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DALE C. COPELAND

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## Economic Interdependence and War

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# Economic Interdependence and War

*Dale C. Copeland*

PRINCETON UNIVERSITY PRESS

*Princeton and Oxford*

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Published by Princeton University Press, 41 William Street, Princeton, New Jersey 08540

In the United Kingdom: Princeton University Press, 6 Oxford Street, Woodstock, Oxfordshire  
OX20 1TW

press.princeton.edu

*Jacket art:* Auguste Étienne François Mayer, *The Redoubtable at the Battle of Trafalgar*, 1836.

Photo: Bulloz. Musée de la Marine, France. © RMN-Grand Palais/Art Resource, NY

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ISBN 978-0-691-16158-7

ISBN (pbk.) 978-0-691-16159-4

British Library Cataloging-in-Publication Data is available

This book has been composed in Sabon Next LT Pro

Printed on acid-free paper. ∞

Printed in the United States of America

10 9 8 7 6 5 4 3 2 1

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## Preface

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THIS IS A BOOK with multiple layers, and hence one that can be read from a number of angles. First and foremost, it is exploration of the conditions under which trade and investment flows are likely to push great powers either toward peace or toward militarized conflict and war. At another level, however, it is an investigation into the ways great powers think about economic exchange, and the role it plays in their efforts to build global power and long-term security. Finally, the book constitutes a study of the relative causal salience of commercial versus noncommercial forces in the movement of modern world history. In the latter sense, it is part of a larger effort to determine just how often competing theories of war, both economic and noneconomic, effectively explain shifts from interstate peace to dangerous crises and war, or from ongoing cold wars to stable peace. By covering the essential universe of great power cases from 1790 to 1991, the book provides the first major test of the relative importance of competing causal factors across the sweep of diplomatic history. The findings of this book should thus be of interest to historians as well as international relations scholars. Yet by also considering the cutting-edge work of quantitative scholars, the study shows the larger implications of the book's argument for a broad cross-section of nations, both large and small.

Because the attempt to cover two hundred years of great power history makes for a long book, different audiences will want to read this work in different ways. Readers with a primary interest in international relations theory and political science will want to explore the first three chapters carefully, and then pick and choose cases of particular interest from chapters 3 to 8. Readers whose main interests are rooted in diplomatic history need only read the first half of the introductory chapter before plunging directly into the case studies and the discussion of contemporary Sino-American relations in the final chapter. I have placed the European cases from 1790 to 1899 near the end of the book simply because there are fewer extant documents for this period, which tends to constrain our ability to test the relative validity of competing causal mechanisms. Nevertheless, a reader with a preference for chronology could start with chapters 7 and 8, and then return to chapters 3 to 6 to cover the cases of the tumultuous twentieth century.

Like its subject matter, this is a book with a long history, and there are many people to thank. I first want to express my appreciation to those



individuals who offered comments at workshops on early versions of individual chapters, and whose names I may not have known at the time or have subsequently forgotten. This includes workshops at the Center for International Affairs at Harvard University, the Belfer Center for Science and International Affairs at Harvard, the Program on International Peace, Economics, and Security at the University of Chicago, the Mershon Center at Ohio State University, the departments of political science at Columbia University and George Washington University, and the Department of Government at Georgetown University. I especially want to thank the Lone Star Forum, a consortium of Texas universities, for a weekend setting that facilitated a fertile discussion of key sections of my close-to-finished manuscript. The comments from the participants there helped me fix a number of errors just before the manuscript went out for review.

