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This article discusses the theoretical basis of political economy as a preliminary inventory of some of the current literature in political science. It is intended to prepare the ground for subsequent debate of these theoretical issues.

POLITICS AND ECONOMICS IN INTERNATIONAL RELATIONS:  
THE QUEST FOR AN ANALYTICAL FRAMEWORK

"The science of economics presupposes a given political order"  
(E.H. Carr, The Twenty Year's Crisis, 149)

, "...as the postwar economic consensus disintegrates and as security issues recede, economic issues are reemerging as the focus of international relations" (Spero, 1977, 3)

"  
..I contend that economic issues are becoming and will continue to become more problematic in relations among non-Communist countries, and that their relative prominence today is not merely due to the fact that other, more fundamental issues have been resolved. Indeed, the trend toward greater economic interdependence among countries will require substantial changes in their foreign policy in the next decade or so' (Cooper, 1972, 159)

This paper discusses the need for a theory-building in international relations which takes account of the importance of economic factors in world politics. The need for such theory is evident from the growing importance of economics in the world system, as seen in the growth of international trade in the post-war years and in the assumption on the part of the modern nation-state of the duty to provide economic security to its citizens. This obligation translates into economic policy-making internationally. Further, the post-war consensus on rules for the international economic system, as laid down in the Bretton Woods monetary management and in the GATT rules for international trade, have broken down in recent years. This has resulted in further international economic

interdependence, as capital also can flow freely, and in the further interaction between political and economic actors in international trade, as the reliance on free trade has lessened. The recent growth of the 'new protectionism', where tariffs no longer play the main role, but rather bilateral agreements on a government-to-government level, has underlined the need for theories of international politics that take sufficient account of this.

#### THE IMPORTANCE OF ECONOMIC FACTORS IN INTERNATIONAL RELATIONS

If one accepts the simple dictum that politics concerns the pursuit of power and economics the pursuit of wealth, it is a truism to say that both are present at all times in the international relations between states. However it is a fact that the political participation in and interest in economic issues varies. Sometimes there is much conflict over economic issues and much government participation in international trade, at other times the economic sphere is largely left alone.

Two major developments after World War II caused the importance of economic factors in international relations to recede into the background. First, there was general agreement in the Western world on the rules for economic activity laid down in the GATT agreement and in the Bretton Woods system. The main object of this liberal free trade system was that international trade and economic activity in general should be left alone, i.e. should not be interfered with by politicians. This had a political aim - it was assumed that, one, economic prosperity brings peace, and two, that the free enterprise system results in prosperity.

Second, the Cold War demanded focus to be put on security policy issues. The United States played the lead in East-West politics throughout this era, and both foreign policy and the management of the Western economies reflected the Cold War. The East bloc countries had refused to join the negotiations for the GATT and had created their own economic system.

There was little scope for cooperation of any kind.

Both these developments have in recent years diminished in importance. The Cold War has been replaced by two periods of detente - one in the seventies and another starting in 1986-87. During these periods, economic factors in the East-West relationship have gained in importance, and become a central means of foreign policy-making. Foreign policy towards the East has thus been conducted via economic means to an increasing extent in the seventies and eighties.

The consensus on the rules for trade as expressed in the GATT has not only weakened throughout the seventies, it has in many ways broken down. The free trade principles may still be upheld as such, but in reality protectionism in various forms have increased. There has for several years now not been an international agreement on economic rules, only occasional summit meetings where there seems to be little interest in or ability to reestablish a code of behaviour for the international economy.

This subchapter recounts briefly how the post-war economic regime as laid down in the GATT and Bretton Woods agreements developed and declined and how bilateralism in trade has grown in response to this decline. The main emphasis is on empirical illustrations of the decline of free trade practises and the concomitant rise in the political participation in trade.

#### **. The Post-War Economic Regime**

The concept of regime is central to this analysis and will be discussed at length in subchapter 2.4. below. In short a regime refers to a set of norms and principles governing the behaviour of actors in a given issue area. A regime can be formal, like e.g. the GATT, or informal or non-contractual, like ae.g. the 'gentleman's code of honour' in days gone by. The informal regimes are of course the most difficult ones to identify and study, but also those that demand attention in interantional relations, where there are relatively few formal regimes. A

regime is here taken in its literal sense, where it means rules that govern someone or something. The concept has usually been used in a perjorative sense, in referring to governments of countries one doesn't like. It thus has the connotation of oppressiveness.

Today the management - or the regime - of the post-war international economic order has broken down, and there seems to be little incentive for the reestablishment of such an order. However, in the period immediately after World War II the Western world agreed on an explicit set of rules that should govern international economics. This was the agreement known as Bretton Woods after the place in which it was signed, and the rules for international trade laid down in the General Agreement on Tariffs and Trade (GATT).

The consensus on economic rules was impressive given the enormity of the task confronting the architects of it. One commentator points to the conditions for this consensus: "During and after WWII, governments developed and enforced a set of rules, institutions, and procedures to regulate important aspects of international economic interaction. For nearly two decades, this order, known as the Bretton Woods system, was effective in controlling and in achieving the common goal of the states which had created it. The political basis of the Bretton Woods system are to be found in three conditions: the concentration of power in a small number of states, the existence of a cluster of interests shared by these states, and the presence of a dominant power willing and able to assume a leadership role." (Spero, 1977, 21, our emphasis).

The Bretton Woods agreement was ratified in 1946 by 44 countries. The planning for the agreement was undertaken by the British and U.S. governments, led by the economist Keynes and the American politician White. With hindsight it has become clear that the U.S. to a large extent determined the outcome of the negotiations. The final draft was close to the American suggestion. "Given the economic strength of the U.S. at the time, this was not surprising", concludes Munthe. (



Penner, kreditt, og valuta, p. 340, our translation)

At this time the Western world dominated the world economy. This was true especially of the U.S., which was in power both economically and politically. The East bloc deliberately chose isolation. Developing countries were integrated in the economy, but primarily as suppliers of raw material. Japan was in shambles after the war. Further, the inter-war experience of the Great Depression had made the need for management of the economy a necessity.

