# Interdependence, Statecraft and Leverage: Can coercion be avoided?

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## Introduction

Economic statecraft has received substantial attention of late, partly because of the potential for economic coercion to replace military intervention as a way for states to influence the behavior of other states (Hufbauer 2007; Early 2015).[1] For example, international sanctions compelled South Africa to eschew apartheid in the early 1990s and, a decade later, convinced Libya's Muammar el-Qaddafi to relinquish his weapons of mass destruction program. But economic coercion also has a darker side: a state may use its leverage to fulfill what many consider repugnant objectives, such as OPEC's oil embargo to punish states supporting Israel or Russia's more recent manipulation of natural gas supplies to influence elections in former Eastern Bloc countries.

Because of the potential for coercion in asymmetrical trade relations, the more dependent partners may become uncomfortable, particularly if they are locked into the relationship, that is, if the costs of exiting the relationship are high. They may seek to alter the asymmetries, and the literature covering interdependent relations is replete with observations of states pursuing diversification to lessen dependence. Albert Hirschman (1978; 49), who was among the first to analyze economic statecraft, referred to the attempt to lessen dependence as "counterforce" and noted that myriad mechanisms must be in play for a state to alter asymmetric relations. Furthermore, he observed that "To ferret out such mechanisms is anything but easy, particularly when…initial asymmetry and dependency relations are grounded in economics while the countertendency relies on a certain kind of political reaction coming into play." Aside from the dependency and new dependency scholars, who examine postcolonial relations and the disparities between wealthier and poorer states, little theorizing has been hitherto conducted on how dependent actors may alter asymmetries in their economic relations. This paper seeks to fill this gap and "ferret out" the strategies employed by states.

The title of this paper poses the question: can coercion be avoided? The simple answer is, of course, yes. Numerous examples obtain of states withstanding the pressure of sanctions, such as Cuba, North Korea and Yugoslavia. The focus of this paper, however, is on developing a systematic framework for understanding how states lessen dependence and an exploring how states can *pre-emptively* avoid coercion.

[1] This paper uses the terms actor and state interchangeably, with the understanding that international organizations can also exert pressure on states and, as in the case of the EU, state-like entities may be concerned about vulnerability to coercion.

I argue that dependent partners have four options: first, they may attempt to *substitute*, which for importers can comprise producing domestically the same commodities or close substitutes and/or importing the same commodities or close substitutes from third parties.[2] Second, dependent states can enhance their ability to *adjust*, which could range from increasing efficiencies to reducing the need for a commodity altogether. Third, they may attempt to *impede* the capacity of their partners to exert leverage. These tactics could include implementing regulations over trading behavior ("setting the rules") and strategically seeking allies. Fourth, as domestic actors as well as the general public can jeopardize a state's attempt to change economic relations, a dependent state may have to *regulate and monitor* domestic risks. This could involve monitoring the contracts and exchanges of domestic firms or framing the dispute in ways that rally public opinion in favor of changing relations.

The paper proceeds as follows. In the first section, the four main bodies of literature covering interdependence are reviewed. Second, I propose a framework for understanding in a systematic way how dependencies can be lessened. Next, I illustrate the salience of these factors through a case study: the energy relationship between the European Union (EU) and Russia. I close with suggestions for future work.

## Economic Interdependence and International Relations

The literature examining economic interdependence can be divided into four broad and interrelated strands: the economic conditions and relations conducive to peace; dependency theory and the attempts by poorer states to forge new economic relations; asymmetrical interdependence and the ability of less dependent states to influence their dependent partners; and more direct forms of economic coercion, such as sanctions. Although the four fields focus on different facets of interdependence, each provides insights into how actors can reduce their economic dependence.

