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Theories of Statecraft and the Enigma of Russia's Energy Leverage

The primary goals of this book are to refine our understanding of statecraft and to explain how it works in the Eurasian energy context. The first section of this chapter specifies the central puzzle: Russia's mixed success at dominating energy security in Eurasia. The next section reviews single-factor explanations for statecraft, teasing out fundamental empirical challenges posed by Russia's variable record. The third section identifies crucial analytical flaws common to conventional formulations of coercion and inducements that limit our understanding of statecraft in highly interdependent settings. It also extends the traditional focus on relational forms of "hard" power to encompass the opportunities and challenges for exploiting "soft" power advantages for strategic effect. Drawing links between soft power and statecraft, this chapter lays the groundwork for crafting a theory of strategic manipulation developed and tested in the ensuing chapters.

Russia's Energy Puzzle in Eurasia

Energy statecraft has been a storied element of Russian diplomacy. Discretionary energy deliveries and prices were integral to the Soviet

Union's strategy for managing political control, mitigating instability, and shoring up support within the Eastern bloc.¹ Different interpretations of Europe's growing energy dependency on Moscow also fueled transatlantic discord over construction of the trans-Siberian natural gas pipeline in the early 1980s. Following the Soviet collapse, energy diplomacy animated Russia's early attempts to revitalize influence throughout Eurasia. While the Soviet demise bequeathed to Russia large energy endowments, it simultaneously decapitated centralized fiscal and political control over former republics and created a power vacuum along its immediate periphery. Accordingly, Moscow had strong incentives to rely on its energy dominance to reclaim lost assets and advance Russia's strategic ambitions in the region. As early as 1992, a rare consensus emerged across the Russian political spectrum that viewed control over the vast energy resources as a vital national interest and the linchpin to upholding Moscow's "special" security interests in the former Soviet space. By the close of the first decade, even pro-Western reform-minded Russian politicians looked to energy diplomacy as the crutch for forcibly reintegrating the former Soviet space under the aegis of a "liberal Russian empire."²

Notwithstanding these strategic aspirations and residual energy advantages, Moscow both succeeded remarkably and failed miserably at securing compliance across sectors and states throughout Eurasia. Russia had mixed success at wrangling concessions on critical energy security issues, reconstituting regional energy dependencies, and stemming newly independent states (NIS) energy security relations with extraregional actors. As depicted in Figure 1.1, at least three distinct patterns emerged: compliance, defiance, and mutual accommodation.

The first pattern was one of consistent NIS target state compliance with Moscow's maximum political demands. These states repeatedly succumbed to Moscow's intimidation and inducements by deferring to Russia's preferred policies for controlling regional gas supply and transit. These states reluctantly acceded to Moscow's preferred terms for bilateral transactions, as well as bowed to the Kremlin's attempts at reconstituting a regionally integrated gas network and limiting diversification of strategic gas ties. In the process, Moscow also succeeded at converting Russian corporate behavior into an effective instrument of foreign policy. Though unable to dictate firm behavior, the Kremlin adroitly shaped the strategic preferences of the huge gas monopoly, Gazprom, so that the company's foreign operations advanced Moscow's diplomatic agenda vis-à-vis specific target states. Turk-

FIGURE 1.1
Russia's Regional Energy Shadow, 1991–2002

Sector of Russia's Energy Statecraft	NIS Target	Strategic Outcome
Natural Gas	Turkmenistan, Kazakhstan Ukraine, Belarus	Compliance
Oil	Azerbaijan, Georgia Kazakhstan, Baltic states	Defiance
Nuclear (Uranium, fuel element)	Kyrgyzstan, Kazakhstan Ukraine, Armenia	Mutual Accommodation

menistan constituted the classic compliant state, but Kazakhstan, Belarus, and Ukraine too fell consistently into this camp when Russia played the gas card.

A second pattern saw Russia's oil diplomacy meet outright defiance. Target states flatly thwarted Moscow's regional preponderance and rejected preferred energy security initiatives, resisting outright or effectively renegotiating bilateral oil relations on more favorable terms. They also successfully solicited new energy investors, suppliers, markets, and transit networks beyond the post-Soviet space. This was compounded by the penchant among Russian oil firms for staking out positions that contravened the Kremlin's diplomatic objectives. These problems came into sharp relief in Russia's petroleum diplomacy toward Azerbaijan, the Baltic States, Georgia, and Kazakhstan that failed to prevent the latter from establishing independent foreign energy relations at Moscow's expense.

A third pattern was depicted by the mixed responses to Russia's commercial nuclear energy statecraft. In these cases, Russia failed to secure compliance with its most favored aims, but nonetheless averted outright defiance to attain narrow commercial objectives. Kyrgyzstan, Kazakhstan, and Ukraine consistently fell into this pattern. These states were susceptible enough to the lure of reconstituting stages of the former Soviet nuclear fuel cycle, conceding shares to Russian interests in joint uranium enrichment and nuclear fuel delivery projects, notwithstanding other competitive options. Yet, each state contained Russia's heavy-handed political influence by embedding respective deals within a multilateral framework of mutually beneficial commercial interests. To the extent that Moscow was able to rely on domestic agents to

champion national interests, it did so to augment the appeal of doing business with Russia in the sector.

Surprisingly, the enigma of Russia's mixed success at energy leverage has not received much scholarly attention. The literature that exists is schizophrenic, as it treats Russia's aggregate energy power as either a diplomatic asset or liability.³ Widely disparate expectations are premised on presumptions of Russia's energy firms as either mere instruments of state power or completely independent of Moscow and determined to undercut Moscow's diplomacy when it conflicts with their commercial strategies.⁴ This overlooks, however, the variation in Russia's energy prowess across different sectors and issue areas. Those studies that disaggregate Russia's energy diplomacy tend to examine the consequences for economic and political issues. The analysis is target-centric, with emphasis placed on describing how domestic agents within the NIS perceived and managed energy dependence on Russia.⁵ Yet, overlooked is how NIS policy choices and hedging strategies have been systematically circumscribed and even shaped by Moscow's posture in different energy sectors.