In addition to this need for economic rules for the international system, the system of free trade was assumed to have implications for democracy as well. In the words of Cordell Hull, U.S. foreign secretary: '..if we could get a freer flow of trade - freer in the sense of fewer discriminations and obstructions...we might have a reasonable chance of lasting peace' (Spero, *ibid*, p. 22, Cordell Hull quoted). The welfare state had been born of the Great Depression, and so has Keynesianism. Governments had assumed the role of securing economic well-being. Harry D. White, U.S. architect behind Bretton Woods, put it thus : 'the absence of a high degree of economic collaboration among the leading nations will..inevitably result in economic warfare that will be but the prelude and instigator of military warfare on an even vaster scale' (Spero, *ibid*, 23, White quoted).

There was thus agreement on the need to develop international rules for the economy. The outbreak of the Cold War also contributed to this need, as it necessitated a common 'homefront'. Only economic strength could ensure political and military strength in the West. Thus economic goals became subordinated to security goals. Europe had to become economically strong in order to become militarily powerful.. The liberal economic system would ensure this, especially when trade was allowed to flow freely. The U.S. assumed leadership in this process.

By the 1970ies, however, Bretton Woods in shambles. Changes in the political basis of the system had taken place: US leadership had weakened, Japan and the developing countries had changed the world economy, and the EEC had developed into a major economic region. The integration of East-West trade required new rules for international trade. There was criticism of the monetary system which was based on the dollar, and the developing countries demanded an activist economic mangement. The growth of economic interdependence itself led to these demands, also in developed countries, because increased interdependence between nations, which was the result of the reduction of trade barriers and increased communication and travel, as well as the free flow of capital between countries, led to greater vulnerability for domestic groups. Thus free trade paradoxially led to demands for the opposite once it was sufficiently free.

The Bretton Woods agreement ended on August 15,1972, when the U.S. government abandoned it. While it lasted it was 'the first publicly managed political order. For a quarter of a century international monetary relations were stable, providing a basis for growing international trade, economic growth, and political harmony among the developed market economies' (Spero,op.cit. 32)

The adherence to the GATT rules have also gradually lost in legitimacy throughout the seventies and the eighties although most Western nations still officially uphold them as normative for international trade. However, there is a growing gap between theory and practise. One commentator puts is rather strongly: "By now..the deviations from the standard (GATT rules) achieved through nontariff barriers, subsidies, quota arrangements, and preferential purchasing are so great that the overnight disappearance of the GATT beneath the waters of Lac Lemman would hardly be noticed in the world of commerce" (Strange, "Protectionism and World Order", p. 259)

Forces of Change in the 70ies: Growing economic  
Interdependence and detente

Gradually the Western European currencies returned to convertibility by the end of the fifties, and the Japanese yen followed suit in 1964. This resulted in an expansion of financial transactions. Banking was internationalised and banks as well as industries became multinational entities. The end of fixed currencies led to an international monetary market where capital could move quickly from one country to another. The markets for eurodollars and eurocurrency developed. This monetary interdependence led to a weakening of national economic policies. The main effect of these developments was a growing economic interdependence.

Interdependence refers to mutual dependence between two countries in a given issue area. Interdependence can be political or economic or, as is probably true in most cases, both. As a main contribution to the discussion of the concept point out, interdependence is more than mere interconnectedness (Keohane and Nye, 1977). An interdependent relationship entails costs to the parties.

Cooper (1972) tries to capture this dimension and defines economic interdependence as follows: "Economic interdependence normally refers to the dollar value of economic transactions among countries..I shall use it in a more restrictive sense: to refer to the sensitivity of economic transactions between two or more countries to economic developments within those nations' (Cooper, 1972, 159)

This definition looks at the effect that changes in economic interaction has on key economic variables in the countries in question. In other words, what is interesting is

not the absolute degree of interdependence between two countries, but the effect that changes in the interdependent relationship has on the parties that are interdependent.

The search for the effect of changes in an interdependent relationship is also what Keohane and Nye seek to conceptualise when they define two types of interdependence, sensitivity interdependence and vulnerability interdependence (Keohane and Nye, 1977, pp. 12-19). The question raised is what the effects of interdependence are on the actors within an issue area.

Cooper documents the growth of economic interdependence in the Western world in several areas. ("Economic Interdependence and Coordination of Economic Policies", Handbook of Internat. Economics, vol. 2, 1985). There has been an extraordinary and unprecedented growth in international trade, and also in travel and in communications, and this has increased the economic sensitivity domestically in the areas of taxation, interest rates, and inflation. International investment has become a key area of change. Capital flows freely, and banks international.

These changes in the international economy have led to increased structural interdependence, Cooper argues. But there has also been a growth in what he terms institutional interdependence. The prime example here is the development of the EEC.

A recent report by the Norwegian Association of Industries (Norges Industriforbund) also concludes that "The growth in international trade has led to an unprecedented degree of interdependence between nations in the Western world."p.5., and that "In the 70ies there was stagnation in the world economy, with recession and less international trade. The domestic economies attempted to solve their problems by import restrictions and protectionism" (5). "Today's situation has not changed. The tendency towards protectionism has not changed, instead, the free trade principle is even more threatened because the major nations attempt to solve their problems bilaterally" (5) (Industrien

og internasjonal handel, 1986, our translations).

During the same period that these economic processes have taken place, Europe has become an increasingly important actor in the East-West relationship and sought to increase contacts with the East in political and economic ways. There has emerged basic disagreement on East-West politics between the U.S. and Western Europe, and the predominance of security policy in foreign policy towards the East bloc has lessened considerably compared to the Cold War period. The building of economic and political interdependence with the East bloc has become a cornerstone of Western European policy, and has thus made economic policy highly relevant to international relations. In fact, East-West politics is the foremost example of how political aims can be attempted reached by economic means.