### Interdependence and Conflict

The first strand is connected with the Kantian peace research project—examining whether Immanuel Kant's observation that trade promotes "community of interest and peaceful relations" between "distant peoples" (Kant, 1992, 122). For thirty years, scholars have engaged in a fierce debate over the relationship between economic interdependence and conflict, with one camp concluding that some forms of economic interdependence between states have a pacifying effect on interstate relations (e.g. Polachek, 1980; Oneal and Russett, 1999) and the other camp positing that interdependence can be linked with a greater likelihood of conflict and war (e.g. Waltz, 1970; Gasiorowski; 1986; Barbieri, 1996; 2002). Both sides of the debate have typically associated dependence with the level or intensity of trade within a particular pair of countries. However, more recent work argues that a state's level of dependence is reflected not by the amount of trade, but by how deeply it is locked into the relationship, that is, the costs a state must incur to exit the relationship (Crescenzi, 2003, 2005; Peterson, 2013). The question then becomes: what is the relationship between exit costs and conflict?

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[2] To reduce complexity, this paper examines dependence from the perspective of importers.

Crescenzi (2003, 2005) investigated the incidence of low-level conflict (categorized as non-military threats, demands or actions, such as sanctions) versus high-level conflict (such as military action) and found that an increase in exit costs—the inability to leave the relationship—increases the likelihood of low-level conflict, i.e., that the less dependent state will issue a threat or demand. However, higher exit costs decrease the likelihood of military action. This fits with Kleinberg et al.'s (2012) observation that the inability of partners to leave a relationship makes them more conciliatory: "When states have few alternatives to their existing trade, the risk of violent conflict declines (529)."

But what happens when only one partner has higher exit costs? Peterson (2013) examined relative costs and found that higher levels of conflict are associated with unbalanced costs: states seem to be particularly aggravated when their exit costs are much higher than a partner's. The state with the higher costs is more likely to initiate conflict, especially if the trade relates to strategic commodities.

Combining Crescenzi's and Peterson's work indicates the following: if exit costs for both partners are high, then the risks of severe conflict, such as militarized disputes, are less—but the states may be more willing to engage in low-level conflict. However, if one partner has much higher exit costs, higher levels of conflict are more likely. For Peterson (2013, 21) the question then becomes "…how might one explain the perceived pacifying effect of trade that is found in so many studies?" His answer: "The simplest explanation is that states attempt to structure trade relationships to avoid unilateral dependence…."

In sum, the insights from the interdependence and conflict literature are twofold: dependent states should consider their exit costs, not just the volume of trade. Second, there are hints that states calibrate their economic dependence. This conscious structuring of trade relationships is precisely what poorer states have attempted in order to alter asymmetries in their relations with wealthier states, which is the focus of the next body of literature.

*Dependency* and Interdependence

Scholars examining *dependency* distinguish between "*dependence* as external reliance on other actors" and "*dependency* as the process of incorporation of less developed countries (LDCs) into the global capitalist system and the 'structural distortions' resulting therefrom (Caporaso, 1978, 1; emphasis added)." Because *dependency* perpetuates the disparities between wealthier and poorer countries, dependent countries were advised to extricate themselves from these relationships in a process of "self-reliance" (e.g. Galtung, 1976; Biersteker, 1980). This extrication process had three steps: disengagement, restructuring, and re-association.

The disengagement phase requires a great deal of state intervention, such as implementing trade barriers, limiting foreign direct investment, import substitution and promoting domestic production and technologies. Concomitant with disengagement—and spurred by the changes wrought by disengagement—the country should restructure itself. This includes changing long-standing relations and patterns and forming economic ties with other poor countries to replace those previously held with wealthier states. Once the more dependent state has transformed itself, it can re-enter relations with wealthier countries (Biersteker, 1980).

The notion of self-reliance, however, fell out of favor because it was problematic to achieve: poorer states typically had small internal markets and difficulties controlling exports. Rather than self-reliance constituting the pursuit of autarky and extensive import substitution, it “…should be interpreted as endorsing a policy of controlled interactions with the world economy…. (Ferraro, 2008, 64)”. Nonetheless, both strict self-reliance and controlled interactions connote that more dependent states need to find ways of restructuring their relationships. Whereas scholars in the first and second strands are occupied with conflict and exploitation, respectively, the focus of the next strand is on leverage in general.