For helping me work through the bugs in the original theoretical setup, I wish to thank Bob Art, James Fearon, Hein Goemans, Andrew Kydd, Jack Levy, Charles Lipson, Michael Mastanduno, John Mearsheimer, Ido Oren, Duncan Snidal, and Stephen Walt. For valuable advice on specific chapters and my methodological approach, thanks go to Deborah Boucayannis, Tim Crawford, Mike Desch, Dan Gingerich, Eugene Gholz, David Leblang, Jeff Legro, Steven Lobell, Allen Lynch, Ed Mansfield, Kevin Narizny, John Owen, Sonal Pandya, Norrin Ripsman, Len Schoppa, Herman Schwartz, Randy Schweller, Todd Sechser, Jeff Taliaferro, David Waldner, and Brantly Womack. At the University of Virginia, I was fortunate to work with a number of smart graduate students who offered incisive comments at various stages of this book's development: Karen Farrell, Kyle Haynes, Derek King, Kyle Lascurettes, Tom Moriarty, Carah Ong, Joseph Riley, Matt Scroggs, Yu Jin Woo, and Brandon Yoder. Here I especially offer my gratitude to Michael Poznansky for his penetrating critiques across many of the book's chapters.

At Princeton University Press, I greatly appreciate the help of Marc Trachtenberg and John Ikenberry, editors of the Princeton Studies in International History and Politics series, for their strong support of this project from the get-go. Eric Crahan and his forerunner, Chuck Myers, were everything one could want in a general editor. I must also thank John Haslam of Cambridge University Press for his support during the review process. Although an author can (unfortunately) only publish a book with one press, John's sustained encouragement and interest in the project will always be remembered.

Finally, I want to acknowledge the anonymous reviewers at both Princeton University Press and Cambridge University Press for extensive as well as constructive comments. Their insightful suggestions helped me correct a number of flaws, leading to what I hope is now a much-improved final

product. One of these reviewers, who later revealed himself to be Frank Gavin, provided especially helpful thoughts on the broader diplomatic-historical implications of the project.

My parents, Clare G. Copeland and Barbara E. Copeland, deserve a special note of appreciation. They both passed away before they could see the book in print. But their unswerving support over the many years it took me to write it leaves me grateful beyond words. I dedicate this book to my wonderful partner, Natasha Copeland, and my two incredible kids, Liam and Katya. Simply put, you are what make life worthwhile.



## Abbreviations for Primary Documents and Source Material

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### UNITED STATES, 1905–1991

- CIA (CWE) *At Cold War's End: U.S. Intelligence on the Soviet Union and Eastern Europe, 1989–1991*, ed. Benjamin B. Fischer (Washington, DC: Central Intelligence Agency, 1999).
- CIA (HT) Warner, ed., *CIA Cold War Records: The CIA under Harry Truman* (Washington, DC: Central Intelligence Agency, 1994).
- CR Warren F. Kimball, ed., *Churchill and Roosevelt: The Complete Correspondence*, 3 vols. (Princeton, NJ: Princeton University Press, 1984).
- CWIHP Cold War in International History Project. Washington, DC.
- CWIHPB *Cold War in International History Project Bulletin*, issues 1–11 (Washington, DC: Woodrow Wilson International Center for Scholars, 1992–1998).
- DDEL Dwight D. Eisenhower Library, Abilene, KS.
- DSB *Department of State Bulletin* (Washington, DC: US Department of State, various years).
- FCY Department of Commerce, *Foreign Commerce Yearbook* (Washington, DC: US Department of Commerce, various years).
- FD *The Forrestal Diaries*, eds. Walter Millis and E. S. Duffield (New York: Viking, 1951).
- FDRL Franklin D. Roosevelt Library, Hyde Park, New York.
- FDRPL Elliott Roosevelt, ed., *FDR, His Personal Letters, 1928–45* (New York: Duell, Sloan, and Pearce, 1950).
- FRUS *Foreign Relations of the United States* (Washington, DC: US Government Printing Office, various years).
- FRUSJ *Foreign Relations of the United States: Japan*, 2 vols. (Washington, DC: US Government Printing Office, 1943).

