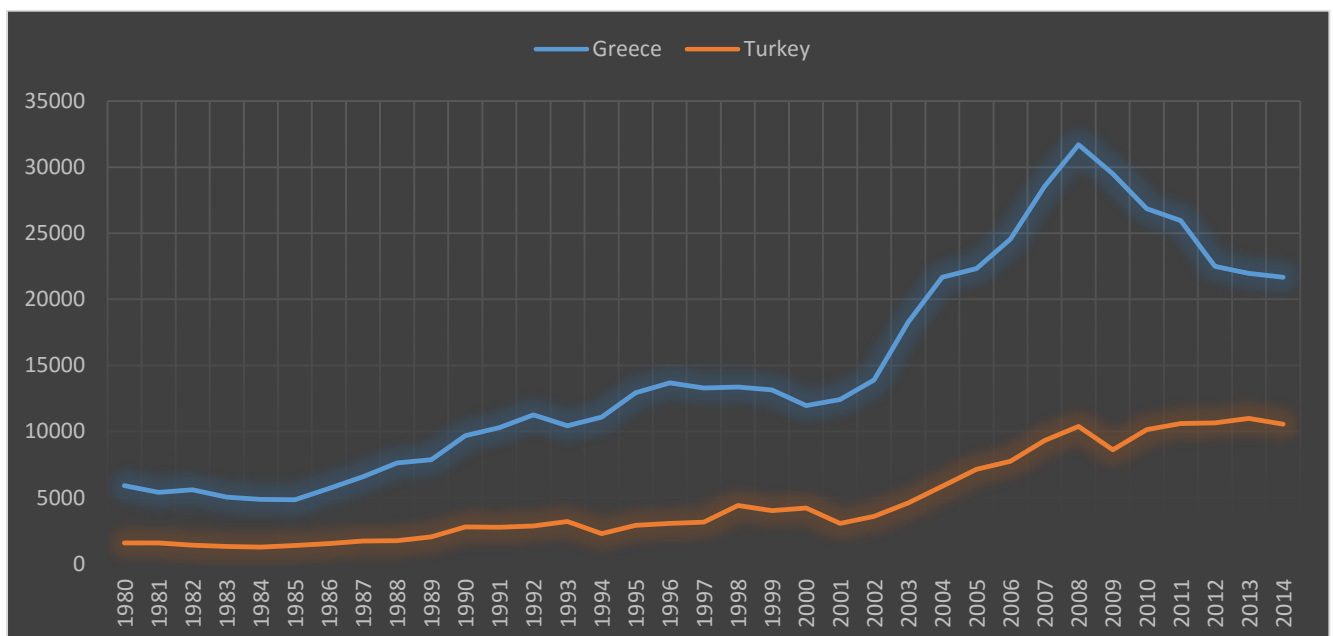
Source: World Bank (b), 2015

iii). GDP per Capita

One more significant indicator is GDP per Capita which indicates the relative performance of each rival, since a rise in GDP per capita entails a rise in productivity. Figure 20 illustrates another important indicator, GDP per Capita, According to this Figure, Greek GDP per capita is much higher than the Turkish one, especially between the years from 2002 to 2010. In 2002 Greek GDP per capita was 13,903 USD and in 2010 reached 26,863 USD, meaning that it rose by 93.2%. Turkey, on the other hand, managed to raise its rates; nevertheless they remained lower than the Greek ones.

More specifically, in 2002 Turkish GDP per capita was 3,576.2 USD while in 2010 it had reached 10,135 USD, meaning that it had risen by 183% approximately. Consequently, from 2002 to 2010 Turkey doubled its rates compared to Greece, despite the fact that they were lower. It is also noticeable that Greece had higher rates the previous years. More specifically, from 1980 to 1996, Greek GDP per capita rose from 5,915.4 to 13,685.3 USD, meaning that it rose by 131.3%. Turkish GDP per capita, on the contrary, rose from 1,566.7 to 3,053 USD, meaning that it rose by 94.8%. Thus, from 1980 to 1996 Greece had higher rates, both in terms of GDP per capita and increasing rates and, from 2002 to 2010, Turkey remained in the second place, however it doubled its rate of increase in relation to Greece (Kotios and Petrakos, 2003).

Figure 20: GDP per capita, current USD



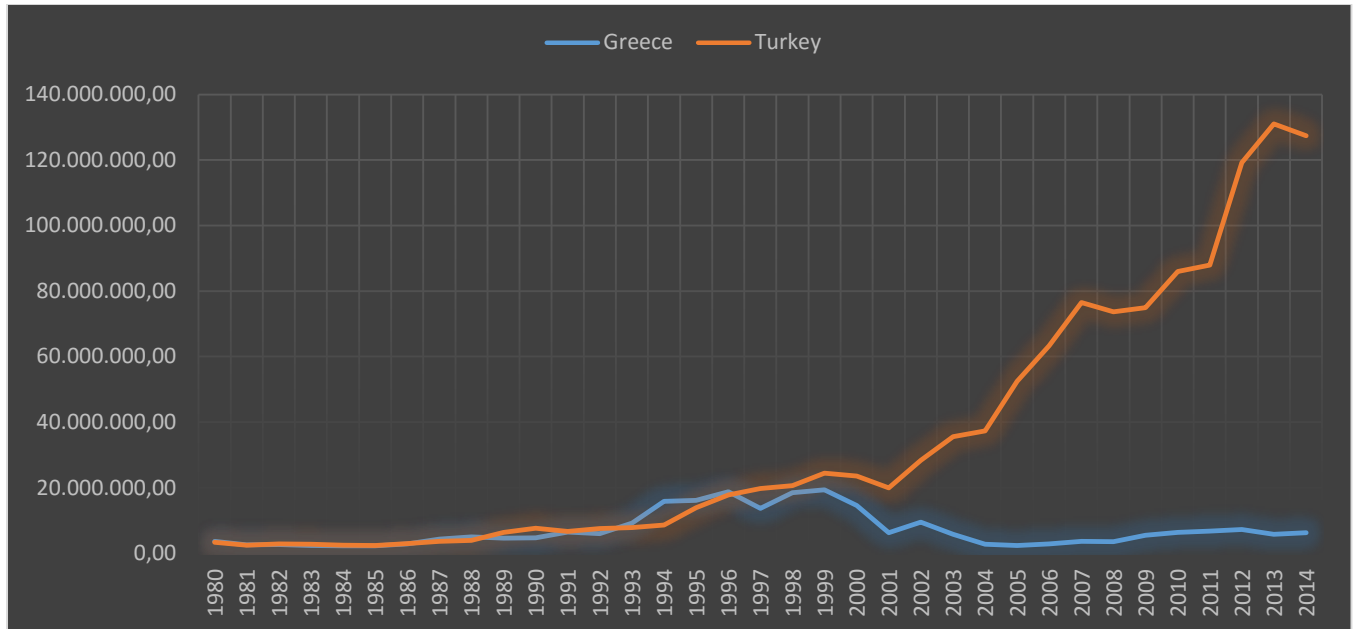
Source: World Bank (c), 2015

iv). Foreign Exchange Reserves

Foreign exchange reserves are also an important indicator because they show the economic power of each country and their capabilities to react in order to protect their currency and consequently their economy. Figure 21 illustrates the total reserves of each rival. According to the data of the World Bank, from 1980 to 1999 both countries had almost the same value of foreign exchange reserves, however, from 1999 onwards Turkey raised its reserves by 421.5%, reaching 127.4 mil. USD in 2014. For Greece on the other hand, the value of its

reserves decreased by 74.4% instead of increasing. More specifically, in 1999 the value of the Greek reserves was 19.3 mil. USD and then started decreasing reaching 6.2 mil. USD in 2014.

Figure 21: Total Reserves (including gold), in current USD



Source: World Bank (d), 2015

A. Secondary Indicators of Economic Power

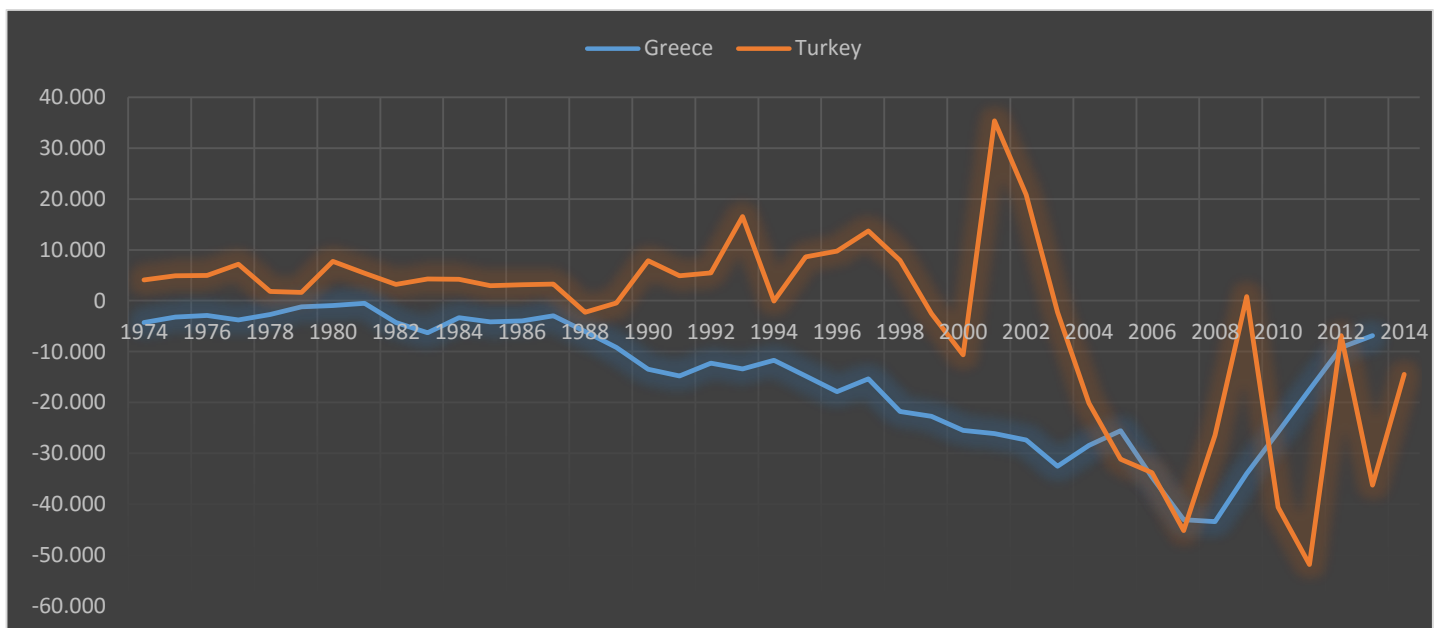
i). Trade Balance

Balance of trade has to be taken into account as a secondary factor of economic power because this indicator shows the state's international transactions, since it is the largest component of the balance of payments. Figure 22 below indicates the Greek and Turkish balance of trade in goods and services.

More specifically, the Greek balance of trade from 1974 to 2014 was negative with the lowest figure in 2008, which was -43,229 million USD and the highest in 1974, -4,278 million USD. However, from 2009 onwards, Greece's trade deficit further diminished compared to previous years, reaching -6,830 million USD, meaning that from 1974 to 2003, Greece's trade deficit increased by 656.7% and from 2004 to 2013 decreased by 75.8%, but without having a trade surplus.

On the other hand, Turkey's balance of trade was not negative, however, from 2001 its trade deficit started increasing, reaching the lowest figure of -55,597 million USD in 2011. Despite the fact that there was a small improvement from 2008 to 2009, Turkey's trade deficit continued to be higher compared to that in 2008, reaching -14,335 million USD in 2014. That is to say that Turkey had a trade surplus from 1974 to 2002 but from 2003 onwards only trade deficit.

Figure22: Greek and Turkish Balance of Trade (goods and services in millions USD)



Source: OECD (a), 2015

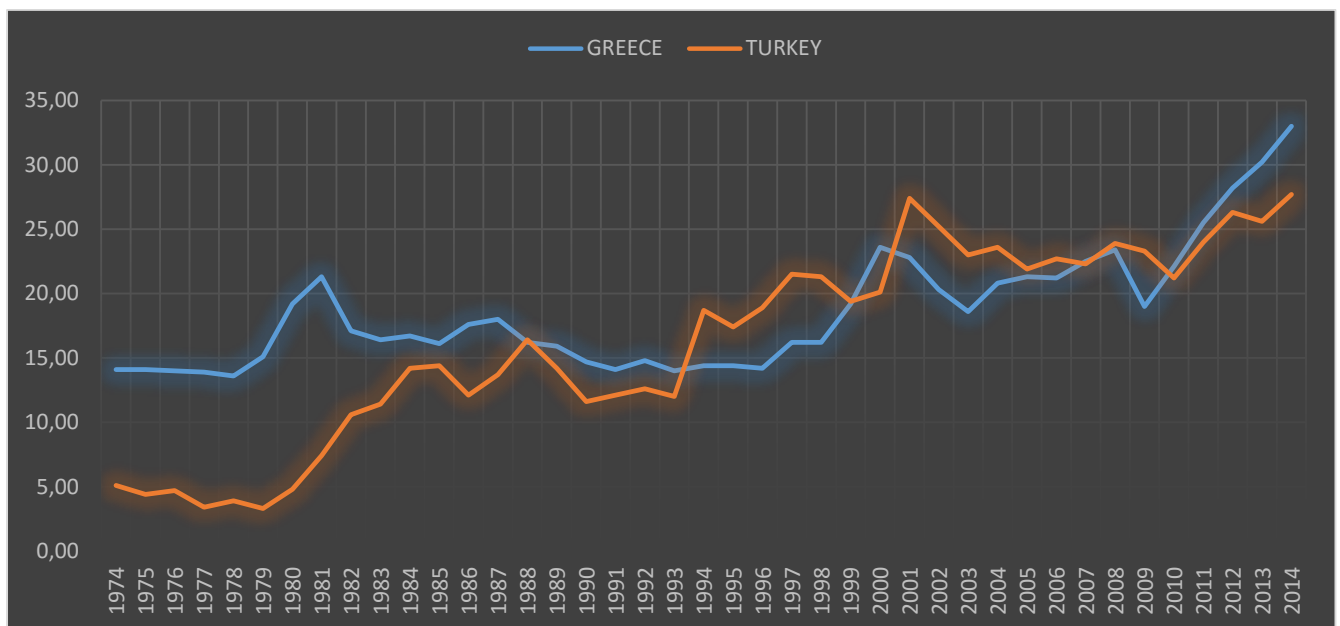
ii). Exports as a percentage of GDP

Nevertheless, these percentages do not show anything regarding the balance of relative gains between Greece and Turkey nor can they be compared since they correspond to different economic variables, unless they are estimated as percentages of the corresponding GDP of each country. More specifically, exports as a percentage of GDP indicate which of the two rivals managed to raise its power and consequently its relative gains, against the other. Figure 23 below illustrates exports as a percentage of GDP for each country.

More specifically, the value of Greek exports as a percentage of its GDP was higher than Turkey's and from 1974 to 1993 the contribution of Greek exports to its GDP was larger than Turkey's, reaching 21.3% in 1981 in contrast to Turkish exports, which reached 7.4% of its

GDP in the same year. However, from 1994 to 2010 one can notice the reverse result. Turkey raised the value of its exports reaching the highest figure of 27.4% in 2001, in contrast to Greece, which, although its value of exports was lower as a percentage of its GDP, had an upward trend, overcoming again the Turkish figures from 2010 onwards. That is to say that Greek exports rose from 22.10%, in 2010, to 33% in 2014, while Turkish were rose from 21.20% to 27.70% respectively.

Figure 23: Exports (%) of GDP



Source: OECD (a), 2015

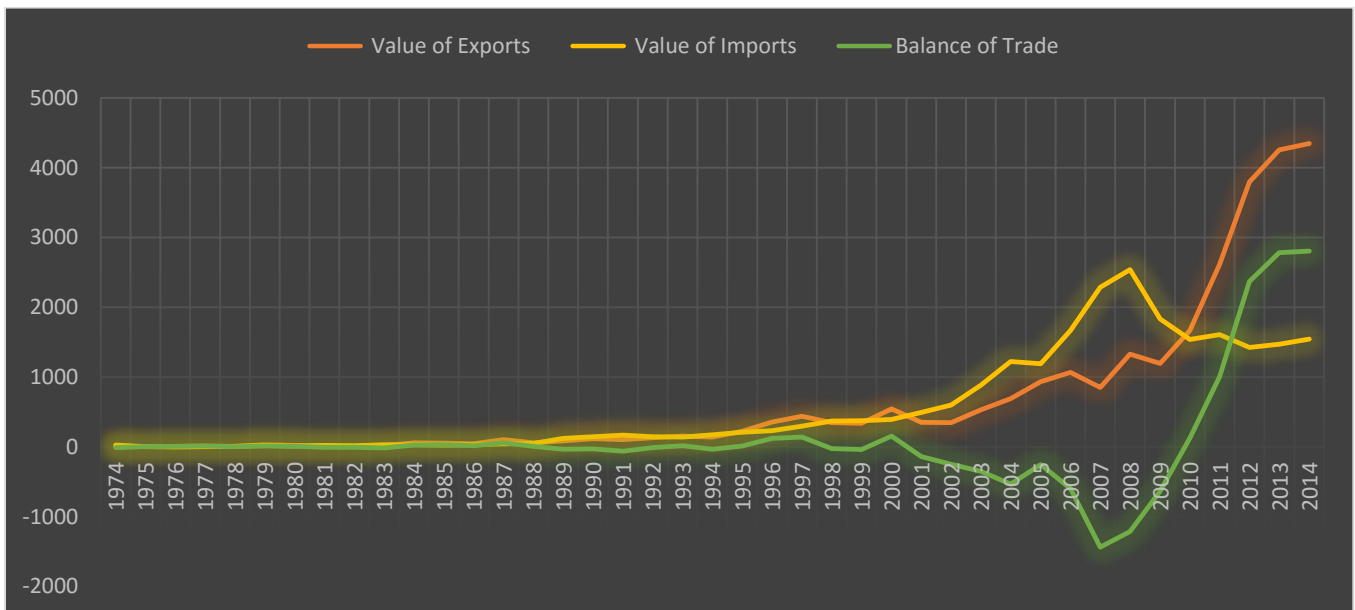
Summarizing, according to the primary indicators of economic power such as GDP, GDP growth and the Foreign Exchange Reserves, Turkey has better and higher rates than Greece while the latter only has higher rates in GDP per capita. Regarding the secondary indicators of economic power, the balance of trade and exports as a percentage of GDP, it is not clear which of the two is in a better place, since they both hold first place and therefore, one cannot accurately determine which of the two rivals is more powerful. Therefore, taking into consideration the fact that Turkey has higher rates than Greece in three of the four primary indicators of economic power and Greece comes first in only one primary indicator, we conclude that Turkey has greater economic power than Greece.

B. Indicators of Economic Interdependence

i) Trade

Although Greece tried to raise the levels of its economic power focusing on exports, the balance of trade with Turkey was negative. Figure 24 below shows one of the most important indicators of economic interdependence, which is bilateral trade between rivals. More specifically, the balance of trade did not have large deviations regarding the value of imports and exports, since both were at low levels. Nevertheless, from 2001 to 2010 the imports from Turkey exceeded exports, reaching 2,541,19 mil. USD in 2008 while exports, in the same year stood at 1,328,96 mil. USD, almost half of the value of imports. From 2010 onwards, Greek exports to Turkey rose and their value reached 4,348.02 mil. USD although at the same time imports were decreasing, reaching 1,543.47 mil. USD.

Figure 24: Bilateral trade 1974-2014 Greece to/from Turkey (million USD)



Source: UNcomtrade (a), 2015

In addition, from 2004 to 2013 Turkey became Greece's No. 1 export partner. More specifically, according to the Table 31 below in 2004 the value of Greek exports to Turkey was 690.95 mil. USD and in 2013 that figure had reached 4,228,20 mil. USD. That is to say from 2004 to 2013 Greek exports to the Turkish market rose by 512%.

Table 31: Greece's Top Ten Exports Partners 2004-2013 (million USD)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Turkey | 690.95 | 918.27 | 1062.65 | 1035.14 | 1327.54 | 1199.93 | 1652.58 | 2597.56 | 3769.09 | 4228.20 |
| Italy | 1571.35 | 2080.22 | 2556.93 | 2841.64 | 3248.82 | 2509.19 | 2591.66 | 3205.66 | 2735.51 | 3256.97 |
| Germany | 1999.87 | 2368.83 | 2624.76 | 3015.79 | 3074.84 | 2511.78 | 2598.38 | 2658.45 | 2271.32 | 2379.92 |
| Bulgaria | 969.51 | 1012.91 | 1319.13 | 1619.15 | 2049.14 | 1484.92 | 1525.08 | 1861.83 | 2008.03 | 1921.01 |
| Cyprus | 706.78 | 1093.88 | 1227.23 | 1720.65 | 1977.50 | 1665.56 | 1927.62 | 2171.01 | 1821.24 | 1626.87 |
| United Kingdom | 1145.56 | 1281.83 | 1353.08 | 1431.58 | 1421.17 | 1033.28 | 1342.73 | 1387.73 | 1105.52 | 1301.13 |
| United States | 811.53 | 913.88 | 911.44 | 1140.97 | 1607.40 | 1208.65 | 1026.12 | 1676.74 | 1172.45 | 1081.23 |
| FYROM | 385.59 | 406.63 | 471.19 | 542.31 | 670.78 | 570.46 | 513.63 | 774.03 | 1049.78 | 979.31 |
| Libya | 211.16 | 198.63 | 280.06 | 238.56 | 196.20 | 359.02 | 693.83 | 213.42 | 929.42 | 900.92 |
| France | 643.31 | 820.27 | 1033.84 | 1082.08 | 1096.52 | 824.98 | 878.28 | 967.71 | 867.24 | 859.74 |

Source: Direction of Trade Statistics (DOTS), IMF, 2015

ii) Foreign Direct Investments

One more important indicator is Foreign Direct Investments. As Figure 25 shows, the absence of Turkish investments in Greece is noticeable. In 2001 both countries signed a Bilateral Investment Promotion and Protection Agreement and investment plans were increased. More specifically, in 2006 and 2007 Greek investments in Turkey were 2,853 and 2,566 mil. USD respectively, resulting in more than 80 Greek businesses being set up in the Turkish market (Tsarouhas 2009). On the other hand, Turkish FDIs highest point was in 2008 with 2 mil. USD. Therefore, Foreign Direct Investments between the two countries are low compared to the total of inwards flows.

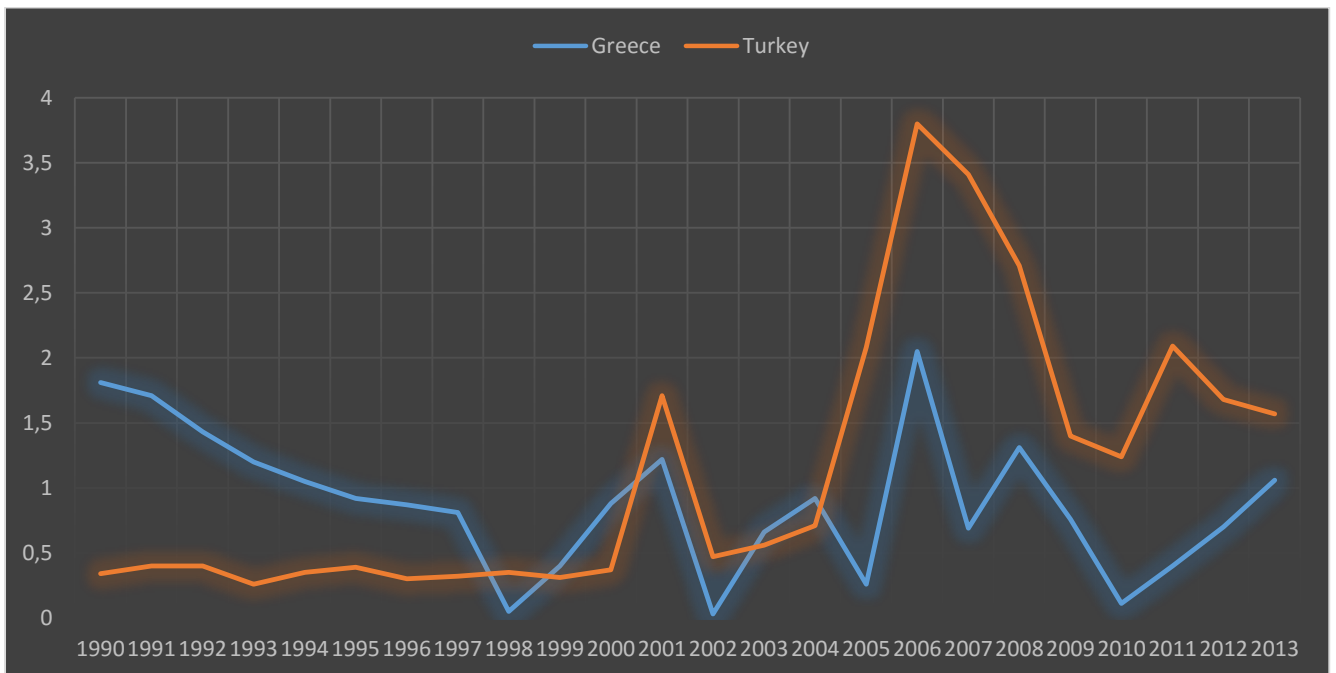
Figure 25: FDI Flows 2001-2012 (mil. USD)



Source: UNCTAD, 2015

In addition to Foreign Direct Investments Flows, Figure 26 below illustrates inwards flows as a percentage of GDP in order to show the value of Greek investments into the Turkish economy. More specifically, the total of inward flows of FDI into Turkey in 2006 was 3.8% of GDP and in the same year, Greek flows into Turkey were 2,853 mil. USD, meaning that it was only 0,53% of Turkish GDP. The same can be said also for the years 2007 and 2012. In 2007 Greek flows into Turkey stood at 2,566 mil. USD, which is to say 0.39% of GDP and in 2012 Greek flows of 860 mil. USD accounted for 0.1% of GDP.

Figure 26: Inward FDI Flows GDP (%)

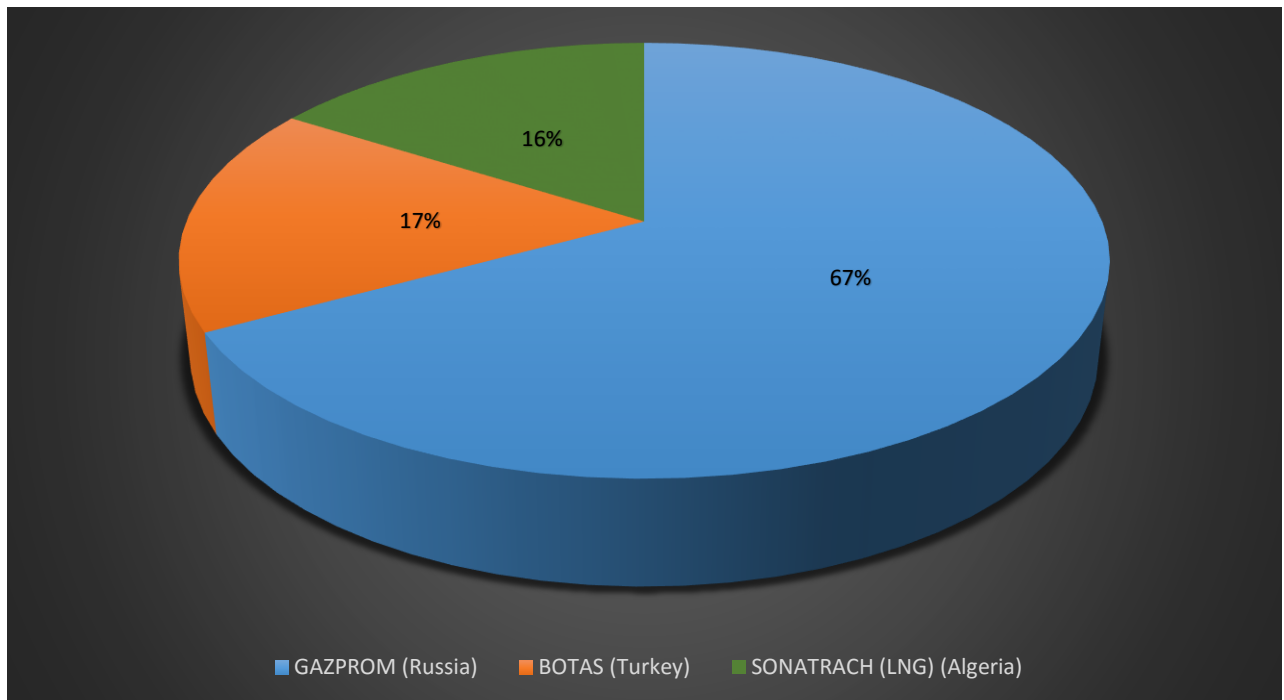


Source: OECD (b), 2015

iii) Energy Supply

One more indicator of economic interdependence which is of high significance is the energy sector. As mentioned in the analytical framework, the energy sector is not only vital for the economy's sustainability but it also vital for a state's survival. Figure 27 below shows Greece's energy suppliers but also the percentage of Greek dependence on these suppliers. More specifically, Greece's No. 1 supplier of natural gas under contract is Russia which accounts for 67% of total imports, second is Turkey with 17% and third is Algeria with 16% (Roukanas, 2015). More specifically, the Russian "GAZPROM" pipe will supply Greece with natural gas until 2026, the Turkish "BOTA" pipe until 2021 and the Algerian "SONATRACH (LNG)" pipe until 2021. Nevertheless, asymmetric interdependence between Greece and Turkey is also defined by the gas pipelines. The interconnector pipeline between Greece and Turkey "ITGI", which has been operating since 2007, has been designed in order to transfer 11.6 bcm of natural gas from the Caspian Sea and Middle East, through Turkey to Greece, Italy as well as the other Member States of the European Union.

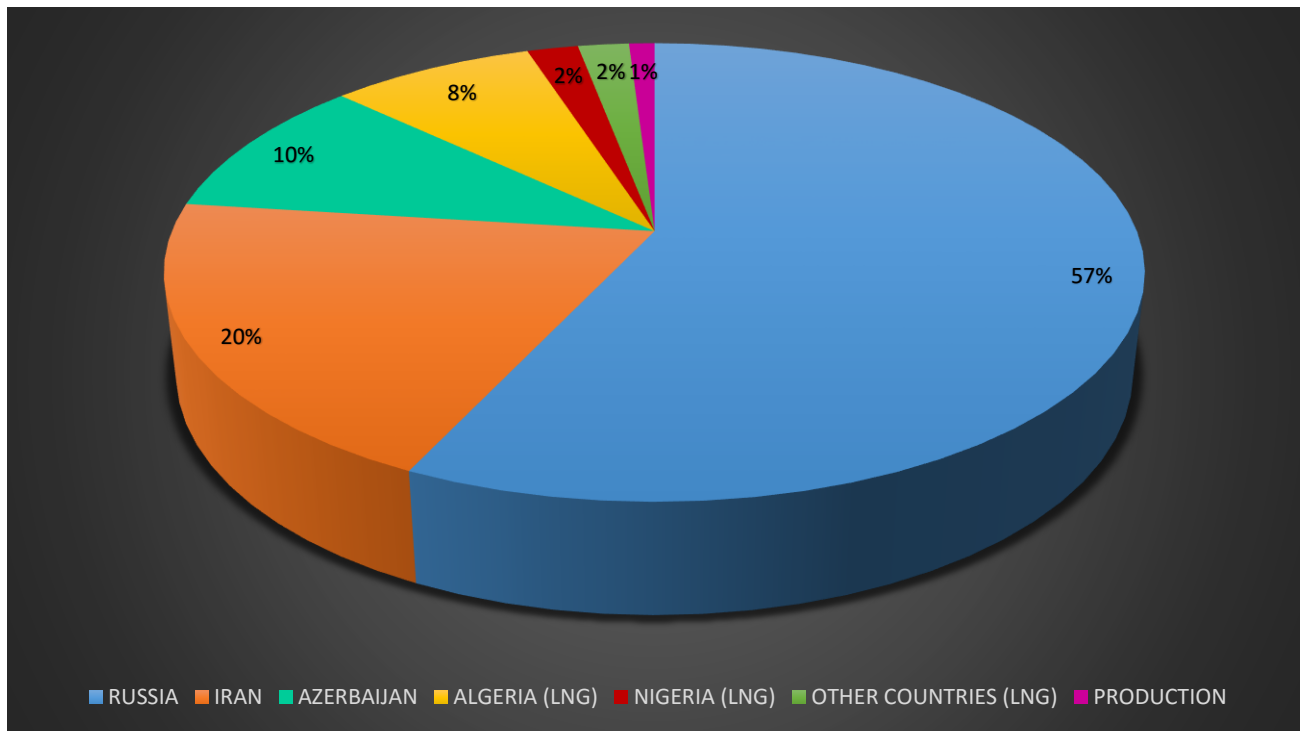
Figure 27: Greece's Natural Gas Suppliers



Source: DEPA, 2014

On the other hand, Turkey is one of the most important hubs for transporting natural gas and oil. According to the U.S. Energy Information Administration, Turkey “*is strategically located at the crossroads between the oil-rich former Soviet Union and Middle East countries, and the European demand centers*” (EIA, 2015). This is highlighted by the fact that Turkey has more suppliers of natural gas than Greece; however Russia remains in first place. More specifically, as can be seen in Figure 28, 57% of natural gas is imported from Russia, 20% from Iran, 10% from Azerbaijan, 8% from Algeria, 2% from Nigeria and other countries, while Turkish production is 1% of the total. From all these supplies, 86% is transported through pipelines and the other 13% is LNG (Liquefied Natural Gas).