By contrast, the range of political economy relations in the post-Soviet space has recently received scholarly attention. Comparative studies tend to attribute causal weight to different target state perceptions of threat and national identities. These, however, are inherently difficult to disaggregate and measure, as well as fail to account for different responses to Moscow's policy initiatives across sectors and time. Kazakhstan, for example, a predicted "loyalist" on foreign economic issues on the basis of its weak national identity, became conspicuously opportunistic at diversifying strategic relations in the regional oil sector that both gained momentum as the decade elapsed and contrasted with growing dependence in the gas sector. Alternatively, Azerbaijan with its moderately strong national identity was initially prone to outright defiance at independence but became increasingly adept at working with Moscow to secure favorable oil deals by the end of the first decade of independence.⁶ The target-centric focus of this literature lacks a theoretical framework to explain how, when, and why Russia succeeded at affecting these different strategic responses. Little attention is devoted to discerning links between Russia's energy diplomacy, the interpretations of strategic energy choices by NIS states, and the different trends in NIS compliance across sectors. The first step toward filling this void is to assess the empirical validity of alternative causal claims concerning the conditions under which Russia's statecraft is expected to work best.

Competing Explanations of Statecraft

Statecraft entails the deliberate use of specific policy instruments to influence the strategic choices and foreign policies of another state. It constitutes a unilateral attempt by a government to affect the decisions of another that would otherwise behave differently.⁷ It is also different from concepts that treat power as an instrument of policy or a balance of capabilities.⁸ Typically, the practice of statecraft involves the use of diverse policy instruments. Economic statecraft, for example, relies primarily on applying resources that have discernable market prices. The most widely analyzed forms are sanctions and inducements that entail the actual or threatened withdrawal/extension of economic resources to prompt policy change. Similarly, energy statecraft involves increasing or decreasing access to a resource, as well as to related property rights, pipelines, investment capital, prices and tariffs that are extended to deter, contain, or coerce a target. These tools of statecraft contrast with the value of military and diplomatic techniques that are generally stipulated in terms of violence, symbols, or negotiation.⁹

Influence attempts can be discrete, directed at realizing a specific political objective; or general, tied to attaining a broadly defined goal. Similarly, statecraft can be used to affect a specific foreign policy change by a target, or to realize secondary goals by signaling intentions to third parties. Unlike money, which is highly fungible, the conversion of a policy instrument into influence is determined by contextual factors related to the specific domain of application, scope or issue-specific objective, quantity of the resource applied, and costs relative to other techniques.¹⁰ In the Eurasian context, this includes the effects of Russia's energy statecraft on an NIS target's policies regarding ownership, development, and export in respective energy sectors; loyalty towards Moscow's approach to regional energy security; and diversification of energy ties with Russia's great power rivals.

Two basic issues must be addressed to uncover the causal mechanisms for effective statecraft. First, how and under which conditions can states make compliance advantageous for a target?¹¹ Second, why in some cases can a state secure preferred policy responses from a target, while under other conditions it can only prevent least-preferred options or is altogether impotent to affect the policies of a target? Scholars typically attribute causation to four factors: relative power advantages, asymmetric interdependence, structural power, and domestic institutional fortitude. Although the purpose of this study is not to invalidate

these claims, the empirical puzzle of Russia's mixed energy leverage exposes the limitation to each of these stand-alone theories.

Relative Power and Issue-Specific Dominance

Prominent theories of international relations attribute successful statecraft to relative power advantages. The most basic ascribes leverage to material power differentials and to concerns about inferiority.¹² Power is assumed to be generic and fungible across issue areas, vesting the dominant with both incentive and strength to punish noncompliance and extract uniform political concessions across issue areas. This is consistent with the theory of hegemonic stability that attributes a target state's compliance to the lead of an economically dominant power. A hegemon is inclined to supply public goods, such as the enforcement of coercive threats and the delivery of inducements that are otherwise undersupplied because of free-riding among reluctant allies. It also is poised to leverage raw material advantages in pursuit of less benign policy goals.¹³

Other scholars contend that relative advantage alone is too blunt to confer leverage. Rather, predictions of successful statecraft depend on "who is trying to get whom to do what." A hegemon's leverage varies consistently with the scope, domain, and magnitude of its relative power advantages.¹⁴ This is especially apropos to the energy sector, where the sunk costs and appropriability of asset-specific investments should incline a hegemon to exercise imperial control. Because energy plants and pipelines are fixed assets and associated rents can be easily seized, a hegemon with colonial ambitions is well positioned to credibly brandish coercive threats to impose favorable property rights.¹⁵

Alternative "power" explanations predict that Moscow's leverage throughout Eurasia should be uniform and impressive. Moscow's regional dominance widened across all indices of material power over the years since the Soviet collapse, notwithstanding protracted economic, political, demographic, and military problems that marred Russia's transition.¹⁶ The gap was conspicuous in the oil, gas, and nuclear sectors, as Russia's annual production in each industry exceeded respective demand across the entire post-Soviet space and consistently dwarfed the output of rival NIS suppliers. In these asset-specific extractive industries with relatively high sunk costs and few substitutes, Russian leaders should have faced especially strong incentives to reclaim control as a springboard for reintegrating the NIS.¹⁷