Asymmetrical Interdependence and Power

Scholars focusing on economic interdependence explore how asymmetrical relations may endow less dependent states with bargaining advantages and the possibility of influencing the policies of more dependent states. Two of the main scholars of this field, Robert Keohane and Joseph Nye (1977/2012, 9-15), do not view economic asymmetries as translating directly into political power; rather, the mechanisms of leverage in their conceptualization are vague. As the examples in their renowned book *Interdependence and Power* indicate, less dependent states may explicitly convey their wishes or more dependent states may voluntarily moderate their behavior as not to offend a stronger trading partner. Similar to Crescenzi’s and Peterson’s later works, Keohane and Nye also find that influence is contingent upon a state’s ability to adjust and adapt. For example, a trade disruption by a challenging state is meaningless if the targeted state can immediately replace the missing commodities.

To expand their power, states may seek to strategically structure their relations and/or become the rule setters. Hirschman, in his 1945 study of how Nazi Germany manipulated trade relations and dependence to gain greater leverage over more dependent states, noted that “A country trying to make the most out of its strategic position with respect to its own trade will try precisely to create conditions which make the interruption of trade of much graver concern to its trading partners than to itself (16).” In other words, to keep themselves on the “less dependent” side of the scale, and therefore in a position of power, states can attempt to make other states relatively more dependent.

However, the notion that the economically stronger and less dependent state in a relationship can use its prowess as bargaining leverage later came into question. In 1978, Hirschman acknowledged that economic power and coercion may not be useful in winning concessions if the targeted state perceives the political costs as higher than the economic costs of deprivation. This conclusion has been reinforced by R. Harrison Wagner (1988), who used bargaining theory to demonstrate that asymmetrical market power is different from bargaining power—a government may be willing to endure economic costs if it considers the political costs of concession unbearably high.

Newman and Posner (2010) also address the question of interdependence and leverage and argue that power comes from rule setting. Who can trade in a particular space and what are the rules they must follow to engage in trade? A US company, for example, can only sell aboard if other countries allow it. Power thus arises not just from the ability to stop trade, but also from the ability to control how trade may take place.

In sum, in interdependent relations, the more dependent—and therefore weaker—state may change its behavior, either under duress or by self-regulating, to please a partner. Keohane and Nye (1977/2012) do not provide a precise mechanism for how asymmetries are translated into power, but observe, like Hirschman (1945), that dependence can be lessened through adjustment and substitution. Others have argued that power is the ability to call the shots and set the rules of economic exchange (Newman and Posner, 2010); and, that for some states, it is better to suffer the economic rather than political costs of conceding to coercion (Wagner, 1988).

Coercion and Sanctions

The fourth strand is a closely related to the interdependence and power field, but has a distinct focus on direct forms of coercion: sanctions. For the purposes of this paper, these are understood as threats or attempts by one state to change the behavior of another state. Sanctions can take myriad forms, from travel bans and the freezing of assets to trade disruptions (see Baldwin, 1985), but are primarily associated with the latter, perhaps because disruptions necessitate immediate countermeasures to mitigate negative effects. To avoid confronting these challenges, targeted states are theorized to be motivated to comply with a challenger's demands. This encapsulates the perspective of policy makers, who have utilized sanctions and other coercive economic measures in hopes of achieving foreign policy objectives and settling disputes (see Galtung's 1967 discussion). Indeed, economic coercion had been used so often in the 1990s that it became known as the "the sanctions decade" (Cortright and Lopez, 2000).