Figure 28: Turkey's Natural Gas Suppliers



Source: U.S. Energy Information Administration, 2015

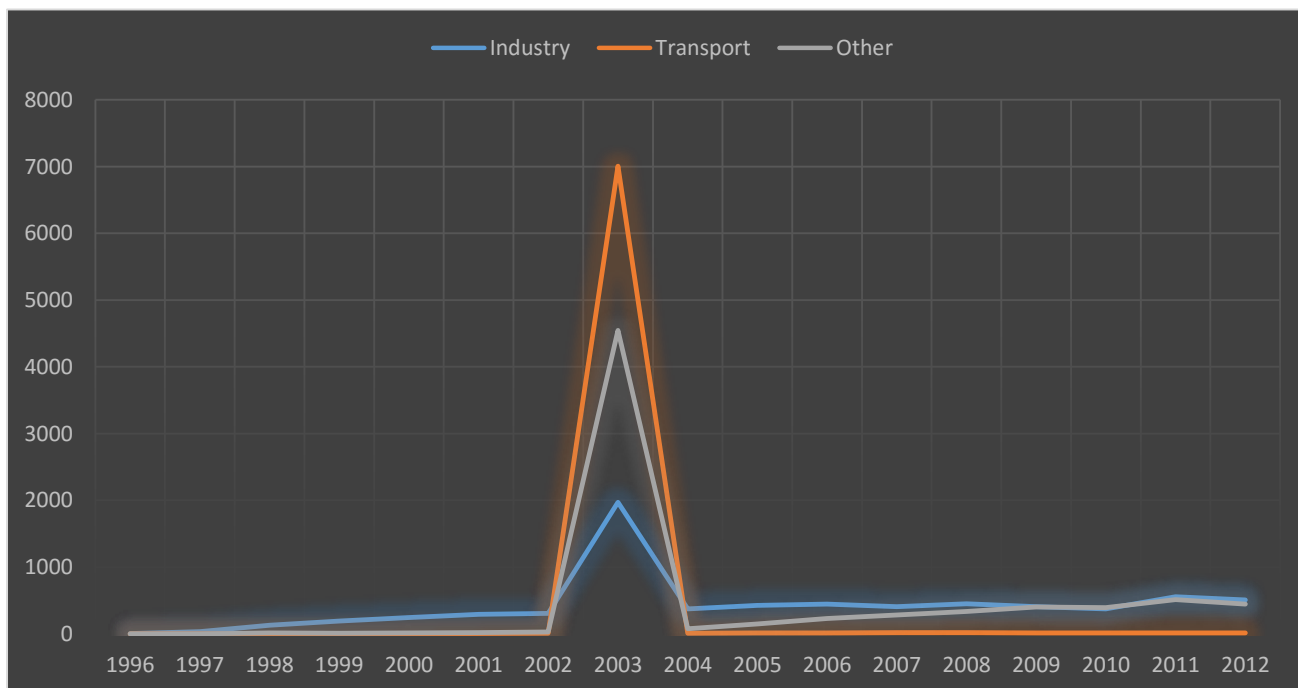
Furthermore, Greece's dependence on natural gas and oil is at the same level, however, Greece does not import crude oil from Turkey (Energy Supply Security, 2014). More specifically, according to the International Energy Agency, Greece is obliged to maintain oil stocks on its territory for a 90-day period in accordance with its imports. In addition, its demands for oil from 1973 to 2009 increased from ten to fifteen million tonnes of oil equivalent approximately, while demand for natural gas was also high.

In 1997 demand increased from 23 million tonnes to 27 million tonnes approximately in 2008. As far as oil consumption is concerned, from 1973 to 2009, the sectors with the highest oil consumption were commerce, public services, agriculture, fishing and other non-specified sectors. In second place in terms of oil consumption is the industrial sector, in third the residential sector and in fourth place, transportation. The industrial as well as the residential sector mainly rely on oil consumption, however, the former consumes more natural gas than the latter, while the transportation sector relies entirely on oil.

As far as natural gas is concerned, the sector with the highest consumption is industry, followed by the residential sector in second place, the commercial in third place and finally the power generation sector. According to Figure 29 below, from 1996 to 2012 the industrial

sector had the highest consumption of natural gas, however, in 2002-2003 transportation had higher consumption level than industry.

Figure 29: Natural Gas Consumption in thousands of tonnes of oil equivalent



Source: International Energy Agency, 2015

In addition, from 1997 to 2010 natural gas accounted for 12% of the primary energy supply and according to projections demand, especially in the power sector, will double by 2019, since Greece’s strategy is to expand the use of natural gas, as shown in Table 32 below.

Table 32: Greece’s Natural Gas data (mcm/y)

| Year: | 1990 | 2000 | 2005 | 2010 | 2011 | 2012 | 2018* *(estimation) |
|-----------------------|------|------|------|------|------|------|------------------------|
| Demand | 123 | 2052 | 2842 | 3850 | 4665 | 4354 | 4901 |
| Net Imports | 0 | 2016 | 2826 | 3843 | 4659 | 4349 | 4901 |
| Import Dependency (%) | 0.0 | 98.2 | 99.4 | 99.8 | 99.9 | 99.9 | 100 |

Source: Energy Supply Security, 2014

In addition, two economic agreements were signed in 2000 (Turkish Ministry of Economy, 2013) whose objective was to encourage partnership between businesses in order to promote investments and other collaborations to foster economic ties. They were signed in the context of a new rapprochement between the two countries with regard to collaboration in telecommunications, shipbuilding, transportation, energy, tourism and the environment. In 2003 a treaty was signed on the avoidance of double taxation. In March 2013 (TA NEA, 5/3/2013), given the poor economic condition that Greece was in, 25 additional agreements were signed with Turkey relating to low politics issues such as the health sector, shipping and maritime transport, and the tourism sector, in order to foster a climate of trust between the two countries.

On the other hand, the acquisition of 5% of Turkish Finansbank by the National Bank of Greece raised many controversies in Greece for three reasons. First, it was the largest investment Greece had ever made in Turkey, since the acquisition cost was 2,774 mil. USD and this entailed high risks due to the bilateral conflict. Second, the shares of the National Bank of Greece were hardly higher than the acquisition cost and this was very risky for the Greek bank. Third, the National Bank of Greece was the largest bank in the country and with the acquisition of Finansbank, it became inseparable from the Turkish economy and its problems and therefore, any change in the Turkish economy would have a direct impact on the Greek economy. (Syrigos, 2015).

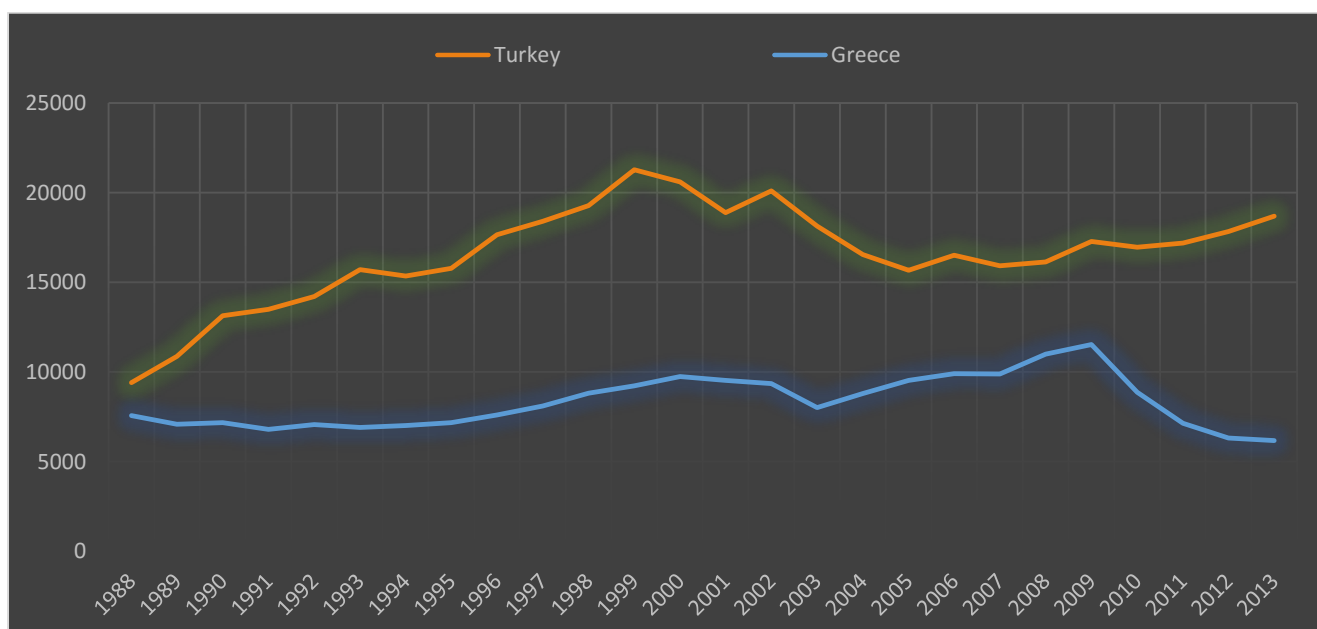
Summarizing, economic interdependence between two rivals can be shown by indicators such as bilateral trade, foreign direct investments as well as energy supply. Regarding the first indicator, the most significant point is that Turkey is the No.1 export partner for Greece, which means that it is also an important market for Greek products. Regarding foreign direct investments, although there is some economic activity the rates remain at a very low level and therefore, especially from the Turkish side, it is not a sufficient indicator. However, the most important indicator of asymmetric economic interdependence is that Turkey is the second most important energy supplier for Greece with all the implications that entails.

C. Bilateral Military Relations

i). Military Expenditure

Turkey's Military Expenditure from 1988 to 2013 has remained high. According to Figure 30 below, in 1988 Turkey was spending 9,397 mil. USD and ten years later Military Expenditure reached 19,280 mil. USD, meaning that it rose by 105.1%. From 1999 to 2005 there was a small decrease by 26.3%, however, from 2005 onwards Military Expenditure began increasing again by 19.2%, reaching 18,682 mil. USD in 2013.

Figure 30: Military Expenditure, million USD (1988-2013)



Source: SIPRI (a), 2015

More specifically, Greece raised its expenditure from 1988 to 2009 by 52.4%, while Turkey, during the same years, raised its expenditure by 83.8%. Nevertheless, because of the financial and debt crisis in 2010 (Roukanas and Sklias, 2014), (Kotios and Roukanas, 2013) Greece was forced to decrease its Military Expenditure by 46.4%, reaching 6,177 mil. USD in 2013, a figure which was lower than that in 1988, which was 7,562 mil. USD.

In addition, although Turkish spending began to gradually decrease from 2002 onwards, Turkey spent around 20,094 million USD on defense spending whereas Greece at the same time was spending 9,347 million USD. Consequently a disproportionate situation like this

usually leads the weaker side to continually increase its spending not just to procure arms but also as a means of directly responding to the other side, so as to provide better deterrence. Nevertheless, the feeling of insecurity for both countries, and especially for Greece which is the threatened state in this case, increased and still remains high. However, the decline in the last six years is due to Greece's obligations towards the support mechanism which Greece joined in 2010 (Roukanas and Sklias, 2014).

ii). Alliances

The paradox of the Greek-Turkish conflict is that both countries are members of the North-Atlantic Treaty Organization (NATO). More specifically, NATO's political and military purpose is to "promote democratic values and encourage consultation and cooperation on defense and security issues to build trust and, in the long run, prevent conflict." (NATO, 2015) and it "is committed to the peaceful resolution of disputes." In addition, this paradox is also noticeable in the British-Spanish conflict, which will be analyzed next. Greece joined NATO in 1952, the same year as Turkey, in order to show their support to the Western powers after the end of World War II. Nevertheless, Greece's accession to NATO was also a chance to balance its power deficit in relation to Turkey (Evagorou, 2010) but this did not deter the latter from disputing Greek sovereignty and Greece's national boundaries.

iii). Nuclear Weapons

Greece's strategic doctrine is to maintain the status quo since it is a smaller power than Turkey and tries to keep an effective level of deterrence. Turkey's strategic doctrine, on the other hand, is aggressive since Turkey is a revisionist state which seeks to change the status quo (Evagorou, 2010), (Ifestos, 2013). In addition, Turkey tries to promote its strategic interests with conventional weapons, since neither it nor Greece are nuclear forces, as can be seen in Table 33 below.

Table 33: Nuclear Forces

| Country | Year of first Nuclear Test | Total stockpile |
|--------------------------|----------------------------|-----------------|
| United States of America | 1945 | 7,260 |
| Russia | 1949 | 7,500 |
| United Kingdom | 1952 | 215 |
| France | 1960 | 300 |
| China | 1964 | 260 |
| India | 1974 | 90-110 |
| Pakistan | 1998 | 100-120 |
| Israel | ... | 80 |
| North Korea | 2006 | 6-8 |

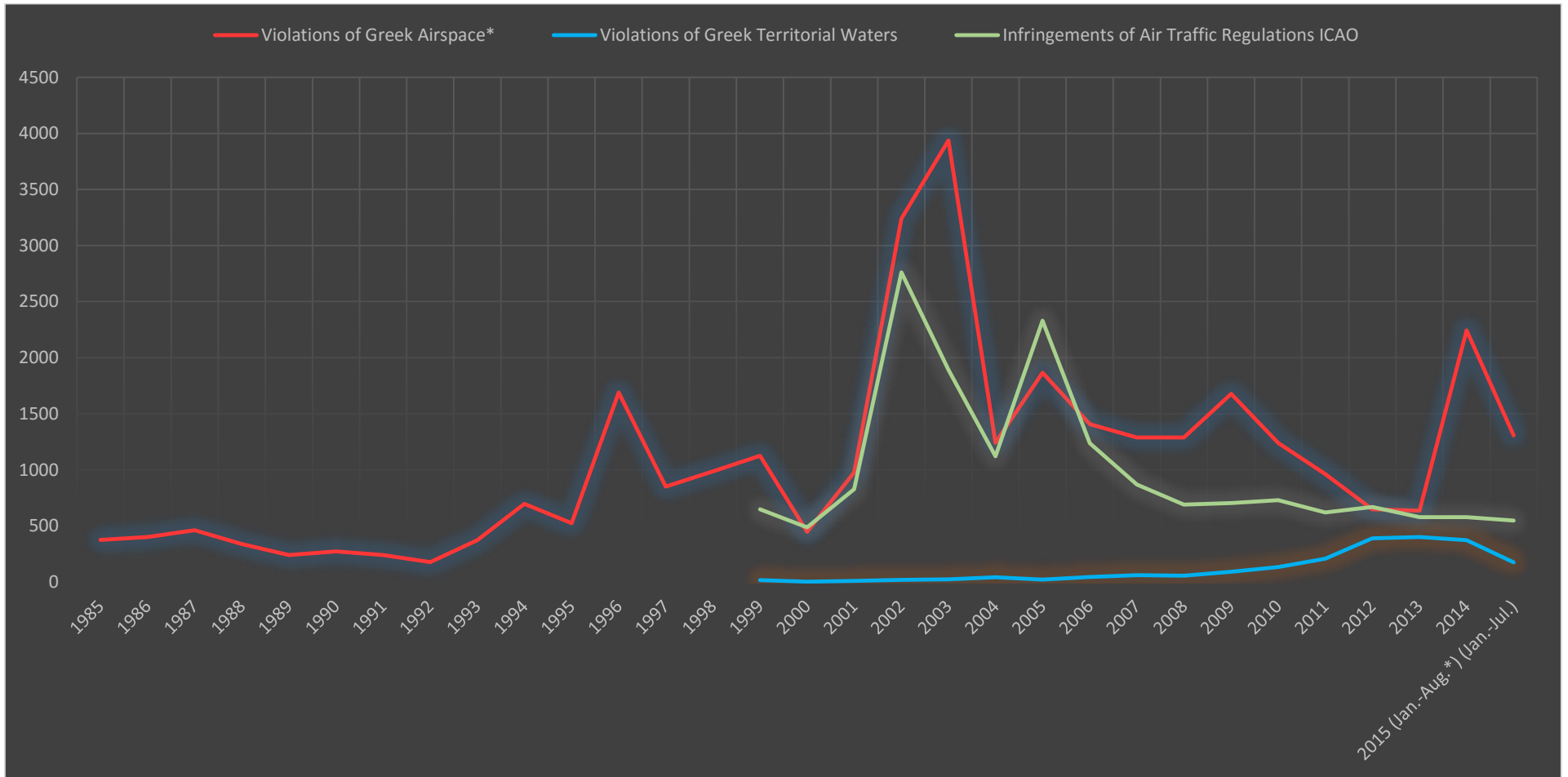
Source: SIPRI (b), 2015

iv). Violations and disputes

There continue to be high levels of Turkish violations and disputes, despite Greek efforts at deterrence and balancing. More specifically, according to the available data in Figure 31 below, most of the violations concern Greek national airspace, especially in the Northern, Central and Southern Aegean Sea. From 1996 to 2003 Turkish violations increased from 1,689 to 3,938, with some fluctuations during those years. Ten years later, from 2004 to 2014, although Turkish violations had decreased, they remained high.

For example, despite the Greek-Turkish rapprochement and the de-escalation in the conflict from 2000 to 2010, the violations were increasing remarkably. More specifically, in 2008 the violations of Greek national airspace decreased to 1,288, however, from 2009 onwards they increased again, especially from 2013 to 2014 and Turkey also reinforced its disputes with further violations of Greek territorial waters and infringements of Air Traffic Regulations from 1999 onwards. In that way, the Turkish threat became more serious and more credible since it uses military forces and not only political statements or other diplomatic tools in order to show its intentions and increase its influence, by disputing Greek sovereignty both in terms of airspace and the sea.

Figure 31: Turkish Violations of Greek Sovereignty



Sources: **1985-1999:** (Kollias, 2004), **1999-2008:** Hellenic Ministry of Foreign Affairs- Directorate A4: Turkey, 2015, **2009-2015:** Hellenic National Defense General Staff, 2015

Summarizing, regarding the bilateral relations between the two rivals, none of them possess nuclear weapons and therefore their military power is determined by conventional weapons. Turkey's Military Expenditure is higher than Greece's, therefore, its military capabilities are higher, so we can conclude that Turkey is a greater military power than Greece. However, despite the fact that both of them belong to the same military alliance, that is not enough for Greek national security since there are a large number of continuous Turkish violations of Greek national airspace and territorial waters and in many cases these violations turn into "hot" incidents.

D. The Worthiness of the Disputed Area

i). The Aegean Sea

Greek sovereignty in the Aegean Sea is disputed by Turkey mainly in relation to delimitation of the continental shelf, the breadth of the territorial waters and national airspace as well as the demilitarization of Greek islands close to the Turkish coastline. The geographical contiguity between Greece and Turkey has allowed the latter to dispute Greek sovereignty from the end of World War II, when the final national boundaries in the wider area of Europe were established. According to the Hellenic Ministry of Foreign Affairs (2015), the main issue with Turkey concerns delimitation of the continental shelf (Acer, 2005), (Veremis,2003) while all other issues are raised by Turkey in order to dispute Greek sovereignty and undermine Greek influence and rights in the Aegean Sea.

Turkey on the other hand, claims that there are more issues than the delimitation of the continental shelf which have to be solved. More specifically, according to the Turkish Ministry of Foreign Affairs, *“There are a number of interrelated issues in the Aegean between Turkey and Greece. The absence of maritime boundaries between the two countries, delineated by valid international agreements, is among them. Our position with regard to these issues remains reserved. Turkey wishes that lasting and equitable solutions are achieved for all these issues, taking into account its fundamental rights and interests. With this understanding, all these issues are being discussed with Greece through existing dialogue channels.”* (Turkish Ministry of Foreign Affairs (a), 31/8/2015).

Figure 32: The Aegean Sea



Source: CIA, 2015

The Delimitation of the Continental Shelf

According to the United Nations, the definition of the continental shelf is specified by the Article 76 of the United Nations' Convention on the Law of the Sea according to which “ *The continental shelf of a coastal State comprises the seabed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin, or to a distance of 200 nautical miles from the baselines from which the breadth of the territorial sea is measured where the outer edge of the continental margin does not extend up to that distance.*” (United Nations “Oceans and Law of the Sea”, 2015).

The issue of delimitation of the continental shelf began in 1973 when the Turkish government allowed the state oil company to prospect for hydrocarbon deposits on the Greek continental shelf, in the area of the North-East and Central Aegean. This issue, according to the Greek side, is the only Greek-Turkish difference, however it almost brought the two countries to armed conflict in 1974, 1976, and 1987. More specifically, in 1976 Greece brought this issue to the UN Security Council and to the International Court of Justice, however Turkey did not recognize the Court's jurisdiction, and therefore the two sides agreed to set a common agenda, known as the “Berne procès-verbal” for dialogue on that issue.. However this did not last long due to Turkey's intransigent stance. In addition, the escalation in conflict in 1987 occurred because the two adversaries perceived the content of the “Berne procès-verbal” differently, however the Turkish side retreated due to Greek determination (Veremis, 2003), (Hellenic Ministry of Foreign Affairs, 2013), (Turkish Ministry of Foreign Affairs (b), 2015).

Up to now, the two sides have agreed to try to find common ground in order to settle this issue, otherwise Greece will ask Turkey for a special agreement which will constitute the legal basis of the International Court of Justice for jurisdiction, since Turkey does not recognize it. However, Greece's position on Turkish disputes over the continental shelf are based on the Law of the Sea and they are as follows:

- *The United Nations Convention on the Law of the Sea provides for exclusive rights ipso facto and ab initio of a coastal state on its continental shelf which has a minimum breadth of 200 nautical miles, provided the distance between opposing coasts allows for this. Greece ratified this Treaty (Law 2321/1995), which according to the Constitution supersedes*

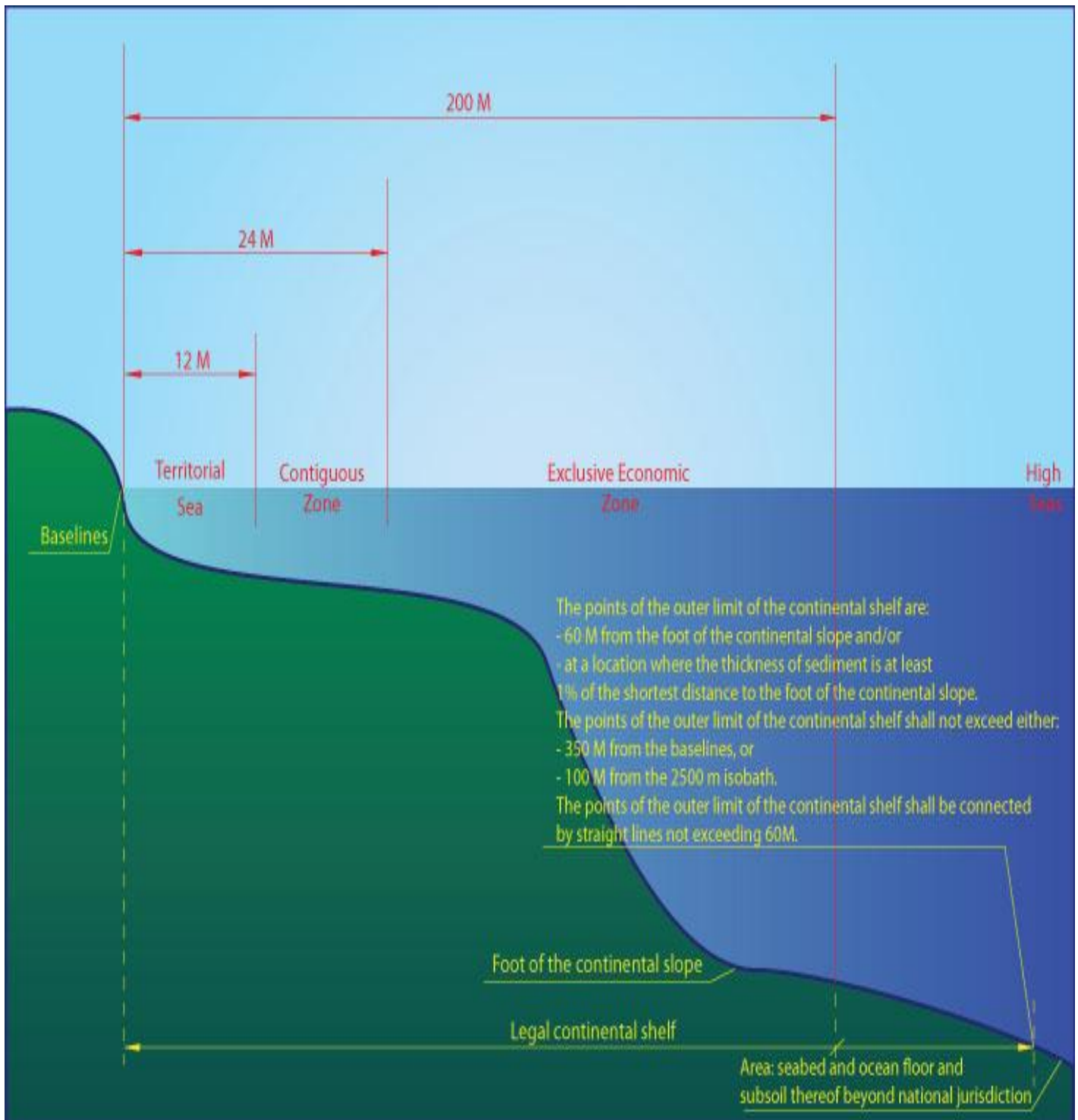
any provision to the contrary, and as the newest law takes precedence over the older.

- *In accordance with Article 121 (2) of the Convention of the Law of the Sea all islands have a right to territorial waters, a contiguous zone, an exclusive economic zone and a continental shelf. These zones are determined in accordance with the general provisions of the Convention, as those are implemented in mainland regions. This general rule is also customary law and is thus also binding for the states that are not signatories to the Convention. Therefore, all Greek islands have a continental shelf in accordance with the Law of the Sea.*
- *Within this framework, an issue of delimitation of the continental shelf is only raised between the coast of Greek islands across from Turkey and the Turkish coast.*
- *With regard to the delimitation method, Greece has firmly argued that this delimitation must be based on international law, governed by the principle of equidistance/median line.*

On the other hand, Turkey relies on the decision of the International Court of Justice in 1976 according to which “areas beyond territorial waters, were in fact “areas in dispute” (Turkish Ministry of Foreign Affairs (b), 2015). In addition, Turkey did not ratify the Geneva Convention (1958) which determines the status of the continental shelf of islands, however, it invokes the “special circumstances” clause of the same Convention. Also, Turkey’s position is that the islands’ continental shelf should be considered as an extension of the continental shelf which derives from Asia Minor (Veremis, 2003). Moreover, according to the Turkish Press, “*For Turkey, what would be important would be losing a huge area in the Mediterranean, but more than that it would become even more difficult for Turkey to dispute Greek claim that the tiny island of Kastellorizo (Meis) – just a stone’s throw from the Turkish coastal town of Kaş – has a territorial shelf and exclusive economic zone rights in that area, while the huge Anatolian peninsula does not.*” (Hurriyet Daily News, 10/11/2014). In addition to the continental shelf, Turkey

raises more issues which Greece considers to be “contentions and claims”, such as delimitation of the territorial sea and national airspace, as well as demilitarization of the islands of the Eastern Aegean.

Figure 33: Definition of Continental Shelf and Exclusive Economic Zone



Source: United Nations: Oceans and Law of the Sea, 2015

Figure 34: The Breadth of the Greek Continental Shelf



Source: Syrigos, 2015

Figure 35: Turkish Disputes



Source: Syrigos, 2015

The Delimitation of the Territorial Sea and National Airspace.

As an extension of the issue of the delimitation of the continental shelf, the delimitation of the territorial sea is one more issue which, according to the Turkish side, has not yet been settled. More specifically, Turkey argues that the Aegean Sea is semi-enclosed, therefore, the six miles breadth is an important factor which preserves the vital interests of both countries in the Aegean Sea, but it is also the “core of the settlement to every Aegean problem” (Turkish Ministry of Foreign Affairs (b), 2015). In addition, it argues that half of the Aegean Sea is high seas, since the territorial waters extend for six miles, therefore, any extension by Greece further than the six miles would have negative repercussions on Turkey’s vital interests.

More specifically, where Greece extends its territorial waters, the Aegean Sea will transform into a Greek Sea, and therefore Turkey will not have any access to the Aegean and would be restricted to its own territorial waters. As a result neither Turkey, nor any other state would be able to take advantage of the benefits which the high seas offer in military, economic and navigational terms. Consequently, Turkey will not have access to the high seas and the Mediterranean and its interests on an economic, military and scientific level would be at risk since in order to go to the Mediterranean the Turkish Navy would have to cross Greek territorial waters, any military exercise would not be allowed in the Aegean and all the flights across the Mediterranean would require Greek permission. In addition, “*Turkey will not be able to engage in activities such as scientific research, fishing, sponge-diving in the Aegean beyond its territorial sea without Greek approval.*” (Turkish Ministry of Foreign Affairs (b), 2015).

Last but not least, territorial expansion would give Greece the chance to settle other interrelated issues, such as delimitation of the continental shelf, the exclusive economic zone as well as national airspace, which extends out in keeping with the extent of the territorial waters. Moreover, according to the Madrid Declaration (1997) both countries have agreed that there will be no unilateral act in the Aegean Sea, especially as far as the breadth of territorial waters is concerned.

Greece, on the other hand, argues that according to Article 15 of the Convention on the Law of the Sea, it has the right to expand its territorial waters to twelve miles, that is to say beyond the median line. In addition, although Turkey claims that there are no maritime boundaries with Greece, the latter mentions that according to the Athens Protocol (1926), the Agreement between Turkey and Italy (1932) and its Protocol, as

well as the Paris Peace Treaty (1947), the territorial waters are delimited in the Aegean Sea and more specifically in the region which extends South from Evros to Samos and Ikaria and from Samos to the Dodecanese. Therefore, Turkey disputes the validity of the Protocol from 1932 and its claims “are unfounded and contravene international law” (Hellenic Ministry of Foreign Affairs, 2015).

Moreover, as can be seen in Figure 36, the right to extend the territorial waters is a matter of a state’s sovereignty, and therefore it is unilateral. In addition, Turkey has already exercised its right to extend its territorial waters to twelve miles, doing so in 1964 in the areas of the Black Sea and in the Mediterranean opposite Cyprus (Veremis, 2003). However, when Greece stated that it reserves the right to exercise its right for extending its territorial waters at any time, Turkey in response threatened Greece with “casus-belli”; therefore, in order to avoid a conflict escalation the latter did not exercise that right. It nevertheless continues to claim its right, due to the continuous Turkish violations of Greek territorial waters and airspace and due to Turkish disputes on the islands' right to have a continental shelf (Veremis, 2003), (Hellenic Ministry of Foreign Affairs, 2015). In addition, according to the Greek side, Turkish behavior violates fundamental principles of the United Nations’ Charter regarding the threat of using military force, which is not appropriate for military allies since both states are members of NATO, and is also not appropriate for relations between an EU Member State and a candidate for accession (Sklias, 2009) and future partner.

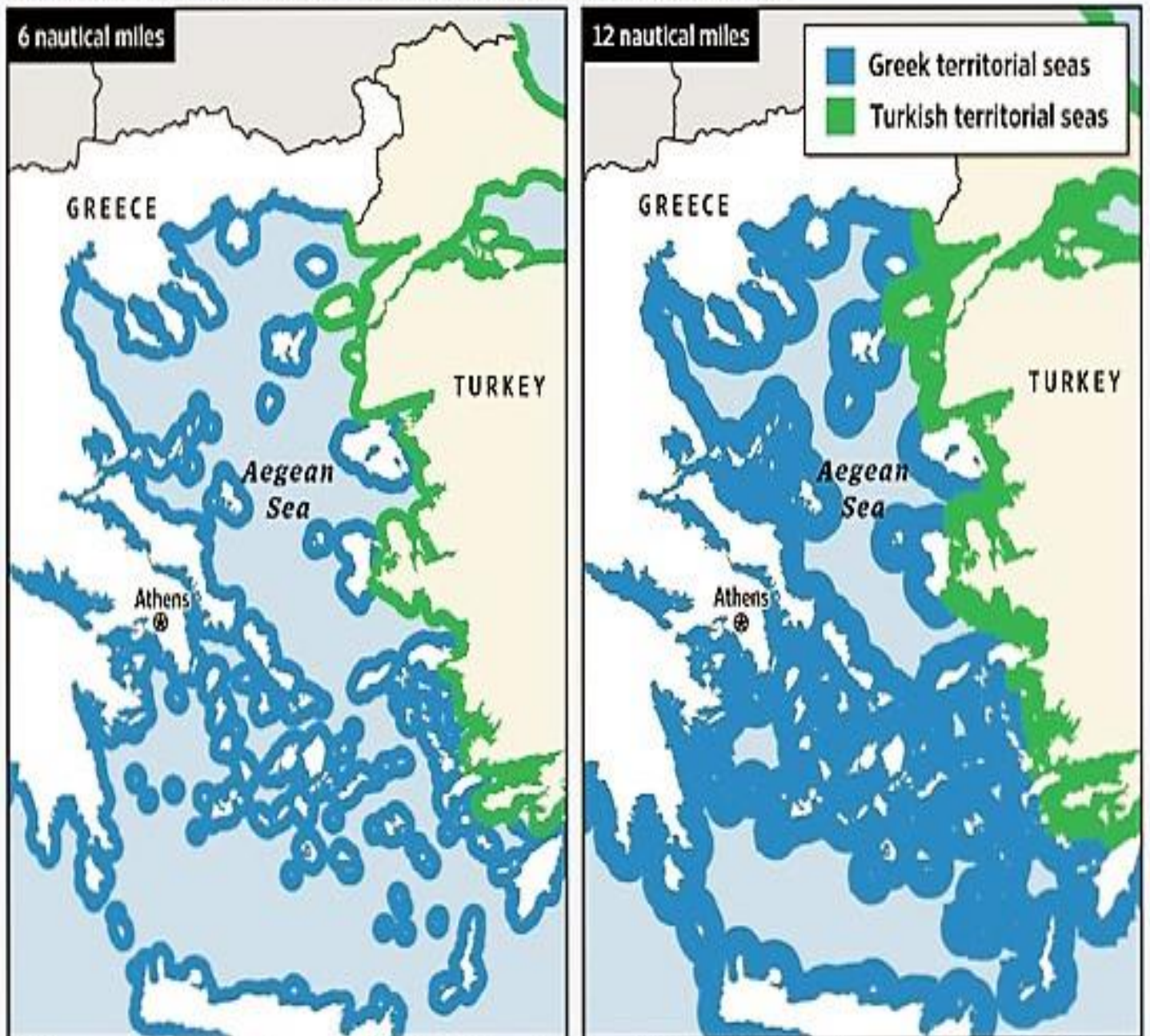
Regarding the status of Greek national airspace, in 1931 the rule of ten nautical miles from the coast was adopted without Turkey opposing that and also giving reassurances that it would not violate the ten nautical miles of Greek airspace. (Veremis, 2003). According to the Hellenic Ministry of Foreign Affairs (2015), “*Turkey accepted the breadth of Greek national airspace at 10 nautical miles without any objection or dispute, which qualifies under international law as tacit agreement.*” From 1975 after the Turkish invasion of Cyprus, Turkey disputed the role of Greece in the Flight Information Region (F.I.R), which was in accordance with the International Civil Aviation Organization (ICAO) and declared the Aegean Sea to be a restricted area (Veremis, 2003).