Yet, preoccupation with relative, issue, and asset-specific power offers little insight into why Russia's leverage over the NIS varied despite its persistent regional dominance. Lost is appreciation for the reciprocal costs of exercising power, as there were many ways that Eurasian targets were able to temper, offset, redirect, or manage the pressure imposed by Russia. That Russia's interests and general preponderance could not be converted into uniform influence, and that Russia had to make concessions precisely on energy security contingencies where it remained dominant, suggest striking limitations to relative power arguments for leverage.¹⁸

Asymmetric Interdependence

The rising tide of globalization—marked by the dramatic expansion of commercial and information exchange, deregulation of financial markets, privatization of capital, growing importance of foreign direct investment, and diffusion of technological innovation—intensified interdependence that can be exploited by states. As distilled from the works of Albert Hirschman, Robert Keohane, and Joseph Nye, “sensitivity,” measured in terms of the volume and distribution of specific resources exchanged, refers to the extent to which a country is affected by the actions of another.¹⁹ If one state's effort to change a bilateral trading relationship disrupts a greater percentage of another state's overall trade, that asymmetry is predicted to be a source of leverage for the first state. Asymmetries of “vulnerability,” which refers to the value each actor assigns to a specific relationship, speak directly to the issue of dependency. Where a target can readily adjust to and insulate itself from the unilateral efforts by another state, it is less susceptible to the other's statecraft. “Even though a hegemon may possess the world's largest consumer market or be the world's largest supplier of a particular set of goods, offering or denying access to these goods may have little effect on the behavior of foreign actors if alternate markets or suppliers can be found, and if the cost of shifting to the alternate source is lower than the costs of the sanctions.”²⁰

This set of arguments expects Russia's leverage to be significant but varied across the NIS. As part of the legacy of centralization and specialization in the Soviet planned economy, Russia remained the principal trade partner for the southern NIS. Kazakhstan's trade, in particular, was dominated by bilateral exchange with Russia following the Soviet collapse, despite concerted attempts by Astana to diversify

economic ties with the outside world.²¹ In the energy sector, Astana became increasingly sensitive to imports of Russian oil and gas for domestic consumption, while Moscow steadily reduced its already paltry levels of hydrocarbon imports (for domestic consumption) from Kazakhstan.²² These arguments also predict that Russia should wield less energy leverage over Azerbaijan and Turkmenistan, as both states traded less with Russia as a share of respective total trade.²³ Yet, Russia remained an integral trade partner for both states, especially in the oil and gas sectors. Therefore, asymmetric interdependence models expect that Azerbaijan and Turkmenistan would be less sensitive than Kazakhstan to fluctuations in trade with Moscow, but that Russia should be able to block their competing strategic energy initiatives nonetheless.

Russia's mixed success challenges classic sensitivity and dependence explanations. Kazakhstan, the most dependent state on trade with Russia, exercised considerable autonomy to search out alternate oil export routes that circumvented Russian territory altogether. However, Turkmenistan, the least dependent of the southern NIS in terms of its aggregate and energy trade balance, was the most deferential to Moscow's preferred energy policies in the region. This pattern was especially puzzling, given the intrusion of outside trading states and availability of alternative energy options. By 1994, the percentage of southern NIS trade with industrialized countries began to displace Russian-NIS trade in all but two southern NIS (Kazakhstan and Kyrgyzstan).²⁴ Yet Russia's leverage over Turkmenistan's energy security policies continued to exceed its hold over Kazakhstan throughout the first post-Soviet decade.

Globalization and Structural Power

A problem with both traditional "power" analyses and asymmetric interdependence arguments is that they clutch to a narrow, relational perspective of statecraft. Structural power theorists, in particular, question the extent to which markets rule and draw attention to the indirect mechanisms through which states can exert power over global outcomes.²⁵ However, some states rely on the "second face of power," controlling not only what other states do but what they want.²⁶ By its sheer weight in "deterritorialized" markets and institutions, a preponderant state can skew material incentives and trigger policy adjustments from foreign targets merely by taking action at home.²⁷ Alternatively, power can come from the allure of beliefs, practices, and identities that are

constructed through political, cultural, and social interactions, independent of balances of power or trade. Leverage is exercised in the spirit of emulation and consent, with the hegemon setting normative standards for domestic and regional targets alike. Conversely, the more independent a target's national identity, the less susceptible it is to another's example.²⁸

Nowhere was Russia's structural presence greater than in the Eurasian energy sector. The residual Soviet pipeline network constituted a "steel umbilical cord" that bound Eurasian energy suppliers and customers to Russia.²⁹ Because most of Kazakhstan's oil and Turkmenistan's gas exports tapped directly into Russian pipelines, both states were at the mercy of Moscow's practices for regulating access to national export terminals and pipelines.³⁰ This plausibly stood to increase with the participation of Russian oil and gas firms in international energy consortia, and proliferation of debt-equity swaps for residual Soviet energy assets. Accordingly, action taken by Russia to reduce national subsidies, adjust domestic prices, reallocate pipeline access, and reorient national energy production toward international markets should have inflicted energy shocks across the SCCA. Because Eurasian supplier and transit states tied national security and welfare, as well as near-term political legitimacy, to the projected payoffs of extracting and exporting regional energy, they should have been increasingly responsive to shifts in Russia's domestic energy policies.³¹

Yet Moscow's structural power did not produce uniform deference on regional energy security issues. The monopoly over the residual main oil export pipelines and the growing presence of Russian oil firms in international consortia did not fundamentally alter the strategic calculus in Baku or Astana. Conversely, the insertion of Russian gas interests into projects underway in Turkmenistan strengthened Moscow's extra-territorial leverage. This variation suggests that market power alone did not equate with bargaining power or strategic influence.³²