- FTP* Orville H. Bullitt, ed., *For the President, Personal and Secret: Correspondence between Franklin D. Roosevelt and William C. Bullitt* (Boston: Houghton Mifflin, 1972).
- HSTL* Harry S. Truman Library, Independence, MO.
- JFKL* John F. Kennedy Library, Boston, MA.
- JFKLNSF* John F. Kennedy Library, National Security Files.
- KT* William Burr, ed., *The Kissinger Transcripts: The Top-Secret Talks with Beijing and Moscow* (New York: New Press, 1998).
- LC* Library of Congress, Washington, DC.
- MB* *The “Magic” Background of Pearl Harbor*, vols. 1–5 (Washington, DC: Department of Defense).
- MH* Svetlana Savranskaya, Thomas Blanton, and Vladislav Zubok, eds., *Masterpieces of History: The Peaceful End of the Cold War in Europe* (Budapest: Central European University Press, 2010).
- NA* US National Archives, College Park, MD.
- NSA (BC)* National Security Archive, *The Berlin Crisis, 1958–1962*, microfiche (Alexandria, VA: Chadwyck-Healey, 1991).
- NSA (SE)* National Security Archive, *The Soviet Estimate: U.S. Analysis of the Soviet Union, 1947–1991*, microfiche (Alexandria, VA: Chadwyck-Healey, 1995).
- PHA* *Pearl Harbor Attack: Hearings before the Joint Committee on the Investigation of the Pearl Harbor Attack*, vols. 1–39 (Washington, DC: Government Printing Office, 1946).
- PHST* Ronald Worth, ed., *Pearl Harbor: Selected Testimonies, Fully Indexed from the Congressional Hearings (1945–46) and Prior Investigations of the Events Leading Up to the Attack* (Jefferson, NC: McFarland, 1993).
- PWP* Donald M. Goldstein and Katherine V. Dillon, eds., *The Pacific War Papers: Japanese Documents of World War II* (Washington, DC: Potomac Books, 2004).
- RC* Francis L. Loewenheim, Harold D. Langley, and Manfred Jonas, eds., *Roosevelt and Churchill: Their Secret Wartime Correspondence* (New York: Da Capo Press, 1990).

- RF Jason Saltoun-Ebin, ed., *The Reagan Files: The Untold Story of Reagan's Top-Secret Efforts to Win the Cold War* (Pacific Palisades, CA: Self-published, 2010).
- UECW National Security Archive, *Understanding the End of the Cold War: The Reagan/Gorbachev Years* (briefing book prepared for an oral history conference, Brown University, Providence, RI, May 7–10, 1998).
- EUROPE, 1790–1941
- CN *Correspondance de Napoléon 1er*, vols. 1–32 (Paris: Imprimerie Impériale, 1858–70).
- DNL R. M. Johnston, ed., *A Diary of Napoleon's Life in his Own Words* (Boston: Houghton Mifflin, 1910).
- EHS B. R. Mitchell, ed., *European Historical Statistics, 1750–1975*, 2nd rev. ed. (New York: Facts on File, 1980).
- FPVE Kenneth Bourne, ed., *Foreign Policy of Victorian England, 1830–1902* (Oxford: Clarendon Press, 1970).
- GDD E.T.S. Dugdale, ed., *German Diplomatic Documents, 1871–1914*, vols. 1–4 (New York: Harper and Brothers, 1931).
- GM Henry Reeve, ed., *The Grenville Memoirs: A Journal of the Reigns of King George IV, King William IV, and Queen Victoria* (London: Longmans, Green, 1896).
- HP Norman Rich and M. H. Fisher, eds., *The Holstein Papers*, vols. 1–4 (Cambridge: Cambridge University Press, 1955).
- NDR Jeremy Noakes and Geoffrey Pridham, eds., *Nazism, 1939–1945: A Documentary Reader*, vols. 1–3 (Exeter: University of Exeter Press, 1983–88).
- NL J. M. Thompson, ed., *Napoleon's Letters* (London: Prion, 1998).
- NLN Mary Lloyd, ed., *New Letters of Napoleon I* (New York: Appleton, 1897).