According to the Turkish side, “*the core of the conflict is the persistent abuse of "Flight Information Region" (FIR) responsibility by Greece*” (Turkish Ministry of Foreign Affairs (b), 2015). More specifically, Turkey claims that Greece promotes its sovereignty in international airspace because it considers the FIR as a national

Figure 36: Greek and Turkish Territorial Waters

Water Works

With hopes of tapping oil and gas deposits, Greece is looking to assert territorial claims in the Aegean Sea. Under a 1994 treaty, Greece is entitled to extend its territorial waters from six nautical miles from shore, which it currently claims, to 12. If they do so, Turkey will follow suit, but because of the many Greek islands that dot the sea, Greece will be able to claim more than 70% of the Aegean.



Note: In areas where territorial waters overlap, the midpoint between the two coasts is typically the dividing line.

The Wall Street Journal

Source: The Wall Street Journal (a), 7 March 2013

boundary, therefore, any military aircraft which enters the Athens F.I.R should submit flight plans because it is under the Greek authorities. In addition, Turkey does not accept the breadth of the ten nautical miles of Greek national airspace because according to international law, national airspace is defined by reference to the territorial sea, “[...] the boundary of territorial sea of a state also constitutes the boundary of its airspace.” (Turkish Ministry of Foreign Affairs (b), 2015). Therefore, there is asymmetry between the breadth of national airspace at ten miles and the territorial sea at six miles from Greek coasts. Therefore, Greek claims about violations of its airspace are unfounded because Turkish military aircraft fly over international airspace.

However, according to the Greek side, not only does Turkey violate Greek national airspace between six to ten nautical miles but also violates Greek national airspace within the six nautical mile zone, while at the same time disputing Greek sovereignty with low flights over inhabited islands. On the other hand, the likelihood of a heated incident is high and this could have serious implications for the safety of civil aviation. In addition, Turkey’s views about asymmetry between national airspace and territorial waters is unfounded because, the Greek national airspace does not exceed the twelve nautical miles, according to the international law.

Moreover, Greece has published legislation regarding the breadth of its sovereignty in national airspace, which has been in force since 1931 with Turkey's tacit agreement. On the other hand, Turkey’s opposition to Greek sovereignty over airspace and to the lack of overlap between the breadth of territorial waters and airspace is not only groundless but also a pretext since Turkey threatens Greece with war, “casus-belli”, if the latter extends its territorial sea beyond six nautical miles.

Figure 37: FIR Athens



Source: Syrigos, 2015

The Demilitarization of the Islands.

Demilitarization of the islands concerns the islands of Lemnos and Samothrace, the status of Mytilene, Chios, Samos and Ikaria as well as the status of the Dodecanese (South-Eastern Aegean). According to the Turkish side, the Treaty of London (1913), the Decision of the Six Powers (1914), the Lausanne Peace Treaty (1923), the Montreux Convention (1936) and the Paris Peace Treaty (1947) state that Greece must demilitarize these islands for Turkey's security. In addition, especially for the islands Lemnos and Samothrace, according to the Lausanne Peace Treaty and the Montreux Convention there is no clause with regard to the militarization of these two islands on the contrary to Turkish Straits, where the status of demilitarization was lifted, in order to promote the national security of Turkey. As far as the South-Eastern Aegean is concerned, the Paris Peace Treaty mentions that the Dodecanese must remain demilitarized otherwise it could be perceived as a threat to Turkish national security and therefore Turkey characterizes the militarization of the islands as "illegal acts of Greece" (Turkish Ministry of Foreign Affairs (b), 2015).

Figure 38: The Northern-East Aegean Islands (Samothrace and Lemnos) and Central Aegean Islands (Mytilene (Lesvos), Chios, Samos, Ikaria)



Source: <http://www.nationsonline.org/oneworld/map/greece-administrative-map.htm>

Figure 39: The Dodecanese



(a)



(b)

Source: (a) <http://www.nationsonline.org/oneworld/map/greece-administrative-map.htm> (b) http://www.dodecanese-islands.com/gr/gr_islands.html

However, according to the Greek side, the demilitarization of the islands Lemnos and Samothrace was annulled by the Montreux Treaty in 1936, which entirely replaced the whole Lausanne Treaty. In addition, the Turkish Ambassador to Athens (and therefore Turkey) had recognized the right of militarization of these islands, Lemnos and Samothrace in 1936. More specifically, according to the Hellenic Ministry of Foreign Affairs, on 6 May 1936, the Turkish Ambassador to Athens Roussen Esref sent a letter to the Greek Prime Minister “on instructions from his Government” according to which Turkey recognized the right to Greece to militarize these islands and as the Turkish Minister of Foreign Affairs Rustu Aras mentioned, “*The provisions pertaining to the islands of Lemnos and Samothrace, which belong to our neighbor and friendly country Greece and were demilitarized in application of the 1923 Lausanne Treaty, were also abolished by the new Montreux Treaty, which gives us great pleasure*”. (Hellenic Ministry of Foreign Affairs, 2015).

As far as demilitarization of the islands in the Central Aegean Sea is concerned (that is, the islands Lesvos, Chios, Samos and Ikaria) the Greek side argues that the Lausanne Peace Treaty does not refer to these islands and Article 13 only mentions that Greece should not establish naval bases or fortifications there. More specifically, the Article mentions that:

- No naval base and no fortification will be established on the said islands.
- Greek military aircraft will be forbidden to fly over the territory of the Anatolian coast. Reciprocally, the Turkish Government will forbid its military aircraft to fly over the said islands.
- Greek military forces on the said islands will be limited to the normal contingent called up for military service, which can be trained on the spot, as well as to a force of gendarmerie and police in proportion to the size of gendarmerie and police existing in the whole of Greek territory. (Hellenic Ministry of Foreign Affairs, 2015).

Regarding demilitarization of the Dodecanese, the Greek side mentions that only the National Guard is present and Turkey was not a signatory state to the Paris Peace Treaty

(1947), therefore it is an issue which concerns other states, “*res inter alios acta*”. In addition, demilitarization of the Dodecanese was promoted by the USSR at that time, however, the US Secretary of State, General Marshal, told Athens to ignore the Soviet pressures saying “*Greece has the right to use its military facilities in order to defend its national boundaries*” (Veremis, 2003:144 (trans.)).

Furthermore, the Turkish invasion of Cyprus in 1974, the “*casus belli*” against Greece, the continuous violations of Greek airspace and the flyovers as well as the maintenance of a significant number of military units, especially the 4th Turkish Army on the coastline of Asia Minor (Veremis, 2003), constitute a serious threat to Greece, therefore, the latter, in line with Article 15 of the United Nations Charter is “in a state of preparedness [...] to exercise its right to legitimate defense [...] and to protect the Greek islands of the Aegean.” (Hellenic Ministry of Foreign Affairs, 2015).

Summarizing, the Aegean Sea is a disputed area because the gains which derive from it have direct implications on the state’s power, both at economic and strategic level because it improves its role in many sectors. More specifically, regarding economic power, because of their continental shelf the islands in the Aegean Sea extend the Greek continental shelf and additionally, the Greek exclusive economic zone, which provides the state with more influence and therefore more gains in the energy sector, which is vital for its economy. Regarding strategic power, the Aegean’s geographic location provides a unique strategic point for military operations and further expansion of military influence, not only in the Mediterranean but also in Northern Africa and even more in the Middle East, especially through Cyprus, which, although it is formally another state, does promote Greek influence. Consequently, combining economic with strategic gains which derive from this area, we can conclude that it is vital for the state to maintain or maximize its power.

6.4. Conclusions

Taking the above economic indicators into consideration there are two points that should be mentioned about the outcome of asymmetric interdependence. First, it is clear that the economic relationship between Greece and Turkey is asymmetric because of their economic size. Turkey, despite the fact that it is a developing economy, in contrast to Greece, which is developed economy, in terms of population and territorial extent is seven times larger than Greece. In addition, economic indicators of GDP, GDP Growth and total foreign reserves show that Turkey has higher figures than Greece, meaning that Turkey is a greater economic power than Greece, regardless of the fact that the latter has higher rates of GDP per capita. As Ayman (2004) mentions, “*Greek disparity of economic resources relative to Turkey is another dimension of existing asymmetric power perceptions.*”

In addition, it is also clear that there is economic interdependence between Greece and Turkey, and taking into consideration the above point, there is asymmetric economic interdependence. Bilateral trade, Foreign Direct Investments, economic agreements as well as energy supply are the main economic indicators which show the level of asymmetric interdependence. More specifically, the sectors which show higher levels of interdependence are bilateral trade and energy supply. Again, Turkey has higher rates in bilateral trade, since the balance of trade was negative for Greece for many years apart from the last four years.

The same can be said for Foreign Direct Investments as well as energy supply. Turkey attracted more investments in relation to Greece and Turkish investments to Greece were much lower than Greek ones in Turkey. However, the most important factor is energy supply. Turkey is Greece’s No. 2 import partner, meaning that Turkey controls a vital part of the Greek economy and national security. Consequently, from this bilateral economic cooperation and asymmetric interdependence, Turkey has gained more than Greece.

Second, regarding bilateral military relations, there are two points that should be mentioned. Firstly, Turkey is a greater power than Greece with regard to military capabilities. Keeping its Military Expenditure high, it remains one of the most significant powers in South-Eastern Europe and makes it difficult for Greece, which is the threatened state, to maintain a satisfactory level of deterrence, especially in the last five years during which the country has had to deal with financial and debt crisis.

Secondly, given that both countries belong to the same military alliance without possessing any nuclear weapons, it is important as a matter of strategic thinking, especially bearing in mind Turkish threats and violations of Greek sovereignty, that the latter should not rest on its laurels and hope that joining the same alliance is enough to protect its national security. Last but not least, from 1974 onwards Turkey has continued to implement its revisionist plans becoming more aggressive, since it uses more than one military means at the same time in order to promote its interests and decrease Greece's geostrategic power and influence. Therefore, in light of the configuration of the conflict, bilateral relations between the two states have not improved nor has the sense of security increased for Greece since all indications received show that there is a serious ongoing threat from the other side. In addition, what is also noticeable is the fact that Turkish violations increased when Greek Military Expenditure decreased and vice versa, meaning that although military capabilities do not "solve" the problem, they can control conflict escalation to a high degree.

Third, taking into consideration the analysis of the above issues, the conclusion that can be drawn regarding the worthiness of the disputed area is that Turkey's ambitions for territorial expansion in the Aegean Sea reflect the gains that this area maintains, both in strategic and economic terms. As far as the strategic level is concerned, the cause of the conflict is, on one hand Turkey's revisionist and aggressive behavior and its intentions to change the status-quo and on the other hand, to reduce Greece's power and influence. Turkey's Grand Strategy is to become a regional hegemon, since its location allows it to intervene at a regional level and especially in the Middle-East and, therefore, to have a significant role in international politics. (Evagorou, 2010), (Kondilis, 1999), (Kairidis, 2006).

However, Greece's deterrence is still effective since it has balanced Turkey's power by joining the European Union and Eurozone and keeping its Military Expenditure high. Therefore, in order to achieve its objectives, Turkey needs to increase its power and influence, especially from its coasts on the Mediterranean Sea, since it is surrounded by Greek influence through the islands in the Aegean Sea and Cyprus (Parris, 2013).

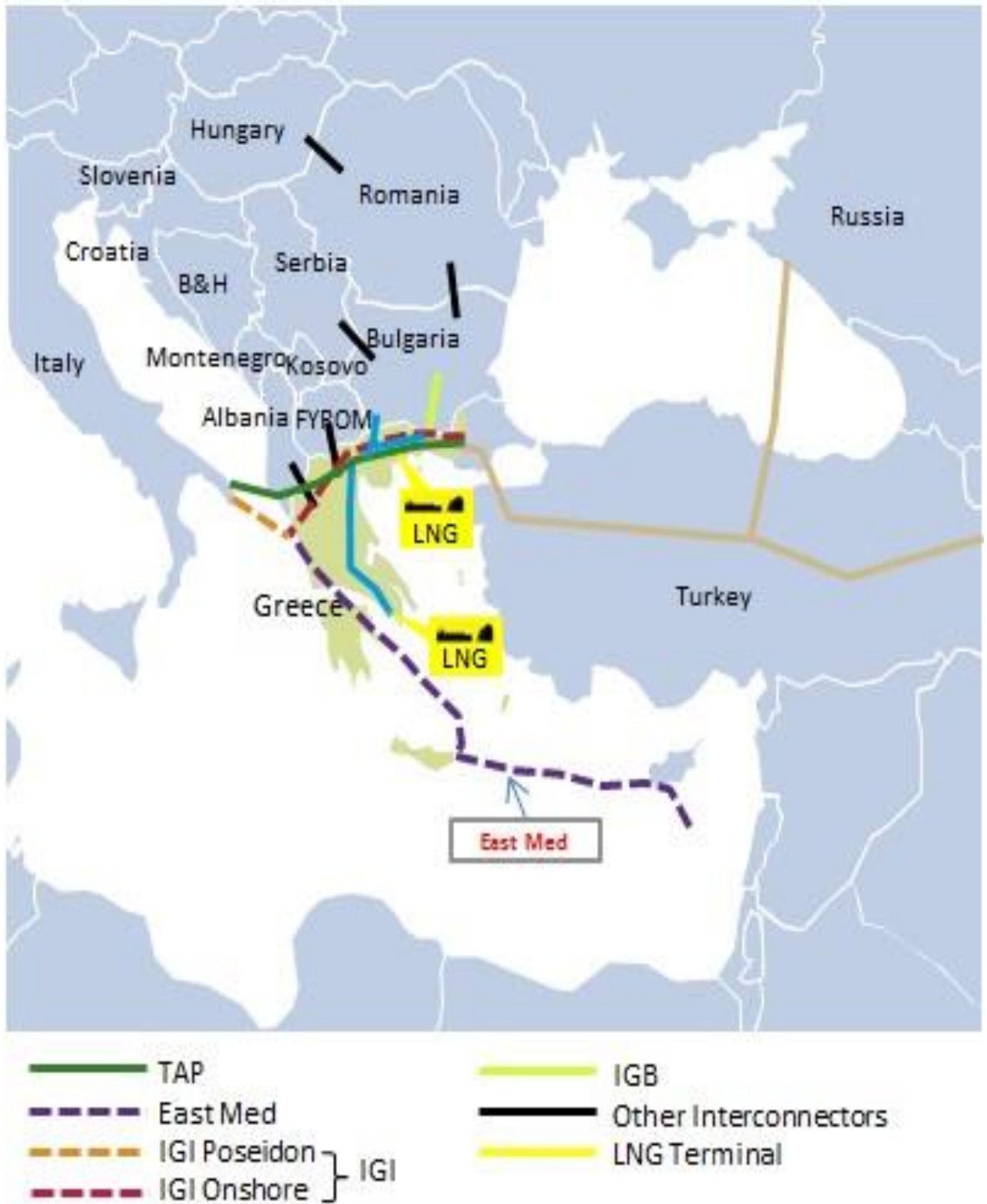
More specifically, the Aegean Sea and Cyprus are of high strategic significance because they connect Africa and the Middle-East with South-Eastern Europe and control vital passages not only for commercial goods but also for energy transportation, from the producer countries of oil to Europe. In addition, many natural gas pipelines are expected to cross the Aegean Sea and Cyprus. More specifically, according to DEPA (2015), the

Eastern Mediterranean pipeline is about to be developed connecting Cyprus to Crete and Crete to mainland Greece and from there to Italy and the rest of the Europe, as can be seen in Figure 40.

As far as the economic level is concerned, both the Greek islands of the Aegean Sea and Cyprus have a continental shelf, which according to the United Nations' Ocean and Law of the Sea, they are entitled to delimitate their Exclusive Economic Zone within since it is interwoven with a state's energy security as well as with economic and strategic interests, regardless of Turkey's objections. However, according to Figure 41, despite the fact that Turkey is seven times larger than Greece and its Exclusive Economic Zone also extends into the Black Sea, the Greek Exclusive Economic Zone is double that of Turkey due to the islands of the Aegean Sea, while the Turkish one is just two times larger than the Cypriot Exclusive Economic Zone (Parisis, 2013). However, Turkey was opposed to any agreement between Cyprus and its neighboring states on the delimitation of its exclusive economic zone (Syrigos, 2015). Therefore, although the cover only a small area, small islands such as the Greek islands and Cyprus gain more in power and influence because of their continental shelf, due to the extent of their Executive Economic Zone (EEZ).

In addition, the Aegean Sea has no deposits of hydrocarbons. According to Figure 42, the main areas with discovered hydrocarbon deposits are in Northern Greece and more specifically the region of Eastern Macedonia and Thrace and Cyprus's Executive Economic Zone. This is one more proof that Turkey's objectives not only concern issues of energy supply but also territorial expansion, in order to widen the range of its influence and increase its power.

Figure 40: Eastern Mediterranean Pipeline



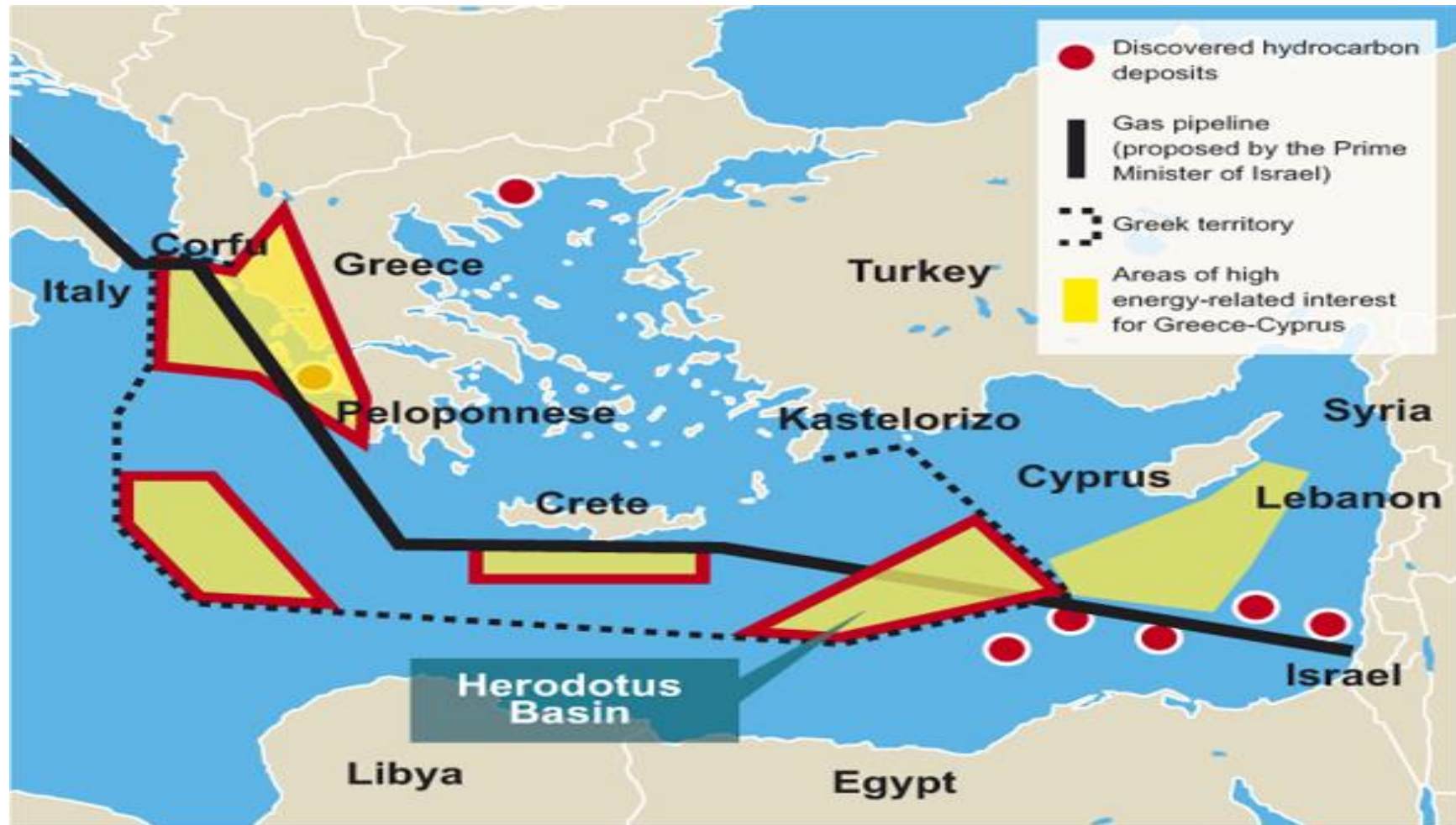
Source: DEPA (b), 2015

Figure 41: Greece's and Cyprus's Exclusive Economic Zone



Source: Syrigos, 2015

Figure 42: Zones of high economic and energy-related interest for Greece-Cyprus



Source: American-Hellenic Chamber of Commerce, 2013

CHAPTER 7. THE BRITISH – SPANISH CONFLICT

7.1. The Initiation of the Conflict

The conflict between the two states began in 1713 when, according to the Treaty of Utrecht, Spain ceded Gibraltar to Britain (BBC (d), 12/8/2013). It stated that, “*The Catholic King does hereby, for himself, his heirs and successors, yield to the Crown of Great Britain the full and entire propriety of the town and castle of Gibraltar, together with the port, fortifications, and forts thereunto belonging; and he gives up the said propriety to be held and enjoyed absolutely with all manner of right for ever, without any exception or impediment whatsoever.*” [Article X, Treaty of Utrecht, 1713], (Gibraltar Broadcasting Corporation, (GBC) (b), 9/1/2014).

Gibraltar has been a British overseas territory since then. The main reason which led Spain to cede Gibraltar to Britain was the War of the Spanish Succession (1701-1713), (The Spanish Succession, 19/2/2013) in which Gibraltar became a condition for reaching a peace agreement. For Britain, Gibraltar had not yet acquired the importance it had later, so in 1717, British offered Gibraltar back to Spain but Spain did not accept it. On the contrary, Spain was permitted to receive Florida by retaining Menorca under the Treaty of Versailles (1763) because of the military operations against Gibraltar (Lancaster T. and Taublee J., 1985). However, the British realized the great importance of Gibraltar, and they constructed their first strategic base in in 1893.

However, according to the Spanish side, there were some points which did not allow Britain to act as a dominant force on Gibraltar’s territory. The main point was that Gibraltar was ceded to Britain because of a Spanish dynastic dispute and the Treaty of Utrecht does not include the cession of territorial waters, the airport and the isthmus. Furthermore, they argue that there are two resolutions which do not allow the self-determination of Gibraltar people because they focus on Gibraltar’s “interests”. According to Resolution 2231 (XXI) Question of Gibraltar, “[...] (*the General Assembly*) *Calls upon the two parties to continue their negotiations, taking into account the interests of the people of the Territory, and asks the administering Power to expedite, [...] the decolonization of Gibraltar*”. (United Nations General Assembly, 4 February 2014). Also, in Resolution 2353 (XXII) Question of Gibraltar, “[...] (*United Nations General Assembly, 2014*) *“Invites the Governments of Spain and the United Kingdom of Great Britain and Northern Ireland to resume without delay the*

negotiations provided for in General Assembly Resolutions 2070 (XX) and 2231 (XXI), with a view to putting an end to the colonial situation in Gibraltar and to safeguarding the interests of the population upon termination of that situation.” (United Nations General Assembly, 2014).

Moreover, Spain rejected Gibraltar’s self-determination unless it would pass under Spanish sovereignty. In 1964, the United Nations Committee urged Spain and the United Kingdom to start negotiations because of the decolonization request from Spain in 1960. This resulted in the first referendum in 1967, (Hochleitner, 1992), (Gold, 2010) which was held in Gibraltar, according to which the residents wanted to be under British and not Spanish rule. In addition, taking into consideration the fact that Gibraltarians are a heterogeneous community composed of many nationalities, such as British, Spanish, Genoese, Maltese, Jewish etc. (O’Reilly, 1999) that move led negotiations to fail and according to Lancaster and Taublee (1985), *“In June 1969, Spanish authorities completely sealed the border: no pedestrian passage, no commercial or economic exchange...”* (Serna, 1984) which led the Spanish territory La Linea to economic ruin because it depended on Gibraltar’s economy.

On the other hand, the British reject the Spanish arguments regarding the Treaty of Utrecht, self-determination and the strategic position of Gibraltar. Unlike the Spanish, the British claim that Gibraltar was ceded to the U.K. not only with the port but also with the full and entire property of the town without any exception (Gibraltar Broadcasting Corporation, 9/1/2014). As far as the second argument (the right of self-determination) is concerned, the U.K. stressed that according to the United Nations’ principle of territorial integrity, *“All peoples have the right to self-determination; by virtue of that right they freely determine their political status.”* (United Nations and Decolonization, 2014).

Moreover, the economic blockade which was launched against Gibraltar by Spain, lasted until 1985 (O’ Reilly, 1999), when the two sides, the United Kingdom and Spain, decided through the Brussels Declaration to discuss but not negotiate Gibraltar’s sovereignty (Gold , 2010). According to the Brussels Agreement, in order for the two sides to apply the Lisbon Declaration, they should first “solve” or compromise their differences concerning Gibraltar. Consequently, they decided to establish “The provision of equality and reciprocity of rights for Spaniards in Gibraltar and Gibraltarians in Spain”, “the free movement of persons, vehicles and goods” and “a negotiating process aimed at overcoming all the differences between Spain and the

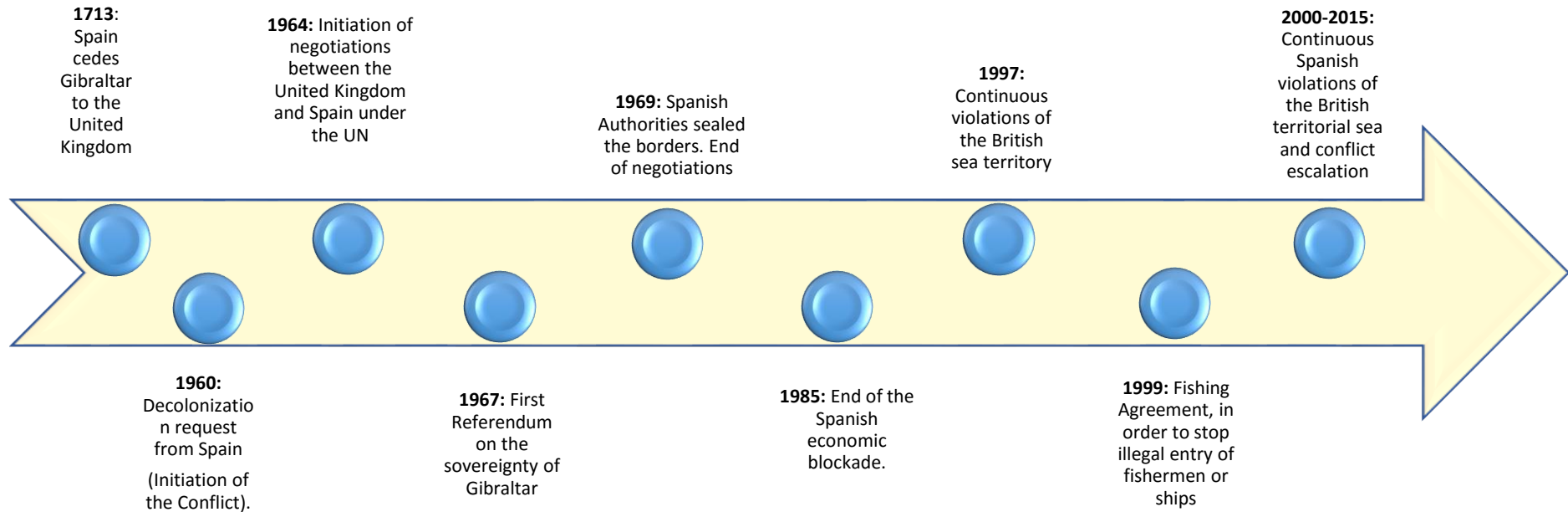
United Kingdom over Gibraltar and at promoting co-operation on a mutually beneficial basis on economic, cultural, touristic, aviation, military and environmental matters” (Gibraltar Broadcasting Corporation (GBC) (a), 9/1/2014). A year later, in 1986, Spain joined the European Economic Community and tried to solve this issue by claiming that “Britain and Spain can manage their differences in a way befitting two countries which are democracies, allies, prospective partners in the European Community and above all, good friends” (Lancaster and Taublee, 1985). On the other hand, British continued to support Gibraltar’s will in line with the last referendum in which they considered themselves to be under British rule.

The conflict continued in the next decade, when Spanish fishermen entered Gibraltar’s territorial waters violating British sovereignty. Between 1997-99 because of the continuous Spanish disputations of territorial waters and the de facto British presence in Gibraltar, this conflict drew the attention of the international media. As a result, in the February 1999 there was a Fishing Agreement (Government of Gibraltar, 2014) according to which the law would be strictly enforced in case of illegal entrances of fishermen or ships, closer than 225 meters to the shore or if they exceeded four in number at any time. This agreement was not the last between the two countries. On 12 July 2002 the British Government was in broad agreement with the Spanish regarding the principles of a final settlement in which sovereignty should be permanent with a continued military presence. It also remarkable that in the same year 98.5% of Gibraltarians rejected the possibility of sharing their sovereignty with Spain (BBC (e) 10/1/2014). Two years later, the two sides decided to give Gibraltar a new role as a separate partner in negotiations at the Tripartite Forum for Dialogue (Gold, 2010).

On the other hand, this conflict is not only at a diplomatic level but is also accompanied by many incursions of Gibraltar’s territorial waters. There are numerous incursions by Spanish ships into the British overseas territory’s waters. According to the Foreign Office, Spanish vessels entered Gibraltar’s territorial waters, which are under the British control, 496 times in 2013, increasing the number of violations 2,000% within two years (in 2011 there were only 23 violations) (The Express, 9/1/2014). Furthermore, the Chairman of the Parliament’s All Party Group on Gibraltar suggested the permanent stationing of a Royal Navy frigate in order to prevent further Spanish violations. The same year, in 2013, Spain and the UK were just a step away from military conflict when a Spanish patrol boat ignored Royal Navy orders to leave Gibraltar’s territorial waters. The Spanish boat left the area, nevertheless the Spanish

violations of the British sovereignty in Gibraltar continue until this day (Reuters (a), 9/8/2015). Figure 43 below illustrates the British-Spanish conflict in Gibraltar from 1713 onwards.

Figure 43: The Timeline of the British-Spanish Conflict



7.2. The Threatened State

Defining the threatened side from among two states in conflict is, to a large extent subjective, however, according to the analytical framework there are some objective factors which can clearly answer this question. The first factor is maintenance of the status-quo, since the historical data allow someone to understand which of the sides is more provocative, more aggressive and therefore, more responsible for conflict escalation.

More specifically, in this case study, as highlighted in Figure 43 above, Spain is the side which most of the times has disputed British sovereignty over Gibraltar. From the end of World War II until today, Spain has not stopped claiming the sovereignty of Gibraltar, meaning that Spain wants to change the status-quo of that area and expand its influence and its sovereignty, despite the fact that its rival is its political and military ally in the European Union and NATO, respectively.

Nevertheless, in this case study the factor of the power with the greater resources cannot be taken into account, for the reason that both parties share significant gains as members of the European Union. That is to say that both Spain and the United Kingdom as units are unequal, regarding their economic size and the maintenance of their resources, however, they are forced to share a percentage of these gains among their partners and therefore between each other. On the contrary, the secondary factor of proximate power plays a significant role, since Spain is closer to Gibraltar than the United Kingdom, therefore, it is easier for the former to threaten an area which is not close to the UK mainland, and therefore it is not easily defensible in military terms.

On the other hand, there are also threatening statements from Spain towards the United Kingdom regarding Gibraltar. More specifically, Spain threatened the United Kingdom with cutting off Spanish airspace (Mirror, 5/8/2013), with retaliatory measures against Gibraltar (Financial Times, 4/8/2013), with a veto regarding British inclusion in the European Union's Justice Cooperation (The Wall Street Journal (b), 9/10/2014) as well as with conflict escalation and economic sanctions in Gibraltar, such as new border taxes (The Telegraph (b), 4/8/2013).

Taking the above into consideration, the United Kingdom is the threatened state, since Spain's behavior corresponds to the objective factors which define the threat, in accordance with the analytical framework.

7.3. Weighing Relative Gains

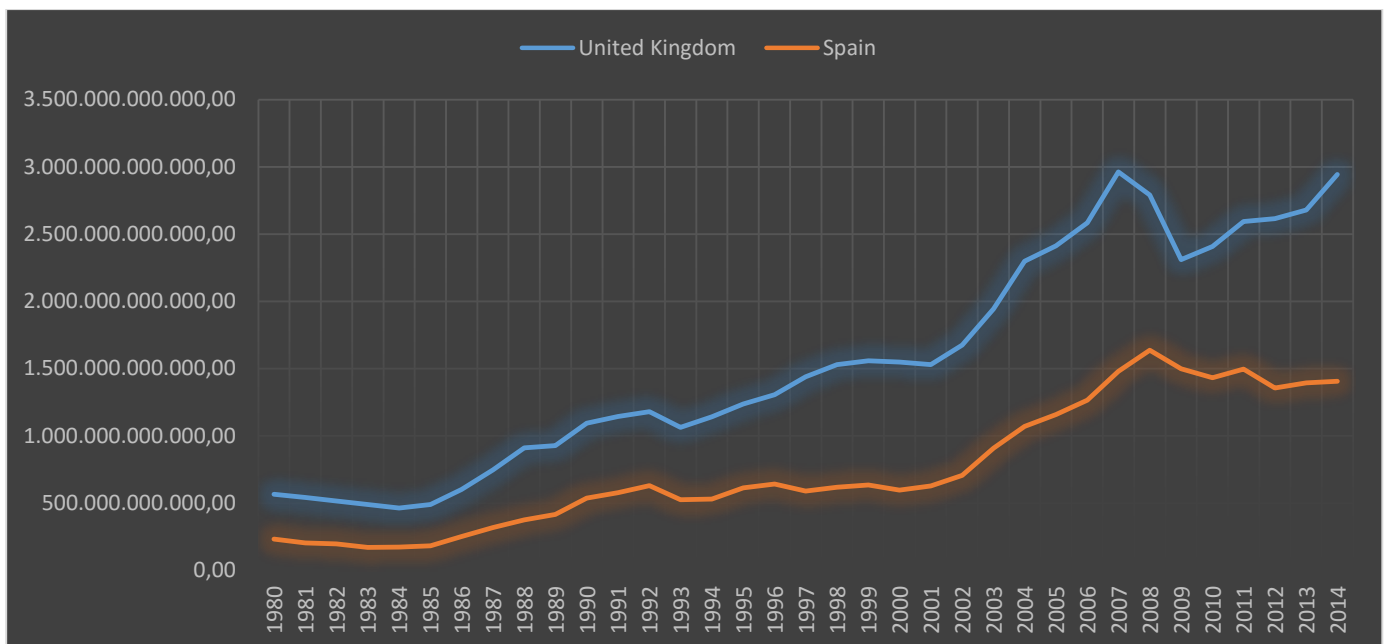
7.3.1. Economic Power and Asymmetric Economic Interdependence

A. Primary Indicators of Economic Power

i). Current GDP

Factors such as population and territorial size are important for the state's economic power, since they have important implications on consumption and productivity. The United Kingdom's territorial breadth is 243,610 sq.km (CIA, 2015), and its coastline is 12,429 km long, making it the 80th largest country, and its population is 64,088,222 people (CIA, 2015). Spain, on the other hand, is larger than the United Kingdom, since its territory is 505,370 sq.km (CIA, 2015) and it is the 52nd largest country in the world. However, its population is 48,146,134 and its coastline is 4,964 km long (CIA, 2015), almost the one third of its rival.