The attractiveness of economic sanctions is that states can turn to them instead of military force, which could reduce loss of life through warfare (Hufbauer 2007; Early 2015). However, economic coercion is not always successful. Indeed, earlier measures placed the success rate of *implemented* sanctions at a dismal 33% (Elliott and Hufbauer, 1999, 404). Later studies have found, however, that many coercive episodes end at the threat stage: implementation is not necessary because some states concede after a threat is issued. Many targeted states, however, never comply. If the sender does not drop the sanctions and the target does not comply, the episode is considered a "stalemate". If the sender and target come to an agreement, then the outcome is a "negotiated settlement". If the sender ends the sanctions and the target never complied—that is, defied the sanctions—then the episode is regarded as a failure ("capitulation by the sender") (Morgan, Bapat, Kobayashi, 2013, 13).

Some failure cases can be attributed to the weakness of the sanctions themselves, for example, if the sanctions were insufficiently painful (Hufbauer et al, 2007). Or, the sanctions may have had goals than other than forcing the target to change its behavior; for example, some sanctions are symbolic or are implemented to please audiences within the sender country (Schreiber, 1973; Whang, 2011). But, some sanctions fail because the targeted country found ways to circumvent the sanctions. In addition to diversifying and finding new partners, targeted states can rely on other tools to withstand the pressure and/or lessen their dependence. Sanctions can fail, for example, when the public in a target state rallies behind its government (Drury, 1998; Hufbauer et al, 2007); or, when the target can shield its firms and vulnerable constituents (Rowe, 2001); or, if the target receives support from third-party states, such as "Black Knights" (Hufbauer et al, 2007), who may assist the targeted state for political reasons, such as the Soviet Union's support of Cuba; or from "sanction busters", who are profit oriented and thus help the targeted state (Early, 2009).

**How can Dependence be lessened?**

An examination of the insights on lessening dependence from the four sets of literature reveals certain commonalties, which are indicated in Table 1. Whether the focus was on conflict, exploitation and self-sufficiency, influence and bargaining power, or sanctions, a common insight is that the weaker actor in a relationship is the one more wedded to the relationship. A key factor for a state striving to gain a bargaining advantage or to avoid exploitation is the ability to exit the relationship, which can be accomplished in several ways. For example, a state seeking to lessen dependence could pursue the ability to *substitute*, which can comprise domestically producing the same commodities or close substitutes and/or importing the same or close substitutes from third parties. Second, it could enhance its ability to *adjust*, which connotes some kind of restructuring, such as increasing efficiencies or reducing the need for the commodity altogether.

The literature also indicates that power accrues to the partner who sets the rules, which can *impede* the capacity of other states to exert leverage. Thus, a dependent state may employ tactics that allow some degree of control over trading behavior. As domestic actors can be a source of weakness, the fourth task for a dependent state would be to develop or enhance its ability to *regulate and monitor* potential domestic "sanction busters". This could take the form of framing the dispute as to rally public opinion—which could be particularly critical in democracies—and monitoring the contracts and exchanges of domestic firms.

*Table 1*. The Four Tasks of Lessening Dependence.

| Tasks | Examples |
|---|---|
| Substitute | 1. Domestic production of same goods<br>2. Domestic production of close substitutes<br>3. Import same goods from another country<br>4. Import close substitute from another country |
| Adjust | 1. Do more with less; increase efficiency<br>2. Learn to do without |
| Impede | 1. Set Rules<br>2. Calibrate asymmetries |
| Regulate / Monitor | 1. Rally public support<br>2. Shield affected businesses & elites<br>3. Keep domestic actors from undermining policies to lessen dependence |

In the next section, I analyze how these four tasks were manifested in the EU-Russian natural gas relationship.