## JAPAN, 1870-1941

- DAFP W. J. Hudson and H.J.W. Stokes, eds., *Documents on Australian Foreign Policy, 1937-49*, vol. 5: July 1941-June 1942 (Canberra: Australian Government Publishing Service, 1982).
- DJ Kajima Morinosuke, ed., *The Diplomacy of Japan*, vols. 1-2 (Tokyo: Kajima Institute of International Peace, 1978).
- HYSJE *Hundred-Year Statistics of the Japanese Economy* (Tokyo: Bank of Japan, 1966).
- JDW Ike Nobutaka, ed., *Japan's Decision for War: Records of the 1941 Policy Conferences* (Stanford, CA: Stanford University Press, 1967).
- JGEACS Joyce C. Lebra, ed., *Japan's Greater East Asia Co-Prosperty Sphere in World War II: Selected Readings and Documents* (Kuala Lumpur: Oxford University Press, 1975).
- RJDE John Albert White, "Russo-Japanese Diplomatic Exchanges, 1901-1904," appendix 1 of *The Diplomacy of the Russo-Japanese War* (Princeton, NJ: Princeton University Press, 1964).

## INTRODUCTION

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DOES ECONOMIC INTERDEPENDENCE between great powers have a significant effect on the probability of war between them, and if so, does it decrease or increase the likelihood of conflict? As levels of trade and investment between the United States, China, India, and Russia continue to reach new heights, this question has taken on renewed importance amid worries about possible future struggles over raw materials, investments, and markets. Over the last two decades, the number of articles and books devoted to the issue has grown exponentially. And yet surprisingly, we still have no consensus regarding the link between interstate commerce and war. Many and perhaps most scholars align with traditional liberalism, concluding that interdependence is indeed a key causal factor—one that can greatly reduce the chance of military conflict between states. Other scholars, however, argue that the evidence is more equivocal, with economic interdependence being either insignificant relative to other causes of conflict or in fact tending to increase the probability of war rather than to reduce it.

This book sets out to resolve this debate. It shows that commercial factors are not only far more important to the outbreak of war than either side has previously thought, but that their impact can cut both ways. Trade and investment flows can indeed moderate the likelihood of conflict between great powers, as liberals believe. Yet interdependence can also push states into crises and wars, as the critics of liberalism contend. The real puzzle to be solved thus becomes this: When and under what conditions will the trade and investment ties between nations lead to either peace or military conflict? Some crucial work has already begun on this conundrum, with scholars employing large-N data sets to identify the additional causal factors that might interact with interdependence to incline nations toward peace or war. Unfortunately, the development of deductive theories to explain the role of the added causal variables has lagged behind the empirical analysis of their significance. In terms of empirical correlation, it now seems clear that factors such as regime type, capitalism, and levels of development play important synergistic roles in shaping the impact of economic interdependence on the likelihood of war. But we still do not adequately know *why* they play these roles—that is, what these factors are actually doing to create the causal effects we observe.

This book builds a deductive theory that seeks to answer most of the outstanding questions surrounding the issue of economic interdependence



and war. The argument fuses the liberal insight that commercial ties can give actors a large material incentive to avoid war with the realist insight that such ties also create vulnerabilities that can push leaders into war. Liberals are right to assert that trade and investment flows can raise the opportunity cost of going to war, since war leads to a severing of valuable commerce. But realists are correct in their claim that commercial ties make states vulnerable to cutoffs—cutoffs that can devastate an economy that has reoriented itself to rely on critical markets and goods from abroad.

To determine whether the liberal prediction or realist prediction will prevail, we must introduce an additional causal variable—namely, a state's expectations of the future trade and investment environment. When a dependent state has positive expectations about this future environment, it is more likely to see all the benefits of continuing the current peace and all the opportunity costs of turning to war. Economic interdependence would then be a force for peace. Yet if a dependent state has negative expectations about the future economic environment—seeing itself being cut off from access to foreign trade and investment, or believing that other states will soon cut it off—then the realist logic will kick in. Such a state will tend to believe that without access to the vital raw materials, investments, and export markets needed for its economic health, its economy will start to fall relative to other less vulnerable actors. If this economic decline is anticipated to be severe, the leaders of the dependent state will begin to view war as the rational lesser of two evils—that is, as better than allowing their state to fall to a point where rising states can attack it later or coerce it into submission.