Figure 44: GDP, current USD



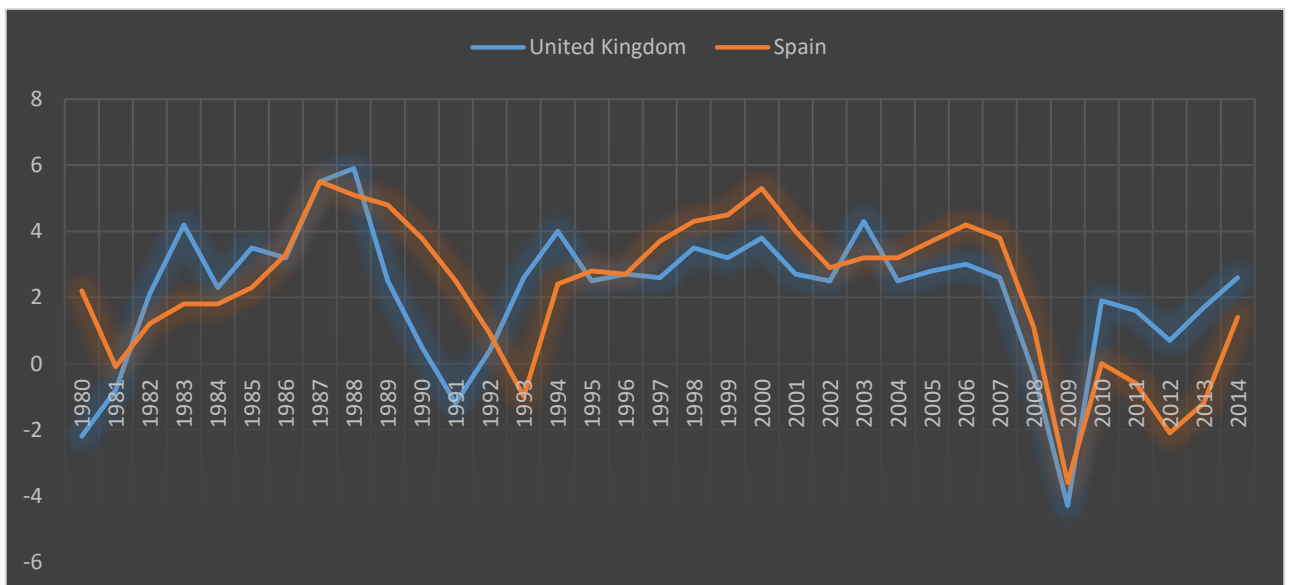
Source: World Bank (a), 2015

Figure 44 illustrates one of the most important indicators and gives a general overview of the state's economic power. More specifically, from 1980 to 2014 British GDP rose by 420.7%, reaching 2,941 billion USD, while Spanish GDP for the same period rose by 504.9%, reaching 1,404 billion USD. In addition, the United Kingdom experienced a rapid rise from 2001 to 2007 by 93.7%, while Spain, although managing to raise its GDP by 136.3% did not manage to exceed the British rates. In addition, from 2008 to 2014, British GDP was further increased by 5.38% in contrast to Spanish GDP, which, instead of increasing, actually decreased by 14.1%.

ii) GDP Growth

In addition, according to Figure 45 GDP growth was more stable for both countries in the years from 1994 to 2007, however, the United Kingdom had sharper fluctuations. More specifically, from 1988 to 1991, British GDP growth decreased from 5.9% to -1.2% while Spanish GDP growth fell from 5.1% to 2.5%. In addition, from 1996 to 2007 the Spanish rates were higher than the British ones, except for the years between 2002 and 2004. However, from 2007 to 2009, due to the financial crisis of 2007, both rates decreased below -3%. Nevertheless, Spain remained in negative rates until 2014 compared to the United Kingdom, which recovered quickly.

Figure 45: GDP Growth, (%)

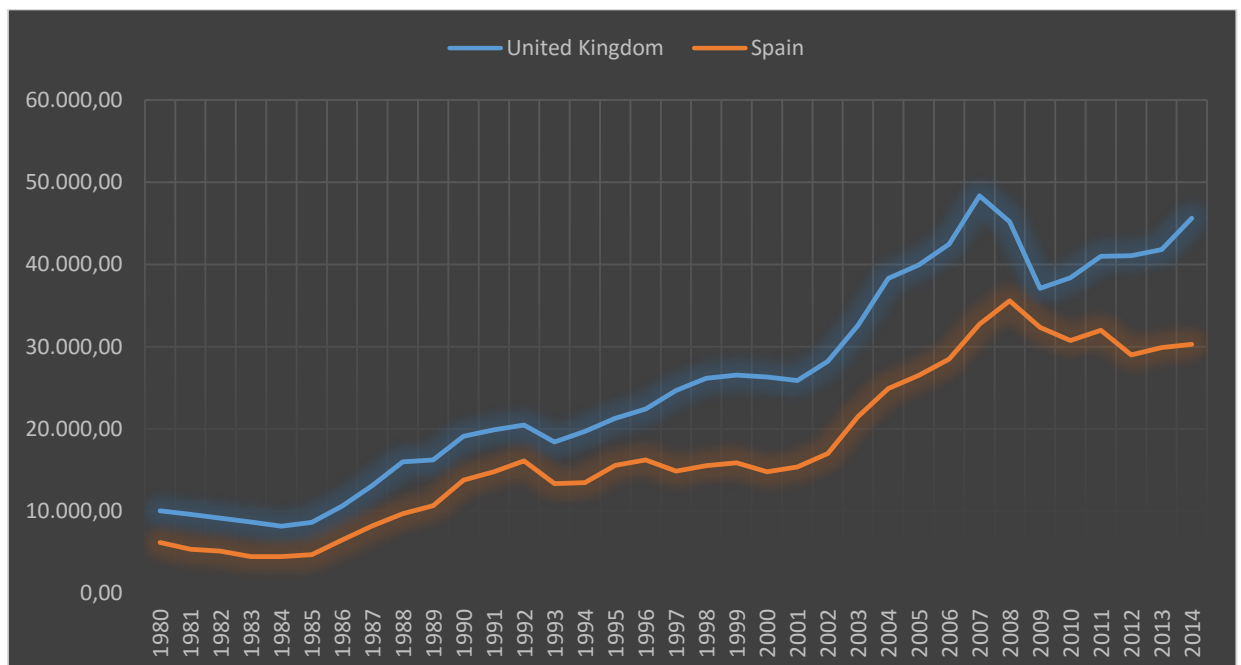


Source: World Bank (b), 2015

iii) GDP per Capita

On the other hand, the primacy of British economic power against that of Spain is also noticeable in relation to GDP per capita, which is illustrated in Figure 46 below. More specifically, from 1980 to 2014 the United Kingdom had higher rates than Spain. For example, for the decades between 1980 and 2000, British GDP per capita increased from 10,032 to 38,362 USD, meaning that it rose by 282.3%. On the other hand, Spanish GDP per capita also rose but remained at lower levels than the British one.

Figure 46: GDP per capita, current USD



Source: World Bank (c), 2015

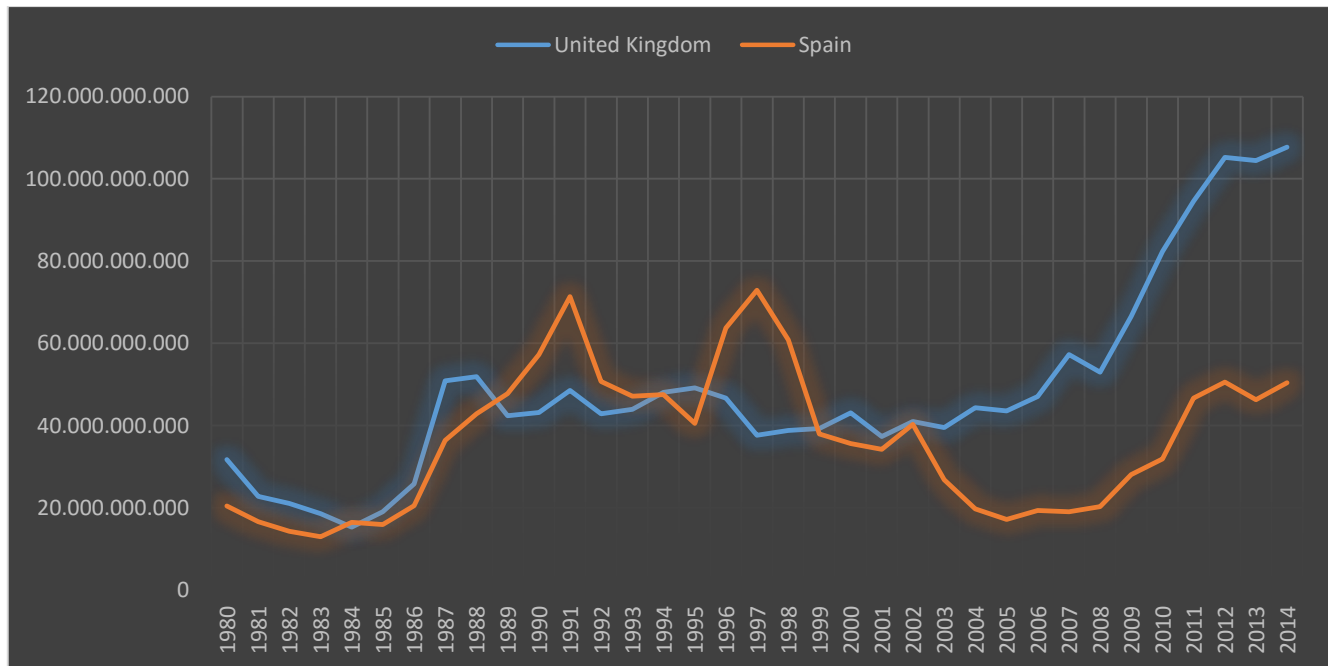
For example, for the same period, between 1980 and 2010, Spanish GDP per capita increased from 6,200 USD to 30,737 USD, meaning that it rose by 395.7%. Nevertheless, the financial crisis in 2007 also had significant implications for both countries, since there was a sharp decrease, especially for the United Kingdom. However, here again it recovered faster achieving higher rates than Spain. More specifically, from 2007 to 2009 British GDP per capita decreased by 23.2% however, it increased again by 22.9%, reaching 45,603 USD in 2014. Although Spanish GDP

per capita, on the other hand, only decreased by 1.14%, it remained at lower levels than it was in 2008, reaching 30,262 USD in 2014.

iv). Foreign Exchange Reserves

In addition, as mentioned in the analytical framework, one more important indicator of economic power is total reserves. Figure 47 illustrates the configuration of the total reserves, in order to show the change in economic power for each rival. More specifically, total reserves for both countries for the years 1984, 1989, 1994, 1996, 1999 and 2002 were almost at the same level and their rates were similar, however, the Spanish reserves had sharper fluctuations than the British ones. More specifically, from 1991 to 1994 British reserves decreased by 1.01% while the Spanish ones decreased by 33.3%. The same can be said for the period between 1997 and 2002. When the Spanish reserves decreased again by 44.7% the British ones slightly increased by 8.88%. However, from 2002 onwards, Spanish total reserves decreased significantly, reaching 17.227 million USD in 2005, similar to the figure in 1985.

Figure 47: Total Reserves (including gold), in current USD



Source: World Bank (d), 2015

Despite the financial crisis in 2007, the United Kingdom, on the other hand, had a steadily growing trend for the years between 2002 and 2007 and from 2008 onwards had a rapid increase, raising its total reserves by 103.1%. The same applies to Spain, which, although managing to raise its reserves by 148.4% did not manage to follow the British rates.

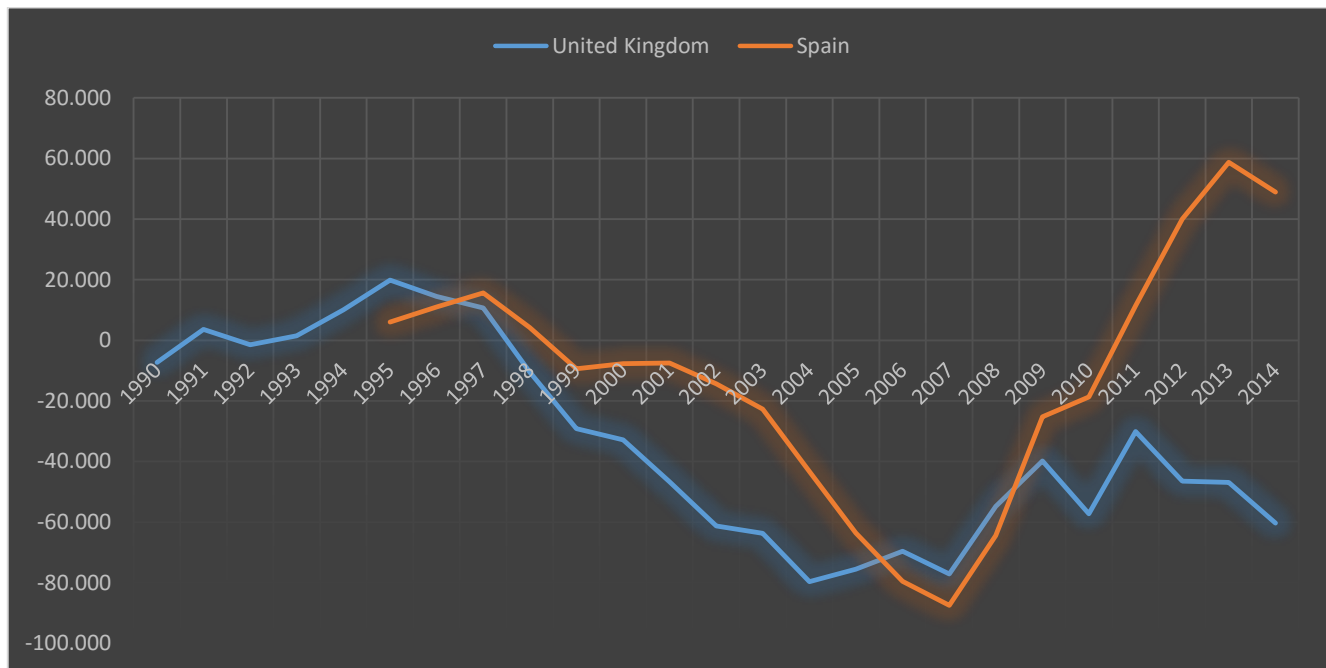
A. Secondary Indicators of Economic Power

i). Trade Balance

As far as the balance of trade is concerned, Figure 48 below shows how the two rivals increased or reduced their power in accordance with this indicator. More specifically, both Spain and the United Kingdom had a trade deficit from 1999 and 1998 respectively. From 1990 to 1997 the United Kingdom had a trade surplus as did Spain from 1995 to 1999, however from 1998 onwards the United Kingdom had a trade deficit which in 2004 reached its lowest point of -79,665 million USD, meaning that its trade deficit increased by 663.8%. Nevertheless, after many fluctuations, the British trade deficit decreased in 2011 to -30,085 million USD but after that it increased again by 100.3%, reaching -60,281 million USD in 2014.

Spain, on the other hand, had a trade surplus but from 1998 to 2010 only had a trade deficit. More specifically, from 1999 to 2007 its trade deficit increased by 832.5%, reaching its lowest point at 87.417 mil. USD and from 2007 onwards decreased by 44%, reaching 48,879 million USD in 2014, turning the trade deficit into a trade surplus. As can be seen from Figure 48 below, both countries had trade deficit for many years, however, from 2011 Spain increased its trade surplus in contrast to the United Kingdom which continue to have a negative picture.

Figure 48: British and Spanish Balance of Trade (millions USD)



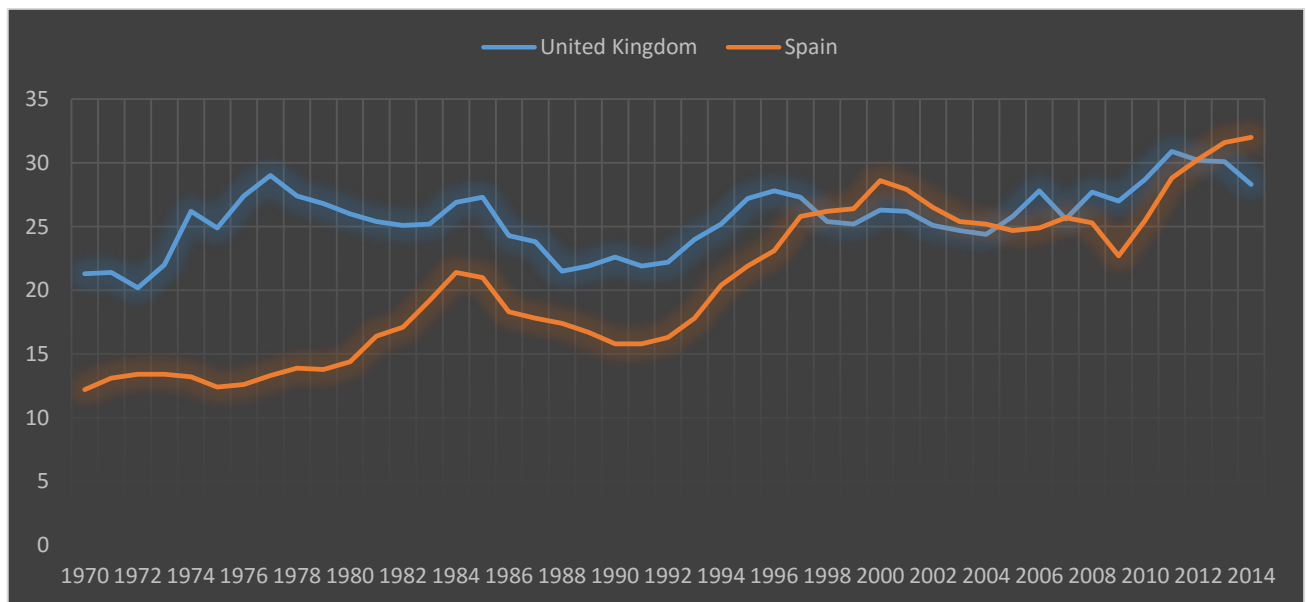
Source: OECD (a), 2015

ii). Exports as a percentage of GDP

Regarding exports as a percentage of GDP, Figure 49 shows which of the two rivals managed to raise their power and consequently their relative gains against the other. More specifically, the United Kingdom was in better place than Spain, especially from 1970 to 1997, and therefore, had more gains regarding its economic power. The highest point for British exports was in 1977 when they accounted for 29% of GDP, while Spanish exports for the same year accounted for 13.3% of GDP. However, in 1998 the two countries had almost the same percentage of exports, 25.4% for the United Kingdom and 26.2% of GDP for Spain, meaning that the former decreased its exports as a percentage of GDP, by 3.6% and the latter, increased its percentages by 12.9%. In addition, from 1998 to 2012 there were some fluctuations for both adversaries, however, their exports remained at high levels. More specifically, over the last ten years, from 2004 to 2014, British exports rose by 3.9%, however from 2012 they started decreasing again. On the other hand, for the same period, Spanish exports increased as well by 6.8%, performing better than Britain from 2012 onwards.

Therefore, the outcome is that the United Kingdom in this sector was more powerful in the years between 1970 and 1998 than Spain, and despite its fluctuations, it managed to maintain high export rates. On the other hand, by raising its exports Spain, not only managed to reduce its power deficit in relation to the United Kingdom, but it also dominated it over the last two years.

Figure 49: Exports (%) of GDP



Source: OECD (a), 2015

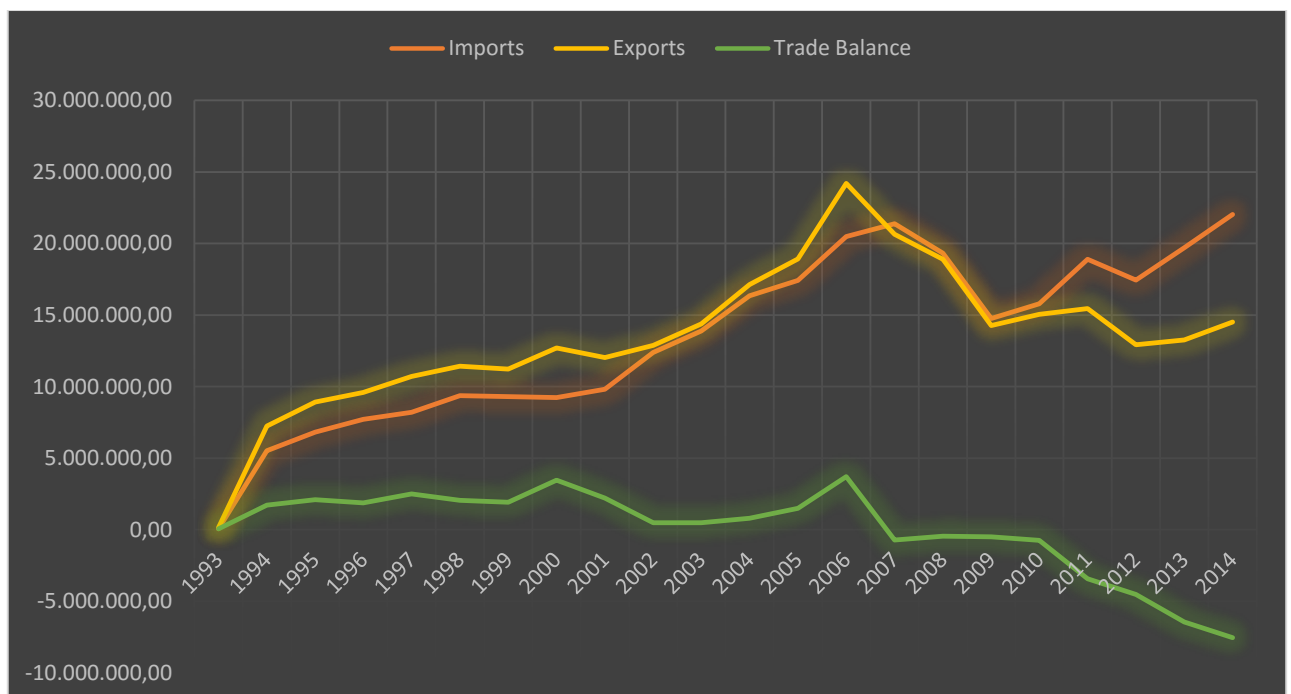
Summarizing, according to the primary indicators of economic power such as GDP, GDP per capita and Foreign Exchange Reserves, the United Kingdom clearly has better and higher rates than Spain and regarding GDP growth the adversaries have swapped first place from time to time. Regarding the secondary indicators of economic power and more specifically exports as a percentage of GDP, again, both Spain and the United Kingdom are interchangeable in first place and therefore, one cannot accurately determine which of the two rivals is more powerful. On the other hand, the balance of trade indicator, which shows that the Spanish balance of trade is higher than the British one, is not sufficient in order to clearly define the greater economic power. Therefore, taking into consideration the fact that the United Kingdom has higher rates than Spain in three of the four primary indicators of economic power and Spain in only in one secondary indicator of economic power, we can conclude that the United Kingdom is a greater economic power than Spain.

B. Indicators of Economic Interdependence

i). Trade

As mentioned in the analytical framework, one of the most important indicators of economic interdependence is bilateral trade. Figure 50 shows the bilateral trade between the United Kingdom and Spain. More specifically, from 1993 to 2006 the value of British exports were higher than the value of imports from Spain, especially for the years between 1994 and 2001. However, from 2002 to 2007 the value of imports and exports was almost the same with a slight rise in the value of exports in 2006, which reached 24,190 million USD. It was also the highest point for exports throughout those years, and the balance of trade was negative from 2007 to 2014. Nevertheless, from 2007 to 2009 both exports and imports decreased and from 2009 to 2014 British imports from Spain remained higher than exports, meaning that the imports increased by 49.2% and exports decreased by 1.73%.

Figure 50: Bilateral trade: United Kingdom to/from Spain (mil. USD)



Source: UNComtrade (a), 2015

In addition, economic interdependence can also be indicated by the rival's ranking in trading partners. Table 34 and Table 35 below show Spain's position with regard to the United Kingdom's trading partners, both in terms of exports and imports. More specifically, as can be seen in Table 34 Spain is in ninth place among the United Kingdom's import partners for 2014, with 22,033,588 thousand USD.

In first place is Germany, with 100,286,798 thousand USD and in second and third place China and the United States of America, with 64,147,260 and 58,616,732 thousand USD respectively. In last place is Ireland with 19,411,897 thousand USD. However, the general conclusion which can be drawn from the Table 34 is that the United Kingdom increased its imports from Spain. More specifically, imports were 9,813,163 thousand USD in 2001, 21,371,581 thousand USD in 2007 and 22,033,588 thousand USD in 2014, meaning that from 2001 to 2014 the United Kingdom's imports from Spain rose by 144%. Moreover, from 2007 to 2010, there was a slight decrease in imports, however, from 2011 to 2014 imports from Spain increased again and Spain, despite being in ninth place, was not far from Norway's and Italy's position, in eighth and seventh place respectively.

On the other hand, regarding the United Kingdom's export partners, Table 35 shows that Spain again is the ninth partner, with 14,505,446 thousand USD. The United Kingdom's first export partner is the United States of America, with 64,197,476 thousand USD and Germany and Netherlands are in second and third place with 52,020,648 and 36,730,308 thousand USD, respectively. Italy is in last place with 14,418,774 thousand USD.

In contrast to the previous Table, the general conclusion is that from 2001 to 2014, although the trend for the United Kingdom's exports to Spain was increasing, especially from 2003 to 2006, they began decreasing from 2007 onwards. More specifically, in 2001 the value of British exports to Spain was 12,029,826 thousand USD and by 2006 they had increased by 100%, reaching 24,190,054 thousand USD. However, 2007 saw the start of continuous decline which continue up to 2014. More specifically, in 2007 exports had decreased to 20,646,167 thousand USD and in 2012 they reached 12,924,131 thousand USD, a figure which was very close with that of 2002. That is to say that from 2007 to 2012, British exports decreased by 40%. Nevertheless, from 2012 to 2014 there was a slight rise of 16.6% and the value of exports in 2014 reached 14,505,446 thousand USD, a figure which was also close to that of 2003.

Table 34: United Kingdom's Top Ten Import Partners 2001-2014 (thousand USD)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Germany | 43,056,874 | 48,537,137 | 58,050,824 | 68,165,138 | 68,953,200 | 78,267,412 | 90,882,625 | 84,615,733 | 63,240,203 | 76,551,720 | 87,752,114 | 83,087,742 | 88,849,201 | 100,286,798 |
| China | 16,790,045 | 19,346,004 | 23,495,430 | 30,097,198 | 36,153,931 | 41,828,380 | 53,227,609 | 58,220,696 | 52,101,299 | 61,733,672 | 66,039,714 | 56,267,400 | 57,587,865 | 64,147,260 |
| United States of America | 47,341,167 | 42,761,236 | 42,882,412 | 45,420,373 | 44,128,283 | 53,490,012 | 60,645,663 | 63,856,137 | 52,234,705 | 56,611,555 | 61,939,375 | 61,329,451 | 54,494,354 | 58,616,732 |
| Netherlands | 22,111,509 | 23,227,259 | 25,802,539 | 33,742,624 | 35,494,156 | 39,629,050 | 47,468,017 | 47,943,911 | 35,660,863 | 42,288,747 | 46,667,070 | 47,729,718 | 53,787,175 | 53,518,536 |
| France | 28,031,287 | 29,674,672 | 33,949,318 | 37,904,205 | 38,823,135 | 44,720,572 | 45,330,932 | 45,021,986 | 33,934,945 | 37,227,452 | 39,439,263 | 37,745,972 | 40,823,512 | 43,519,563 |
| Belgium | 16,407,917 | 17,697,464 | 20,038,300 | 23,837,838 | 24,606,667 | 27,409,222 | 30,756,411 | 30,156,091 | 23,572,634 | 26,543,792 | 31,013,859 | 28,328,933 | 31,530,316 | 34,023,594 |
| Italy | 14,744,692 | 16,568,049 | 19,568,170 | 22,834,960 | 22,555,959 | 24,156,074 | 27,236,511 | 26,880,222 | 20,153,695 | 22,193,512 | 24,166,284 | 22,355,945 | 24,723,371 | 28,457,005 |
| Norway | 8,024,408 | 7,842,712 | 10,242,849 | 15,494,669 | 21,722,989 | 27,176,735 | 29,361,882 | 40,826,468 | 23,182,420 | 29,761,153 | 38,084,723 | 33,171,589 | 25,860,551 | 28,149,151 |
| Spain | 9,813,163 | 12,387,159 | 13,877,379 | 16,341,154 | 17,426,481 | 20,484,910 | 21,371,581 | 19,332,457 | 14,760,471 | 15,785,021 | 18,889,339 | 17,444,694 | 19,698,864 | 22,033,588 |
| Ireland | 13,846,753 | 14,603,781 | 16,634,721 | 19,521,477 | 18,990,122 | 19,753,738 | 23,562,282 | 22,841,554 | 19,742,275 | 20,366,238 | 21,237,495 | 19,481,266 | 18,545,359 | 19,411,897 |

Source: International Trade Center, 2014

Table 35: United Kingdom's Top Ten Export Partners 2001-2014 (thousand USD)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| United States of America | 42,945,682 | 43,917,974 | 49,326,462 | 52,721,236 | 56,706,302 | 59,470,792 | 65,259,143 | 65,168,292 | 52,754,317 | 58,649,953 | 62,900,789 | 64,195,617 | 62,795,007 | 64,197,476 |
| Germany | 34,086,816 | 32,876,552 | 33,577,571 | 40,234,413 | 41,794,206 | 51,279,137 | 50,684,444 | 53,919,201 | 39,446,095 | 44,671,052 | 54,137,865 | 52,046,679 | 48,040,601 | 52,020,648 |
| Netherlands | 21,022,359 | 20,824,549 | 21,963,360 | 22,256,551 | 22,950,372 | 31,092,025 | 30,618,442 | 36,450,546 | 27,739,961 | 32,130,549 | 36,815,186 | 37,848,605 | 37,343,498 | 36,730,308 |
| Switzerland | 7,231,611 | 5,155,847 | 4,763,865 | 6,151,575 | 15,230,094 | 9,315,065 | 9,837,281 | 15,386,704 | 7,938,211 | 17,217,429 | 38,653,409 | 16,207,201 | 71,112,261 | 35,132,598 |
| France | 27,630,946 | 28,342,976 | 30,905,215 | 34,662,510 | 36,467,378 | 54,587,603 | 37,085,677 | 35,571,702 | 29,003,201 | 31,649,503 | 37,636,122 | 34,477,025 | 35,028,468 | 32,482,531 |
| Ireland | 20,567,946 | 23,927,785 | 21,114,490 | 26,185,609 | 29,981,708 | 32,227,165 | 35,877,224 | 34,916,424 | 24,448,034 | 25,675,543 | 27,988,006 | 25,520,953 | 28,376,124 | 29,312,554 |
| China | 2,480,855 | 2,277,914 | 3,181,390 | 4,360,575 | 5,139,824 | 6,034,544 | 7,580,755 | 9,065,641 | 8,053,613 | 11,293,784 | 14,088,514 | 15,688,191 | 18,119,205 | 26,235,500 |
| Belgium | 13,710,393 | 15,284,465 | 17,728,951 | 18,924,168 | 20,213,295 | 24,776,058 | 24,157,966 | 24,459,915 | 16,539,591 | 20,189,625 | 24,819,571 | 21,702,278 | 21,282,489 | 20,777,741 |
| Spain | 12,029,826 | 12,884,267 | 14,376,439 | 17,133,877 | 18,928,619 | 24,190,054 | 20,646,167 | 18,894,844 | 14,258,902 | 15,039,555 | 15,454,985 | 12,924,131 | 13,258,360 | 14,505,446 |
| Italy | 12,342,335 | 12,926,098 | 14,189,653 | 15,627,001 | 15,848,403 | 18,110,453 | 18,761,809 | 17,568,887 | 13,129,086 | 13,676,415 | 16,174,425 | 12,390,982 | 13,159,617 | 14,418,774 |

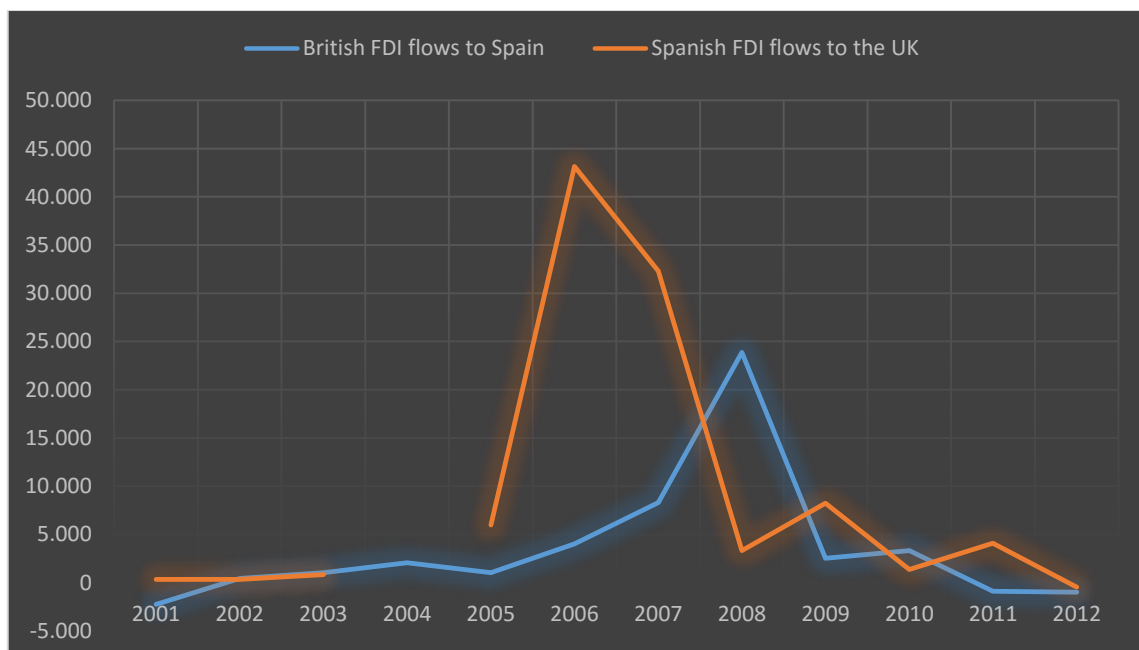
Source: International Trade Center, 2014

At this point, it is also important to mention that for Spain, the United Kingdom is the fifth trade partner, both in terms of exports and imports, however, it has not been further analyzed because, according to the analytical framework, the focus is on the threatened state, which in this case is the United Kingdom.

ii) Foreign Direct Investments

As far as the second indicator of economic interdependence is concerned, Figure 51 shows Foreign Direct Investments flows from the United Kingdom to Spain and vice-versa. More specifically, British flows to Spain were low from 2001 to 2005, ranging below 5,000 mil. USD, with a slight increase in 2004. From 2005 to 2007 the FDI flows rose by 711% and within a year there was a rapid rise by 186.8%, reaching 23,851 mil. USD in 2008. However, this rise did not last long, since, again within a year there was a rapid decrease by 89.36%, which continued until 2012, decreasing more by 61.55%, and reaching -975 mil. USD in 2012.