#### The Growth of Protectionism

■ The Institut fur Weltwirtschaft at Kiel university arranged a symposium in 1986 with the title "Free Trade in the World Economy: Towards an Opening of Markets", ( Giersch et al., Kiel, conference papers with same title). The concern of the economists assembled was the decline of free trade. The introduction to the symposium stated that: "International trade policy is facing a crossroads. Unless a policy of more open markets is pursued, protectionism may well turn into a self-perpetuating and cumulative process"

Indeed, there seems to be unanimity among economists on the statement that there has been a growth of protectionism in world trade in recent years ( Bela and Carol Balassa "Industrial Protection in Developed Countries", The World Economy, January 1985; J. Nøtzold, "World Trade and Protectionism", Aussenpolitik, 4, 1984; J.M. Finger and M. Laird, "Protection in Developed and Developing Countries- An Overview", Journal of World Trade Law, December 1987). Jan Tumlrir, a GATT executive, sums up this general development thus: "At the end of the 1960ies, the trend towards a more

open trade, especially among the Western nations, was reversed. ..Although many are worried about the rise of protectionism, few realise how far it has gone. ..In fact, a very large proportion of international trade is under some sort of nontariff restraint and moves only with the permission of the governments concerned" ( Protectionism. Trade Policy in Democratic Societies, American Enterprise Institute, 1985, p.1).

A number of other studies deal with what is called 'the new protectionism', which is different from nontariff barriers insofar as it use other vehicles than tariffs as protectionist measures: "The main characteristics of 'the new protectionism' are the lack of openness and transparency of the devices so that it is difficult to assess the extent of the new protectionism, the move from firm rules to administrative discretion, and the return to bilateralism" (W.M. Corden, The Revival of Protectionism, Group of Thirty, New York, 1984).

But how extensive is this hidden protectionism? Pomfret ("Discrimination in International Trade", Economia internazionale, February, 1985), finds that although this protectionism has received little attention from the public, it constitutes "a large and growing component of international trade". He further conjectures that "the reason why economists have paid relatively little attention to discriminatory trade policies is their negative global outcome". In an interesting article Paul Krugman challenges the argument that free trade always is advantageous, but finds that the creed of free trade is as strong as always among economists. Writes he:"If there were an Economist's creed, it would surely contain the affirmations 'I understand the Principle of Comparative Advantage' and 'I advocate Free Trade'" ("Is Free Trade Passe?", Economic Perspectives, vol. 1, no. 2, Fall 1987, pp. 131-144).

One feature of the 'new protectionism' is that it can bypass GATT rules , that is, the protectionism is embedded in bilateral agreements that involve two governments only. The

secrecy of such agreements makes it hard to pinpoint instances of protectionism, and this is even more true when part of the agreement seems to be an implicit set of expectations to future trade between two countries. An instance of such an arrangement is the Troll gas deal between Norway and France, to which we will return later.

Strange ( "Protectionism and World Politics", 1985, p. 254) argues that counter-trade, which is a bilateral agreement where agreement is reached on which kinds of goods should be traded between two countries, and how much of it, accounts for up to one-fourth of world trade in 1984, or \$ 500 billion. ( I am writing Strange for her source on this). One of the economists in the Kiel group concludes that Western countries have reduced their tariffs impressively after the Tokyo round in 1979 which agreed to bring tariffs down to less than 10% of industrial trade between these countries. However, nontariff barriers are high in other sectors of the economy in these countries, as the table below shows. Protection is high in agriculture, textiles, steel and iron.

Summing up, protectionism has grown in recent years in international trade, but this is a protectionism which increasingly relies on bilateral agreements on a government-to-government level and which therefore is difficult to scrutinize. This 'new protectionism' thus blurs the distinction between politics and economics, and one must assume that political elements enter increasingly into this type of trade negotiations. Politics is no longer confined to laying down the general rules for the functioning of international trade: "...contemporary economic diplomacy, and the new protectionism in particular, operate mainly by linking diverse political issues." (Tumlir. op.cit., p.53).

#### THE CURRENT THEORETICAL DISCUSSION OF ECONOMICS AND INTERNATIONAL RELATIONS

" ..a point of fairly general agreement is that a grounding in basic economics is now needed for any serious student of international relations" (Strange, 1970,)

There is currently much writing on the relationship between politics and economics in the international politics literature. The need for a theoretical framework for studies about this relationship is clear from the proliferation of economic issues in international politics. As we have discussed in the previous sections, economics have grown in importance because of a growing volume of international trade, growing interdependence between political and economic actors, the internationalisation of trade, banking and the development of the multinational corporation, as well as the increase in protectionism and bilateralism in recent years. All these developments are post-war, and the most recent, the rise of the 'new protectionism' of the the eighthies, makes the fusion of politics and economics very evident.

It does however remain a fact, despite these developments, that there is much professional reluctance towards a closer relationship between the fields of economics and politics. The reasons for this are examined in chapter 2.2.1. Chapter 2.2.2. provides a discussion of the current theoretical attempts at including economic and political factors in international relations theory.

#### The Academic Separation of Politics and Economics

"..It is high time students of international relations and international political economy finally threw off the bondage of liberal economics and began to think for themselves about international trade and its part in the international system" (Strange, S., "Free Trade and Protectionism", op.cit.)

The academic separation of the two fields of economics and political science is recent. In their present forms they have existed only for soem fifty years. Few students seem however to be aware of this. It is not commonly known that the field of political economy existed in American as well as in European universities prior to World War II. In Europe there is a tradition of political economy which apart from



Marxism includes the so-called Vienna school of institutional economists, like Friedrich List who wrote an influential text entitled The National System of Political Economy in 1828.

But political economy has a much longer history: Aristotle in his "Laws" discusses how the best society can be implemented. The discussion concerns what we today would call economics, as well as politics. There is no separation of economic and political issues per se, but they are defined differently.

Politics refers to the whole of society on the analogy of a body, in fact, a common expression in English usage is "the body politic": "the state is by nature prior to the family and the individual since the whole is of necessity prior to the parts, for example, if the whole body be destroyed, there will be no foot and hand" ("Politica", from the McKeon edition, p. 1129).