This argument—what I call *trade expectations theory*—thus links the realm of international political economy to the question of security-driven preventive wars.<sup>1</sup> In previous work, I have shown that the vast majority of the key major wars of history were driven by fears of decline—fears by dominant military powers that they would be overtaken by rising powers unless they initiated a preventive war sooner rather than later (Copeland 2000b). The present study goes beyond this work on preventive war in two main ways. First, instead of looking just at major or “general” wars where one great power decided to take on the system, I am interested here in great power conflicts in general, or in other words, both major wars and the more limited wars and crises that great powers might fall into. The book's argument is therefore designed to cover pretty well every form of conflict where there was a substantive chance of war breaking out between great powers. I will examine all the main cases

<sup>1</sup>For summaries and references on the now-vast literature on preventive war, see Levy 2008; Weisiger 2013.

of great power conflict, starting in 1790, encompassing those that led to actual war as well as those that led to significant struggles and crises that increased the probability of war.<sup>2</sup> By covering such a broad range of great power cases—including those cases that do not work well for my argument—the study can assess the overall explanatory power of trade expectations theory relative to its competitors while at the same time avoiding any selection bias that would call its value into question. I also minimize selection bias through a reexamination, from an expectations perspective, of recent large-N quantitative research (chapter 2). Because this research includes small powers and not just great powers, should the expectations logic also work here, we can be more confident that its potential explanatory power is not confined simply to actors of significant size and power projection capability.<sup>3</sup>

The second expansion on previous work is the detailed exploration of what actually causes actors to fear profound long-term decline—the kind of decline that can propel them into costly preventive wars or risky preventive actions that increase the chance of a spiral to war. By showing how the realities of international commerce can lead leaders to believe that they can no longer sustain their states' power positions, the theory of this book provides a vital and surprisingly pervasive causal reason for great power decline across the centuries.<sup>4</sup> It thus undergirds any realist argument for war and peace that is rooted in the power dynamics of the system. Indeed, if history shows that a great power's security is very much a function of its position in the global commercial system, the entire field of "security studies" will need to be reoriented away from its traditional focus on military matters and reconnected with the insights of international political economy.<sup>5</sup>

As I will show, in a wide variety of great power settings, the combination of economic interdependence along with expectations of future trade and investment was a critical driving force shaping the probability

<sup>2</sup>Setting up the dependent variable as a continuous one, the probability of war, rather than the dichotomous variable war/peace, offers distinct advantages. Theoretically, it obliges a theory to explain important shifts in the severity of state behavior over time, including moves from engagement to hard-line containment or from containment to the initiation of dangerous crises (or the opposites). Empirically, it avoids the risk of "selecting on the dependent variable" (i.e., considering only times of war and crisis) by forcing a study to examine periods of peace as well as severe tension.

<sup>3</sup>Given space limitations, I will not discuss case studies dealing with interactions between regional actors where great powers are not involved. But for an interesting application of an expectations argument to such cases, see Press-Barnathan 2009.

<sup>4</sup>On explanations of decline, see, in particular, Kennedy 1987; Gilpin 1981.

<sup>5</sup>I say reconnected because, prior to 1980, there was a less distinct separation in international relations scholarship between international political economy and security studies; in this regard, consider Robert Gilpin's (1975, 1977, 1981) early work.

of war and conflict between great powers. It was dominant in the ebbs and flows of much of nineteenth-century European geopolitics: Napoléon's war on the system; the struggles of Russia, Britain, and France over the Near East in the 1830s; the British Opium War with China in 1839; the Crimean War; the wars of imperialism in the 1880s; and the crises over Venezuela, Sudan, and South Africa in the 1890s. One theory cannot cover everything, of course. As I will demonstrate, there were also a number of conflicts during this time that had little or nothing to do with economic interdependence, such as the great power interventions in Spain and Italy in the 1820s, and the wars of Italian and German unification from 1859 to 1870. What is surprising, however, is how often trade and investment expectations drove the patterns of peace and conflict, even for cases that seem, on the surface, to have little to do with economic interdependence.