To the extent that Central Asian states strived to emulate political traditions and identities of other states, they did so with little regard for Russia. Turkmenistan fancied itself as the "Kuwait of Central Asia" and cultivated its own brand of pan-Turkic authoritarianism as the springboard for nationalist resurgence. Since independence, Azerbaijan too sought to create a new normative niche in the region, deriving little sustenance from Russian institutions and practices.³³ Ironically, compliance with Russia's energy security policies was most impressive among those states that harbored strong and autonomous national identities, such as Turkmenistan, and relatively weak in the case of

Kazakhstan, a state with limited statehood experience and only a nascent political identity.³⁴

Finally, structural power arguments fail to capture the interplay between Russia's regional and global standing. Following the Soviet collapse, outside actors became increasingly involved in mediating ethnic and separatist conflicts, conducting military training exercises, and investing in energy development and export projects in Eurasia.³⁵ Yet the discussion of Russia's structural dominance typically takes place in a geostrategic vacuum, with little regard for the presence of the People's Republic of China, European Union, United States, Turkey, Iran, and multinational firms and the opportunities that they introduced for diversifying structural relations throughout Eurasia.

Institutional Strength

A collective problem with arguments rooted in power and interdependence is that they assume that potential domestic capabilities, including those strategic resources under private ownership or control, can be readily marshaled for geostrategic objectives. Yet in states where corporate decision making on energy does not privilege noneconomic objectives, great power advantages do not readily convert into credible forms of coercion. Rather, this suggests the importance of the domestic institutional components to statecraft.

One hypothesis attributes international leverage to a regime's institutional "strength" relative to domestic legislatures and interest groups.³⁶ Policy makers that stand above the parochial interests and competition among societal forces—to extract, mobilize, and employ national resources toward a specific foreign commitment—can wield significant international leverage. Enjoying autonomy to impose unpopular policies, authoritarian regimes should be more effective at channeling national capabilities directly toward foreign objectives. Alternatively, "democratic statecraft" is tempered by the related difficulties of restricting legislative dissent and building supportive coalitions among competing interest groups that ultimately render the efficacy of leverage contingent on which group prevails on a specific policy issue.³⁷ As a quasi-democratic state, Russia's ability to practice energy statecraft is plausibly predicted to mirror the ascendancy of alternative domestic coalitions comprised of concentrated energy interest groups, financial oligarchs, and independent-minded regional leaders, on the one hand; and environmental protection lobbies, advocates

of *realpolitik*, and “Great Russian” nationalists, on the other hand.³⁸ Periods of intense competition between these domestic lobbies, however, should match inconsistencies in Moscow’s energy leverage.

An alternative institutional argument stresses the importance of a central leadership’s capacity to monitor and enforce domestic compliance. The degrees to which political authority is centralized and policy makers can observe the actions of functionaries and firms determine a regime’s competence at securing extraterritorial compliance. Governments that can detect and reverse the opportunism of self-interested administrators and interest groups to promulgate and implement coherent foreign policies are taken more seriously by target states. Conversely, gaps in administrative oversight encourage bureaucracies and firms to exploit advantages in information and expertise by pursuing policies to satisfy their narrow interests, thus crippling the coherence and credibility of a hegemon’s statecraft.³⁹ Suffering from rampant shirking among competing federal branches, agencies, and local authorities, the Russian government should be expected to exert only marginal and ad hoc leverage, marred by contradictory policies toward the ownership, extraction, and export of the region’s energy.⁴⁰

Arguments related to regime type and institutional capacity apply to target states as well. Those regimes that are institutionally insulated from disenfranchised political opponents or interest groups, and that are free to redistribute the costs or benefits attendant to changing international conditions, are well positioned to rally domestic support to thwart foreign pressure. However, regimes that must accommodate organized or concentrated interest groups that benefit from international pressure, are more likely to comply with another country’s statecraft.⁴¹ Some scholars suggest that the effectiveness of statecraft ultimately hinges on the interaction of special interest-groups within the influencing and target states that are able to exploit weak state structures to pressure home governments to impose and respond to sanctions, respectively.⁴² Other studies find that issues related to institutional stability and capacity in a target are inversely related to compliance. Those regimes that are economically or politically unstable are more responsive to foreign pressure than are those with stronger capacity.⁴³

Neither institutional strain systematically captures the variation in Moscow’s energy leverage. Although the Central Asian regimes notably differed in leadership skill and in degrees of authoritarianism, they shared common defining attributes of neopatrimonialism, weak infrastructural and societal institutions, and arbitrary rule during the first

decade of independence.⁴⁴ Furthermore, interests in the Russian energy sectors were not monolithic, as respective lobbies were comprised of numerous private and semiprivate companies with divergent strategies for tapping domestic and international resources and markets that at times compromised Russia's energy statecraft.⁴⁵ These models also understate the coercive potential of weak state structures. It is precisely because democratic governments are restrained by domestic dissent, that they are less likely to engage in strategic bluffing and that the credibility of their threats are enhanced when selectively issued.⁴⁶ Neither can it be assumed that a democratic government is a mere transmission belt for parochial commercial interests. Unable to prevent its own firms from collaborating directly with foreign states and companies for the exploration and export of Eurasian energy resources, the Russian government nonetheless was able on occasion to induce corporate and regional compliance by amplifying the political risks of independent behavior. As summed up by one specialist, Moscow was free to act "opportunistically and negatively" in the region, with sufficient strength to disrupt, stall, and guide the private interests of the national gas industry.⁴⁷

Similarly, explanations that turn on weak governing institutions typically understate the consistency and effectiveness of a state's extra-territorial reach. While such arguments account for Moscow's inability to prevent provincial leaders from contracting separately with foreign energy consortia, they slight the federal government's capacity to exploit subnational rivalries to induce compliance.⁴⁸ For the most part, Moscow's heavy-handed gas policies were not subverted by the "involuntary defection" of Russia's powerful gas lobby, despite the government's weak enforcement powers and heated battles with corporate executives over regulation of the industry.⁴⁹ Moreover, that the Russian government's capacity to do so remained constant, despite the increasing consolidation of vertical power under the Putin regime, speaks to the nuanced effects of domestic institutions.