Figure 51: FDI Flows 2001-2012 (mil. USD)



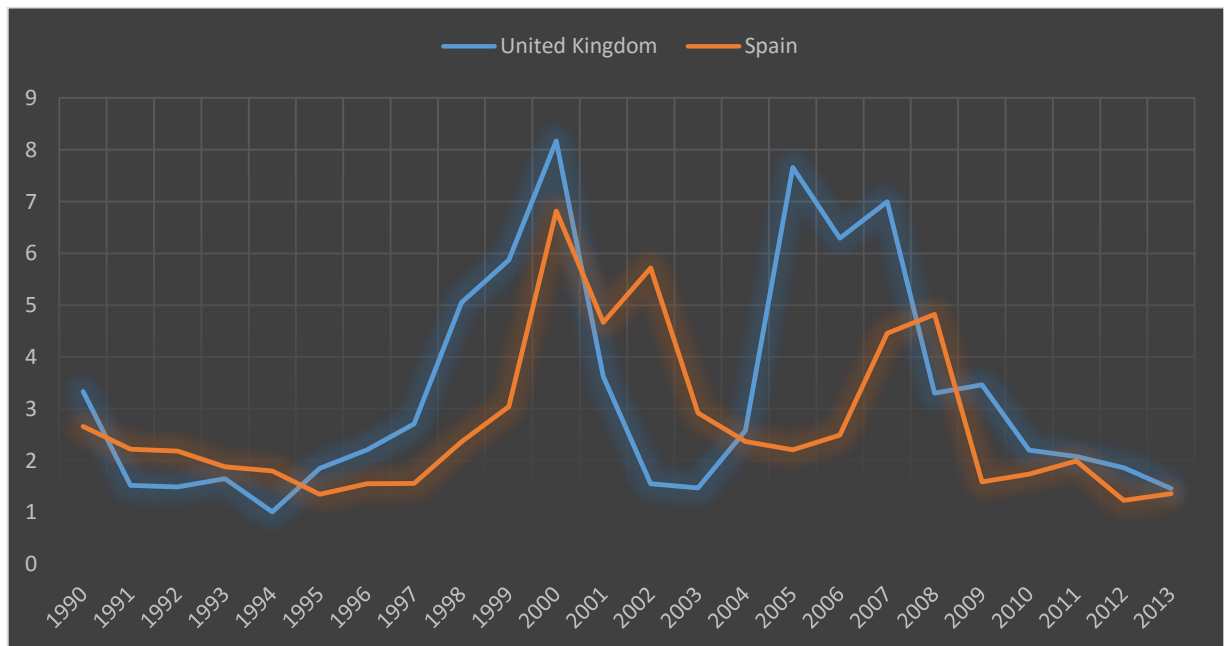
Source: UNCTAD, 2015

Spanish flows, on the other hand, from 2001 to 2003 were also very low and they did not exceed 850 mil. USD. The data for 2004 are not available, therefore, no

estimates came be made. However, from 2005 to 2006 there was a rapid rise in the Spanish flows to the United Kingdom, by 620%, reaching 43,160 mil. USD, but within a year they gradually began decreasing, reaching 3,322 mil. USD in 2008, a rate close to that of 2005. In addition, despite the small rise in 2009, the Spanish flows to the United Kingdom once again decreased by 94.3%, and in 2012 reached -469 mil. USD.

In addition, Figure 52 shows FDI flows as a percentage of GDP, in order to show the value of British investments in the Spanish economy. More specifically, in 2004 Spanish inwards flows accounted for 2.37% of its GDP and the value of British investments was 2,071 mil. USD, meaning that from 2.37% only 0.19% corresponded to British investments. However, 2008 was the highest point of British flows into Spain, meaning that of the inward investments (which accounted for 4.82% of Spanish GDP) British investments accounted for 1.45% of total inward investments for the specific year. Nevertheless, this rise was more random than real, since the general view of British investments in Spain does not reflect a stable and continuous trend and especially in the years from 2009 onwards British investments were not high. More specifically, for 2009 of the total inward flows into Spain (accounting for 1.59% of GDP) only 0,16% corresponded to British investments and in 2012 British investments accounted for -0.07% of Spanish GDP.

Figure 52: Inwards FDI Flows GDP (%)



Source: OECD (b), 2015

iii). Joining the same regional organization

As argued in the analytical framework, asymmetric economic interdependence is based on four dimensions. The first is trade, the second is Foreign Direct Investments, the third is Energy and the fourth is joining the same regional organization, given that this organization is also framed by economic and not only political terms. This case study, like the previous, looks at three of the four dimensions, however, the difference is that in this case there is neither energy interdependence nor any other relationship based on energy for these rivals. The highest sign of their asymmetric interdependence derives from the fact that both countries are members of the same regional organization, the European Union.

More specifically, the United Kingdom joined the European Economic Community in 1973 (European Union (a), 2014) and Spain thirteen years later, in 1986. Asymmetric interdependence within the European Union can be identified on two levels: the first concerns the conditions for membership and the second the structure by which it operates.

As far as the conditions for membership are concerned, there are thirty five chapters which a candidate state must accept and comply with in order to join the organization. As stated, *“The candidate moves on to formal membership negotiations, a process that involves the adoption of established EU law, preparations to be in a position to properly apply and enforce it and implementation of judicial, administrative, economic and other reforms necessary for the country to meet the conditions for joining, known as accession criteria”* (European Union (b), 2014), known as the “acquis”.

The thirty five chapters of the Acquis concern both political and economic issues, such as Foreign, Security and Defense Policy, External Relations, Environment, Social Policy and Employment, Agriculture, Food Safety, Information Society and others. Regarding economic issues, it is very important to take them into account since they constitute asymmetric economic interdependence within the European Union and among its members, and therefore, between the United Kingdom and Spain in particular. More specifically, the Acquis is configured by economic and financial ties which allow -and promote- transnational cooperation and interdependence among the members of the European Union. Table 36 below illustrates economic principles within the European Union

Table 36: Sectors of Asymmetric Economic Interdependence within the EU

| Economic/Financial Interdependence | Description |
|---|---|
| Free movement of goods | “Products must be traded freely from one part of the Union to another.” |
| Freedom of movement for workers | “EU citizens of one Member State have the right to work in another Member State.” |
| Free movement of capital | “Member States must remove, with some exceptions, all restrictions on movement of capital both within the EU and between Member States and third countries.” |
| Competition policy | “It includes rules and procedures to fight anti-trust and state aid control policies.” |
| Financial services | “Financial institutions can operate across the EU in accordance with the ‘home country control’.” |
| Energy | “It consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (opening up of the electricity and gas markets, promotion of renewable energy sources), energy efficiency, nuclear energy and nuclear safety and radiation protection.” |
| Economic and monetary policy | “It contains specific rules requiring the independence of central banks in Member States, prohibiting direct financing of the public sector by the central banks and prohibiting privileged access of the public sector to financial institutions.” |
| Enterprise and industrial policy | “EU industrial policy seeks to promote industrial strategies enhancing competitiveness by speeding up adjustment to structural change, encouraging an environment favorable to business creation and growth throughout the EU as well as domestic and foreign investments. It involves privatization and restructuring” |
| Financial control | “The acquis under this chapter relates to the adoption of internationally agreed and EU compliant principles, standards and methods of public internal financial control (PIFC) that should apply to the internal control systems of the entire public sector, including the spending of EU funds.” |
| Financial and budgetary provisions | “This chapter covers the rules concerning the financial resources necessary for the funding of the EU budget (‘own resources’). These resources are made up mainly from contributions from Member States based on traditional own resources [...] and a resource based on the level of gross national income.” |

Source: European Union (c), 2014

Therefore, these economic principles are not only adopted by the Member States of the European Union but are implemented in order to create a mutual framework of economic policy and cooperation (Papasotiriou, 1999).

Regarding the second level, in terms of structural operation, the European Union is divided into several institution; although they have different missions they are all composed of all members of the European Union. Table 37 below illustrates the EU institutions and their mission on a political and economic level.

Table 37: Political and Economic Structure of the European Union

| EU Institution | Mission |
|---|---|
| European Parliament | “Directly-elected EU body with legislative, supervisory, and budgetary responsibilities.” |
| European Council | “Defines the general political direction and priorities of the European Union.” |
| Council of the European Union | “Voice of EU member governments, adopting EU laws and coordinating EU policies.” |
| European Commission | “Promotes the general interest of the EU by proposing and enforcing legislation as well as by implementing policies and the EU budget.” |
| Court of Justice of the European Union (CJEU) | “Ensuring EU law is interpreted and applied the same in every EU country; ensuring countries and EU institutions abide by EU law.” |
| European Central Bank (ECB) | “To manage the euro, keep prices stable and conduct EU economic & monetary policy.” |
| European Court of Auditors (ECA) | “To check EU funds are collected and used correctly, and help improve EU financial management.” |
| European External Action Service (EEAS) | “Manages the EU's diplomatic relations with other countries outside the bloc and conducts EU foreign & security policy.” |
| European Economic and Social Committee (EESC) | “Advisory body representing workers' and employers' organizations and other interest groups.” |
| Committee of the Regions (CoR) | “Advisory body representing Europe's regional and local authorities.” |
| European Investment Bank (EIB) | “Provides funding for projects that help to achieve EU aims, both within and outside the EU.” |

Source: Source: European Union (c), 2014

The conclusion which can be drawn from the above analysis is that joining the same political and economic regional organization is the highest level of asymmetric interdependence that can be achieved. Taking into consideration the structure of the European Union and the way its institutions function, as shown in Table 36 and Table 37, a Member State is obliged to follow common rules and procedures which were settled after the end of World War II by some of the greatest European powers. However, the common operational framework does not necessarily mean that states which belong to the regional organization, and the European Union in particular, lose some of their power.

On the contrary, the greater powers maintain their power by influencing the configuration of the common operational framework according to their interests. For example, the founding states of the European Economic Community (as it was called at that time) were Germany, France, Italy, the Netherlands, Belgium and Luxembourg, who set it up in order to promote their heavy coal and steel industries without turning against each other. These states decided later in 1962 to implement a common agricultural policy and in 1970 to initiate a plan for a single common currency, the today's Euro, in order to maintain their monetary stability.

The states which later became members of the organization adapted to the common political and economic environment which had already been settled, instead of changing the “rules” of the initial plans in order to absorb more easily the common gains resulting from “power maintenance” instead from “power enlargement”. That is to say that the “power maintenance” of the states at that time could not cause any security dilemmas; on the contrary, it promoted stability and development, which was necessary for the states to recover from the repercussions of World War II.

As Konrad Adenauer, one of the founding fathers of the European Union mentioned, *“If we succeed in creating an organization that allows the French to see everything that goes on in steel manufacturing and coal mining in Germany – and if, in turn, the Germans can see what's happening in these fields in France – then this system of mutual control is the ideal way to pursue a policy based on trust.”* (European Union (d), 2014). In addition, by entering the European Union, smaller states in terms of power could secure their stability and development and raise the breadth of their influence, since they were entering in a new, stable and safe economic and political alliance with direct impact on the greater powers of Europe and the unique chance to contribute to the development of a common agenda, which would support them in dealing with global risks.

Summarizing, economic interdependence between these two rivals can be shown by indicators such as trade, foreign direct investments and their accession to the same regional organization, the European Union. Regarding the first indicator, the most significant point is the Spain is the ninth most important export and import partner of the United Kingdom. Regarding foreign direct investments, although there is some economic activity the rates remain very low and therefore, is not a sufficient indicator. However, the accession of the United Kingdom and Spain to the same political and economic regional organization, the European Union, is the most important indicator for both political and economic interdependence, since the terms of joining the European Union are based on a common operational framework.

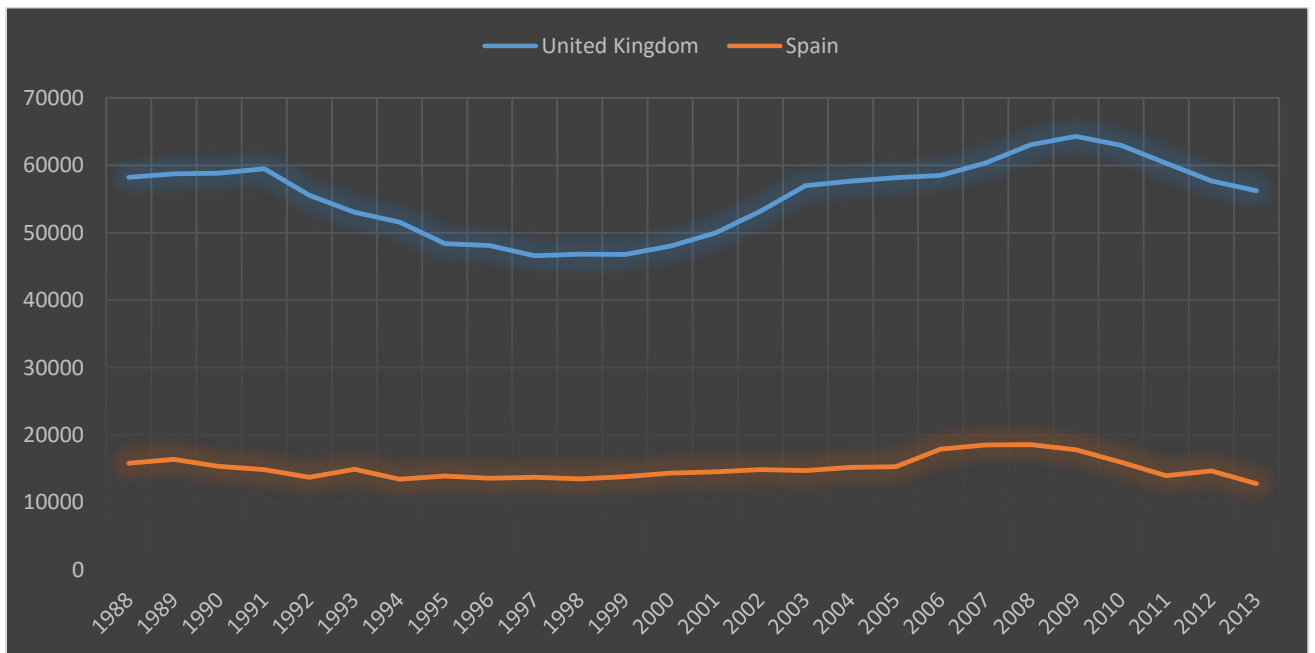
C. Bilateral Military Relations

i). Military Expenditure

As mentioned in the analytical framework, in order to examine military relations between two states in conflict, it is critical to focus on indicators such as Military Expenditure, alliances, nuclear weapons as well as disputes and violations of sovereignty. As far as the first indicator is concerned, Military Expenditure was high for the threatened state, the United Kingdom compared to Spanish expenditure, which was low compared to British expenditure. More specifically, with regard to the United Kingdom, from 1988 to 1991 Military Expenditure remained almost at the same level, between 58,231 and 59,504 mil. USD, respectively. From 1992 to 1997 British Military Expenditure began decreasing by 16.1% and from 1999 to 2009 increased again by 37.4%, reaching 64,297 mil. USD, which was also the highest figure of the last 25 years. However, from 2010 to 2013 the expenditure decreased again to 56,231 mil. USD, reaching almost the same figure as that for 2003.

Spain, on the other hand, maintained its Military Expenditure at the same level from 1988 to 2013 with very few fluctuations. More specifically, from 1988 to 1992 there was a slight decrease by 13,1% and from 1994 to 1999 the figure ranged from 13,461 to 13,868 mil. USD. From 2005 to 2008 Spanish Military Expenditure increased again by 21.1% but from 2009 to 2013 returned to the initial figures and even lower, reaching 12,822 mil. USD in 2013.

Figure 53: Military Expenditure (1988-2013) mil. USD



Source: SIPRI (a), 2015

ii). *Alliances*

Paradoxically, both rivals are not only members of the same politico-economic alliance, but are also members of the same military alliance, NATO. More specifically, the United Kingdom joined the alliance in 1949 along with the United States of America, France, Italy, Portugal, Norway and others. Spain, on the other hand, entered the military alliance thirty three years later in 1982. NATO's fundamental principles are both political and military. Regarding the political principles, NATO promotes democratic values among its partners in a trustful environment (NATO, 2015) in order to prevent any conflictual relations. As NATO itself says, "*NATO's essential purpose is to safeguard the freedom and security of its members through political and military means*" (NATO, 2015). Regarding the military principles, "*NATO is committed to the peaceful resolution of disputes*" (NATO, 2015). Despite the fact that they belong to the same military alliance, and therefore are interdependent, both the United Kingdom and Spain do not have friendly relations if one takes into consideration Spanish violations of the British territorial waters in Gibraltar and the sovereignty disputes as well as the Spanish threats at an economic and political level.

iii). Nuclear Weapons

The United Kingdom's defense doctrine is based on maintenance of its own security as well as that of its partners. To quote the UK's Defense Doctrine, *"Our national security encompasses the safety of our state and protecting it from external and internal threats. It also requires us to endeavor to preserve the security of UK nationals living overseas. [...] Our national security is both integrated within, and dependent upon, our neighbors' and partners' security"* (UK Defense Doctrine, 2014). It should also be mentioned that the UK's military activities have as their objective, deterrence, coercion as well as applying force in order to face a threat. *"Our ability to deploy worldwide is a vital element of the UK's power in international relations"* (UK Defense Doctrine, 2014). That is why the United Kingdom is one of the greatest nuclear powers. Table 38 below illustrates the Nuclear Forces and the size of the nuclear stockpile. More specifically, the United Kingdom is the third nuclear power, with 215 nuclear weapons and its first nuclear test was held in 1952. In first place is the United States of America with 7,260 nuclear weapons and in second is Russia, with 7,500 nuclear weapons. Spain, on the other hand, is a credible military power but not a nuclear power. Its defense doctrine is based on maintenance of deterrence and its strategic goal is to be able to promote its international influence in order to secure its national interests. To quote the National Defense Directive, *"Deterrence is the result of having capabilities and the determination to use them if necessary. The greatest guarantee for peace and security is none other than credibility."* (National Defense Directive, 2012). Therefore, Spain is a determined military power and the defense of its national interest is among its main priorities.

Table 38: Nuclear Forces

| Country | Year of first Nuclear Test | Total Inventory |
|--------------------------|----------------------------|-----------------|
| United States of America | 1945 | 7260 |
| Russia | 1949 | 7500 |
| United Kingdom | 1952 | 215 |
| France | 1960 | 300 |
| China | 1964 | 260 |
| India | 1974 | 90-110 |
| Pakistan | 1998 | 100-120 |
| Israel | ... | 80 |
| North Korea | 2006 | 6-8 |

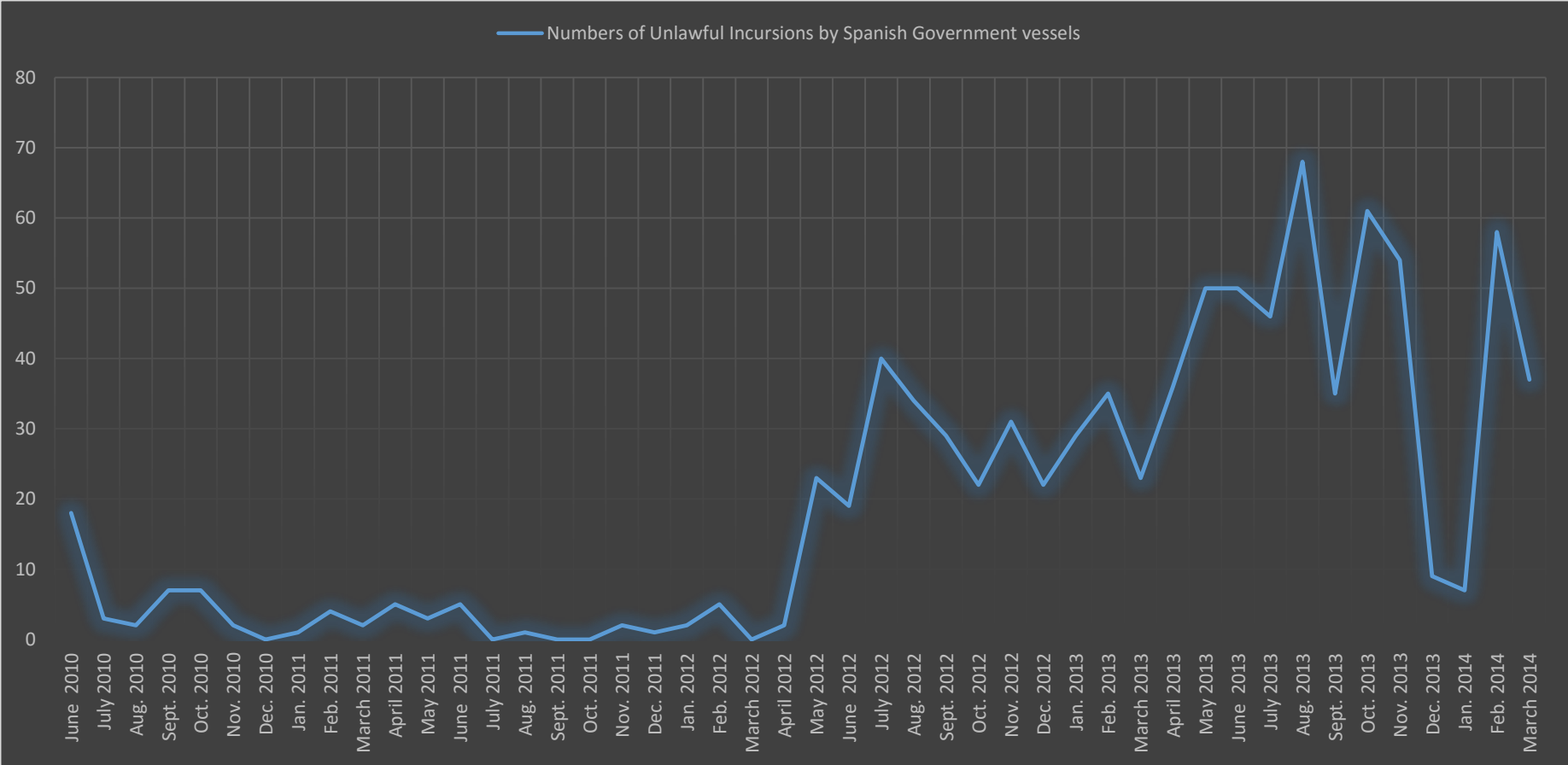
Source: SIPRI (b), 2015

iv). Violations and disputes

The controversy between the two countries intensified from 2009 onwards (The Telegraph (a), 13/8/2013). Despite the end of the aerial “Cold War” between Spain and Gibraltar, the first visit after 1704 from the Spanish Foreign Minister and the new efforts for consensus concerning Gibraltar’s sovereignty, in 2012 and 2013 Spain became more aggressive about its interests by raising the number of disputes over Gibraltar and disrupting the British forces’ parachute training exercise (The Guardian (a), 19/2/2014). Figure 54 below illustrates the Spanish incursions into British-Gibraltarian territorial waters from June 2010 to March 2014 (Papadimitriou and Pistikou, 2015a).

More specifically, from June 2010 to April 2012 the number of Spanish violations of British territorial waters in Gibraltar did not exceed 18, which was the highest point during this period. Nevertheless, the conflict escalated in the next period. From May 2012 to March 2014, the number of Spanish violations remained high with the exception of the period between December 2013 and January 2014. The highest number of violations was in August 2013, reaching 68 and the lowest was in January 2014, when there were only 7. However, from 2012 to 2014, despite the fact that there were many fluctuations –and there was an overall upward trend regarding the number of the Spanish violations especially from 2013 onwards, in March 2014 the number of Spanish violations reached 37.

Figure 54: Violations of British Sovereignty



Source: British Parliament, 10 April 2014

Summarizing, regarding bilateral relations between the two rivals, the United Kingdom is stronger than Spain since the former possesses nuclear weapons which the latter does not, and its Military Expenditure is higher compared to Spain's. However, despite the fact that both of them belong to the same military alliance, the United Kingdom is more concerned about its national security since the number of Spanish violations of British sovereignty are steadily increasing.

D. The Worthiness of the Disputed Area

i). Gibraltar

Gibraltar is located at the one edge of the Mediterranean Sea in a strategic location (the Strait of Gibraltar) which links the North Atlantic Ocean to the Mediterranean Sea. Although it is a small area with only 7sq/km and a population of 29,258 (CIA, 2015) due to its geographical position it maintains its economic and strategic value. Gibraltar is an overseas territory of the United Kingdom and for many years it was one of its most important economic and strategic bases. Figure 55 below shows Gibraltar's geographical position and its importance.

Figure 55: Gibraltar

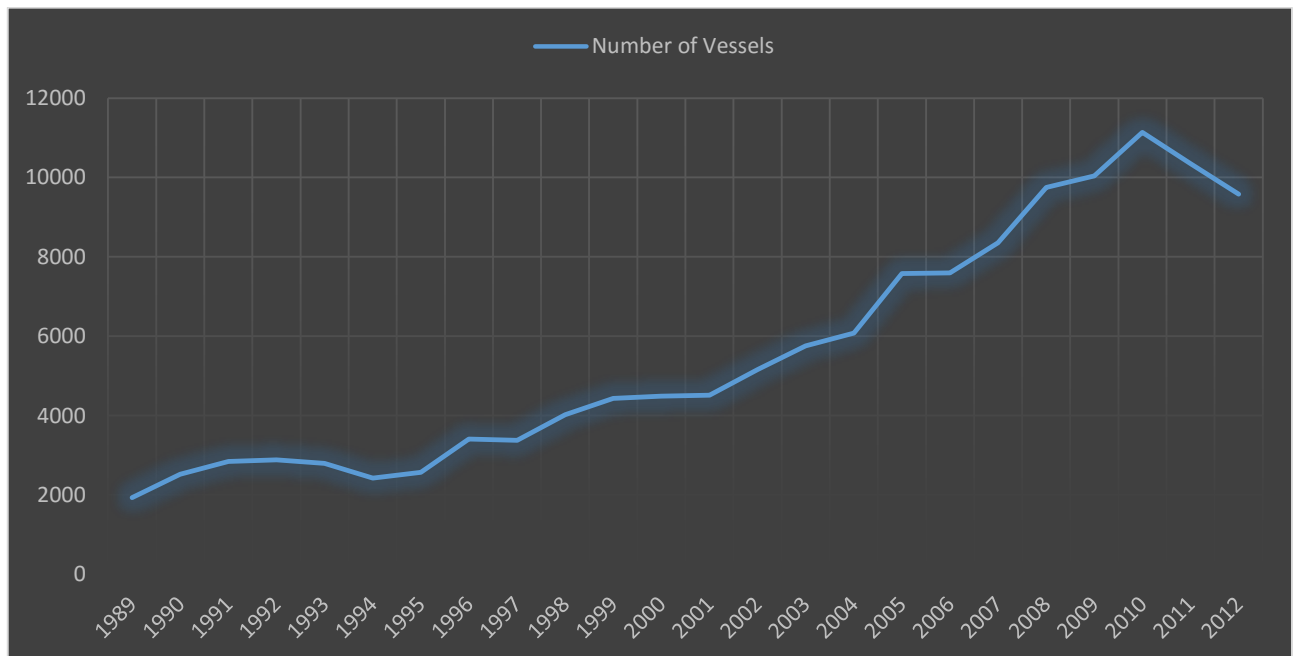


Source: BBC (f), 2015

As far as Gibraltar’s economic significance is concerned, until 1869 it contributed to promoting and protecting British naval dominance in the Mediterranean and it was also an important base which contributed to the maintenance of other British overseas territories, such as those in India for example. Figure 56 below illustrates Gibraltar’s importance in two respects: quantitative and qualitative. Because of its geographic position the port of Gibraltar attracts a large number of merchant vessels each year.

More specifically, from 1989 to 1999 the number of vessels which called at the port of Gibraltar rose from 1,932 to 4,435 which is an increase of 129.5%. In addition, the number of the vessels calling at the port of Gibraltar increased. Within a decade, from 1999 to 2010 the number of vessels rose from 4,435 to 11,134 respectively, meaning that the vessels which called at the port of Gibraltar increased by 151%. However, despite the fact that there was a small decrease from 2010 to 2012, that is from 11,134 to 9,581 respectively, the number of the vessels calling at the port of Gibraltar remained high, since it almost doubled from 5,152 in 2002, to 9,581 in 2012.

Figure 56: Ships calling at the Port of Gibraltar

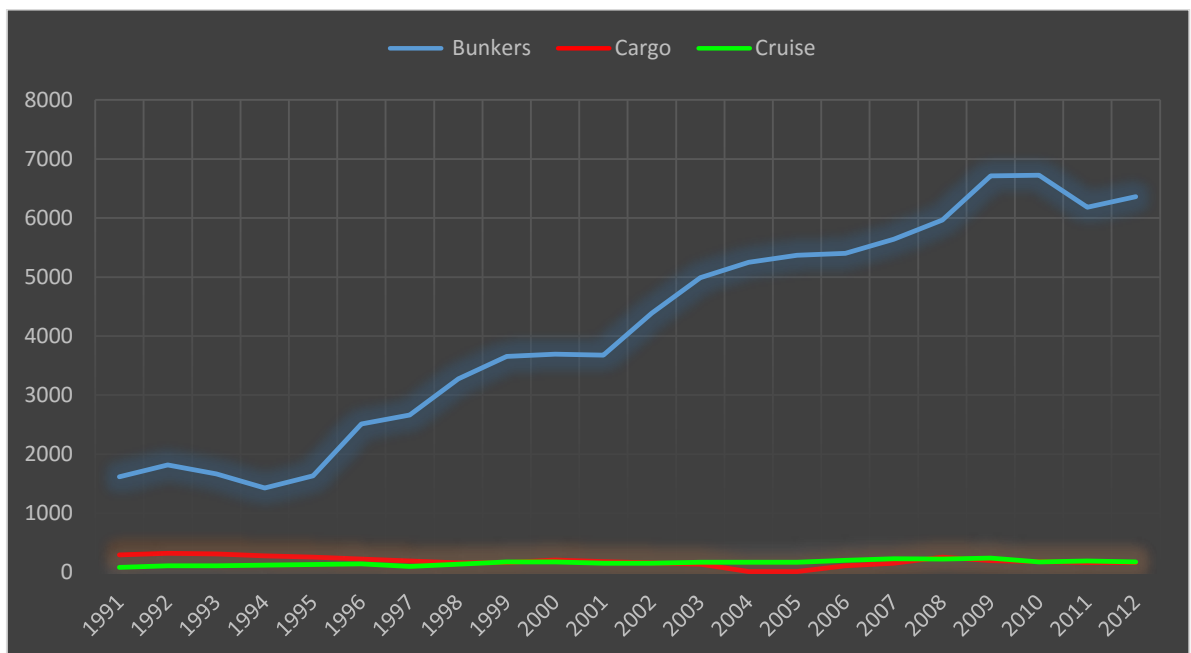


Source: Port of Gibraltar, 2015

As far as the quality characteristics are concerned, it is very important to mention that the main purpose for calling at the port was for bunkering, while 9.25% of the vessels per month are tankers, transporting crude oil and its derivatives (Marine Traffic, 2015). More specifically, as can be seen in below Figure 57, in 1991 the number of the calls related to bunkering was 1,617 and ten years later, in 2001, this number had increased, reaching 3,678. In addition, over the years, this number rose from 1995 to 2005. More specifically, the number of ships calling at the port of Gibraltar for bunkering almost tripled, from 1,631 to 5,367 respectively and from 2005 to 2010 there was also a rise of 25.2%, reaching 6,724 vessels. From 2010 to 2012 there was a slight decrease by 5.3%, reaching 6,362 vessels; however, Gibraltar remains one of the world’s busiest bunkering ports.

According to the Organization of Petroleum Exporting Countries (OPEC), the port of Gibraltar is among the ten largest bunkering ports in the world, out of a total of 400, accounting for 4.3 million tonnes. The port of Singapore is in first place with 42.7 million tonnes of bunker fuels, the port of Fujairah (United Arab Emirates) is in second place and the port of Rotterdam (Netherlands) is in third place with 10.9 million tonnes of bunker fuels. The port of Gibraltar is in seventh place with 4.3 million tonnes of bunker fuels (OPEC, 2015).