The same is true for the twentieth century. Japan's attacks on Russia in 1904 and the United States in 1941 were intimately related to Japanese fears of future access to the raw materials and trade of the East Asian theater. In the first case, Japan witnessed Russia's steady penetration into economically valuable areas of Manchuria and the Korean Peninsula. After repeated and invariably unsuccessful efforts to convince Russia to pull back, Tokyo realized that only preventive war would mitigate Japan's long-term economic and military concerns. Japan's attack on Pearl Harbor had similar causal roots, even if the specific dimensions of the Japanese problem from 1930 to 1941 were unique. The closed economic policies of the great powers after 1929 had a devastating impact on Japan's economy and Japanese views of the future trade environment. Tokyo's efforts to consolidate its own economic sphere in Manchuria and northern China, spurred by its decades-long worry about Russian growth in the Far East, led to conflicts with the Soviet and Nationalist Chinese governments. When the United States entered the fray after 1938 and began a series of damaging economic embargoes, Japanese expectations of future trade fell even further, prompting a desperate effort to acquire access to oil and raw materials in Southeast Asia. The ultimate result was the attack on Pearl Harbor in December 1941.

Germany's wars with the system in 1914 and 1939 were less a function of economic interdependence per se than of German fears of the long-term rise of the Russian colossus. Russia after 1890 and especially after 1930 was quickly building up its industrial and infrastructural power. With Russia possessing three times Germany's population and forty times its landmass, it was clear that Russia's rise to economic and then military dominance would be extremely hard to stop. As I have detailed elsewhere (Copeland 2000b), German leaders twice brought their nation into war in order to destroy the Russian state before it was too late. I show here,

though, that their preventive motivations for war were strongly reinforced by pessimistic expectations about the global trading system—a pessimism that gave German leaders even more reason to believe that Germany’s decline would be both deep and inevitable.

The forty-five-year Cold War struggle after World War II between the United States and the Soviet Union constitutes perhaps the most startling set of cases in the book. Scholarship almost invariably dismisses the role of economic interdependence in the explanation of the ups and downs of the Cold War, mainly because trade between the superpower blocs was so minimal. Yet as I discuss in the next chapter, economic factors can still exert a powerful causal force on great power relations even when actual trade is nonexistent, simply because needy states may have reason to expect that other great powers will begin trading with them in the future. In short, the positive expectation of future trade can moderate a needy actor’s foreign policy behavior, even when current trade is low, because the actor anticipates high economic benefits into the future and has reason to want the other to carry out its commitments to increase overall trade levels. Conversely, a decision by another state to continue to deny the needy state what it desires can exacerbate present hostilities insofar as it signals a desire to keep the needy state down—that is, to prevent its economic growth and in fact encourage its economic decline.

During the period from 1950 to the end of the Cold War in the late 1980s, US decisions on trade with Russia had an often-significant impact on levels of Soviet cooperation. In the late 1950s, Dwight Eisenhower’s unwillingness to relax stringent economic restrictions alienated Nikita Khrushchev and contributed to the extreme tensions of the 1960–62 period. But in the early 1970s and again in the late 1980s, Washington was more willing to commit itself to higher future trade with the Soviets. This proved critical to achieving an initial *détente* period and then an end to the Cold War altogether. But the destabilizing tensions of the Cold War were not simply a function of US policy toward the Soviet Union. As I show in chapter 6, the very origins of the Cold War can be traced back to US fears of a loss of access to trade and investments in western Europe, the Middle East, and East Asia—fears that began to take hold as early as 1943–44. Because of the importance of the small states of these regions to US postwar economic growth, both Franklin Roosevelt and Harry Truman were determined not to allow them to be permanently lost to Soviet Communism, even if Moscow was not deliberately seeking to pull them into its sphere. Hence Roosevelt and Truman undertook a series of provocative policies designed to consolidate the United States’ postwar sphere, thereby forcing the Soviets to increase their own control over the periphery. The Cold War spiral of hostility came directly out of these initial maneuvers for postwar economic position.