Moving Beyond the Coercion-Inducement Dichotomy

Each of the above single-factor explanation identifies conditions conducive for two basic forms of statecraft: coercion and positive inducement. The most ubiquitous and heavily studied is coercion, where the focal point for diplomacy lies with issuing "a demand on an adversary with the threat of punishment for noncompliance that is credible and

potent enough to persuade him that it is in his interests to comply with the demand.”⁵⁰ Coercion is distinguished from “brute force,” as it involves latent pain and holding power in reserve.⁵¹ It can be used either to “blackmail” another state into conceding something of value, or to encourage an opponent to cease a specific action.

The logic of coercive diplomacy rests on a straightforward utility maximizing model of state decision making. Success occurs, according to Robert Pape, when a state can alter the substantive meaning for an adversary of accepting or resisting specific demands. It obtains “when the benefits that would be lost by concessions and the probability of attaining these benefits by continued resistance are exceeded by the costs of resistance and the probability of suffering these costs.”⁵² Alternative strategies of coercion focus on changing different components of this decision calculus to ensure that the expected costs of noncompliance exceed the anticipated advantages of resistance. For example, punishment strategies inflict pain on an adversary’s population, or attack key economic choke points to overwhelm the political will to resist. Risk strategies, however, raise the probability that an adversary will suffer unacceptable costs with noncompliance by gradually increasing damage until demands are met. Denial strategies thwart a target’s noncompliance, reducing the probabilities that it will be able to realize alternatives to compliance or to extract meaningful value from resistance.⁵³ Success for each of these strategies requires that the initiator communicate explicit threats that can be credibly carried out if resisted.

The second form of statecraft is comprised of positive inducements. Inducements change the focus from raising the probabilities and direct costs of noncompliance, to improving the expected utility of accommodation for a target state. This can be accomplished by creating mutually beneficial exchanges, or by granting better terms of trade on one issue in return for compliance on another.⁵⁴ Inducements can be used defensively to resolve a crisis, satisfy the appetite of a greedy opponent, or reassure a nervous adversary; as well as proactively to socialize or coax another state into accepting a policy defeat or changing political course.⁵⁵

Positive inducements operate in substantively different ways to sanctions. Carrots can signal sympathy to a target and generate constructive spillover effects onto other issues that ease the pain of compliance. They can promote mutually beneficial payoffs of compliance, especially when they involve exchanging goods with increasing marginal utilities.⁵⁶ In contrast to coercive diplomacy, inducements also can stimulate domestic political support in both the inducer and target states

that reinforce the impetus for compliance. As noted by William Long, proffering incentives creates new constituencies that gain increasingly from exchange. As potential “win-win” exchanges, incentive strategies are less prone to inciting a “rally around the flag” effect within the target, and can create a domestic lobby with a stake in supporting the political concessions that are demanded. Such strategies also are unlikely to spark interest in exploring alternative responses or to encourage third parties to disrupt an exchange.⁵⁷

However, there are higher bargaining costs to proffering inducements. Threats are cheap to issue and only costly if they fail. When extending carrots, however, a state will have to ante up with the target’s subsequent compliance, requiring follow-through that is unnecessary for coercion.⁵⁸ Under conditions of international anarchy, contracting between states to extend and sustain an inducement is especially difficult to observe and enforce. In the absence of international institutions or domestic checks that can bolster the credibility of compliance, targets have strong incentives to cheat on and extort an inducer. Concessions are more apt to degenerate into appeasement that, in turn, increases both the anticipated domestic and international costs to the inducer of being played the sucker. Furthermore, extending diplomatic carrots is a second best option for dealing with future rivals. Because states are presumably preoccupied with maintaining a reputation for tough bargaining and are loath to risk conferring material advantages on an expected rival, they are inclined to forego proffering inducements today that could make coercion more difficult tomorrow.⁵⁹

The end of the Cold War and gathering trends of globalization confound these distinctions. Great powers are increasingly called on to influence the choices of smaller states across a wide array of security concerns that include WMD nonproliferation, energy security, terrorism, organized crime, and ethnic and civil strife. These issues are distinguished by asymmetries of interests that offset obvious regional and global power advantages, complicate the process of mobilizing domestic support, and confound strategic bargaining. They create new vulnerabilities while simultaneously expanding the scope and altering the potency of different nonmilitary policy tools. The situation is compounded by the broadening and deepening of transnational ties among subnational actors that operate beyond the purview of respective home states. Together these trends create a new strategic context that exposes conceptual limitations common to nearly all work on statecraft.⁶⁰

First, traditional assessments of statecraft narrowly focus on “hard” material instruments of statecraft. Often overlooked, however,

are the strategic dimensions to “soft power” that involve “getting others to want what you want” by shaping the situational context and opportunities surrounding a target’s choices. As elucidated by Joseph Nye, states can control policy outcomes not only by exerting direct pressure, but by setting the political agenda and framing the terms of debate.⁶¹ With expansion of global markets and deepening penetration of transnational pressures, a state can shape a target’s options, values, and domestic incentives associated with exchange that under certain circumstances can be exploited for political effect. Interdependent commercial supply and distribution networks, in particular, empower states to alter the incentives for third parties that, in turn, can affect the range and substance of choices available to a target. Although less able to command multinational firms and subnational actors to do its foreign bidding, a state can guide private incentives by altering the business climate and public support at home to ensure a coincidence between diplomatic objectives and subnational practices.⁶²