This definition of the political, which I will call extensive, is common throughout the history of political thought. Politics is what concerns the highest good, summum bonum, for the society, and as such, subsumes all other societal activity, also the pursuit of wealth, under it. Politics is often distinguished from the non-political by pointing to the analogy of an organism. (Sabine, History of Political Thought, Sibley, Cropsey, etc.)

With the gradual advent of individualism social contract theory posits a separation of the state and the individual, but argues that the divide is breached by a contract between the two where the state receives powers to legislate from the individual. Eventually the organism as analogy is abandoned, and a clearer separation of state and society emerges. The state is left as the political unit; the individual turns to it only in case of need when there are common concerns that may be solved better by the state than by the individual alone. The ideology of liberalism sums up this development.

Liberalism reduces the political to a minimum by

relegating it to the sphere of the state, which is limited to solving common problems. J.S. Mill e.g. discusses how to decide whether the state should act in different areas of communal life - should the state provide an army or can citizens themselves do this? When can the state justly act? how can the individual be protected from undue state interference? (J.S.Mill, On Liberty). Here the organic view of society is lost and replaced by a contractual relation between state and individuals. Two spheres of society emerges: The private sphere and the political sphere. The pursuit of wealth becomes a private matter.

This dichotomous way of regarding politics and economics has had lasting power. It was and is part of a liberal way of thinking, and liberalism is only one among more ideologies. Nevertheless the separation of politics and economics seem to many a God-given fact. Economics has become liberal economics just as politics in the western world became liberal politics.

The main problem with the ideological nature of the separation of politics and economics is the failure to recognise that it is ideological. Perhaps uncounsciously one thinks of the two as separate. This is evident from the way in which one commonly talks about how politics 'intervenes' in a market, thereby depicting reality in terms of a model of a free market where the right price is formed spontaneously. Although no reasonably bright person would argue that markets work this way in reality, the free market model, as an ideal type, remains the model used. This is where the ideological problem enters: Real markets may not resemble the free market model at all, but still this model is used. There are variations on it, like monopolies, duopolies, monopsonies, oligopolies, etc., but it is still the free market model of which these others describing imperfect competition are variations. For all these models the political is 'intervention'.

#### Current Theoretical Contributions to the Study of Economics

## and Politics

Some economists have responded to the need for theories about the interaction of politics and economics and attempted to construct theoretical frameworks that take account of both. One such scholar is Cooper, who has written extensively on the concept of economic interdependence ( Cooper, R.N., Economic Policy in an Interdependent World, Essays in World Economics, Cambridge, Mass., 1986;). Another is Fred Bergsten, who has edited a collection of theoretical papers entitled The Future of the International Economic Order: An Agenda for Research (Lexington, Mass. 1973). In this volume, where he defines research problems for economists in the next decades, he concludes that the starting point of this endeavour is to acknowledge that "international economic relations among nations have moved onto a qualitatively new plane of both economic and political importance" (ibid.,p.2). He goes on to list the development that have led to this situation, and notes that domestic sectors of the economy are increasingly affected by international economics and that they therefore have become politicized. The pressure from domestic industries for markets leads to bilateralism in international trade and to a blurring of foreign and domestic policy. The theoretical challenge is, according to Bergsten, to move away from the market model: "For the last 150 years, international economic policies have rested on the fundamental concept that the objective of all policies is to maximize the level and growth of interantional economic transactions by relying on market forces and minimizing barriers to them, because this maximizes economic welfare and minimizes political conflict". (ibid.,p.11). This model, which is the neo-classical market model, does not take account of political factors as such, but only hypothesizes that the freer the market, the better fares the politics.

. The economists mentioned above are concerned with the development of models that will represent reality better than what the market model can. As such, they are interested in taking account also of the political factors that influence

economics. But their primary focus is naturally the explanation of economic phenomena.

The political scientist also looks for explanations, but to political phenomena. This may seem superfluous to mention, but I do it nevertheless, because although the problems that economists and political scientists study increasingly require knowledge of both economic and political factors, the two professions look for different explanations to different problems.

This raises the question of a working definition of the political and the economic. Let me start by stating that economics is about the pursuit of wealth while politics refers to the pursuit of power and authority. Since the political has the dimension of all-embracing, as the law-giving function for a society, the political is prior to other societal sectors. It is the highest authority. In order to retain authority, the political entails the capacity to use power. Power is the 'other face' of authority, so to speak.

The discussion of politics and economics is only at a very starting point with this delination, but suffice it for the subsequent discussion to start with this far from exhaustive delineation of the difference between what the economist and what the political scientist are about.

In the following I am concerned with the efforts by political scientists toward theory-building in international relations. I am not concerned with the theoretical work of economists, because their theoretical needs are different from ours as their professional problems are different. Further, I am not looking for theories of 'international political economy', as this subfield of political science increasingly has come to be called. The usage is by now so common that it is abbreviated IPE. However, the designation 'political economy' seems to me to indicate that what one looks for is a theory of economics which takes account of political factors, not the opposie. I therefore find this academic usage misleading - the economists need theories of international political economy, political scientists need

theories of international politics.

Another way of putting it is to say that economics look for the ways in which politics affects economics , whereas the political scientist looks for the opposite, viz. how economics affect politics. Contemporary reality tells us that politics affects economics and vice versa, and that traditional models in both economics,( the market model and variations of this), and political science (models that stress the authoritative importance of security policy) do not take account of this.

The following analysis is confined to political science and looks at the theoretical contributions to the discussion of a theoretical framework that takes account of the importance of economic factors in international politics. The problem I am addressing later and which I have in mind now is that of regime change after an issue area is politicized. The terminology here belongs to a specific body of literature in international relation, which can be called the interdependence school, but describes a type of political science problem which can be talked about also in other terms. When political actors 'take over' an area of trade, when they introduce non-commercial criteria into the decision-making in that area, when there are periods of conflicts between political and commercial actors, between national and international actors, followed by periods of relative peace, the political scientist wonders what causes these changes, who causes them, what are the outcomes of such changes, etc. In other words, the problematique can be described in common terms - because the empirical problem is common enough to be well understood when thus described. What I will look for in the current theoretical political science literature are insights that bear upon this problematique and which therefore may be useful in the construction of a framework of analysis for the study of gas trade.