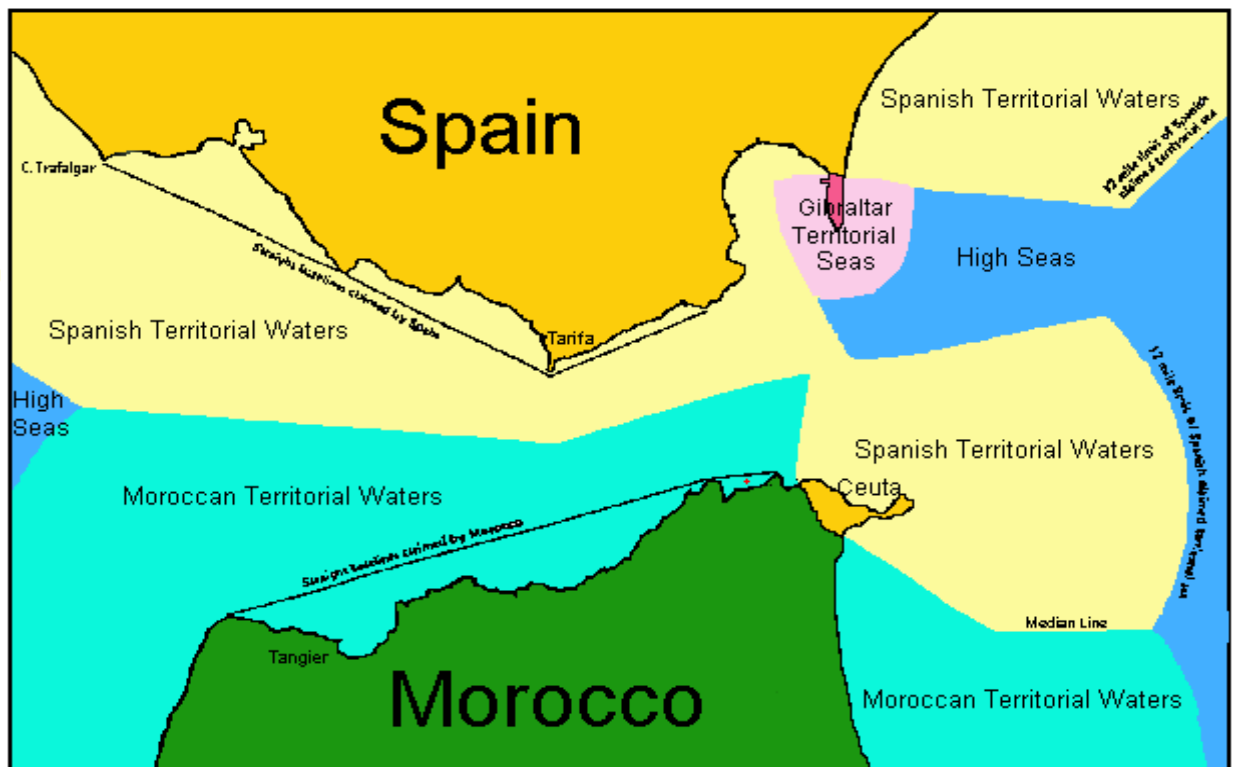
Figure 57: Main purpose for calling



Source: Port of Gibraltar, 2015

Regarding Gibraltar’s strategic significance, it is clear that Gibraltar offers the United Kingdom wider scope for extending its naval, economic and military influence in the Mediterranean. According to Figure 58 below, Gibraltar’s territorial waters ensure British influence in the Mediterranean which is vital for the British economy. According to the United Nations Conference on Trade and Development (UNCTAD), the United Kingdom is in eighth place in the world ranking regarding the ship-owning nations, while important sectors of the British economy such as industry, manufacturing and agriculture have declined (The Guardian (c), 24/4/2014).

Figure 58: Gibraltar’s Territorial Waters

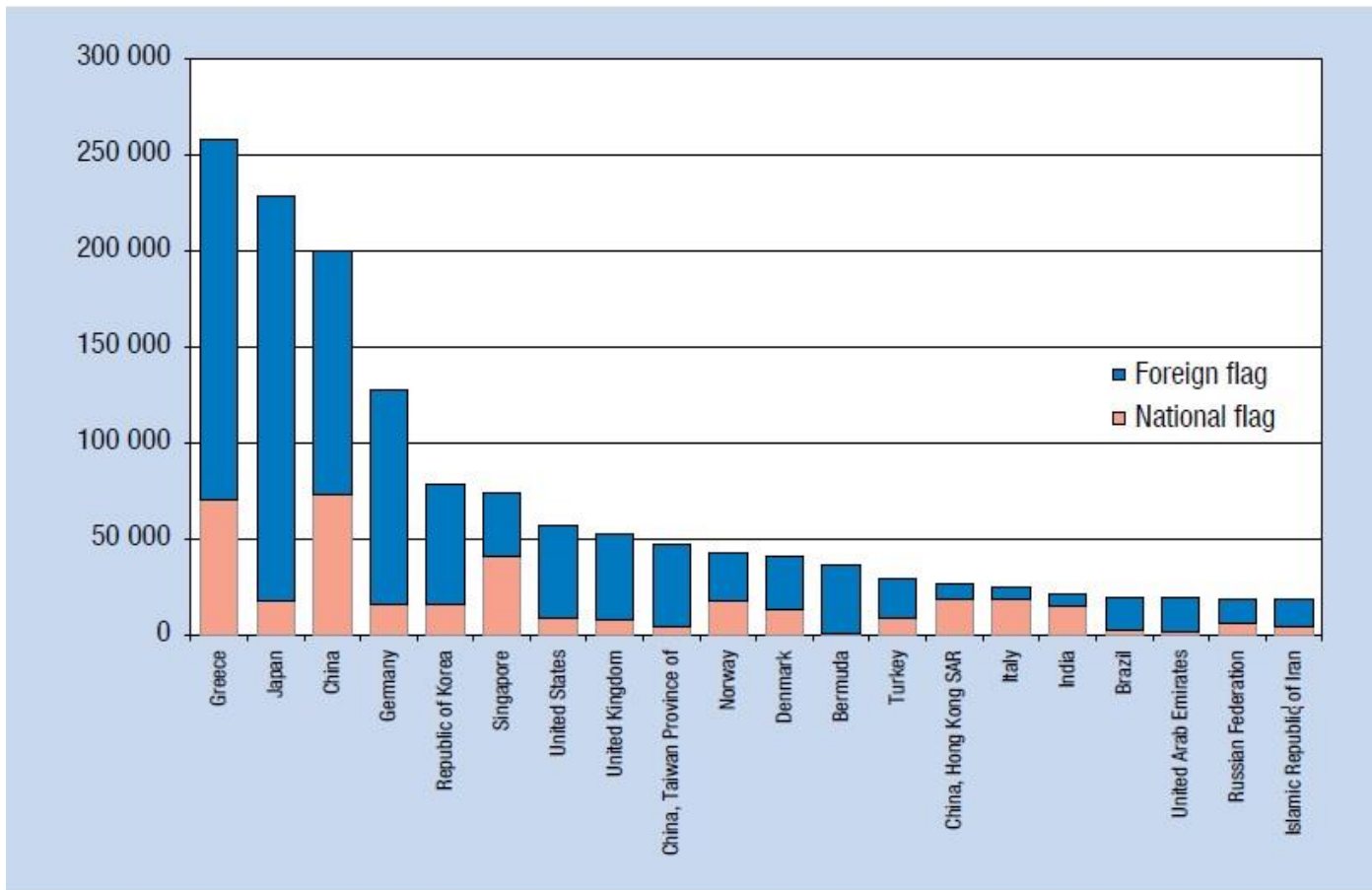


Based on information from the House of Commons Library © 1999

Source: GIBNET, 2014

According to Figure 59 below, Greece is in first place with over 250,000 Deadweight tonnage (dwt), Japan is in second place, China and Germany in third and fourth place, respectively. It should be mentioned here that there are three Mediterranean countries in the top 20, Greece, Turkey and Italy which are in the first, thirteenth and fifteenth place respectively. According to Parisi (2013) almost one quarter of global navigation passes by Gibraltar and since 1989 this area also operates as a British military base.

Figure 59: Top 20 Ship-owning Nations



Source: Review of Maritime Transport, 2014

As the British Ministry of Defense has said “*Gibraltar is well situated to observe shipping channels through the Straits and it could dominate the western entrance to the Mediterranean in time of war. Its communication systems, runway facilities and harbor make it an important base for NATO.*” (British Ministry of Defense, 2015).

Summarizing, Gibraltar is a disputed area because the gains which derive from it have direct implications on the state’s power, both in economic and strategic terms. Regarding economic power, Gibraltar is the seventh largest bunkering port in the world and therefore, it is vital for the United Kingdom’s naval sustainability. In addition, regarding strategic power, Gibraltar’s geographic location provides a unique strategic point for military operations and further expansion of military influence, not only in the Mediterranean but also in Northern Africa. Consequently, the state which has this

area under its influence and its sovereignty can raise its gains in economic and strategic terms.

7.4. Conclusions

Taking the above into consideration, there are several conclusions that can be drawn to support the main argument that economic interdependence is not a power-balancing factor and does not promote peace between two states in conflict. First, according to the analysis of the conflict over time, Spain is more actively offensive than the United Kingdom and wants to change the status-quo in Gibraltar, therefore, the United Kingdom can be considered to be the threatened state.

Second, according to the indicators of economic power, it is clear that the United Kingdom is a greater economic power than Spain. According to the indicators of GDP, GDP per capita and Foreign Exchange Reserves, the United Kingdom is ahead of Spain in all three areas. On the other hand, despite the fact that Spain increased its exports as a percentage of GDP, its balance of trade was positive over the last five years and its growth rates sometimes were higher than the United Kingdom's, this was coincidental rather than representative of its overall economic power.

Third, it is also clear that there is interdependence and, since this derives from the second conclusion, there is asymmetric interdependence. According to the indicators, there is economic interdependence, since Spain is in the United Kingdom's top ten import and export partners and there are bilateral foreign direct investments but without them being of any high significance. Nevertheless, the most important factor which make the two adversaries asymmetrically interdependent both in political and economic terms is their accession to the same regional organization, the European Union. As analyzed above, the political and economic structure of the European Union and its institutions has been created in order to promote interdependence among its Member States since all of its operations are based upon a common framework for cooperation and decision-making.

Fourth, neither military capabilities nor possession of nuclear weapons nor joint alliances can prevent the occurrence of the threat. More specifically, regarding military power, the United Kingdom is a greater power than Spain since its Military Expenditure is much higher. However, in this case, the factor which makes the United

Kingdom a greater power is not only its Military Expenditure but also the possession of nuclear weapons, since they increase the efficiency of its deterrence. In addition, apart from asymmetric economic interdependence there is also military interdependence, since both rivals are members of the same military alliance, NATO. This shows that despite the fact that they are both members of the same politico-economic and military organizations, they remain suspicious to each other. This can be shown through the escalation of the conflict, since the Spanish claims relating to, and violations of the British sovereignty in, Gibraltar were continuous and have been increasing over time.

Fifth, Spain's ambitions for further territorial expansion and influence in the Mediterranean Sea reflect the significance of the disputed area and its gains. Gibraltar's economic and strategic gains help maintain British maritime and military influence in the Mediterranean Sea but this operates restrictively for Spanish interests and any increase in its power. More specifically, Gibraltar is of high strategic significance because it connects the Euro-Mediterranean countries with transatlantic routes and controls a vital passage not only for commercial goods but also for oil transportation and bunkering for the ships at global level. Therefore, it is clear that the gains for this area in terms of influence cannot be redeemed by bilateral trade or shared gains through interdependence because influence is a matter of high politics and a vital determinant for a state's survival.

Concluding Remarks: A Comparative Analysis

In this section the main objective was to support the argument that economic interdependence is not a power-balancing factor and does not promote peace between two states in conflict and, therefore, does not have any effects on national security. What really defines the configuration of the conflict is not economic interdependence but the relative gains which are defined by the worthiness of the disputed area, and they cannot be redeemed by any means because they have a direct impact on a state's power and survival.

As mentioned in the analytical framework, in order to examine the effects of economic interdependence on national security, we focused on states with security issues that is to say, states in conflict, and we applied specific dependent and independent variables such as relative gains and worthiness of the disputed area, as well as economic and military variables such as indicators of economic and military power, the level of interdependence as well as the configuration of the conflict, respectively. This analytical framework was implemented in three case studies concerning India and Pakistan, Greece and Turkey as well as the United Kingdom and Spain, based on the criteria which were set out in the analytical framework, and also because they correspond to three conditions. The first condition is that the case study relates to a prolonged dispute, the second is that there has to be military activities and disputes and the third is that there has to be at least a minimum level of asymmetric economic interdependence.

As far as the first question is concerned, if economic Interdependence is an effective power-balancing tool for the threatened state, the answer is no. According to our analytical framework, economic power is defined by significant determinants such as growth rates as a percentage of GDP, share of exports and imports and trade agreements with other countries, bilateral commercial relations (between the rivals), as well as GDP per se and the foreign exchange reserves as a percentage of imports. All these factors affect the state's economic power and as a result the state's economic gains. In the first case study, during the conflict and without any significant commercial relations with Pakistan, India increased its relative gains compared to Pakistan and in that way it managed to maintain its military and nuclear capabilities and protect its national sovereignty. In the second case study, despite the medium level of economic interdependence and its high dependency on energy from Turkey, Greece continued

defending its national interests and boundaries and maintained its relative gains. In the third case study, despite the high level of economic and military interdependence with Spain, the United Kingdom also defended its interests in Gibraltar ignoring the Spanish threats and retaliations within the European Union.

Regarding the second question, if the value of commercial relations between adversaries can redeem the value of influence of the disputed area the answer is no because the worthiness of the disputed area is interwoven with the relative gains. More specifically, states play a significant role as economic actors and, especially a rival state, can undermine the other's gains through economic competition. This argument is also confirmed in the three case studies. If India had decided to share its economic gains or the gains of the disputed area with its rival, not only would it have lost an important part of its influence and power but also its survival would be at risk because its rival could be part of the decision-making process. The same can also be said for Greece as well as the United Kingdom in the other two case studies. In addition, the maintenance of military capabilities is based on economic power, consequently, any sharing of economic gains with the rival is the first step towards its domination of the state's influence and its survival.

Therefore, asymmetric economic interdependence is not a power-balancing factor between two states in conflict because it has no effect on the relative gains of the disputed area which is to say that economic independence cannot redeem the economic and strategic gains of the disputed area. Table 39 below summarizes the concluding remarks in relation to the comparative analysis.

Table 39: Concluding Remarks and Comparative Analysis

| Case Studies | Threatened State | Sector of Interdependence | Level of Asymmetric Economic Interdependence | Configuration of the Conflict {Escalation (1⇌2), De-escalation (2⇌1)} | Gains of the Disputed Area | Balance Achievement |
|------------------------|-------------------------|----------------------------------|---|--|---|----------------------------|
| United Kingdom - Spain | United Kingdom | EU and NATO | High | 1 ➔ 2 | Economic Survival and Strategic influence | No |
| Greece – Turkey | Greece | Energy Supply and NATO | Medium | 1 ➔ 2 | Economic Survival and Strategic influence | No |
| India – Pakistan | India | Trade | Low | 1 ➔ 2 | Economic Survival and strategic influence | No |

CHAPTER 8. CONCLUSIONS

The aim of the thesis was to reflect on the relationship between economic interdependence and national security. Based on the theoretical framework of Realism, I created an analytical framework in order to answer two main questions: “Is Asymmetric Economic Interdependence a power-balancing factor for the threatened state” and “Can the relative gains which derive from economic interdependence redeem the relative gains which derive from the disputed area?”

More specifically, I first expounded upon the four main theories of international relations, namely Realism, Liberalism, Constructivism and Marxists Theories, in order to highlight the reasons for choosing Realism as the most suitable theoretical basis in accordance with my theoretical framework. Therefore, given that Realism assumes that the international system is anarchic and the state is a dominant and rational actor which struggles for its own survival, I concluded that despite its weaknesses, Realism is the most appropriate theory for two reasons. First, Realism was the winner in the first Great Debate on international politics since it provided a more practical and scientific explanation of the occurrence of war and second, Realism has fewer limitations than other theories which focus on aspects less important than a state’s survival.

Second, I set out the terminology in order to specify the meanings of the terms I used in this thesis and to understand the interaction between them. More specifically, I explained the meaning of the terms (asymmetric) economic interdependence, balance of power and national security in order to create the framework for conceptualizing these terms. During that process, I concluded that economic interdependence is always asymmetric, therefore, when someone talks about “economic interdependence” he actually means “asymmetric economic interdependence”. This happens for two reasons. First, the term “interdependence” concerns mutual dependence on vital products. Given that states are not only dominant but also rational and suspicious actors they would not depend totally on another states because then it would be easy to succumb to blackmail. Second, nowadays the world is dominated by world trade and there are many substitutes for the initial products, therefore, it is not like that two states will be totally dependent on each other. Therefore, I concluded that Waltz’s definition of the term “asymmetric economic interdependence” is the most appropriate. That is to say that two states are not mutually dependent, however they both affect each other, meaning that there is either a high or low cost in case of disruption.

The second term, balance of power, refers to the stability of the system and there are many factors which can affect it, such as the balancer-state, buck-passing from states which do not want to get involved in war or similar situations, and nuclear deterrence. However, the balance of power mainly concerns the great powers and the international system before war so I concluded that one has to take into account the role of the balance of power in situations of disputed areas during interstate conflict and how it is promoted, even between nuclear powers, such as India and Pakistan, in order for the threatened state to maintain its national security.

The third term, national security, is a complicated issue, since “security” applies to in all aspects of human activity such as individual security, social security, cultural security, political security, national security and international security. In addition, the definition of security presupposes a combination of an assumption about the status quo as well as the causes which led to that situation and given that the theories of international relations perceive reality differently, each of them takes a different approach. However, since this thesis is based on Realism, I concluded that on all levels and in all kinds of security the common determinant which imbues and utterly determines its meaning is the fear of change of the status quo for the worse. Therefore, I concluded that anything which can change the state’s capabilities for maintaining its power and influence for the worse can be considered to be a matter of national security.

Third, I prepared a literature review regarding the relationship between economic interdependence and national security and there are four conclusions that can be drawn. First, from 1996 to 2013 the discussion on whether trade promotes peace has not been examined yet in all its theoretical aspects since it is dominated by liberal and a few neo-Marxist approaches. Second, the discussion on this issue consists of several arguments since most of the authors argue that not only does trade promote peace, but also that conflict decreases trade. More specifically, regarding the Liberal approaches which were based on complex interdependence, many scholars argued that instead of states, transnational actors are the dominant players, prosperity is more important than security issues and that economic and institutional means are more efficient and useful than military power because these factors reduce suspiciousness among states. In addition, Liberals based on Democratic Liberalism, argue that the levels of economic cooperation and interdependence are high between democracies because of their common perceptions and ideas regarding peace, therefore this promotes peaceful relations.

Third, they mainly use variables such as trade, the level of interdependence, economic constraints, contiguity, political regimes, allies and trade agreements in order to support their arguments that conflict can be decreased through a rise in the volume of trade. Therefore, I concluded that Liberals did not take into account important determinants with regard to their arguments and they only emphasized economic factors which act independently. For example, they examined interstate conflicts without considering the state to be a significant determinant. In addition, they failed to highlight the causes of the conflict and did not mention important variables such as power, influence, and worthiness of the disputed area. On the contrary, they focus on means of conflict resolution and secondary types of power, such as economic interdependence and foreign direct investments.

I also concluded that Liberals only refer to the pacific benefits of trade, without mentioning the impact of these effects on relative gains and a state's economic power. This also leads to one more ascertainment, according to which Liberals try to raise trade to the sphere of high politics focusing more on peace and stability than on a state's sovereignty and survival within the international or regional system.

Consequently, taking into consideration the literature review and its shortcomings, in order to contribute to the discussion I created a framework of analysis based on the assumptions of Realism, first in order to assess my argument that asymmetric economic interdependence is not a power-balancing factor and does not promote peace, and second, in order to extend Waltz's and Grieco's assumptions regarding interdependence and relative gains in a field which had not been examined yet, namely that of interstate conflicts. In order to do that, I concluded that the main questions which had to be answered were: "Is Economic Interdependence a power-balancing factor for the threatened state?" and "Can the value of commercial relations between adversaries redeem the gains which derive from the disputed area?" It was also important to take into account variables that have been omitted by the Liberals. Therefore, the framework of analysis was based on Realism and perceived the state as the dominant and rational actor within the international system. The dependent variables were the relative gains and the worthiness of the disputed area and the independent variables were both economic and military in order to show the impact of asymmetric economic interdependence on the formation of national security of the threatened state.

Consequently, the conclusion that can be drawn is that I had to focus on variables which reveal the real impact of economic interdependence on national security and test my hypothesis in three cases-studies which had to correspond to three specific criteria. First, the interstate conflict had long-lasting, with military activities and disputes and at least a minimum level of asymmetric economic interdependence. It was also important to define the threatened state, for this reason, I had to combine both subjective factors (conflict escalation over time) and objective factors (review of the status-quo, proximate power, aggregate power as well as the threatening statements).

The first case study was the interstate conflict between India and Pakistan in Kashmir, the second concerned the conflict between Greece and Turkey in the Aegean Sea and the third concerned the conflict between the United Kingdom and Spain in Gibraltar. It is important to mention here that regarding the India-Pakistan and the British-Spanish conflict, the most serious restriction I faced was that the data with regard to the number of air violations and sovereignty disputes were not publicly available, therefore there are some gaps.

It is also important to mention that the three case studies were examined from the same perspective in order to answer the two main questions “Is Economic Interdependence a power-balancing factor between two states in conflict? and “Can the value of commercial relations between adversaries redeem the gains which derive from the disputed area?” More specifically, first, there was a historical overview of the conflict combined with the factors which define the threatened state. Second, in order to show the existence of asymmetric economic interdependence between the rivals I examined which state is a greater economic power and what the structure of their bilateral economic relations is. In addition, I focused on the variables of national security in order to examine the impact of asymmetric economic interdependence on the formation of national security of the threatened state. Last but not least, I highlighted the relative gains of the disputed area in order to compare them with that of economic interdependence.

However, despite the fact that they were developed under the same structure as mentioned in the framework of analysis, some of the indicators of economic interdependence did not correspond to each case. That is to say that the indicator of energy supply corresponds only to the case of the Greek-Turkish conflict while the indicator of membership of economic or monetary organizations only corresponds in the case of the British-Spanish conflict.

Regarding the first case study, the India-Pakistan conflict, five conclusions can be drawn. First, India is the threatened state despite the fact that it is a greater economic power than Pakistan. By analyzing the conflict over the years, in most cases Pakistan was responsible for conflict escalation. In addition, Pakistan, promotes revisionist aspirations and wants to change the status-quo, it is a proximate power and its statements are threatening.

Second, India is a greater economic power than Pakistan because it is in better place regarding three of four primary indicators of economic power, such as GDP, the percentages of GDP growth and Foreign Exchange Reserves. Therefore, there is asymmetry in economic power. Consequently the economic interdependence between them is asymmetrical.

Third, the level of asymmetric economic interdependence is low since there is only trade in goods and services while the absence of bilateral foreign direct investments and economic agreements is noticeable. However, the most significant indicator which shows the asymmetric economic interdependence is that India is Pakistan's fifth largest import partner with continuously rising rates.

Fourth, India raised its military expenditure in contrast to Pakistan, which maintained its military expenditure lower and stable, therefore, the impact of economic interdependence did not reduce the levels of uncertainty and insecurity of India, since the violations and disputes of Indian sovereignty were continuous.

Fifth, regarding the gains of the disputed area, Kashmir contains vital resources, such as water, which is crucial for the states' economic sustainability and survival and therefore, its control is interwoven with power maximization. Pakistan already owns 60% of the Indus River, therefore by controlling the rest of the Kashmir area, which is now controlled by India, it would control India's percentage of the Indus River, so actually it would control India's relative gains and acquire further influence. This would make Pakistan a regional hegemon and India's survival would be in danger.

Five conclusions can be drawn regarding the second case study, the interstate conflict between Greece and Turkey. First, Greece is the threatened state, since by examining the conflict over time Turkey was responsible most of the times for the escalation of the conflict. Moreover, Turkey's grand strategy shows that it is a revisionist state and a proximate power, while the "casus-belli" is a clear threatening statement in the case where Greece extends its territorial waters to twelve nautical miles.

Second, Turkey is a greater economic power than Greece, since it has higher rates than Greece into three of the four primary indicators of economic power. Therefore, there is asymmetry in economic power.

Third, the level of economic interdependence between the two rivals is medium, since Turkey is the No. 1 export partner for Greece, there are a few economic agreements and there is only a low level of bilateral foreign direct investments. Nevertheless, the most important indicator which raises the level of economic interdependence is that Turkey is the second most important energy supplier for Greece.

Fourth, despite the fact that both countries belong to the same military alliance, Greece raised its Military Expenditure over the years, which means that economic interdependence did not raise the sense of security, since the violations of Greek national airspace and territorial waters were continuous and in many times they turned into “hot” incidents.

Fifth, regarding the relative gains of the disputed area, they are both economic and strategic with direct impact on the state’s power and influence. More specifically because of the continental shelf its islands have, Greece has extended its exclusive economic zone and upgraded its role in the energy sector. On the other hand, the Aegean’s geographic location is a unique strategic point for military operations and further expansion of military influence in the Mediterranean, in Northern Africa and even more in the Middle East. Therefore, if Turkey could control the Aegean Sea, it would reinforce its strategic influence and this would enable it to become a regional hegemon.

Five conclusions can be drawn with regard to the third case study, the conflict between the United Kingdom and Spain. First, the United Kingdom is the threatened state, since Spain, according to the timeline of the conflict, is responsible for conflict escalation. In addition, it is a revisionist state since it wants to change the status-quo, it is a proximate power and many of its statements against the United Kingdom are threatening.

Second, the United Kingdom is a greater economic power than Spain since it has higher rates into three of four primary indicators of economic power. Therefore there is asymmetry in economic power.

Third, the level of economic interdependence between the two rivals is high. Spain is the ninth most important export and import partner of the United Kingdom, however

the level of bilateral foreign direct investments is very low. Nevertheless, the most important indicator which raises the level of economic interdependence is the accession of the United Kingdom and Spain to the same political and economic regional organization, the European Union, the operation of which is based on a common framework of all of its members.

Fourth, despite the fact that both rivals belong to the same military alliance and the United Kingdom possesses nuclear weapons, the number of Spanish violations of the British sovereignty has not decreased. In addition, the fact that British Military Expenditure has risen in contrast to Spanish expenditures, shows that the United Kingdom is more concerned about its national security.

Fifth, regarding the relative gains of the disputed area, they are both economic and strategic with a direct impact on the state's power and influence. More specifically, Gibraltar is the seventh largest bunkering port in the world which is vital for the United Kingdom's naval sustainability. On the other hand, Gibraltar's geographic location is a unique strategic point for military operations and further expansion of influence in the Mediterranean and in Northern Africa. Therefore, if Spain could control Gibraltar, it would raise its chances of increasing its power and upgrading its role in the wider Euro-Mediterranean area.

Moreover, one more conclusion that can be drawn is that by developing a comparative analysis of the three case studies, irrespective of whether the level of economic interdependence was high, medium or low, it did not have any impact on the threatened state's national security, since there was escalation rather than de-escalation of the conflict.

Therefore, regarding the first question, "Is Economic Interdependence a power-balancing factor between two states in conflict?" the answer is no. According to my framework of analysis, economic power is defined by significant variables with a direct impact on state's economic gains. In the first case study, where the level of interdependence was low, India managed to maintain its military and nuclear capabilities in order to protect its national sovereignty. In the second case study, where the level of interdependence was medium, Greece, continued defending its national interests and boundaries in order to maintain its relative gains. In the third case study, where the level of interdependence was high, the United Kingdom defended its national interest in Gibraltar ignoring the repercussions of the Spanish threats and retaliations.

Therefore, asymmetric economic interdependence cannot become a power-balancing factor between two states in conflict.

Regarding the second question, “Can the value of commercial relations between adversaries redeem the gains which derive from the disputed area?” the answer is no. The worthiness of the disputed is interwoven with relative gains and these gains have a direct impact on state’s power and its ability to exercise its influence. In the first case study, if India had decided to share the gains of the disputed area with Pakistan, it would have lost an important part of its influence and its survival would be at risk, since Pakistan would become part of the decision-making process. The same can be said in case where Greece were to share the gains of the disputed area with Turkey and in case where the United Kingdom were do the same with Spain, since any sharing of economic gains with the rival is the first step towards its domination of the state's influence and its survival. As Ambassador Mallias mentions in his interview *“When you propose joint exploitation, i.e. exploitation of resources that belong to you, with the help of others, it means that you are giving up a part of the sovereignty you have as a state to exclusively exploit your own resources. One cannot be selectively sensitive. Either we say that we exploit the Aegean on our own in accordance with national and international law, or if we throw the phrase ‘joint exploitation’ on the table we make it more difficult afterwards to reject a proposal where Turkey would also have a right to participate. Otherwise, the response would be that using this ploy there is no joint exploitation, merely private companies who exploit the sea’s resources and reduce defense spending. That’s why we need to be careful when putting such proposals on the table, when they come from official Greek sources. There were very large US business groups that wanted to jointly exploit the Aegean. If we decide to jointly exploit the Aegean with others, we need to seriously think about the reasons for excluding a Turkish private company. I think that a direct Turkish threat from the Barbaros and the accompanying warships in Cyprus was very different from the approach in the Aegean, but the issue is the same. The message is don’t start something in ‘areas which Turkey asserts are ‘grey’ zones and which it contests, because otherwise we will intervene. Since February Turkey has been accompanying its stance – threats with military means. That has been done by setting aside large areas of the Aegean for military training exercises for a very long period of time, lasting 4-5 months. That has already happened.”* (Mallias, 2015).

Consequently, between states in conflict, economic interdependence, regardless of its level, cannot be a power-balancing factor since the relative gains which derive from the disputed area cannot be redeemed by those which derive from the economic interdependence. Therefore, my main argument of the thesis is confirmed.

However, further research should be done regarding the economics of national security, since there are more variables that should be taken into account. For example, as Ambassador Aviram explains in his interview, *“If you looking at the overall of economic relations between Israel and Turkey, it was at their pick, I am not sure it was completely equal but it was almost of the same importance to both countries. Even though for Israel was more important, Turkey was a much higher on the list of countries than it was Israel for Turkey, because the economy of Turkey is much bigger than the economy of Israel. So, that didn’t stop Erdogan to strain the relations to a point to a conflict that was even violent. But one throughout this conflict, he was very cautious not to hurt the civil trade between the countries. It was the Israelis who decided that they will not go to vacations in Turkey, even though it was a major destination in terms of price and a good location place. This is an economic issue. [...]But what was deterred in the end, was other factors than the economy. It goes also to the Turkey’s side. The Turks were willing, let’s say, to pay more to American company and get less quality of military industry product than to keep on buying from Israel, which is closer to them, etc.”* (Aviram, 2015).

In addition, as the former minister Stylianidis mentions in his interview, *“In Greek-Turkish relations for example, if economic interests lobbying inside Turkey and Greece to earn money from tourism, from cooperation in the energy sector, from commercial transactions, from joint ventures, here and there, in one country and the other, are more powerful than the economic interests that gain money from the arms trade, from illegal money from trafficking, from illegal money from the trade in drugs, from money from armaments systems, from money from bolstering the dominant position of the armed forces or the public order forces, then the bolstering of peaceful ‘economic interests’ in inverted commas, so to speak, really does serve a catalytic purpose and does help pacification of the two sides. I repeat that that is a rule which has applied since ancient times. However, that rule must be tempered when you have a centralist regime which does not take into account the cost of destroying the economic relations of some large hoteliers and some tour operators.”* (Stylianidis, 2015)

Further research should also be done regarding national security and its determinants. As Ambassador Mallias mentions in his interview, *“The issue of how you define national security is vital. First you need to define national security and then analyze strategic power, economic power, political stability and social cohesion. National security means the entire system of actors and parameters which prevent some external factor undermining it, calling it into doubt, disturbing its stability. The second issue is whether the state itself understands the factors relevant to national security. As far as national security is concerned, I’d say that the first principle is not just how you feel but how others evaluate you, appreciate you, and how they measure you up. Are you powerful? Is there a sense of evaluation about whether a country is powerful or weak? Is a country which shows a lack of knowledge about international goings-on at the global and European level, a country which is an international beggar and does not live based on its own capabilities and production but depends on the borrowed money it receives, really a country which can argue that it has a developed system / network for protecting national security? The third point is military power, which depends on economic capabilities and morale. I’d say that it is a mistake to always put economic capabilities at the forefront because there are many historical examples where belief in something had great results despite the lack of economic capabilities. The fourth issue is political stability, which means foreseeable and respected dates for changes in government. It also means that the government respects its role and actually governs, and that the opposition scrutinizes the government. Fifth is social cohesion, i.e. the extent to which the representative political system we have is actually based on society. That’s because there are many cases, especially in the last 7-8 years in Greece, of governments which had a parliamentary majority but did not have the support of society, especially in the last few years.”* (Mallias, 2015). In addition, as Major General Parisi mentions in his interview, *“Trade, the economy and other non-military relations are an important factor in bringing certain countries together, but capable leaders are needed to exploit them. Developing good trade, banking, maritime connections with Egypt, etc., for example, but not exploiting that at political level, in the international environment as a strategic alliance, achieves nothing. That could end after 5-10 years and we would be back to the starting point again. [...] In other words, I’m arguing that all these players who can play a role, create a different environment. Power may exist in objective terms, such as armed forces, geographical location, etc. but we need to look at non-obvious elements of power which include the mass media. While a country*

may be strong objectively speaking, its power is tested by non-obvious elements of power.” (Parisis, 2015).

Concluding, in this thesis I argued that asymmetric economic interdependence cannot be considered as a significant factor of national security, since in interstate conflicts cannot be used as a power-balancing tool in order to mitigate the threat. I also confirmed and contributed to the Realistic theory by showing that the relative gains which derive from the disputed area are more important and cannot be redeemed by the relative gains which derive from asymmetric economic interdependence. Last but not least, there are more variables that should be examined and taken into account in order to examine which of the economic factors have direct impact on state’s national security and if there are special within the state economic mechanisms which can be developed or should be restricted for the sake of national security. But that is another issue.

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ANNEX

EVRIPIDIS STYLIANIDIS

Ph.D. in Constitutional Law

University of Hamburg

MP for Rhodopi

Former Minister

1. Who do you believe are the dominant actors in international politics? States (as the Realist school of thinking asserts) or international institutions/organisations and markets (as the Liberals assert)?

After the emergence of globalisation, we have a difference in the subjects of foreign policy or international politics. What change occurred? In addition to the classic state, or nation state, multinational companies have been created, which in many cases have proven to be more powerful than traditional states because they can exert even greater influence, horizontally so to speak, on national parliaments, on the legislative initiative, on internal markets, and even on political decisions. To answer the question, in each case we need to examine the nature of the state and its interdependence on multinationals, i.e. on the international market. A paternalistic, authoritarian, centralist state reacts and rules differently from a democratic and liberal state. For example, relations are developed with China via bilateral cooperation with the Chinese government. Relations with Russia were on a similar wavelength for a very long period of time, and relations with Turkey are similar, which is at the meeting point of three worlds, namely the Islamic and Arab world, the Asian world and the European or Western world. On the contrary, in the West there are some basic guidelines, there is some central guidance about foreign policy, mainly in areas that affect national security or global security, when we are talking about a superpower, but the development of economic relations is more open, possibly better informed, so that it is compatible with national policy ... but more open ... in fact I'd say completely open, unless there are special reasons for it not to be... Take for example Europe and America's relationship with Iran in the period when there was a threat concerning nuclear technology. One illustrative example of this type of relationship is Greek-Turkish relations.