An ancillary problem relates to the narrow conception of a target’s situation and decision calculus. Because the purpose of statecraft is to get another state to undertake action that it does not otherwise value, the challenge is not only to induce a specific policy course, but to discourage subsequent defection. Attention is generally confined to altering a target’s cost calculus because, as Pape claims, “the benefits of resistance are not usually manipulatable.”⁶³ This, however, neglects situations where targets can be coaxed either to adjust their bargaining strategies or to pursue different agendas that they find ultimately more rewarding than the alternatives. Consequently, a target may comply with the wishes of another state not because it is being explicitly coerced or is under duress, but because its decision-making circumstances have changed, rendering compliance not only tolerable but desirable.⁶⁴

Several empirical episodes illustrate the point. Germany in the 1930s, for example, exploited the monetary dependence of the small states of southern and eastern Europe to manipulate the appeal of accepting Berlin’s domination. By altering the value and availability of the home currency, Berlin was able to affect indirectly the value of respective national currencies to extract wealth, and to harmonize the incentives of firms and government agencies within a target state with Germany’s needs for war and expansion.⁶⁵ In the case of Rhodesia, although the white minority government initially exploited British and UN sanctions to alter domestic markets to reward supporters and punish dissent, the respective adjustment ultimately institutionalized

incentives that fostered international compliance and eventual acceptance of majority rule with Zimbabwean independence.⁶⁶ Even in contests over territory, where differences between states can be indivisible, a target's preferences over actions are not fixed and can evolve in response to new opportunities or the reconstruction of national identities. During the 1970s, for example, shifts in the external and internal settings dramatically altered the value that the Egyptian leadership placed on the "occupied territories," paving the way for President Anwar Sadat's "peace initiative" with Israel.⁶⁷ Given the increasing density of global interdependence and reduced reliance on territorial bases of power, national attachments to strategic assets are becoming more diffuse and malleable than in the past. Although transformation of a target state's preferences might not occur at the outset of a dispute, there is no logical reason to preclude adjustment over time.

A second flaw of "hard" power myopia relates to the restrictive characterization of positive inducements. Skeptical of the relevance of economic power for security concerns altogether, pessimists indiscriminately associate inducements with appeasement—the "original sin" of diplomacy. As epitomized by the Munich crisis of 1938, the costs of inducements are not controllable and are fundamentally detrimental to subsequent attempts at coercion.⁶⁸ Appeasement ceded strategic advantages to Germany, while simultaneously whetted Berlin's appetite for future concessions and undermined the credibility of Anglo-French threats to stand firm in the ensuing Polish crisis.⁶⁹ Although inducement optimists counter by pointing to the strategic and domestic advantages, they too blur the line between constructive incentives and counterproductive appeasement. This is due largely to a fixation on concessions as the bulwark of inducements. Yet, it is possible to induce without conceding, as states can undertake self-interested action on one issue that renders political compliance on another more rewarding to an adversary. A state can induce an adversary, not only by acquiescing as part of a political quid pro quo, but by taking action at home or abroad that effectively alters a target's options so that the preferred outcome becomes mutually desirable. Even at the extreme, appeasement is not uniformly self-defeating or irrational. Not only are there cases of successful appeasement, including successive British concessions to the United States from 1895 to 1905, but systematic studies of crisis behavior have uncovered that reputation or prior conciliatory acts do not fundamentally discredit a defender's threats. In short, the efficacy of appeasement varies with the nature of the adversary's ambition, number of potential challengers, character of the inducement proffered, and

availability of other reinforcing incentives.⁷⁰ Therefore, thinking about inducements must be distinguished from explicit policy concessions and from unique cases of misguided or poorly executed diplomacy.

A third problem relates to the treatment of inducements as pure substitutes for coercive diplomacy, notwithstanding differences in substantive logic. In practice, policy makers alternate their use of carrots and sticks. Russia, for example, simultaneously threatened and enticed Azerbaijan's compliance with its Caspian energy security policies. The same held for Moscow's gas diplomacy toward Kazakhstan and Turkmenistan, but with dramatically different results. If positive and negative incentives are substitutes, why did they produce different outcomes in comparable circumstances? By omitting comparative analysis, many studies fail to gain purchase on the practical utility of this dynamic relationship or on the relative effectiveness of these logically distinct forms of statecraft.⁷¹ A full understanding of the relative effectiveness of positive and negative inducements requires examination of cases where they are applied together but produce different results in target behavior.

A fourth shortcoming with the traditional conception of statecraft is that influence attempts are assessed as static, one-sided contests. Yet, the presumption of a linear relationship between threat (promise) and response does not comport with the strategic dynamics of statecraft. Targets do not stand idle in the face of international pressure but actively work to offset an initiator's efforts either by taking steps to redirect or reduce the potential consequences of coercive threats or by imposing greater costs on the coercer and its domestic allies.⁷² At the same time, initiating states are not oblivious to a target's potential counter-moves but factor them into their initial and follow-up actions. The dynamics of this strategic interaction presumably have intensified with the growing complexity of multidimensional interdependence. This warrants moving beyond strict target-centric analysis, with greater appreciation for how initiators can alter the availability and value of counter-moves, as well as the expected utility of compliance for target states.

