Hirschman, Albert O. 1969. *National Power and the Structure of International Trade*. Berkeley: University of California Press. Chapters 1-2.

Note: I ignore the economic analysis of changes in trade and do not cover Chapter 3, the use of 'economic aggression' in WWI.

Quick summary: *Relationships of dependence, of influence, and even of domination can arise out of trade relations. Foreign trade has two main effects upon the power position of a country: an indirect supply effect (strengthens military potential of a country) and direct influence effect (economic coercion/warfare). The power to interrupt commercial or financial relations with other countries is a determinant of a country's power position. A country trying to make the most out of its strategic position with respect to its own trade will try to create conditions which make the interruption of trade of much graver concern to its trading partners than to itself. It will also be an elementary principle of the power policy of a state to direct its trade away from the large to the smaller trading states.*

What is the central puzzle/question?

Most generally, what is the relationship between power and economics (guns and butter)? More specifically, how can foreign trade contribute to a certain distribution of power among various nations?

What is the central answer(s)?

Relationships of dependence, of influence, and even of domination can arise out of trade relations.

Foreign trade has two main effects upon the power position of a country. The first effect is certain to be positive: *supply effect* – by providing a 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 of a country. This only serves to strengthen the war machine of a country, but it uses the threat of war as a weapon of diplomacy and is therefore an indirect instrument of power (war or threat of war is the direct instrument). The second effect is that it may become a direct source of power since commerce can become an alternative to war by providing a method of coercion (economic warfare) of its own in the relations between sovereign nations – the *influence effect* of foreign trade.

Every sovereign nation has some influence of this kind since through the control of its frontiers and the power over its citizens it can at any time interrupt its own export and import trade, which is at the same time the import and export trade of some other countries (who must then find alternative markets and sources of supply or make economic adjustments). A country trying to make the most out of its strategic position with respect to its own trade will try to create conditions which make the interruption of trade of much graver concern to its trading partners than to itself. Thus, the power to interrupt commercial or financial relations with any country is a determinant of a country's power position.

The threat of an interruption in trade – the ever-present characteristic of commerce between sovereign states – has two main effects upon the economy of the country the trade of which is interrupted: it impoverishes this country and also imposes a process of adjustment when imports are no longer forthcoming and goods formerly exported will no longer be consumed in the home market. The immediate loss from the stoppage of trade is much greater than the ultimate loss after resources have been fully reallocated. The mobility of resources plays a key role in the ability to reallocate resources. Manufacturing and trading countries have an overwhelming advantage regarding mobility of resources compared to countries in which agriculture or mining predominates. It will also be an elementary principle of the power policy of a state to direct its trade away from the large to the smaller trading states.

Principles of a Power Policy Using Foreign Trade as Its Instrument

I. Policies relying on the *supply effect* of foreign trade and trying to insure its working even in times of war
   - A. Concentrate imports on goods needed for the war machine.
   - B. Accumulate large stocks of strategic material.
   - C. Redirect trade to neighboring politically friendly or subject nations.
   - D. Secure control of the oceanic trade routes.

II. Policies relying on the *influence effect* of foreign trade
   - A. Policies designed to make it more difficult for the trading partner to *dispense entirely* with the trade.
     1. Increase the trading partners' gain from trade (without impairing the supply effect).
        - a. Develop exports in articles enjoying a monopolistic position in other countries and direct trade to such countries.
        - b. Direct trade toward poorer countries.
     2. Increase the trading partners' adjustment difficulties in case of stoppage of trade.
        - a. Trade with countries with little mobility of resources.

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        b. Induce a wide discrepancy between the pattern of production for exports and the pattern of production for home consumption.
    3. Create vested interests and tie the interests of existing powerful groups to the trade.

B. Policies designed to make it difficult for the trading partners to *shift* trade to each other or to third countries
    1. In general: Direct trade toward the small trading countries.
    2. With respect to the exports of the trading partners:
        a. Import products for which there is little demand in other countries.
        b. Drive prices of the export products of the trading partners above world prices:
            i. By fostering high-cost production.
            ii. By monetary manipulation.
        c. Grant to the trading partners' exports advantages not relating to the price of their products.
    3. With respect to the imports of the trading partners:
        a. Export highly differentiated goods creating consumption and production habits.
        b. Develop trade on a bilateral basis.
    4. Develop transit trade.