## Altering Asymmetries in the EU-Russian Natural Gas Relationship

"We need energy, Russia needs money, we have money, and Russia has energy: it's clear that our interests are coming closer together." These sentiments, expressed by former German Chancellor Gerhard Schröder (cited in Proedrou, 2007) characterized the EU-Russian energy relationship for more than four decades: a relationship widely perceived as commercially expedient for both partners (Pick 2012; Maltby, 2013). Indeed, Soviet supplies to Europe began during the height of the Cold War—just around the time the Soviet Union invaded Czechoslovakia in 1968. Over the years, supplies steadily increased, despite the vociferous objections of Europe's main military ally, the United States (US) (Högselius, 2013). When the Soviet Union collapsed, Russia inherited the position of Europe's dominant energy supplier.[3] By 2006, Russia supplied approximately 25.8% of Europe's gas and 30.5% of its oil, (Eurostat, 2017) and the EU was generally considered the weaker and more dependent partner (e.g. Hughes, 2006; Leonard and Popescu, 2007).

During a contractual dispute with Ukraine over gas supplies, Russia cut off gas to Ukraine for four days in January 2006 and deliveries to several European utility customers were disrupted. Although no end consumers in the EU experienced shortages, the disruption—and the sense that the cutoff was not just commercially motivated, but also an attempt by Moscow to destabilize Kiev's westward-leaning government—led to unease in Europe. A similar Russian-Ukrainian dispute and cutoff in 2009—which did affect end consumers in the EU—intensified European concerns. The EC realized that the EU was too weak to manage a major disruption and that the internal market was too fragmented to re-direct gas flows to Member States experiencing shortages.

In response to these events, some European politicians and media outlets as well as US policy makers called for the EU to reduce its dependence on Russia. The EC had been trying since the mid-1990s to improve gas transit within the EU and create an internal energy market (Pick 2012; Yafimava, 2013), but the myriad directives, packages, and proposals were insufficient and progress was slow. Moreover, many Member States, particularly those with powerful national energy champions, resisted Brussels' measures (Antoni, 2008). The 2006 and 2009 disruptions, however, lent a sense of urgency and impelled the EC to enhance its capabilities and lessen its dependence on Russia. A full review of the EU's policies and activities is beyond the scope of this paper, but the following examples will illustrate the EC's efforts to address the asymmetries in its gas relations, that is, its efforts to substitute, adjust, impede and monitor/control.

### Substitute Supplies

Unless a trade partner is going to forego a commodity, lessening dependence on a particular supplier requires locating new supplies. Four options obtain: domestic production of the same commodity, domestic production of close substitutes, importing the same commodity,

[3] In this paper, Europe and European will denote the European Union (EU).

or importing close substitutes. As domestic gas production has peaked in Europe, (European Commission, 2014) the EU has primarily pursued the latter three.

Natural gas is primarily used in Europe for electricity generation and household heating, (Eurostat, 2017) and renewable sources of energy can replace both. With regards to electricity, the EU has already made progress towards substituting renewables for natural gas, an outcome that is, in large part, attributable to the EC’s “20/20/20 targets” that were set in 2007 when the EU’s first EU-wide “energy action plan” was accepted. This plan set targets for a 20 percent reduction in greenhouse gas emissions, and 20 percent increases in efficiency measures and the deployment of renewable energies. By 2013, “substitution of natural gas made up 30% of all avoided fossil fuel use” and, by 2014, renewable energies “accounted for 15.3% of gross overall energy consumption” (EC-RE Progress Report, 2015). Coal is also a substitute for natural gas, however, coal is a significant source of greenhouse gas emissions and is supposed to be phased out within the next 10-15 years. If technological advancements in carbon, capture and sequestration (CCS) occur, then coal could be a viable alternative. Thus, in 2013, the EC—despite the planned exit from coal—signaled new support for CCS research (Clune, 2014). This support may or may not produce results, but is included here because it provides further evidence of the EC’s diversification attempts.