A more accurate assessment of statecraft also needs to take into account that influence can be garnered without explicit *quid pro quos*. Although there are obvious advantages to analyzing issues where matters of statecraft are publicly stated and clearly brought to a head, these cases represent a limited set of interactions that have not been resolved at other levels. The phenomena of "Finlandization" and "Yanqui-ization," for example, reflected the implicit influence of the Soviet Union and the U.S. in respective strategic orbits. Given respective situational

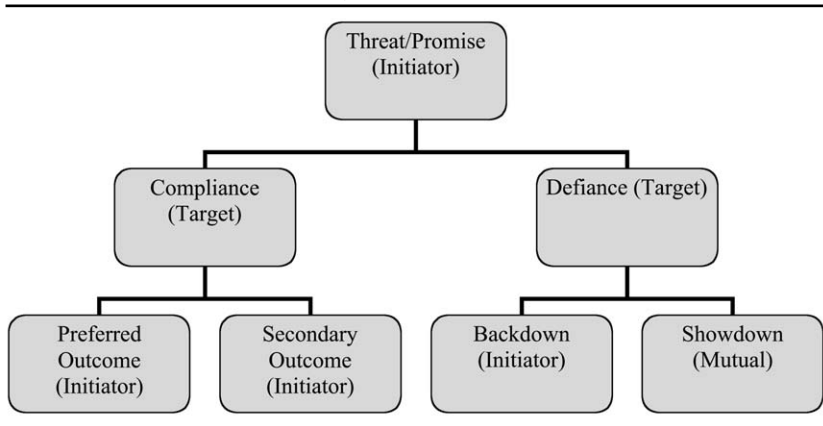
backdrops, Moscow and Washington rarely had to issue explicit threats or proffer inducements to influence respective target states. The implied consequences of noncompliance usually sufficed, except in notable episodes where diplomatic activity escalated into a public crisis or failed outright.⁷³ The fixation on crisis diplomacy constitutes a potentially serious selection bias that neglects the many successful applications of statecraft that never reach a fever pitch.

The preoccupation with assessing crisis diplomacy also neglects the subtle practice of statecraft over an extended period. A state can preempt another's behavior by shaping the context within which a target makes its choices. Accordingly, the value of a specific instrument of statecraft "must be measured for its contributions to the background level of pressure as well as to the spikes in the level of threat."⁷⁴ Focus on noncrisis influence attempts can preserve the heuristic value of the cost-benefit framework for understanding statecraft, notwithstanding valid critiques that underscore deviations from rational decision making that can distort crisis behavior and make it difficult to predict state responses.⁷⁵

Finally, that statecraft is typically assessed as either working or not presents both empirical and conceptual problems. While the effectiveness of compellence is blatant, as states either do or do not change their policies in response to threats, successful deterrence is almost impossible to discern from an adversary's overt behavior. Statecraft also almost never produces clear-cut outcomes, as targets rarely surrender outright or modify behavior without pursuing their own policy objectives. Because states pursue diverse objectives, the absence of compliance along one front also does not necessarily imply the failure to realize other objectives. The British, for example, pursued a range of objectives with the embargo on Rhodesia, including signals to Black Africa that it was committed to preventing the breakup of the Commonwealth and avoiding sanctions imposed by South Africa. It is too simplistic to code the collapse of the embargo and early problems with realizing the stated objectives of changing to majority rule as an outright failure.⁷⁶ Conversely, successful statecraft does not necessarily require the full satisfaction of every demand, as an adversary can modify its behavior to satisfy an initiating state's minimally acceptable stipulations. As David Baldwin cautions, success defined as compliance with explicit threats raises the bar too high as "(t)hird parties, secondary goals, implicit and unstated goals are likely to be significant components of such undertakings."⁷⁷

An important step toward conceptual clarity, therefore, is to think of success in terms of altering the decision calculus of an adversary rela-

FIGURE 1.2
Target Decision Tree



tive to the priorities pursued by an initiator and options available to a target, as diagramed in Figure 1.2. Initially, a target can choose to resist or comply to a credible threat or promise. If the target resists, the initiator may respond either by backing down before a target accedes or by forcing a showdown. Both outcomes reflect the failure of statecraft, given the initiator's initial preferences and targets choices. Alternatively, if a target chooses to acquiesce, then the episode can terminate in one of two ways. First, a target can comply with the initiator's preferred outcome. Second, a target can concede by meeting the initiator's minimally acceptable demands, including mutually beneficial accommodation. While this outcome constitutes a relative success, it is less preferable as the target opts not to pursue the most offensive policies to the initiator while continuing to privilege its own preferences.⁷⁸

Expanding the Diplomatic Arsenal

Theoretical examination of statecraft requires attention to the circumstances under which one state can marshal its hard and soft power resources to convince another to make the desired political changes. The efficacy of statecraft depends not only on the promise of rewards or pain, but on the corresponding ability of an initiator to structure a target's decision-making context. I refer to this as "strategic manipulation" that, unlike strategies of coercion and inducement, does not

prejudice either threat-based or threat-reducing elements of statecraft. Rather, manipulation encompasses the application of both forms in a single concept.

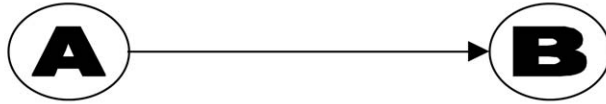
This broader conception of statecraft places the onus of success on the initiator. In contrast to recent studies of sanctions and coercion that analyze the domestic conditions surrounding target state responses, the premium here is placed on assessing how a sanctioning state can shape these conditions and the utility of compliance relative to roads not taken.⁷⁹ This does not neglect the political costs for a target state or the dynamic interaction between initiator and target, but recognizes that an initiator must invariably anticipate an adversary's countermoves. It is precisely because the practice of statecraft is a dynamic contest that an initiator must build into its diplomacy provisions to compensate for likely target state responses.