As discussed briefly above, the theoretical difficulty in dealing with the influence of economics on international

relations lies in the interactive character of politics and economics. So far we have presented trends towards greater influence of economic factors on politics, and pointed to the break-down of the separation of politics and economics in the international system in connection with primarily economic processes of change. We have also pointed out that the post-war economic regime - the set of rules that governed it, expressed in GATT and Bretton Woods, was a result of policy-making. Initially it was politics that shaped the post-war economy, although the political consensus at the time was in favour of political non-intervention in the economy.

But how does the interaction between politics and economics work? Is politics the result of economics in general, as Marxists probably would be the only ones to argue, or is reality a mixture of political and economic elements which sometimes act as independent variables, sometimes as dependent variables? Clearly reality may be thus complex, but analysis demands classification and simplification in order to be possible. I will therefore begin by classifying ways in which politics influences economics since we have discussed some examples of how economics influences politics above. Thereafter I will move on to the task of trying to theorize about their interactive character.

Spero criticizes political scientists for not taking economic factors into account in their analyses: "Just as economic factors shape political outcomes, so do political factors shape economic outcomes. Students of international politics, however, invariably overlook the political determinants of international economic relations...There are three ways in which political factors shape economic outcomes. First, the political system shapes the economic system, as the structure and operation of the economic system is, to a great extent, determined by the structure and operation of the political system. Second, political concerns often shape economic policy, as important economic policies are often dictated by political interests. Third, international

economic relations, in and of themselves, are political relations, as international economic interaction, like international political interaction, is a process by which states and non-state actors manage, or fail to manage, their conflicts.." (The Politics of International Economic Relations, 1977).

The first way in which politics shapes economics, viz. that the political system determines the economic system, refers to the systemic level of international relations. By giving specific rules for international economic action, like e.g. the Bretton Woods agreement and the GATT rules, policy-makers determine the 'rules of the economic game'. Secondly, by not giving such rules, these actors also make decisions, or "non-decisions" as the well-known analysis by Bachrach and Baratz coins it ("Decisions and Non-Decisions", American Political Science Review (APSA forthcoming), vol. 57, 1963, pp. 632-42).

The second way is, according to Spero, that political concerns shape economic policy. Examples from the domestic scene in every modern democracy are legion: Industries are kept alive to alleviate unemployment and secure a dispersed demographic pattern, import quotas are instituted to boost domestic production, important interest groups put successful pressure on politicians to manipulate the economy in ways that help their interests. In fact, this is what a major part of policy-making in modern democracies are about. Economic rationality in the sense of maximizing profits and lowering costs is not a prime political goal - it is an economic one.

The third way in which politics shapes economics concerns conflict resolution. We said above that politics concerns making the 'rules of the game', but also the lack of such rules. When there are no rules that are clearly visible, or when the rules are agreed upon, i. e. regarded as legitimate by all parties, it is not at all clear to the beholder that there in fact are rules in operation. The visibility of the rules is clearest when rules are contested. Spero says that in the international system, economic and political actors

struggle over these rules when they attempt to solve their struggles of often conflicting interests. Such conflicts become all the more visible when the legitimacy of the GATT rules breaks down, and governments tend to involve themselves in economic conflict resolution which under GATT has been largely left to the economic actors alone. Political actors will argue that political goals are the legitimate ones in economic decision-making, whereas the economic actors will claim the validity of economic rationality. In these conflicts the 'rules of the game' are at stake. The conflicts themselves are in this sense political.

Natural gas trade involves the political in all these three senses: First, the commercial 'rules of the game' were the result of deliberate policy-making. This fact can be demonstrated very well by analysing the case of Norway. Here the authorities chose what they termed 'the commercial principle' as the sole rule for the marketing of natural gas. They did not want any forms of political bargaining concerning gas, no counter-trade, and no government-to-government deals. This principle, which has been repeated time and again in official publications, was reluctantly abandoned de facto but not de jure when the British government insisted on gas negotiations on a government -to-government level in connection with the gas negotiations for the sale of the Sleipner field. The Norwegians at first refused to go beyond negotiations on a company level, but when it became clear that it was the British party which held the upper hand in the negotiations, the Norwegians had to accept the change of the 'rules of the game'.

In gas trade in Europe, political goals often determine the commercial outcomes of negotiations. It has become common that a large gas deal contains some element of reciprocal understanding - the buying country's offshore industry receives favourable treatment on e.g. the Norwegian shelf if the former country signs on to buy gas. The buying of gas is



therefore not only a commercial undertaking, but may be the result of domestic political considerations: Will it help our domestic industry if we buy gas from country X instead of from country Y? What can X offer us compared to X, etc. The selling country may also have political criteria in mind when it sells gas. Being able to sell may be critical to the domestic level of industrial investment, as it is for Norway. The need to sell gas can become more important for the sake of domestic industry than for the generation of national revenue, as it arguably is in the case of Norway.

Natural gas trade is political also in the third sense enlisted by Spero. There has been and is still to some extent a struggle over which criteria that should govern the trade. This struggle was intense in the period 1981-83, when political actors tried to change the 'rules of the game' away from commercial rules to rules that took account of foreign policy factors primarily.

Spero's classification of ways in which politics shapes economics gives us a good albeit static starting-point in the quest for theory. As a further step it is useful to scrutinize the international relations literature as it has developed in the post-war period for theoretical attempts to model the interaction of politics and economics. .

The major text in international politics after World war II was Hans J. Morgenthau's Politics Among Nations. This work is usually cited as the prime example of the realist tradition in political science. It was first published in 1949, only four years after the war, and is naturally much concerned with how to avoid armed conflict. Morgenthau's work is often upheld as an example of how political scientists at this time overlooked the importance of economic factors in international politics and focussed on security policy as the only 'real' foreign policy factor. The emphasis on security policy is very understandable given the political climate in the fifties. But Morgenthau does by no means neglect economic factors . In his original work he concluded that " economic

imperialism is generally less effective than the military variety", but cited the role it had played in French and British imperialism (Politics among Nations, p. 59). At the time of his writing, economics did not play the important role it does today in world politics. The same Morgenthau commented on the the growth in importance of economic factors in the 70ies that it was unprecedented and showed the ability of militarily weak countries to possess political control via the possession of important raw materials" (Keohane and Nye, 1978, p. 11, cite this).