The EC has also been seeking new sources of pipeline gas, and in 2011 proposed €9 billion for “diversification projects” (Maltby, 2013), including new gas pipelines. A prominent project is the EU’s “Southern Gas Corridor”, a plan of importing Caspian gas to Europe. The first supplies from Azerbaijan, 10 bcm per year (bcm/a), should start arriving in Europe by the end of the 2010s. Securing gas supplies and contracting for pipeline infrastructure has traditionally been the prerogative of the Member States, who have over the years zealously guarded this domain. However, in 2011, the EC was given the mandate to negotiate, on behalf of the entire EU, with Azerbaijan and Turkmenistan over the Trans-Caspian Pipeline project (Maltby, 2013).

Perhaps the most significant step towards substituting Russian pipeline gas been the EC’s active encouragement—including financial assistance—of the construction of liquefied natural gas (LNG) terminals. As a result, as of 2015, the EU *could* currently import 197 bcm per year of LNG (although it uses far less of this capacity, only 45 bcm/a) (Wislon, 2015). If the EU made greater use of LNG, it could avail itself of a wide variety of international sources.

All of the substitutes discussed here—renewables, coal, pipeline gas and LNG—are only advantageous if they can arrive at the point they are needed when they are needed. This accessibility requires an integrated internal energy market, which the 2009 “Third Energy Package” (TEP) may finally realize. The TEP was the third generation of attempts by the EC to create an integrated internal market, a process which started twenty years earlier but never produced significant results—partly because earlier attempts had not included a way of altering the behavior of the EU’s large, vertically integrated and powerful energy companies. The TEP envisions the EU gas market as a competitive open access network with hub-to-hub delivery instead of the long-entrenched producer-to-customer system. The TEP includes the requirement that gas distribution be “unbundled” from production, meaning that vertically integrated firms, such a Gazprom (but also many EU national champions), have had to re-structure or divest assets (Yafimava, 2013).

The creation of a single market means that EU utilities have a choice of suppliers. This competition has placed price pressure on Gazprom. Thus, in addition to allowing new sources of supply to enter the EU marketplace, an additional benefit of the TEP is price competition, which has prompted many utilities to re-negotiate their gas prices with Gazprom.

Adjust: Do Without or Do More with Less

Over the past ten years, the EU energy market has acquired a great deal of "adjustment" capacity. For Hirschman (1945), adjustment was a broad category, including the dislocation costs of restructuring the economy as the result of a disruption; learning to do without a commodity; and making do with less of a commodity. As the EU changes its energy mix and distribution, it has indeed incurred restructuring costs—which are unfortunately beyond the scope of this paper to assess. It should be noted, however, that such costs may be offset by the added benefit of establishing new industries and re-deploying workers. Indeed, some economists have estimated that the renewable energy sector employs four times as many people per Terawatt hour of electricity than gas and coal plants (Gabriel, 2012).

Thus far, the EU has not had to learn to "do without", but it has made steps towards "doing more with less": the efficiency goal of the 20/20/20 policy has already produced results. According to the Energy Efficiency Communication of July 2014, "the EU is expected to achieve energy savings of 18%-19% by 2020—missing the 20% target by 1%-2%. However, if EU countries implement all of the existing legislation on energy efficiency, the 20% target can be reached without additional measures" (European Commission, 2014).

Regulate and Monitor: Controlling Domestic "Sanctions Busters"

"Monitoring and controlling" may sound ominous, particularly to democratic ears. What is meant, however, is that a dependent actor seeking to change its economic relationships must be mindful that its own public, firms and elite figures can either jeopardize these efforts or be instrumental in their success (see, for example, Drury 1998, Allen 2005, Marionov 2005, Hufbauer et al. 2007, Bapat and Kwon 2015, Lektzian and Patterson 2015). For example, despite the US' sanctions against apartheid South Africa, the US Embassy reported that US firms were "determined to undercut any sanctions action" (Barry and Kleinberg, 2015, 881). It would thus behoove the more dependent partner to monitor and, if possible, control for domestic risks.