Similarly, attention to manipulation is especially relevant for understanding the strategic implications of soft power. The globalization of commercial, financial, production, and distribution relations increase at once the breadth and depth of interdependence. States both lose and gain new dimensions of sovereign control amid rising trends of globalization. They lose control over firms and subnational actors that are increasingly beholden to the dictates of networks and markets. Yet states that are increasingly ensconced in mutual dealings have at their disposal multiple avenues for shaping respective interactions. As noted by George Shambaugh, "when one state controls the activities of firms within another state's territory, it not only decreases the physical resources at that state's disposal, but also undermines its political integrity by challenging its ability to control actors and activities within its territory."⁸⁰ As depicted in Figure 1.3, this creates new and more intimate opportunities for states to skew the decision making of target states without resort to strictly bilateral forms of threats or punishment. To the extent that states can determine the behavior of third parties or actors operating within another state, they can expand the scope of their influence by shaping the situational context and structuring the choices presented to a target. Viewed in this light, globalization creates new opportunities for practicing more indirect, nuanced, and intimate forms of soft diplomacy.

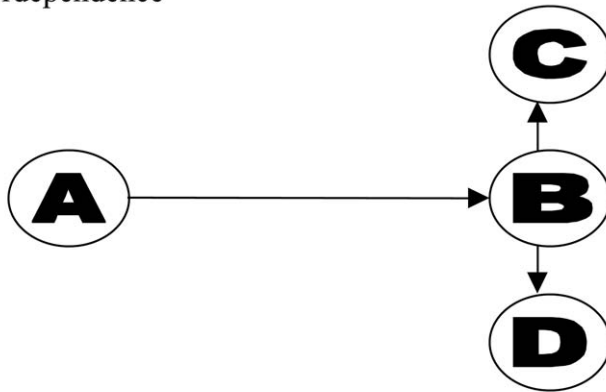
Identifying the conditions apropos to strategic manipulation also is important for redressing the "ex ante-ex post" dilemma that otherwise complicates international strategies of coercion and inducement. Because confrontations are costly to all sides, states have incentive to reach peaceful resolutions beforehand that allow them to realize their

FIGURE 1.3
Framework for Analyzing Statecraft

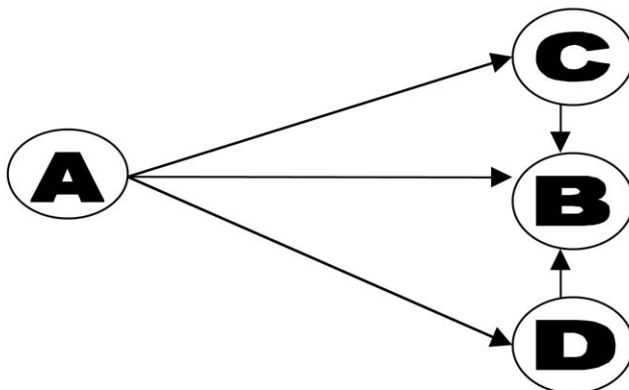
Relative Power



Interdependence



Manipulation



interests without paying hefty prices. If rivals share complete information on how each evaluates the outcomes and costs of a showdown, then it is relatively easy for them to identify a mutually acceptable solution. Under conditions of international anarchy, however, states must bargain with incomplete and asymmetric information, as they know more about their own willingness and ability to follow through on threats and promises than can be observed by respective adversaries. This adds confusion to each state's expectations about the others' preferences and responses. Strategic interaction is driven by efforts to demonstrate resolve, as each state seeks to marshal its capabilities and send diplomatic signals to convince the other that it is determined to back up its threats or promises.

The rub for coercive diplomacy is that the credibility to follow through on threats is intrinsically dubious. This is because the costs of carrying out the threat often are greater than the potential benefits derived from an adversary's compliance.⁸¹ Except under conditions where the stakes are immense and the costs of confrontation are negligible, it is often more beneficial not to carry out threats or promises. Because states have incentives to exploit information asymmetries and to exaggerate their commitments, not all promises or threats are taken seriously by an adversary. Although an initiator can improve the credibility of diplomacy by trading on a reputation to honor threats and increasing the domestic "audience costs" for failing to uphold them, uncertainty regarding an initiator's willingness to pay costs *ex post* is never fully removed from a target's *ex ante* decision calculus.⁸²

It is here that the focus on soft power and strategic manipulation differs significantly from classic forms of coercive diplomacy. Unlike threat- or reward-based statecraft that relies on pledges that are inherently suspect, manipulation privileges preemptive diplomacy that alters opportunity costs and benefits of compliance. This entails undertaking specific actions up front to affect the relative appeal of different courses of noncompliance, as opposed to threatening to alter the probabilities and utility of compliance. Because opportunity costs and benefits of compliance are presented *ex ante*, whereby targets make choices between policies that carry certain gains and losses, the uncertainty and credibility of *ex post* actions becomes less salient.

Conclusion

By including the dynamics of soft power and strategic manipulation, this study broadens the scope of statecraft. The purpose is to highlight

not only different forms of statecraft, but to understand when and why different strategies are successful. Instead of examining how states are able to directly punish and reward a target state, this approach emphasizes the incentives and causal links that translate soft power into strategic manipulation. To build theories about how states are able to manipulate indirect and dispositional forms of statecraft necessitates adopting a microfoundational approach to understanding the incentives confronting public and private actors to line up behind a nation's influence attempt. This, in turn, raises several basic questions: What are the dimensions to soft power and how can they be manipulated? Is manipulation sufficient to incite meaningful changes in a target's strategic behavior? Under which conditions is strategic manipulation most likely to produce preferred outcomes?