It was only when the importance of the cold war receded into the background that political scientists tried to cope with the existence of political-economic inetraction in international relations. In a survey of the development of theory of international relations, Nazli Choucri ("International Political Economy: A Theoretical perspective", in Holsti, R.S. and George, A, Change in the International System), divides it into three periods: realism, epitomized by Morgenthau's work, behaviouralism, and the post-behavioural phase.(p.113). During the two first periods little account was taken of economic factors in theoretical work, whereas the post-behavioural phase placed greater emphasis on the unmeasurable factors and on the role of context in interpreting international politics.

Choucri further divides current politico-economic theories into three: the realist-mercantilist paradigm, the liberal-interdependence school, and the Marxist paradigm. The first paradigm is nation-centered, looks at a nation's military and economic resources, and compares the strength of nations on this basis. It thus does not consider the importance of the links beteen nations and the multinational character of economic power to be significant. Susan Strange criticizes this tradition for not taking account of the interactive process of politico-economic change - it has no theory of hoe politics affects economics and vice versa ("What is Economic power, and who has it?" International Journal, 1975, no. 2). By focussing almost exclusively on the nation-state as the

primary actor, little scope is left for the role of the multinationals and the international organisations.

The second school of thought is the what Choucri calls the liberal-interdependence school. According to Choucri, "it draws partly upon neo-classical economics and the earlier integrationist school in political science" (p.114). The emphasis here is on the context of international politics, where the links between countries largely determine their ability to act. Major concepts are interdependence between nations politically and economically, the asymmetries of such interdependence, and the sensitivity and/or vulnerability that interdependence entails. "Trade patterns, analysed as part of the integrationist school, were used as indicators of community formation' ". Choucri has also written a case study of oil, where he uses trade as an indication of asymmetrical relations in an interdependence framework. ( International Politics of Energy Interdependence, 1976, )

The third school of thought which claims to be a dynamic theory of how economics shapes politics, is the Marxist dependencia school, whose practitioners have primarily been interested in the oppressive use of economic power, focusing on Latin and South America in their research. ( Galtung, Caporoso, Franz Fanon, etc.) I find that the one-sided emphasis on the causal importance of economics is rather uninteresting in view of the evidence that bespeaks an interaction of political and economic factors, at least as concerns Western Europe.

In the following I will therefore be concerned with the second of these schools, the interdependence school. This is the body of literature which discusses the types of problems in international relations which are relevant to the study of natural gas trade: the relationship between political and economic interdependence, what constitutes interdependence, what are useful classifications of an interdependent relationship, how does one assess the extent of interdependence and its effects, and last, but of most

importance, how does economic interdependence affect or create political interdependence, and vice versa.

Although the interdependence school by no means represent a unified body of literature or a 'grand theory'■, it has the theoretical scope that is called for by the problem I have set out to analyse. It has attempted to formulate the theoretical needs that exist, and to provide analytical concepts that are necessary for empirirical investigation. Very much controversy exists over the definition of these concepts, and even more so over the applicability of them. In many ways we are at the beginning of theory-building, as an outspoken critic of much of the theoretical effort at conceptualising politico-economic interaction in international relations, Susan Strange, repeatedly has pointed out. She thinks that "the gulf between international economics and international politics is ..well reflected in the literature dealing with this ..middle void. ... from the international relations side of the void has come only a meagre contribution.." ( "International Economics and International Relations: A Case of Mutual Neglect", International Affairs, 1970, April).

In an article from 1975, Bergsten et al. attempt to construct an analytical framework for the study of international politics and economics ("International Economics and International Politics: A Framework for Analysis", International Organisation, vol. 67, no. 1, Winter 1975). Here they survey the post-war developments towards greater predominance of economic actors in the internatioanl community, and critisizes the realist tradition for not being able to take account of these empirical developments. They note that " national security has become a secondary symbol. The prime symbolism of the internationalists now focuses on interdependence", thereby taking into consideration the ideological potential of this term. (Strange and others have repeatedly pointed to the value-ladenness of the term interdependence, and noted that it has become in vogue by U.S. scholars at a time when U.S. power in general was eroding and

there existed a need to 'translate' the quest for securing the national interest into something else.)

The major theoretical work centering on the concept of interdependence is Keohane and Nye's Power and Interdependence: World Politics in Transition ( Boston, 1977).

The authors recognise the need for theories of international politics which take account of economic factors, and develop the concept of interdependence to aid in theorizing about this relationship. They take issue with the popular usage of the concept, which includes each and every relation in a definition of interdependence, and point out that mere interconnectedness does not constitute interdependence. It is only "when interactions do have significant costly effects" that they warrant the designation interdependent.

Interdependence restricts autonomy, thus it has a cost. But the way in which it is costly, and how costly it is, varies. Hence the need for a classification of interdependent relationships. The authors devise two types of interdependence, sensitivity interdependence and vulnerability interdependence. "Sensitivity involves degrees of responsiveness within a policy framework" whereas "vulnerability can be defined as an actor's liability to suffer costs imposed by external events even after policies have been altered" (pp. 12-13, *ibid.*). The key variable here is thus the policy framework - whether the costs wrought by an interdependent relationship can be handled within or without an existing framework of policy. In a specification of this concept of a policy framework the authors provide a new one, viz. regime: "...relationships of interdependence may occur within..and may be affected by, networks of rules, norms, and procedures that regularize behaviour and control its effects. We refer to sets of governing arrangements that affect relationships of interdependence as international regimes (p. 19, *ibid.*)"

In the illustration of the concept of regime and regime change, the authors analyse the cases of oceans and money, i.e. the changes in the international monetary issue area from

the era of the gold standard to the end of Bretton Woods, and the 'free seas' era to the contemporary rules and conflicts over rules in the area of the management of the seas. In both these cases, the authors define what they term the 'issue area' which is the area that is governed by a regime.