In Greek-Turkish relations we have two states with a completely different physiognomy. On the one hand we have Greece which is clearly a liberal democracy

with international alliances mainly focused on the Euro-Atlantic axis. On the other hand we have Turkey. Although in recent years it can be thought of as belonging to the Islamic world, it has an Ottoman outlook, a nationalistic one, putting it more in the paternalistic category rather than the democratic one ... and in matters of the market, I would say it has been more focused on the Western way of viewing things for a long time now. Despite that, we have seen phenomena where Turkish businesses are developing a dynamic international relationship with foreign companies but when the government issues a line to the contrary, that dynamic is reversed. We saw that in the Özal period mainly, when the first steps were being taken to develop Greek-Turkish relations on a commercial level, both sides went cold and trade relations immediately froze and they changed direction. We saw it in the case of Russia and Cyprus, when the crisis took place recently in Cyprus, when capital controls were introduced. Instructions came from the Kremlin and many oligarchs who had invested illegal money in Cyprus took it back to Russia again. Orders also came from the Euro-Atlantic axis to apply a ‘haircut’ to the illegal funds which had accumulated in Cyprus, so that Cyprus would not become unilaterally dependent on the Russian market. We also saw it in Turkey in the modern period, from 2000 to the present day. In the initial phase of that period, a trust-based relationship was developed between Greece and Turkey, particularly in the period when Papandreou was Minister of Foreign Affairs, and also after that, in the period when Karamanlis was Prime Minister and Erdoğan was Prime Minister. I experienced it for myself then as the competent minister ... there was an explosion in commercial and economic bilateral relations. I remember that when Tusman, Turkey’s Minister of State for Foreign Trade, and I began to announce that (I was then deputy minister responsible for economic and energy diplomacy) our goal was to achieve a volume of commercial transactions of 2 billion, when it was just 350 million, both the Turkish and Greek financial press made fun of us.

Around 10 years later, actually in less than 10 years (from 2005 to 2012-2013) I went with PM Samaras as minister of the interior (the first time had been with Karamanlis) to the intergovernmental meeting held in Istanbul and Erdoğan announced that the volume of commercial transactions had exceeded 5 billion and that the new target was over 10 billion. The question can also be posed in practical terms. Did that improvement in commercial and economic relations mean an improvement in political relations? Or does an improvement in political relations mean an improvement in commercial relations? In the case of Greece and Turkey, I believe that both apply,

meaning that the initial improvement in political relations and the cultivation of trust between the two sides made it easier for businesspeople to take the risk of collaborating directly or via joint ventures in third countries. For the first time we saw a major increase in Greek investments in Turkey and likewise a gradual increase in Turkish investments in Greece, depending on who had the advantage of liquidity in each case. We also had the phenomenon of National Bank, which was criticised severely when it bought Finance Bank, although the entire political system was forced to admit a few years later that the growth in the Turkish market provided liquidity to National Bank's parent company. We also have the other side of the coin with cases where manipulation of the market, or rather market behaviour, subjugates the market and economic diplomacy to politics. We can mainly see this in the interventions which took place when Davutoğlu was Minister of Foreign Affairs, right up to the present day when he is PM, where trust has morphed into interventions, meaning that frequently investments are being made based on instructions from the Ministry of Foreign Affairs, especially in Thrace, which is a sensitive area for Turkey because of the Treaty of Lausanne. In that case the market is no longer working as a catalyst to improve bilateral relations, instead we have politics using market manipulation in such a way that it serves the interests of their national foreign policy. If we focus only on the first, I consider it completely healthy ... we can see this too in the Greek-Turkish pipeline and in the rise in the volume of commercial transactions. It merely confirms the ancient saying that borders which are crossed by merchandise are not crossed by armies.

If we look at the second type of behaviour, which clearly depends on the physiognomy and foreign policy dogma of each subject, of each nation state -or just plain state- we have the opposite effect in those cases; meaning that the healthy operation of economic diplomacy is distorted and instead of positively affecting politics it is negatively affected by politics and generates opposite results. In my view a balance is needed. Rules are needed. Fair play is needed in the story ... and above all trust is essential.

- 2. In the structural Realist Stephen Waltz's definition (1979), asymmetrical interdependence, in its political dimension, relates to parties which are not mutually interdependent on each other but nonetheless affect each other. On the economic side, the structural Realist Joseph Grieco (1988) has**

argued that states are suspicious of each other and place particular importance on how collaboration will affect relative gains in the future. Given that the preservation of the armed forces' power is based on the state's economic power, do you believe that the choice of economic partners and the degree of interdependence in relation to relative gains is a matter of national security?

Let's look at how a state's power is measured. At whether it is measured based on economic data, based on its size and population, based on its military power or based on its geostrategic importance. No matter how we measure it, asymmetrical cooperation (i.e. cooperation between a large and small state) always entails some form of dependence. This method was mainly used by the Great Powers. It is no coincidence, for example, that in the previous century even though America was self-sufficient in basic goods, it opted to buy from small countries so that their economies became like satellites in relation to the US economy and thus it had major political influence over those states, which chose it of course; they did not do it on their own. There is also military power which creates various blocs, though that was more intense during the Cold War. Those blocs create conditions for a weak but wealthy market being exploited by another market which has military power, power in terms of its population, etc. That's why I said from the outset that there need to be rules which govern such relations, and above all there must be trust when it is a conscious decision, it is a decision which favours the people being served, the weak side. When the decision is coerced then things are different. In all events, what I can add here to this question is an analysis that was offered to me by a seasoned German diplomat, who was one of the key players in French-German negotiations, before the French-German axis was created in Europe. I talked to him about the war period and asked him to try to explain to me how both sides, France and Germany, managed to reach a deal ... I wanted to see if that model could be applied to Greek-Turkish relations. He told me quite coldly, in a cynical but realistic manner, that it reminded him of a myth from antiquity, where a goose went to a pig and asked the pig to set up a company together. The pig agreed to the proposal and then the goose said 'you know what, when a company is set up each side puts something in'. The pig said "let's put in ..." and the goose said "If I put in the eggs, will you put in the bacon?". So what did he want to say here? That of course there is a need for rules, mutual respect, etc. but in these

relationships when states are involved, there is always the temptation for one side to play the goose and the other side the bacon, meaning that one of the two will lose out. When there is a balance, there is no problem. Relations between them operate exceptionally well. When there is no balance and the appetite is whetted, things can then become distorted and we can end up with the opposite result from the one sought.

- 3. In the academic debate so far about economic interdependence between two countries in conflict, the dominant value is that of the Liberals, according to whom trade promotes peace and reduces the intensity of conflict and that commercial agreements at regional level function like military alliances, which eliminates the likelihood of conflict. So, if we suppose that a state increases its commercial dealings with its rival to secure peace, it also shares in the relative gains, through that cooperation. Do you think that this fact –that it shares in the relative gains with its rivals, without conflict being eliminated, contributes to better national security?**

In this regard, I consider that economic cooperation functions like water when you add it to wine; in other words you reduce the alcoholic proof, you blunt the relationship and in many cases the geostrategic relationship may become of secondary importance. Why does that happen? We mainly see this happening quite intensely in democracies. Because when economic interests which invest in peace are stronger than the domestic economic interests that invest in conflict, those interests may have a significant effect, particularly in a democratic regime, on political and governmental decisions, and this works in precisely the way you outlined in the question. However, the same does not hold true for decisions taken by authoritarian, centralist states where lobbies have no influence, and that normally occurs in authoritarian, centralist regimes. In Greek-Turkish relations for example, if economic interests lobbying inside Turkey and Greece to earn money from tourism, from cooperation in the energy sector, from commercial transactions, from joint ventures, here and there, in one country and the other, are more powerful than the economic interests that gain money from the arms trade, from illegal money from trafficking, from illegal money from the trade in drugs, from money from armaments systems, from money from bolstering the dominant

position of the armed forces or the public order forces, then the bolstering of peaceful ‘economic interests’ in inverted commas, so to speak, really does serve a catalytic purpose and does help pacification of the two sides. I repeat that that is a rule which has applied since ancient times. However, that rule must be tempered when you have a centralist regime which does not take into account the cost of destroying the economic relations of some large hoteliers and some tour operators. If there is tension in the Aegean for example, both sides lose out because tourism leaves the region. That makes both lobbies promote peace and stability. The same holds true for energy. My opinion is that it depends on the physiognomy of each state and -of course- it depends on the physiognomy of the lobbies which exist.

4. One illustrative example of asymmetrical interdependence and conflict is the case of Greece and Turkey. The characteristics of this case are as follows:

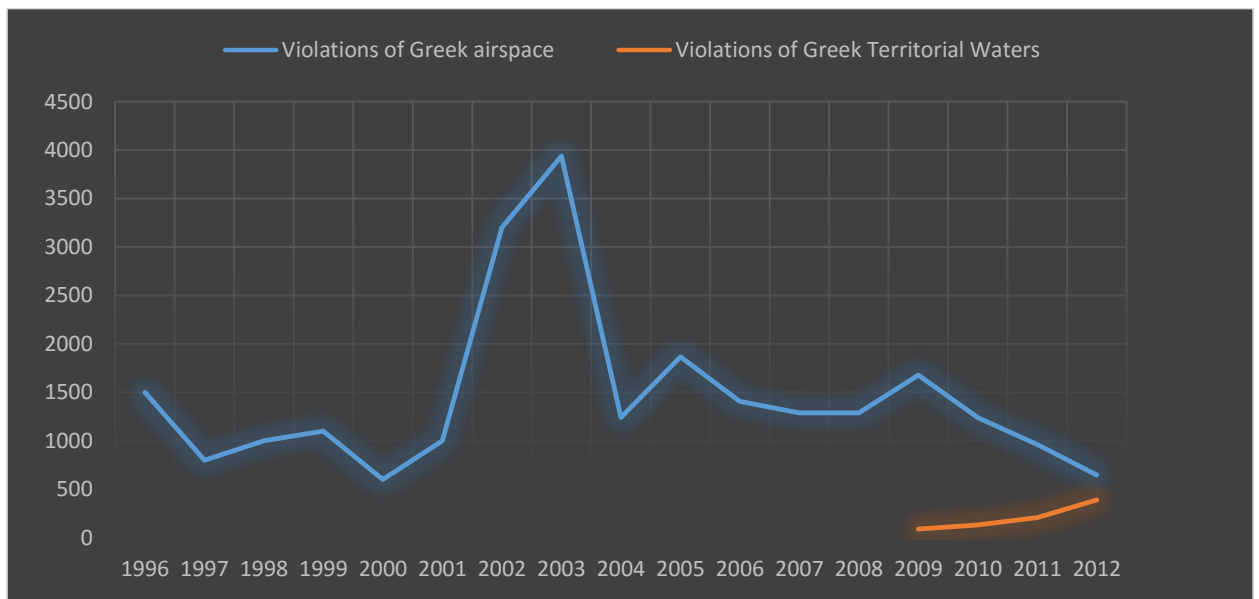
a) both countries are members of NATO.

b) according to the tables below when Greece (which is the threatened state) increases its rate of economic growth, as a result of the rise in relative gains, conflict in the Aegean rises. On the other hand, when the relative gains are lower than those of Turkey, tensions in the Aegean decline, without being eliminated. Do you believe that a potential increase in Greece’s economic interdependence on Turkey is capable of ‘cashing in on’ the value of Greece’s dominant influence in the Aegean, thereby promoting Greek interests?

(note: I’m not arguing that the reason for conflict is the increase in Greece’s economic power, but the value of the influence of the contested area).

| YEAR | GDP GROWTH (GREECE) | GDP GROWTH (TURKEY) |
|-------------|--------------------------------|--------------------------------|
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| 1997 | 4.5 | 7.6 |
| 1998 | 4.1 | 2.3 |

| | | |
|-------------|-------------|-------------|
| 1999 | 3.1 | -3.4 |
| 2000 | 4.0 | 6.8 |
| 2001 | 3.7 | -5.7 |
| 2002 | 3.2 | 6.2 |
| 2003 | 6.6 | 5.3 |
| 2004 | 5.0 | 9.4 |
| 2005 | 0.9 | 8.4 |
| 2006 | 5.8 | 6.9 |
| 2007 | 3.5 | 4.7 |
| 2008 | -0.4 | 0.7 |
| 2009 | -4.4 | -4.8 |
| 2010 | -5.4 | 9.2 |
| 2011 | -8.9 | 8.8 |
| 2012 | -6.6 | 2.1 |



Here we cannot remove Turkey's internal power game from the picture, since at precisely that time a *bras de fer* was taking place between military and political forces to see which would dominate the other. The military *status quo* wants to make the people believe more deeply that it is necessary for national security and national pride, while the political regime, primarily by playing with the market, seeks to create the conditions for prosperity so that society will take a softer stance towards the military

and thus the political side can start to dominate. In Turkey the political regime dominated the military side in strategic terms. Let me come back to the dispute between Greece and Turkey. In the dispute between Greece and Turkey, especially in relation to the Aegean, we are talking about a vital space. Greece has geostrategic importance as long as it controls the Aegean, under International Law and the Law of the Sea because it has added value, not just vis-a-vis Turkey but also vis-a-vis Russia, by allowing the unimpeded passage to the Russian fleet, contrary to NATO's wishes because it has two control filters ... against Russia, not just the Bosphorus but also Greece, against the Balkans because it controls the reins towards the Mediterranean Sea, and of course against Turkey because Turkey has an endless coastline and Greece has a very large island area. We are not in a position today to know if, in some future scenario, a joint company could be set up that would acquire great influence over the states, so that it could demand joint exploitation of certain sources of wealth from individual governments, and we do not know what the situation would be then.

However, as long as states are in the trenches, as long as the *casus belli* continues to exist, in the way in which international law is implemented, Greece does not have the right or ability to waive the legal rights it claims, which have to do with its national sovereignty. In our region so far, no matter how much it has been tempered, the traditional logic does still apply, meaning that because of their national sovereignty states can impose their will on the market, and the market has not yet managed to impose its policies on states. No matter how much states weaken, in sensitive regions where the peoples have strong cultural characteristics, it will not be easy to escape the rules of national logic, so to speak. Of course, my opinion is that major progress has been made in bilateral relations, given that what sets the two sides apart have been ameliorated, and I repeat the catalyst here was the issue of trust. Trust is primarily a matter of individual personalities.

When we have stable leadership structures on each side at the same time, and there is a desire to talk and find some common ground, all the rest will gradually die down and common interests will emerge. The more those common interests become established, the more the situation improves. On the contrary, when there are domestic problems, the easiest solution is to rack up some foreign affairs issue a few notch so that the people rally round and distract them from the problems that cannot be solved at home.

- 5. Does the fact that the same results arise from examining conflicts between countries with different characteristics, such as Great Britain and Spain over the Gibraltar area (which is contested by Spain), and India and Pakistan over the Kashmir region (which is contested by Pakistan) in your view confirm the view that asymmetrical economic interdependence between countries in dispute cannot be a balancing factor between two rivals?**

That always depends on how important the contested area is. Talking about the geostrategic depth of a country's foreign policy, Russia, for example, did not hesitate in invading the Ukraine -and the Crimean in particular- because traditionally speaking there had always been a strong Russian element there, and it was the Russian fleet's port for the Mediterranean. So it was an issue of vital importance for Russia about whether there was a neutral zone in the Ukraine, and when that was no longer secure and was under threat, it reacted in a violent manner, utterly trampling over bilateral relations and international law. This same applies in the other two cases you mentioned. Both England in Gibraltar for example, and Pakistan and India felt that the specific areas are critical for them, for the future of their people and their economic prospects, and fought to hold on to them. There, no matter what type of state you have, in reality I consider that the instinct for self-preservation will not lead to a compromise but to conflict, unless the compromise is itself beneficial.

Dr. Ioannis Parisis, Major General (ret)
President of the Academy for Strategic Analyses (ASA)

1. Who do you believe are the dominant actors in international politics? States (as the Realist school of thinking asserts) or international institutions/organisations and markets (as the Liberals assert)?

First of all, I'd like to express a general view, that I don't follow the narrow approach professed by any school. I mean that states are quite naturally the dominant actors, sovereign states which are represented by governments, and have representatives on international fora, etc. They also have an army, an economy; which they use to get involved in various international disputes, negotiations, arrangements, alliances and so on. However, on the other hand, I cannot rule out that various organisations, international bodies, will not become involved in international political problems.

In my book 'Power Factors in the International System' I present power factors, starting from the economy, military power, technology and population, which are the key objective elements of power, but I also include non-obvious power factors like leadership. Leadership doesn't just appear, can't be measured and can change from time to time. The leadership of a state which determines High Strategy and the leadership of the armed forces which implements military strategy and the leadership which manages the economy, and diplomatic leadership which manages a country's external relations all have a role to as elements of power.

But so do international organisations. For example, as a member of various international organisations, Greece can act via them. Let me put it differently. As an international organisation, the European Union signs agreements with the UN, under which it engages in activities that affect the international politics of some countries, let's say Greece in its dealings with Turkey. Let me say something else... In addition to being a dominant state, and therefore a powerful actor in the international system, Germany –because of its power- can influence the EU in relation to another state in the EU or a third country. So via the EU or an international organisation it can exercise its dominance, and showcase its power. In other words it's a matter of managing power. My view is that there are three aspects at play here: power, strategy and leadership. Power has objective elements (the economy, armed forces, industry, population, etc.) and subjective elements which are normally not visible. If those objective elements of power are not used, are not managed based on an effective strategy, they are useless

and in some way remain 'dormant'. On the other hand, to have a successful, effective strategy, one needs capable leadership. So we have power, strategy and leadership; or looking at it from another perspective, without capable leadership you cannot have a successful strategy and therefore the power elements a state has cannot be effectively used to the state's advantage. We can see this in the international system. Some states overestimate their power and come out demanding or saying things that are not in keeping with the power they actually have. Other states may have power but are unable to use it or hesitate in using it, either because they are afraid to or they have an incapable leadership.

Consequently, my view is that we cannot say that states alone are the dominant actors. International organisations are too, for the reasons I explained. We can see it too in Greece's economic affairs: Germany for example, via the EU, can intervene in a positive or negative way towards Greece. There are also various non-state actors. Moreover, while states are discussing various power-related issues, a third party may enter the picture and turn things on their head. For example, an NGO, or someone acting via one, may be able to intervene (such as Islamic State) and turn the situation on its head. Another example: While Greece and Turkey are discussing a specific issue (and perhaps even reaching some rapprochement) that rapprochement may be turned on its head by the intervention or actions of a third country, or a non-state actor in the region of interest to us.

I don't agree with this idea of 'absolute modelling' of international relations. Mathematical models are always useful but we cannot draw clear conclusions for international relations and international politics. Let me say here that in previous years some people tried to draw conclusions about the issue of power using mathematical formulae but reality proved just how blatantly wrong they were. The dissolution of the Soviet Union showed just how wrong the American CIA analyst was; in 1977 he had used a mathematical formula to reach the conclusion that the Soviet Union was twice as powerful as the USA. We have unknowns, X factors, imponderables, that can come into play in the relations of dominant states and change them, overturn them or create new ground rules.

Of course the mentality of the leaders plays a role. If two or three states agree to something, then there's a phone call from the President of the USA to a leader and a different way of doing things is mentioned... Everything changes. The intervention could come, for example, in relation to a large hydrocarbon extraction industry, telling

it to wind down its operations. And just as the leaders are about to agree about hydrocarbons, the company pulls out and everything falls apart.

- 2. In the structural Realist Stephen Waltz's definition (1979), asymmetrical interdependence, in its political dimension, relates to parties which are not mutually interdependent on each other but nonetheless affect each other. On the economic side, the structural Realist Joseph Grieco (1988) has argued that states are suspicious of each other and place particular importance on how collaboration will affect relative gains in the future. Given that the preservation of the armed forces' power is based on the state's economic power, do you believe that the choice of economic partners and the degree of interdependence in relation to relative gains is a matter of national security?**

Clearly without an economy there can be no armed forces. As Louis XVI's field marshal said, three things are needed to have strong armed forces: Firstly money, secondly money and thirdly more money. The relationship is interdependent. Support is two-way. It's like the question of whether the chicken came before the egg or the egg before the chicken. The economy generates strong armed forces but the armed forces create an environment and lays down the conditions that allows the economy to grow. Strong armed forces secure peace, the freedom to develop agriculture, fisheries, hospitals, education, etc. For example, unlike Greece, what schools or healthcare system could develop in Syria?

It's a fact that one helps the other, but I should point out something here related to the unification of Europe. Charming, romantic talks normally argue that after both World Wars a united Europe emerged which sought to avoid conflicts and bloodshed in the future. The reality is that Europe united when the large European states felt weak. ...at a time when the USA and Soviet Union were dominating the European continent. As long as they were strong and were able to generate wealth from their colonies (especially in the case of England, France, German, and of course some Dutch merchants too), they neither felt the need to unite nor did they want to. Each was strong and did not want to share that power with others. When they felt weak and could no longer develop an independent foreign and defence policy they united under the umbrellas of the two major superpowers back then. That's why they remain united

because they could not do otherwise in order to be able to survive in international system.

Let me turn now to something else which has to do with Confidence and Security Building Measures. As a country we are developing such measures within NATO, etc. with Turkey, and will also start doing so with the Former Yugoslav Republic of Macedonia (FYROM). Which side does a programme of Confidence and Security Building Measures help? The powerful side or the weak side? In the case of Greece and Turkey, Greece is the weaker side, given that it has the geopolitical scale of Turkey opposite it (surface area, population, economy, armed forces, etc.). What does Greece do? Does it stand to gain from such Confidence and Security Building Measures? It does gain but let's pay attention to one factor. If as part of the Confidence and Security Building Measures we agree to not have tensions, that neither side will fly over the Aegean, we lose because Turkey can't lose what it doesn't have. We are sharing out a pie that was originally only our own. If we accept that no one is going to eat it, and that we won't eat from our own pie, we have lost since our rival will simply not be eating from a pie he never had! So if we have Confidence and Security Building Measures in this sense and we agree that neither side will fly over the Aegean, we are backing down, we have lost.

In the case of FYROM, who do Confidence and Security Building Measures help? We are in a position of power. We have the strength. We are the Goliath to their David. In all respects be it economy, size, population, armed forces, membership of international organisations that they haven't joined. It does of course help them too because they begin to have a presence and make arrangements with a larger state in the EU but it is Greece which gains because as powerful state it can impose its will. If it makes concessions on certain issues, then it loses. That's to say that the real issue is how to manage Confidence and Security Building Measures, and where to draw the lines in the sand. The issue is which of the two sides, the strong or the weak, benefits... I think it benefits both but as I said it depends on how far one will go.

This is a matter of interdependence via Confidence and Security Building Measures. As far as the economy is concerned, Turkey has in fact developed a much larger economy, especially in the last two decades, with a large industrial sector, etc. In Greece, on the other hand we've seen the economy decline... that's a well-known fact, so there is asymmetrical interdependence. You end up being dependent on others, on some of their products. That's a fact. Turkey has reached a point where it does not

produce much. I'm not talking about high tech, which it also imports, repackages and integrates into other system to produce goods. It has to be said that it doesn't even buy lemons or bikes or computers from Greece. Here we can see who loses and who wins. As far as the issue of national security is concerned, it does not mean that because we have developed trade the threat has ceased to exist. Let me mention something that Kondylis mentions in his book 'The Theory of War'. At some point he says that many people confuse social relations and that boozing and dancing do not solve the security problem or remove the threat from Turkey. In fact he says that "in all these years I never saw a Turkish mayor come to the islands or welcome the Greeks, and declare that he is in favour of Greek independence and condemn the aggressive and expansionist activities of the Turkish government... Not even once". We are talking about completely different things. He also refers to conflicts and says that they don't mean that every Turk hates every Greek or every Greek hates everyone from FYROM. Not at all. They may be friends but -be that as it may- the question of how the leadership elites of each country think and act is a different matter; it's they who devise the country's national strategy. We need to draw that distinction.

I'd say the same goes for the Balkans. Over the last 2 decades mainly, after the borders of the communist states fell, Greece has developed significant commercial and financial activities there, even educational activities such as schools and hospitals in Albania. What did we gain from that? Any development of economic relations on that level is politically advantageous. I don't know if economically it added much but politically speaking it was a good move. My view is that –and it's a view shared by many others I believe- Greek governments over the last two decades failed to politically exploit this fact. In other words, we developed immense operations in the Balkans and in the three countries on our northern borders which offer us a lot. The mere fact that many young people have started learning Greek to study at the University of Thessaloniki and then return home to work means a lot. I think that the advantages from opening up the Greek market to those countries were not exploited by Greek governments, and the further Greece goes into crisis it is losing the economic advantage it had developed there.

To get back to the question at hand, we saw that this growth in the Greek market within those countries did not benefit security, or to put it in other terms the international relations between the two countries. There was no benefit because the leaders did not exploit it. There was no political will on either side to do so. When you are a powerful

producer, as in this case, we are to blame if the initiative was not taken by Greek governments to enable the situation to be exploited. The others were weak; simply waiting to see what we would do. And we did nothing... In the entire Balkan region our interest was focused on FYROM and the issue of its name. Of course, it is a serious issue, a very serious one, but as the only member of the EU in the area for so many years, we ought to have had a different policy; an outward-looking, open policy which would create a different environment; we ought to have spoken from a position of power, as the 'EU', which wants to help them become members if they meet the conditions. We didn't do that and have lost out.

The same applies to Cyprus. The leaders in both Cyprus and Greece over the years have not carried out any real strategic analysis and identify what Cyprus is, what its advantages are, what its weaknesses are, what its strategic value is, what makes it strong, what the threats are, what is Turkey capable of, and therefore what strategy needs to be followed. Instead we engaged in disagreements with the Turkish side, accused Turkey of being unwavering in its position, turned our back on major allies who wanted to help ... with the result that Cyprus is in the position it is in.

- 3. In the academic debate so far about economic interdependence between two countries in conflict, the dominant value is that of the Liberals, according to whom trade promotes peace and reduces the intensity of conflict and that commercial agreements at regional level function like military alliances, which eliminates the likelihood of conflict. So, if we suppose that a state increases its commercial dealings with its rival to secure peace, it also shares in the relative gains, through that cooperation. Do you think that this fact –that it shares in the relative gains with its rivals, without conflict being eliminated, contributes to better national security?**

Trade, the economy and other non-military relations are an important factor in bringing certain countries together, but capable leaders are needed to exploit them. Developing good trade, banking, maritime connections with Egypt, etc., for example, but not exploiting that at political level, in the international environment as a strategic alliance, achieves nothing. That could end after 5-10 years and we would be back to the starting point again.

I'd like to add something else here to do with economic power. There are certain imponderables at play here, other than sovereign states. Let me give you an example I wrote about in my book 'Power Factors in the International System' which has to do with the recent financial crisis in the USA. In 2011 a ratings agency downgraded a superpower's economy. People became concerned. Stock markets lost value. All that from an announcement by a non-state actor, which has not been elected and is not even an emanation of state power, has no territory or population and has no military power. Perhaps specific hidden interests lie behind it, controlling it. However, it significantly downgraded the economic position and credibility of an entire country.

So we have a player who, unexpectedly, comes into play and does so at a time when no-one expects it and turns the situation on its head. What is Siemens but a state within a state... A large player whose budget is larger than the GDP of various different states. Why does it have so much power in the international economy? Let us not talk about the mass media that play a massive role. They shape the mood. I can't say that it affects politicians who are elected by and depend on citizens ... but citizens are affected by propaganda in the media.

In other words, I'm arguing that all these players who can play a role, create a different environment. Power may exist in objective terms, such as armed forces, geographical location, etc. but we need to look at non-obvious elements of power which include the mass media. While a country may be strong objectively speaking, its power is tested by non-obvious elements of power.

My view is that we cannot separate things out and talk about Realist thinking, Liberal thinking, etc. and use a knife to cut the two apart. Both one and the other are true. We can operate based on one form of thinking but we cannot contest that there are other factors at play, which we must take into account.

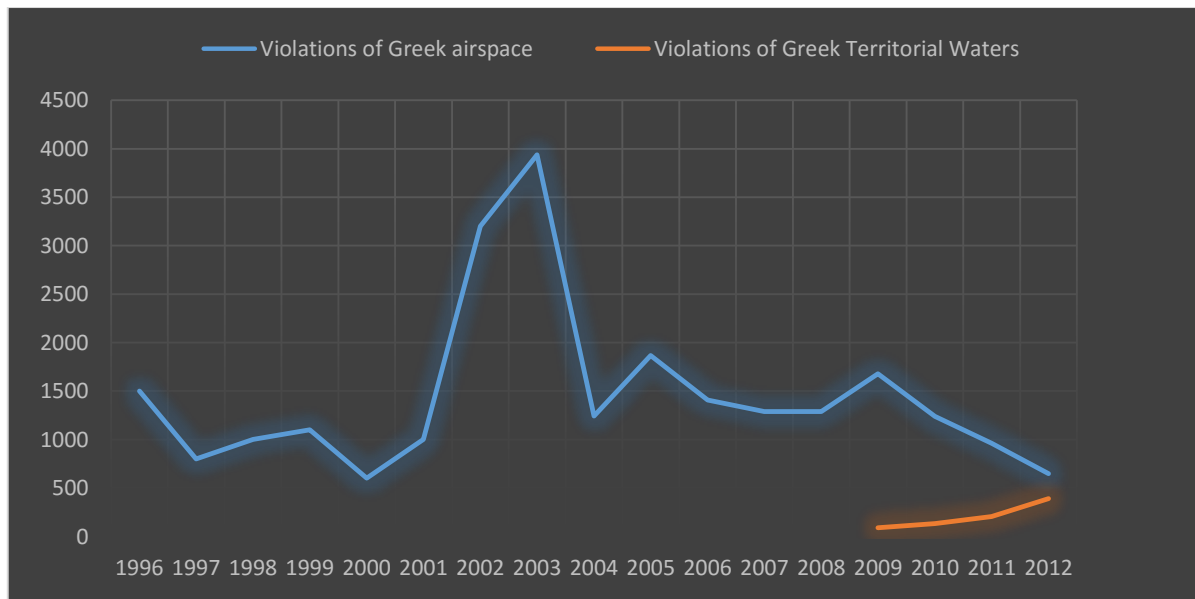
4. One illustrative example of asymmetrical interdependence and conflict is the case of Greece and Turkey. The characteristics of this case are as follows:

- a) both countries are members of NATO.**
- b) according to the tables below when Greece (which is the threatened state) increases its rate of economic growth, as a result of the rise in relative gains, conflict in the Aegean rises. On the other hand, when the relative gains are lower than those of Turkey, tensions in the Aegean decline, without being eliminated.**

Do you believe that a potential increase in Greece’s economic interdependence on Turkey is capable of ‘cashing in on’ the value of Greece’s dominant influence in the Aegean, thereby promoting Greek interests?

(note: I’m not arguing that the reason for conflict is the increase in Greece’s economic power, but the value of the influence of the contested area).

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| 2000 | 4.0 | 6.8 |
| 2001 | 3.7 | -5.7 |
| 2002 | 3.2 | 6.2 |
| 2003 | 6.6 | 5.3 |
| 2004 | 5.0 | 9.4 |
| 2005 | 0.9 | 8.4 |
| 2006 | 5.8 | 6.9 |
| 2007 | 3.5 | 4.7 |
| 2008 | -0.4 | 0.7 |
| 2009 | -4.4 | -4.8 |
| 2010 | -5.4 | 9.2 |
| 2011 | -8.9 | 8.8 |
| 2012 | -6.6 | 2.1 |



Although I'm not an economist, Greece's GDP and per capita income is higher than that of Turkey in percentage terms. In 1979 Turkey was collapsing, had a sort of civil war and everyone was saying that Turkey would break up. However it had a political, military, intellectual elite which held it together. At that time Greece was experiencing a massive boom, had joined the EU and appeared to be a giant compared to Turkey in terms of international recognition and economic life.

Even though Turkey overcome the problems it had in the 1970s, Greece continued throughout the 1990s to be in a better position. Greece is not even half of Turkey's size and with 1/8 of its population had 40% of Turkey's GDP, which meant clearly that it was much richer than Turkey and the per capita income of the average Greek was much better. That continued (although it has gone down due to the crisis) and Greece still has a better per capita income than Turkey because Turkey can present the figures it does, but it has structural problems which do not allow it to solve its citizens' problems.

Some measure power factors in numbers, and publish them in defence-related journals, but power has other elements we need to take into account. One illustrative example is the conflict with Italy. In 1940 Italy attacked Greece. It was incomparably stronger judging by all objective elements of power: size, population, armed forces, technology, economy, etc. It was an Empire which held part of North Africa and its immense fleet ruled the Mediterranean. On the other hand, Greece was a weak player. Any cold (or rational) analyst of power factors would have said that 'it's pointless defending

yourself, just agree to whatever they suggest'. In reality things turned out differently. What factor contributed to this reversal in power? It is clear that non-obvious factors such as moral, spirit, leadership, and support from the people, and so on, played a role. I argue that without suitable leadership nothing can be achieved. Of course, morale is certainly important but, as I'm in the habit of saying, with the morale of the gunners alone, the rifle bullets would not have hit their target. Administration, organisation and planning were needed. Consequently the role of leadership is important everywhere. Leadership writes history ... and states with capable leaders have, in difficult times throughout history, succeeded.

Let me turn to the issue of Turkey again. We can see economic growth, with Turkey improving and Greece getting worse. That -of course- creates a lack of power for Greece. Politically you cannot discuss with someone who is financially more powerful, so our diplomacy has no arguments to back it up. What are those arguments? The economy -of course- which gives the country strength and the armed forces. When those points are raised diplomats negotiate with the economy, industry, strong armed forces behind them, which can attract other states into the fold. If diplomacy cannot say or insinuate these things, that particular state's views cannot be imposed. Any politician who says that despite the economic decline in defence spending, the country's armed forces have nothing to lose and will remain strong is being blithe. Everyone understands that when you don't have money you cannot maintain your armaments, nor buy new ones, nor maintain personnel, and so power reduces.

If two states develop commercial relations, that can contribute in some way to improved political relations and offset a risk of conflict based on the following reasoning. That the other state, the one that wants to attack, does not want to lose a customer. It does not want to destroy the commercial operations it has, but that is all relative. Because a question arises here: are Turkey's operations in Greece so large that it can say it is losing something if it attacks? If they are that large, its relationship could be affected, and so the whole matter is relative.

As far as the diagrams are concerned, there are other factors at play too. This aggressive ploy of flyovers could be due to other factors. For example, the fact that the leadership has a different policy, balancing out other issues in the international environment in the region, or a show of strength against others in the region. Let me give you an example: Greece has a strategic relationship with Armenia. Most officers in the Armenian Army study at Greek military academies and speak Greek. We have

an amazing relationship with Armenia. Consequently we've created a pocket of Greek influence in Armenia, which is directly at Turkey's back. Every time Turkey notices an increase in our relations with Armenia it may increase tension or every time it sees that we are helping the Kurds in some way it may create tension in the Aegean.