To win over the general public, which may be an especially important task for democracies as they are more sensitive to pressure (Allen, 2005), an actor may have to carefully frame the dispute or restructuring activities. In the EU-Russian gas relationship, the EC and other advocates of lessening dependence have had to make sure their efforts are not interpreted as either unnecessary or harmful to the EU. Indeed, they may have to justify their actions by painting a particularly dark picture of Russia's activities and intentions. For example, after the 2009 Russia-Ukraine gas dispute, many Europeans were under the impression that Russia had cut off supplies to Europe, and were unaware that it was Ukraine that had held supplies for itself and passed along the cuts to Europe (as an example, see Gow, 2009). While this impression may or may not have been cultivated by European leaders and media outlets, they also did little to dispel this misperception (much to the aggravation and bafflement of Gazprom executives; personal communications, February 2011). More recently, Donald Tusk, Poland's former Prime Minister and current President of the European Council, published an opinion piece in the *Financial Times* in 2014 titled "A united Europe can end Russia's energy stranglehold". This type of framing would seem to help keep the general public's patience with higher energy and restructuring costs.

As Hufbauer et al. (2007) and Bapat and Kwon (2015) observed, domestic businesses and elites can be particularly problematic if sanctions affect them deleteriously. I would argue that the same holds true for businesses and elites that may be negatively affected by their host government's attempts to lessen dependence. European firms, particularly the large energy companies, have signed agreements that the EC claims may compromise EU diversification. Indeed, the ability of Russia and Gazprom to "divide and conquer" the EU by making bilateral deals with Member States has long been an issue of contention. In 2009, the EC was finally able to gain some oversight capacity, and, through the Third Energy Package and other regulations, has been able to force Gazprom and Member States to alter their arrangements (which will be discussed in the next section).

The Lisbon Treaty of 2009 furnished the EC with "shared competence" in energy, meaning that Member State laws must accord with EU law (Maltby, 2013). The EC has also expanded its monitoring capacity. Not only can it review whether Member State pipelines are in accordance with the Third Energy Package, it can monitor their contracts with 3rd parties (e.g. with Gazprom); and scrutinize whether their infrastructure plans enhance EU energy security (Van Voreen, 2012; Van Elsuwege, 2014). Between 2009 and 2014, the EC reviewed 60 gas contracts with 40 customers (Henderson and Mitrova, 2015). The recently announced "Energy Union" will also provide the EC with the ability—albeit limited—to monitor contract negotiations (Henderson and Mitrova, 2015, 48).

Impede Foreign Leverage

Hirschman (1945) observed that a strategic actor could manipulate relations to increase the dependence of others. Later, Newman and Posner (2010) argued that power can be obtained by "setting the rules" in an interdependent relationship. These dynamics have also been in play in the EU-Russian gas relationship. In the early 2000s, Russia considered but ultimately rejected signing the EU's Energy Charter Treaty (ECT), which would have established some rules and norms of behavior. The Third Energy Package has since become the primary vehicle by which the EC can affect how Gazprom operates in the EU. Not only has Gazprom had to change how it distributes gas in the EU, the TEP has lessened the attractiveness of European downstream assets, thus helping to keep ownership within the EU.

The EC has also used the TEP's unbundling clause to accomplish political objectives, such as challenging several of Gazprom's pipeline projects that were designed to circumvent Ukraine. As two analysts observed, "In response to the perceived threat from Russia and the desire to support Ukraine the EU has used its legislative and judicial powers in a more political fashion in an attempt to counter Russia's desire to reduce gas transit through Ukraine by building alternative export infrastructure" (Henderson and Mitrova, 2015, 58). The EC accomplished this by insisting that proposed Gazprom pipelines—and expansion of pipelines—comply with the TEP, meaning the sections on EU territory would have to allow 3rd party access. This affected two of Gazprom's projects, the OPAL and South Stream pipelines. Thus, although Russia's President, Vladimir Putin, would like to avoid transit through Ukraine, the EC has innovated a tool to stymie his wishes.