Regimes are explicit, such as e.g. the GATT, a form of agreement which formalises rules, or non-contractual, i.g. rules that are agreed upon in an implicit manner, and where there is no clear distinction between norms, rules, and expected behaviour. A regime like this is naturally far more difficult to establish than what is the case with a formal regime. In international affairs, however, most regimes are non-contractual.

The central aim of Keohane and Nye's work is to explain why regime change takes place. They see regimes as intermediaries between what they term the 'power structure' of an issue area - that is, the power capability of the actors in a given area, which can be analysed statistically, as a 'mapping out' of their resource potential, and the political process of 'bargaining', where outcomes of political struggles are influenced not only by this power structure, but also by existing regimes in the issue area. This is a major new conceptualisation in international relations literature - the argument that regimes do matter in a substantial way in determining outcomes in international politics. As the authors point out, hitherto one had not taken into account regimes in international politics when they were non-contractual. Perhaps it is an exaggeration to say that older theories of international relations neglected the importance of 'political and economic networks', as it were, but I think the authors are right in claiming that former theories did not try to conceptualise the context in which decision-making in an issue area took place. Keohane and Nye's novel insight lies in just this: they realise that the context often implies norms for expected behaviour in an issue area, and that these norms must be made explicit in an analysis of why actors behave as they do and why outcomes of political struggles are different from what might be expected

if one looked at the power structure alone.

But there is as far as I can see nothing new in pointing to the importance of context in the understanding of behaviour: In German philosophy there has for a long time been a revival of the notion of contextual understanding as it was formulated in the 19th century by the historians Dilthey Rickert, and Schleiermacher, and reformulated in his work by Heidegger on hermeneutics. This philosophical tradition stresses the need for understanding a text or an event within its context because, it is argued, the context influences the understanding of the parts of it, thus the context is prior to the parts. In German historiography the stress on context was a continuation of the Hegelian tradition, and is as such very different from Anglo-Saxon empiricism. When Keohane and Nye try to conceptualise the unwritten rules of decision-making within an issue area, they rediscover the importance of the context, which had been absent from the theory of international relations since organic theories of politics were abandoned in the 17th century . The behaviouralism of the sixties and early seventies in political science looked askance at all concepts which could not be made 'operational' and thus allow for measurement. At that time no serious political scientist, at least in America, dared speak of context.

However, as theories lag behind empirical developments, political scientists increasingly felt the need to take account of the growing interdependence that was observable in the international arena. The intergrationist school tried to measure interdependence without calling it by that name (citation), and later the world interdependence became very fashionable in political rhetoric. Keohane and Nye's Power and Interdependence comes in response to the need for giving a name to the importance of context in an international arena where politics and economics are increasingly intertwined. It is largely because of the growth in interdependence that non-contractual regimes emerge as networks of contacts, of interdependence, between nation-states. It is the great merit of the work that it tries to conceptualise the importance of context

and to provide ways of using these concepts analytically in case studies.

But the concepts of interdependence and regime are controversial. They are open to the criticism that they can be applied to each and every phenomenon in international relations -that they are 'wooly', as one critic put it, and that they do not lend themselves to use as tools of empirical analysis because they are too unspecified. Volumes have actually been written on the feasibility of these two concepts: One was tellingly entitled Interdependence on Trial (Jones and Willets, eds., London, 1984), and the regime concept warranted a special issue of International Organization ("International Regimes", edited by Stephen Krasner, no. 2, Spring 1982).

In sum, the growth in interdependence in the post-war years has been established empirically, and has been analysed by the economist Cooper within the conceptual framework of interdependence (citation). Political interdependence has also increased in this period, as policy-making in general has come to include more and more areas of economics and as communications have facilitated the workings of an international market place. In this period there have been processes that have resulted in increased interdependence which is purely economic, which is political, and which is a result of the interaction of both spheres. A recent analysis of contemporary international relations of the nation-state as the main actor (Politics and Markets, Lindblom, New York, 1977).

Interdependence theory has the scope that is necessary for analysing contemporary politico-economic interaction in international relations. The concept of interdependence allows for a conceptualisation of the relationship between the political and the economic in a given empirical case. The concept of regime denotes the context within which interdependence exists and the rules that explicitly or implicitly govern the interdependent relationship. These concepts are



useful insofar as they are applicable to empirical analysis, and such applicability may vary from case to case. My hunch is that they are good tools for the analysis of regime change and politisation in European natural gas trade, which is needed why I have discussed these concepts so far. The interdependence school does not offer a theory of how politics and economics relate to one another in the contemporary Western world - I doubt that such a theory can be constructed, or that one should try to look for so-called 'grand theory' in political science for that matter - but the interdependence school offers concepts which have the scope for constructing a useful analytical framework in order to study contemporary politico-economic reality.

This chapter has constituted a search for a theoretical framework of analysis for our type of research problem, viz. regime change and politization of an area of international trade. In the next subchapter I examine approaches to the empirical study of energy, both natural gas and oil. The aim is to possibly glean useful insights from these studies that bear upon the framewrok for my own analysis. I am interested in the theoretical approach of these studies and in their analytical construction, not in their empirical findings. The studies on the political importance of oil are many, similar studies on natural gas are few. Both oil and gas are commodities that are of major political significance in the world system. It is therefore justifiable to look at studies of oil with a view to the possible importance for approaches to the study of natural gas.

#### APPROACHES TO THE STUDY OF ENERGY: LITTLE AGREEMENT AND LACK OF THEORETICAL DISCUSSION

The field of energy is part of the curriculum in both economics and political science. In many ways it is a step-child of both fields, as political scientists feel uncomfortable with the fact that energy unmistakably belongs in the sphere of international trade and depends on an understanding

of economics, and economists deplore the fact that politics 'intervenes' in energy matters and upset their economic models.