On the other hand, the wording of demands relating to the Aegean plays a role. Aircraft are launched and Turkey says that it has sovereign rights over the area. If we don't scramble aircraft it means that we tacitly accept that. We scramble aircraft to show -in legal terms too- that we will never accept challenges to our sovereignty.

On the other hand, I think that the main factor which dominates in relations with Turkey in what is a 'cold war' is our membership of NATO and above all our membership of the EU. Many may say that a member of NATO is creating problems for another member of NATO, but the fact that we are both members has removed the risk. On the other hand, I believe that membership of the EU is the greatest achievement of our foreign policy since the War. In terms of security, the fact that we are in EU, puts Turkey off attacking. It may be because we haven't experienced the contrary that we can't perceive the benefits we've enjoyed.

Let me give you another example. The Air Force signed a contract a few years ago with Mc Donald Douglas for F16 aircraft parts. One of the company's sub-manufacturers was the Turkish aviation industry because Turkey manufactures F16 and could produce them. What one needs to notice is that the Greek industry had a 0.5% stake in the spare parts programme and the Turkish one 13% because Turkey had more potential in relation to Greece, and as I have argued in my articles, this has been politically exploited for the last 2 ½ decades, by keeping the Greek industry dependent on the state, with the result that the leaders of trade unions and party political interests did not enter international tender procedures to trade as 'intermediaries' with armed forces even though other defence industries in other states were privatised and had partnerships throughout Europe. As I wrote in my article, is it reasonable in a country which has the Greek armed forces as a major client (armed forces which in percentage terms are larger than those of many larger states) for ELBO not to have work? It is possible for ELBO not to sell its vehicles to Bulgaria, Albania and FYROM? When it was suggested a few years back that it be privatised, some Greeks expressed interest, but it remained as it was and is now in collapse. Some sides don't want Greece to develop. There are businessmen in Greece who do not allow foreign investment. So no matter what Greece does, the value the Aegean has as a theatre of influence cannot

be cashed in on by developing economic relations with Turkey. There is a line which starts in Thrace and runs through the Eastern Aegean and ends in Cyprus. There is a strategy of Turkey being confined behind that line by Hellenism.

If we go to the shores of Asia Minor and look towards Greece, we will see how the rival thinks because it's as if we are on Mt. Pelion looking at Skiathos and Skopelos but with them flying the Turkish flag. There is a sense of threat, even if it is only psychological. The islands of the Aegean are the last line of retreat for Hellenism. If we lose the Aegean, if it is split down the middle, Hellenism is lost because the Aegean was the very centre where Greek culture developed and is our centre of power. What I'm trying to say is that there is confinement and if we get into the Turkish leader's shoes, we can see that strategic confinement taking place. That is the reason for the strategic sense of insecurity Turkey felt, which resulted in it occupying Northern Cyprus.

Turkey cannot stand such confinement; it's for that reason it seeks to have operational control of the Aegean. It's not a matter of hydrocarbons. Other than estimates of reserves, there's no actual proof that there are hydrocarbons in the Aegean. There are only estimates and they relate to insignificant quantities compared to those which exist around us in the Mediterranean. Consequently, the issue is not how we will share out potentially non-existent hydrocarbons, but the issue of strategic control of the area and how to promote Turkey's security. So we need a strategic analysis of everything to see how possible it is to strategically affect things and what we can demand from Turkey. Like entering into good alliances, for example, because it's not possible otherwise to counterbalance Turkey's geopolitical scale in all respects: economy, armed forces, etc. No matter how good the quality, when the other size outweighs you in quantity there is no room for manoeuvre. To an extent, the economy can influence things but it's all very relative. The strategic interests and the goals of countries -and of Turkey in particular- outweigh any other relations which may be developed.

- 5. Does the fact that the same results arise from examining conflicts between countries with different characteristics, such as Great Britain and Spain over the Gibraltar area (which is contested by Spain), and India and Pakistan over the Kashmir region (which is contested by Pakistan) in your view confirm the view that asymmetrical economic interdependence**

between countries in dispute cannot be a balancing factor between two rivals?

Here, I'd like to say that the example of Gibraltar bears no relationship with us and Turkey because in Spain (and I can say this because I have served at our Embassy there and have seen military men writing articles on the matter) the Spanish feel bad about it, and above all because historically speaking the English occupied Gibraltar on a ruse 3 centuries ago. The ministers of foreign affairs of each country meet once a year to talk about Gibraltar but solutions are not found. There is a conflict but not on the same level as our one with Turkey, because both countries in another context cooperate as European partners and therefore have joint guidelines on trade and joint intervention forces, etc.

The case of Pakistan and India is different because there is a war there over Kashmir and the relationship is different. I think, however, that India presents itself a large economic player, so Pakistan is in the relatively weaker position that this creates and it is also militarily weaker and unable to intervene. With the rise of nuclear weapons, I do not think that they want to have closer relations. Also, generally speaking their democratic institutions and the way in which the economy operate make it difficult to develop mutual economic activities and investments. Although India would be interested in the Pakistani market because of the size of its population, I do not know to what extent they would be able to buy its products. So I do not think that any rise in economic relations could solve the Kashmir issue.

Alexandros Mallias, Ambassador (ret)

1. Who do you believe are the dominant actors in international politics? States (as the Realist school of thinking asserts) or international institutions/organisations and markets (as the Liberals assert)?

The United Nations was established after the end of WWII by the forces which won the war. Consequently, the objective was to find an equilibrium point between politics, which expresses the state's interests, and justice. That is the reason why the UN was created. In other words, there would be an equilibrium point between interests and international law, meaning a peaceful solution, cooperation, etc. and not just a legal framework. So, the way in which the UN was set up provided the Security Council with a dominant role. It consists of 15 members and 5 permanent members of the Security Council who have a right of veto, which means that they have the right to accept or reject the political proposals of the others.

It consists of France, the UK, the Russian Federation, the USA and the People's Republic of China. According to the UN Charter, those countries had a unique responsibility for preserving global peace and security. Today, with few exceptions, the Security Council does not function because the 5 permanent members, in the vast majority of cases, prefer to seek out solutions and ways out of situations based on their own national interests. One exception I could say is the agreement about Iran but that was made because overturning the equilibrium in the Mediterranean from the Pillars of Hercules at Gibraltar, to the Indian subcontinent, we have a radical change in equilibrium which serves the interests of the US above all. So a solution to the nuclear problem in Iran was not the key issue, but it was a path for Iran to become the most powerful player in the entire region. Because that promotes the interests of the USA and, those of the EU and Russia as well, I'd like to believe. So, in conclusion, I'd say that the current system of international regional political and economic cooperation is subject to the interests of the great powers. Of course, the great powers are not just the ones mentioned. For example, we have certain BRICS countries like India and Pakistan, but mainly India, which is a massive nuclear power, with immense know-how, and raw materials and actually exports technology.

So I believe that India is an appreciable power, with nuclear weapons and ballistic capabilities, like Pakistan, which was forced to become a nuclear power because it has

India as a neighbour. As far as political unions with an economic backdrop are concerned, like the European Union, they are a mixture of intergovernmental cooperation and the assignment of specific sovereign rights, based in large part on economic cooperation. Even there, theoretically speaking the states are equal, just like they are theoretically equal in the UN. The reality is utterly different. Theoretically, there is the principle of equality, but in reality there are only the interests of certain countries which have a greater weighting than the interests of certain others. I'd also say that the UN system is illustrative because the UN reacts in different ways in different cases. The same applies with the EU and NATO. For example, take Turkey's relations with Cyprus, the invasion of Cyprus by Turkey and the invasion of the Crimean by Russia. Did you see the reaction from the UN, the EU and NATO against Russia and the lack of reaction against Turkish invasion and occupation of Cyprus?

- 2. In the structural Realist Stephen Waltz's definition (1979), asymmetrical interdependence, in its political dimension, relates to parties which are not mutually interdependent on each other but nonetheless affect each other. On the economic side, the structural Realist Joseph Grieco (1988) has argued that states are suspicious of each other and place particular importance on how collaboration will affect relative gains in the future. Given that the preservation of the armed forces' power is based on the state's economic power, do you believe that the choice of economic partners and the degree of interdependence in relation to relative gains is a matter of national security?**

The issue of how you define national security is vital. First you need to define national security and then analyse strategic power, economic power, political stability and social cohesion. National security means the entire system of actors and parameters which prevent some external factor undermining it, calling it into doubt, disturbing its stability. The second issue is whether the state itself understands the factors relevant to national security. As far as national security is concerned, I'd say that the first principle is not just how you feel but how others evaluate you, appreciate you, and how they measure you up. Are you powerful? Is there a sense of evaluation about whether a country is powerful or weak? Is a country which shows a lack of knowledge about international goings-on at the global and European level, a country which is an

international beggar and does not live based on its own capabilities and production but depends on the borrowed money it receives, really a country which can argue that it has a developed system / network for protecting national security? The third point is military power, which depends on economic capabilities and morale.

I'd say that it is a mistake to always put economic capabilities at the forefront because there are many historical examples where belief in something had great results despite the lack of economic capabilities. The fourth issue is political stability, which means foreseeable and respected dates for changes in government. It also means that the government respects its role and actually governs, and that the opposition scrutinises the government. Fifth is social cohesion, i.e. the extent to which the representative political system we have is actually based on society. That's because there are many cases, especially in the last 7-8 years in Greece, of governments which had a parliamentary majority but did not have the support of society, especially in the last few years.

As far as asymmetrical interdependence is concerned, I'd say that when a powerful country is associated financially with a less powerful one we can use a good working assumption which is that theoretically the more powerful state will have a greater impact on the system of relations with the weaker state. However, there may be exceptions. However, practical experience allows me to accept a general principle that the degree of economic interdependence affects the spirit of the relations. For me, the ideal framework for analysis would be energy relations between the EU and Russia. There we have economic interconnections through energy. We see a very strong union of states (the EU) which is trying to control its connection to the energy supplier called Russia. The Ukrainian crisis was a pretext; the problem already existed. The Russian invasion of the Ukraine made things easier for the US and those in Europe who believed that it was a mistake to move towards economic interdependence with Russia to such a large degree and created the opportunity to put the issue of revising Europe's energy policy on the table.

So the Ukraine was very effective in serving those who believed that it is a mistake for EU countries to have such a degree of energy dependence on Russia. So there is a relationship between economic interdependence and national security in the sense that today the economy dominates politics. That is not an axiom, it is international reality. The major conflict today is the one which is not visible, which is not waged using military means. The greatest conflict today has an economic backdrop and is being

waged in sub-Saharan Africa between China and the USA to secure raw materials. There are major American and other corporations there, which are trying to secure raw materials for the next 30-40 years, by buying up farming land.

Another example, involving military means without yet getting to the stage of conflict, is the South Sea of China region where there is conflict between the People's Republic of China and the US over control of immense offshore areas, and control of free shipping routes. For the USA, this is the No. 1 national security issue, not the Middle East issue. In other words China is looking at what Dubai did and is turning certain coral reefs into dry land, and is therefore acquiring a continental shelf and an Exclusive Economic Zone.

- 3. In the academic debate so far about economic interdependence between two countries in conflict, the dominant value is that of the Liberals, according to whom trade promotes peace and reduces the intensity of conflict and that commercial agreements at regional level function like military alliances, which eliminates the likelihood of conflict. So, if we suppose that a state increases its commercial dealings with its rival to secure peace, it also shares in the relative gains, through that cooperation. Do you think that this fact –that it shares in the relative gains with its rivals, without conflict being eliminated, contributes to better national security?**

Things are neither black nor white; everything is a shade of grey. That is because in all issues you cannot make the choice 'if I don't cooperate I will be safer'. For example, when Greece decided to adopt the Helsinki policy with Turkey after 1999 it had three choices. One choice was to block Turkey's rapprochement with the EU, the second was to continue to bolster the deterrent role of its armed forces and the third was to ignore the Turkish market. The reasoning was that you can do all three but under other conditions. We said we would open up Turkey's path to the EU in the hope that it would implement some criteria which would make a Greek-Turkish rapprochement easier, would resolve the Cyprus question, which was not based on delusions but that we could actually achieve something better, and also that there was immense potential for the development of economic, trade and tourism relations. Logic says that the closer relations are in terms of the population on Greek islands like Ios

and Samos with Cesme and the coastline area, and in the tourism sector, the more some Turkish admirals would think about exacerbating the situation.

However, that has not proven to be 100% the case since they have the means to choose where they will pester us; nor have the nuisance methods used changed at all; nor has Turkey's dogma. It is a policy which is based on progressive assessment of the pros and cons. I'd be irrational if I said that there are no positive aspects. If the relations between the two countries continued to be bogged down in conflict over EU membership, we would have a problem of having the sort of economic presence we do in Turkey. Moreover, if Greece, if the Greek banking system was in a better condition, Greek businesses would have a much greater presence than in recent years. Consequently, I believe that a numerical analysis is a new immense market on our doorstep which the Greek business community wants. Looking from their (the Turkish) perspective towards Greece, the major effort in the banking sector came from Ziraat Bank, which sought to control growth via loans, which was politically motivated, loans towards Thrace and via the idea of control and acquisition of private tourism and other infrastructure in Greece, which is proceeding apace. Turkish businessmen coming to Greece aren't thinking about confirming Turkish claims to the continental shelf or FIR Athens but I'd say the stronger economic ties are the more power factors in a country have a role to play.

Today Turkey has much greater importance for Greece in terms of trade and investments than the Greek market has for Turkey. In the energy sector we can mention natural gas. It's certain that Greece needs to have a pipeline to bring in natural gas, which shouldn't pass through Turkey so that we have an alternative solution.

4. One illustrative example of asymmetrical interdependence and conflict is the case of Greece and Turkey. The characteristics of this case are as follows:

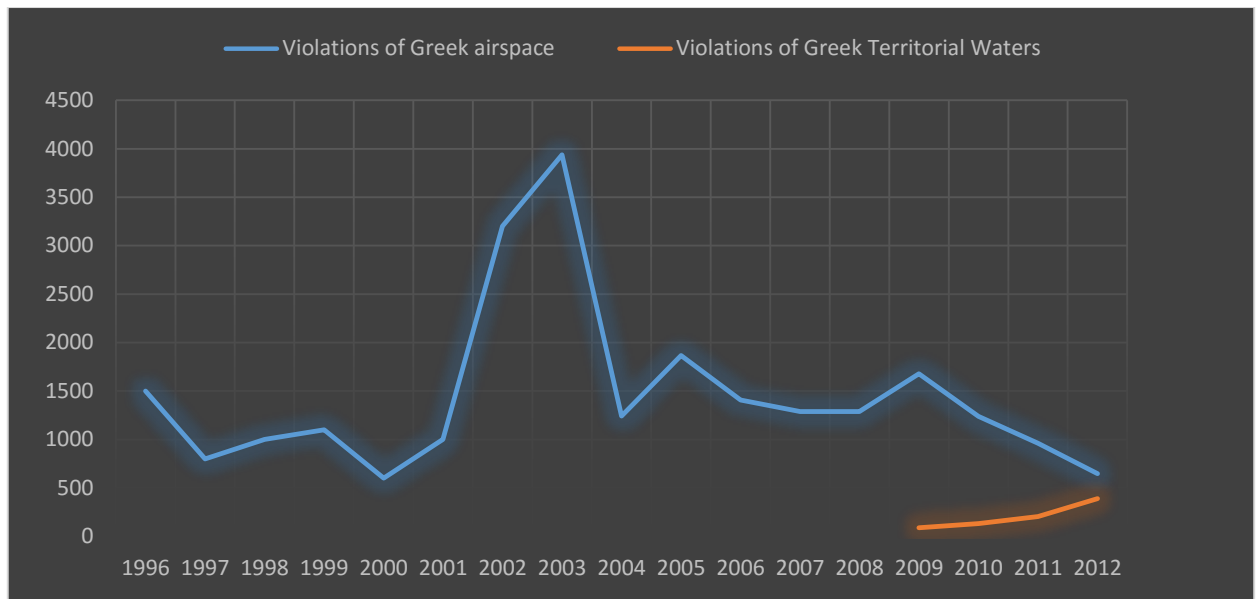
a) both countries are members of NATO.

b) according to the tables below when Greece (which is the threatened state) increases its rate of economic growth, as a result of the rise in relative gains, conflict in the Aegean rises. On the other hand, when the relative gains are lower than those of Turkey, tensions in the Aegean decline, without being eliminated.

Do you believe that a potential increase in Greece’s economic interdependence on Turkey is capable of ‘cashing in on’ the value of Greece’s dominant influence in the Aegean, thereby promoting Greek interests?

(note: I’m not arguing that the reason for conflict is the increase in Greece’s economic power, but the value of the influence of the contested area).

| YEAR | GDP GROWTH (GREECE) | GDP GROWTH (TURKEY) |
|-------------|--------------------------------|--------------------------------|
| 1995 | 2.1 | 7.9 |
| 1996 | 3.0 | 7.4 |
| 1997 | 4.5 | 7.6 |
| 1998 | 4.1 | 2.3 |
| 1999 | 3.1 | -3.4 |
| 2000 | 4.0 | 6.8 |
| 2001 | 3.7 | -5.7 |
| 2002 | 3.2 | 6.2 |
| 2003 | 6.6 | 5.3 |
| 2004 | 5.0 | 9.4 |
| 2005 | 0.9 | 8.4 |
| 2006 | 5.8 | 6.9 |
| 2007 | 3.5 | 4.7 |
| 2008 | -0.4 | 0.7 |
| 2009 | -4.4 | -4.8 |
| 2010 | -5.4 | 9.2 |
| 2011 | -8.9 | 8.8 |
| 2012 | -6.6 | 2.1 |



In both Cyprus and in the Kastellorizo area where the problem exists, Turkey has precisely the same policy, just expressed in different terms. In Cyprus, Turkey sent the BARBAROS and two warships. The agreement reached, and which was implemented, was that it would withdraw the Barbaros if the Italian explorations stopped. The Cypriot Government refused to do that but the drill boat had to stop for maintenance at some point. That was the timing of things; of course, it is up to every reasonable person to decide if it was an agreement or coincidence, but I believe it was a ploy. Another condition was that the explorations would not continue on the Cypriot continental shelf while talks to resolve the Cypriot question were ongoing. There was definitely a connection between the stoppage of drilling to maintain the drill and the departure of the Barbaros. As far as the Aegean is concerned, Turkish and third-country businessmen have repeatedly suggested joint exploitation. That is at a time when the official message from Greeks is a proposal for Americans to jointly exploit the Aegean, obviously thinking that that means a lot in a globalised economy.

When you propose joint exploitation, i.e. exploitation of resources that belong to you, with the help of others, it means that you are giving up a part of the sovereignty you have as a state to exclusively exploit your own resources. One cannot be selectively sensitive. Either we say that we exploit the Aegean on our own in accordance with national and international law, or if we throw the phrase 'joint exploitation' on the table we make it more difficult afterwards to reject a proposal where Turkey would also have a right to participate. Otherwise, the response would be that using this ploy

there is no joint exploitation, merely private companies who exploit the sea's resources and reduce defence spending. That's why we need to be careful when putting such proposals on the table, when they come from official Greek sources. There were very large US business groups that wanted to jointly exploit the Aegean. If we decide to jointly exploit the Aegean with others, we need to seriously think about the reasons for excluding a Turkish private company. I think that a direct Turkish threat from the Barbaros and the accompanying warships in Cyprus was very different from the approach in the Aegean, but the issue is the same. The message is don't start something in 'areas which Turkey asserts are 'grey' zones and which it contests, because otherwise we will intervene. Since February Turkey has been accompanying its stance – threats with military means. That has been done by setting aside large areas of the Aegean for military training exercises for a very long period of time, lasting 4-5 months. That has already happened.

- 5. Does the fact that the same results arise from examining conflicts between countries with different characteristics, such as Great Britain and Spain over the Gibraltar area (which is contested by Spain), and India and Pakistan over the Kashmir region (which is contested by Pakistan) in your view confirm the view that asymmetrical economic interdependence between countries in dispute cannot be a balancing factor between two rivals?**

Let me come back to Greek-Turkish relations. Is it an issue of national sovereignty for Greece for it to secure large markets for Greek products especially since we do not export anything? It is an existential question? How can a country survive with very low productivity, with high costs and no markets for its products? If Greece prevents its companies from investing in Turkey, would that harm Turkey more than Greece? In reality it would undermine the very few markets we have to promote Greek exports to. Can we also assume, as a working hypothesis, the axiomatic stance of liberal theoreticians, and of the free market more so that irrespective of the fact that Turkey has not changed its attitude towards the Aegean, etc. we would be more strongly poised to deal with it if we did not have such a strong business presence in Istanbul and along the coastline?

It's difficult to answer that. Continuous efforts have played a role in ameliorating relations despite the fact that we have bilateral economic dependence and we will have a much greater political, economic and energy dependence if an alternative pipeline that does not pass through Turkey, via some other route, is not created. That was one of the major differences between the plan of Kostas Karamanlis' Government with Vladimir Putin, and the South Stream, which would not pass through Turkey. The new stream -which has already been finished- passes through Turkey and in Turkey is called the Turkish Stream. There is a very major difference. The pipeline which would best safeguard Greece's interest was the one which did not pass through Turkey, but so that I'm not being one-sided, I would say that the TAP is very good, but at the same time we need to ensure the problem-free operation of the domestic Greek market for at least 6 months, via a smaller capacity pipeline which does not pass through Turkey because otherwise we are heading for complete dependence. I am not at all certain that in the case of a very acute crisis, not just in Greek-Turkish relations but also in Euro-Turkish relations or German-Turkish or French-Turkish relations that Turkey wouldn't in fact decide to use energy supply as a bargaining tool. We have experienced periods of economic sanctions and conflict. It can't be ruled out.

If Germany officially says that Turkey cannot become a member of the EU, Turkey will use whatever means it has. So we need an alternative, so that we do not return to the status quo ante. The markets are more powerful than states, and economics now dictate politics. Turkey under Erdogan has exerted a regional and also global political economy influence. Regionally it had ties to Islam, etc. but it did not engage in the same policy with Brazil, India, China and Africa. There it was economic imperialism. In Kashmir there are two countries, one of which is the largest modern democracy (India) and the other the tenth largest (Pakistan). Both countries have nuclear weapons, which Pakistan says it may use if it needs to. It is a different case where nuclear deterrence may work. Kashmir is something Pakistan has created to have an 'open wound' in India. I do not know what Pakistan gains from that in the case where tensions escalate but it is not the only problem; another unreasonable, contentious issue that Pakistan and India are in conflict over is the Siachen Glacier which is located at an altitude of 6,000 m above sea level and is a contested border zone.

Ram Aviram, Ambassador (ret)

BIT-Consultancy-Israel

- 1. Who do you believe are the dominant actors in international politics? States (as the Realist school of thinking asserts) or international institutions/organisations and markets (as the Liberals assert)?**

If one has to choose which is more dominant, I would say states. Now, the word “states” does not take economic factors out of the consideration, but if you mean states in the sense of nationalistic feelings that might have within also economic consideration, then it is states. I am not one of those who believe in international conglomerates or financial institutions, in one way or another can bring growth on people, it has to be a combination, even one of the last decade of 20th century and the first decade of the 21st century the war with Iraq which were contributed to economic factors such as oil etc. I tend to believe that if the USA will not be able, especially in the first Gulf war, they were not able to base their case also on justice for example the conquest of Kuwait. Of course, Kuwait was important because of the oil but it was not enough you had to put other arguments in order to create a coalition which fought against Iraq. So when I put those things together, I think there are other factors on the national level that comes in power. I don't think that economy is the major factor in going to war or not going to war, it is important but for example, the war in Gaza last summer cost Israeli 10 bil. Sheqel (2.6 bil. USD appr.). I don't think that any missile which was sent there had the economic consideration in it. Because the most important was they were not be damaging the central in the center of cities etc. So, I believe it is states, in more pure nationalistic consideration, than just economy.

- 2. In the structural Realist Stephen Waltz's definition (1979), asymmetrical interdependence, in its political dimension, relates to parties which are not mutually interdependent on each other but nonetheless affect each other. On the economic side, the structural Realist Joseph Grieco (1988) has argued that states are suspicious of each other and place particular importance on how collaboration will affect relative gains in the future. Given that the preservation of the armed forces' power is based on the state's economic power, do you believe that the choice of economic**

partners and the degree of interdependence in relation to relative gains is a matter of national security?

I would go to Israel, which I know best. If you looking at the overall of economic relations between Israel and Turkey, it was at their pick, I am not sure it was completely equal but it was almost of the same importance to both countries. Even though for Israel was more important, Turkey was a much higher on the list of countries than it was Israel for Turkey, because the economy of Turkey is much bigger than the economy of Israel. So, that didn't stop Erdogan to strain the relations to a point to a conflict that was even violent. But one throughout this conflict, he was very cautious not to hurt the civil trade between the countries. It was the Israelis who decided that they will not go to vacations in Turkey, even though it was a major destination in terms of price and a good location place. This is an economic issue. Completely. So, in a way the Israelis decided that they are willing to give up a good location place, which means to pay more from their pockets, for example to come to Greece which is more expensive than going to Turkey, because of other interests. For example, their feeling of security in the country, their feeling to the Turks who betrayed them by not cooperating with them even though we had strategic relations, so in relations between Israel and Turkey where you can see in time overall strategic alliance and very intensive economic relations, we move to a situation where the strategic alliance was diminished, some parts of economic relations were maintained, some parts disappeared, like tourism, and other parts disappeared on the side of Turkey, for example, they've decided that there will not be any governmental contract, especially on the defense side, with Israel. So, the game there is combined, it is asymmetric, as we said, in the sense, that Turkey is much more important trade partner to Israel than Israel to Turkey. Besides, certain places, you know, if you go along the beaches of Antalya you find many who rely on 400 Israelis coming every year. But what was deterred in the end, was other factors than the economy. It goes also to the Turkey's side. The Turks were willing, let's say, to pay more to American company and get less quality of military industry product than to keep on buying from Israel, which is closer to them, etc. Another interesting one, is the relations between Israel and Egypt on the issue of the supply of gas from Egypt to Israel. Here you have a product of high national importance, that's oil and gas, that's the source of energy, for electricity, for everything and at the time of Mubarak, the issue supply of gas from Egypt to Israel

was very important. Now Israel, even though Egypt was overall a country with peacefully but it was never a strategic ally of Israel, was always looked at with good intentions but with a little bit of suspiciousness. The first thing that ended when the Muslim Brothers came to power, the first thing was stopped was the flow of gas from Egypt to Israel. The overall discourse in Israel was how much we are willing to rely on a supplier like Egypt to Israel. History has one more chapter, which is very interesting because it happens these days. American-Israeli partnership is holding its rights on the utilization on natural gas in the Mediterranean. They have signed a huge contract with Egypt to supply gas to Egypt. But it was the time of el – Sisi not the time of Morsi. This time it goes the other way round. Israel sells to Egypt. Energy, oil, gas, are product to my mind stands on the borderline between economy and national security. It is so vital that it cannot be without. So, you have to think which the sources that you rely on are. There is a big debate in Israel these days of what should be the regulation in the overall relations between the state and companies that exploit the fields, e.g. how much tax they would pay, how much of the gas they will be allowed to export and how much there will be the strategic reserves for Israel, etc. and all that has tremendous impact on Israel for the next thirty, forty years. Economic one, because by the price of the electricity you actually define the price of every product in the country. Israel is already depends, about 60% of its energy sources of natural gas from the Mediterranean. So we can understand, what an economic importance it has on the overall of the country. You know what the Israeli government decided a week ago? They decided that the issue of the regulation of the gas is a matter of national security and it should be decided upon the national security cabinet. While we talk, the debate is very heat in Israel. But there is no question that Netanyahu had some grounds to call it “this is national security, don’t talk to me about economy”. We have now to decide what we do and how we do, because of national security and not economy and it also plays a significant role on national resilience scale. So energy is a sector in economy which is different, because to most commodities you can find alternatives but when you are going to energy it plays a major role. I would look at energy even as a different category in terms of relations between countries. In addition, energy in relations between Israel and Jordan, Israel, can supply gas to Jordan which they need very much. Politically, it is difficult for Jordan to admit publically of their dependence on Israeli power, because Israel is a safeguard for the Hashemite Kingdom, so, when it is only on the defense side you can always hide it, but when it comes to gas it is something

else. And the Jordanians found the way to do it in the private sector in order to reduce internal political objection within the country. I want to return to issue of asymmetric, because it very interesting. I am very hesitant of what I am going to say now but that's my feeling, based on nothing. I think that a non-hegemon will not hesitate to go to war against a hegemon in economic relations. First of all, it can shake a little bit the overall relations. Secondly, if he feels that there is a "casus belli" the economic factor will be pride, terror, dispute over territories and you saw it in 1996 in Greece on Imia, so there are more important factors than economy, even in asymmetric situation, where a non-hegemon have more to lose.

3. In the academic debate so far about economic interdependence between two countries in conflict, the dominant value is that of the Liberals, according to whom trade promotes peace and reduces the intensity of conflict and that commercial agreements at regional level function like military alliances, which eliminates the likelihood of conflict. So, if we suppose that a state increases its commercial dealings with its rival to secure peace, it also shares in the relative gains, through that cooperation. Do you think that this fact –that it shares in the relative gains with its rivals, without conflict being eliminated, contributes to better national security?

Two things come to my mind. One, I have no doubt that governments are using the trade as a tool to enhance their national security. Then it becomes a matter of scale, how much they would be willing to pay for it in order to maintain their national security. The scale is a matter of something to be checked. For example, the West when encouraged the Soviet Bloc even if it is for less economic benefit, in order to change the internal course in Soviet Bloc, so that would be willing to give up some of their relative benefits in order to change the course of the politics and of course it is for national security. It is more difficult when it comes to energy, because we look from different angles for the way Russia is using the gas pipeline oil in Ukraine to have leverage there. Ready to lose some benefits out of the gas in order to put pressure on Ukraine, so, again, is a matter of a scale how much you would be willing to give up. So, the main idea is that economy and trade is a tool by governments to enhance their national security but the payment is a matter of a scale.

4. One illustrative example of asymmetrical interdependence and conflict is the case of Greece and Turkey. The characteristics of this case are as follows:

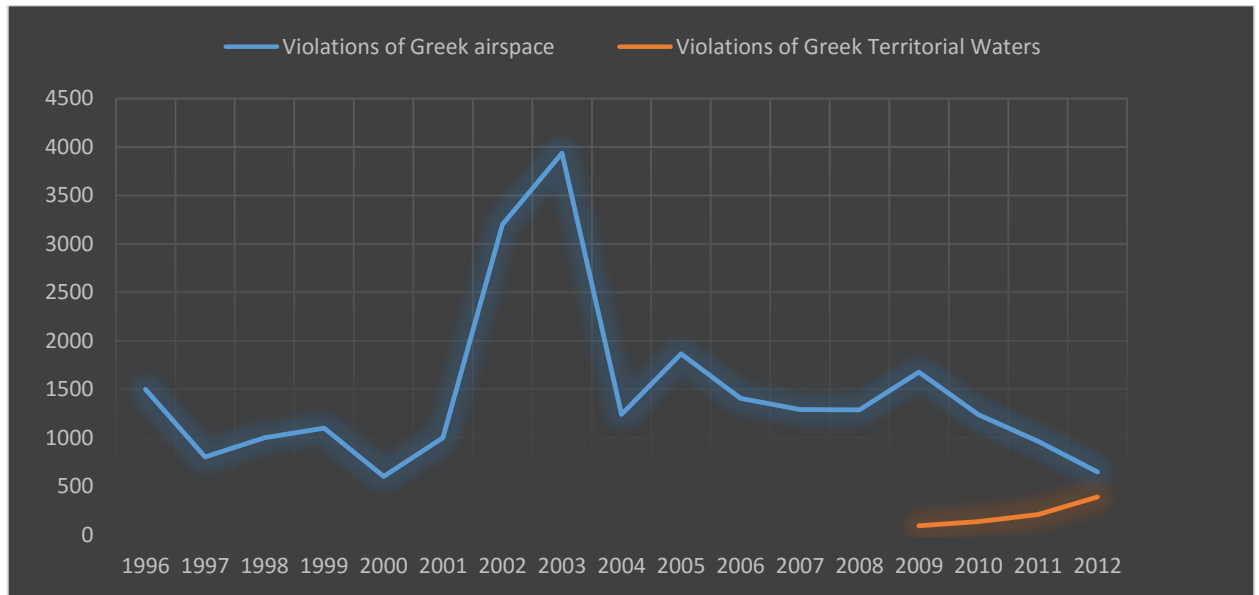
a) both countries are members of NATO.

b) according to the tables below when Greece (which is the threatened state) increases its rate of economic growth, as a result of the rise in relative gains, conflict in the Aegean rises. On the other hand, when the relative gains are lower than those of Turkey, tensions in the Aegean decline, without being eliminated. Do you believe that a potential increase in Greece's economic interdependence on Turkey is capable of 'cashing in on' the value of Greece's dominant influence in the Aegean, thereby promoting Greek interests?

(note: I'm not arguing that the reason for conflict is the increase in Greece's economic power, but the value of the influence of the contested area).

| YEAR | GDP GROWTH (GREECE) | GDP GROWTH (TURKEY) |
|-------------|---------------------|---------------------|
| 1995 | 2.1 | 7.9 |
| 1996 | 3.0 | 7.4 |
| 1997 | 4.5 | 7.6 |
| 1998 | 4.1 | 2.3 |
| 1999 | 3.1 | -3.4 |
| 2000 | 4.0 | 6.8 |
| 2001 | 3.7 | -5.7 |
| 2002 | 3.2 | 6.2 |
| 2003 | 6.6 | 5.3 |
| 2004 | 5.0 | 9.4 |
| 2005 | 0.9 | 8.4 |
| 2006 | 5.8 | 6.9 |
| 2007 | 3.5 | 4.7 |
| 2008 | -0.4 | 0.7 |
| 2009 | -4.4 | -4.8 |

| | | |
|-------------|-------------|------------|
| 2010 | -5.4 | 9.2 |
| 2011 | -8.9 | 8.8 |
| 2012 | -6.6 | 2.1 |



If generally speaking, there is a linear connection between the trade and interdependence and conflict, I will support what you think, that there is no connection.

- 5. Does the fact that the same results arise from examining conflicts between countries with different characteristics, such as Great Britain and Spain over the Gibraltar area (which is contested by Spain), and India and Pakistan over the Kashmir region (which is contested by Pakistan) in your view confirm the view that asymmetrical economic interdependence between countries in dispute cannot be a balancing factor between two rivals?**

This is the ultimate example of low politics. Even though Spain maybe dependent more on the UK doesn't matter, because Spain rises its demands for Gibraltar, so I am sure that over disputed areas there are more important factors than just economy, such as influence.