The EC has also used other treaties and regulations to force Gazprom to change its business practices. The EC has launched investigations into whether Gazprom violated antitrust laws and the *Treaty on the Functioning of the European Union* by using its dominant market position to limit competition (Bennett, 2014; Golubkova and Yun Chee, 2016).

**Conclusion**

This paper examined how coercion can be avoided. Specifically, it explored how the more dependent actors—encompassing states and state-like entities, such as the EU—in an economic relationship can alter the asymmetries of the relationship and lessen their dependence. These issues have been touched upon by various schools of thought, ranging from the 'Kantian Peace Project' to the Dependency scholars to the more recent research on interdependence, bargaining and sanctions. By combining the insights from these fields, I proposed a systematic way of thinking about the strategies that dependent actors can employ and illustrated their use in a case study of the EU-Russia gas relationship.

In general, the more dependent partner in a relationship has several options for avoiding coercion: substituting the commodities that might be at risk; adjusting; impeding the coercive abilities of the partner; and regulating and monitoring domestic actors to ensure they do not sabotage efforts to lessen the country's dependence. As discussed in the case study, the EU has attempted all these measures. The result is that Russia and Gazprom now face a very different EU than they did ten years ago, when the EU was considered the weak and more dependent partner. As several analysts have recently observed, the EU has acquired greater leverage in its energy relations with Russia (e.g. Clune, 2014; Henderson and Mitrova, 2015). I am not arguing that the EU has attained autonomy in the gas relationship or has "won", but the EU has certainly—through a combination of planning and luck[4]—begun to shift the balance of its dependency. Although the EU will continue to rely on Russian gas—particularly as indigenous supplies of European gas dwindle—the EU has taken steps to reduce its exit costs and calibrate its dependence.

With ever greater frequency, states are turning to economic statecraft and sanctions to achieve foreign policy objectives. On the positive side: if these tools are successful, then open warfare can be avoided. And, they provide a way for states to discipline other states, such as the condemnation of South Africa that led to the dismantling of its apartheid system. However, economic statecraft tools can only work if targeted states bend under pressure. We therefore need a better understanding of how states manage to withstand economic stress, including how they defy sanctions.

[4] Several exogenous factors helped create a "buyer's market" in Europe. Because of the 2008-2009 economic crisis, European gas consumption had decreased and, concomitantly, technological advancements in fracking led to greater availability of LNG and cheaply priced US coal (which was being displaced by gas). See Henderson and Mitrova (2015).

But economic statecraft and coercion can be used to also achieve reprehensible goals. Under such circumstances, it would be beneficial for targeted states, including potential targets such as the EU, to know how to reduce their vulnerability to pressure. For both eventualities—influencing other states in a positive manner or avoiding nefarious pressure—it is important to “ferret out” the mechanisms for altering asymmetries, which was this paper’s objective. This paper’s case study was an example of an actor attempting to lessen its dependence in order to pre-emptively stymie coercion. Further work in this area could include examining historical cases of defiance and sanctions failure—in which targeted states refused to comply and the sender capitulated—to confirm the salience of these mechanisms.

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Foreign subversion is a covert, indirect form of modern statecraft. It involves empowering illicit and armed nonstate groups that act as extensions of a sponsor state. These proxies inflict damage on target states with the aim of deconsolidating them and creating ungoverned space. Their attacks distract the target state and deny it resources, creating bargaining leverage for the sponsor. Although subversion featured prominently in the Cold War, policymakers have only recently begun to pay attention to the problem of subversion in its updated form. This oversight has been costly to Western inte Breakdown: Chapter 1: Interdependence in World Politics Major Questions: what are the characteristics of world politics under conditions of extensive interdependence? And, how and why do international regimes change? Interdependence as an Analytic Concept Interdependence refers to situations where states or actors are determined by external events in a reciprocal relationship with other states or actors, jointly limiting their autonomy. It is created through the expansion of international transactions, insofar as the costs associated with them constrain political activity. While these relation