However, political scientists look for other things than the economist. Thus many of the economists' studies address themselves to economic questions alone, and there are really no problems of methodology in this other than what pertains to economics itself. The difficulty of approach arises when there clearly are both political and economic variables that interact in the explanation of some problem. For the energy fields of oil and natural gas, at least in Europe, this is however most often the case.

The oil crisis of 1973-74 alerted researchers to the need for research on the political ramifications of energy trade. An extensive survey by Landsberg et al. of Resources for the future entitled Energy and the Social Sciences documents a variety of energy needs, and points out that "the Arab oil embargo and the complexities of the world energy system have forcefully illustrated how little we know about energy (249).

Subsequent research concentrated on oil and OPEC, and many economists tried to predict oil prices with their theoretical tools alone. In a survey of the economic literature of this period, Dermot Gately concludes that "if the 1970s were not good years for macroeconomists, they were not alone. Microeconomists specialising in world oil markets fared little better. Their predictions were not particularly accurate, and the orthodox theoretical approach proved not very useful. Ten years after the 1973-74 oil price quadrupling, there remains much disagreement about what happened and what we can expect in the future". (Gately, "A ten-Year Retrospective: OPEEC and the World Oil Market", p. 1100). Gateley discusses the main contributions in economic literature on oil prices during this period, concluding that "it remains an open question how best to design a model of the behavior of OPEC" (ibid. p. 1113). Economists' models alone do not explain oil price formation.

Wilson asserts that "there is little if any sustained give-and-take in the field of international energy policy over

the most appropriate ways to analyse the phenomenon (the oil crisis 1973-74"), and that "the theoretical literature is meager at best" (World Politics and International Energy markets", International Organisation, Winter 1987, p.1).

The difficulty of arriving at a good theoretical framework for studying OPEC and oil prices is the same that we encounter in the study of natural gas trade, viz. the difficulty of dealing with both economic and political variables. The major work by Schneider recounts the history of the oil crises of 1874 and 1979, and concludes that it is the combination of political and economic factors that brought about the crises: "There is) ..an enormous vulnerability of oil to political developments. Without the political crises, prices probaably would have gone up anyway, as dependence on Middle East oil increases and demand began to run against the limits of supply. But they need not have increased as fast or as much, for without the precipitate cutbacks in supply that the political crisis brought on, markets would not have become as tight as they did". (The Oil price Revolution p. 515). In other words, politics affexts markets affects markets and vice versa. Wilson has tried to model this relationship in what he calls the 'petro-political cycle', where he relates politization of markets to the swings of oil prices, thus creating a dynamic model. (Wilson, "The Petro-Political Cycle in World Oil Markets", in Enders and Kim, Energy resource development: Politics and Policies, Westport, Conn. 1986). The main idea here is that oil sellers at the top of a price 'swing' are sufficiently strong to try to change the 'rules of the game' to their advantage, thus creating politization. Wilson attempts to show that this happened within OPEC as a conflict between weaker and stronger members.

The oil market does exhibit price fluctuations in a way which does not resemble the natural gas market at all. Oil prices can change very quickly, while gas prices little reflect changes in a market at all. Prices for gas may in fact be different within one and the same region depending on the specific gas contracts of which the negotiated price is only

one aspect. Wilson's politico-economic model is therefore not applicable to the study of natural gas, but it warrants mention here as one of the few attempts at taking account of the interactive process of political and economic variables.

Wilson criticizes the research that goes on in the field of energy for being atheoretical and calls for genuine progress instead of the "accumulation of more and more raw data". Part of the reason for this is to be found in the subject matter itself, he thinks, since "energy is an extremely complicated and diverse subject..it encompasses flows, stocks, and institutions" (Wilson, op.cit., 1987, p. 128).

Relatively few studies of natural gas in its political context exist. During the period of politization of European natural gas trade, when the U.S. imposed an embargo on American firms and their subsidiaries on exports of gas technology to the USSR, there was much interest in natural gas, also from academics. Some studies of supply security, analysing the question of gas dependence and the perceived threat to Western Europe, ensued (Natural Gas and Economic Security, Maull; "Soviet Gas and European Security", Adamson; "The Atlantic Crisis", Freedman; "Vest-Europeisk energiavhengighet og Sovjetunionen: Naturgass og Sikkerhetsspørsmålet" and Unilateralism and Alliance-Cohesion: The United States, Western Europe, and the Regulation of Energy-related Trade with the Soviet Union", Braathu; "The Yamal-gasline from the USSR to Western Europe in the East-West Conflict", Lebahn; "Specters and Pipe-Dreams", Stern, etc.). The foremost ..... is Pipeline po....

Then there are more general studies of the European gas market, foremost among them are the works by Stern and Davis. Davis' "Blue Gold: The Political Economy of Natural Gas" uses a country-by-country approach in analysing gas and LNG trade world-wide. It is an extremely informative and insightful book to which the student of natural gas returns again and again. Davis remarks in his preface that "whereas the politics of OPEC and the oil multinationals catch headlines world-wide, the no less heady mixture of money, politics, and power characteristic to natural gas deals is broadly ignored" (ibid.

p. 2). Stern has written extensively on gas trade in the USSR and Eastern Europe, as well as in the UK and on the Continent (citation). His works are major contributions to the understanding of the mixture of political and economic elements in gas trade.

However, since both the above authors write for user groups and the informed public of the energy segment, they do not address the question of theoretical approach to the study of natural gas in any detail.

As mentioned, most often it is economists who write about energy. Their natural starting point is neoclassical economics. Here the market has its own laws of supply and demand, and politics as such do not enter. "There is no explicit statement in the conventional economic theory of international trade and payments regarding the influence of political variables" (Choucri, Nazli, 1980, in Holsti).

<sup>1</sup> Regarding the study of natural gas market in Europe, the use of the neoclassical market model or approximations of this model in my view of limited use. Noreng<sup>2</sup> has argued that the European gas market functions like a monopsony on the buyer's side and like an oligopoly on the seller's side. Structurally this may be a good model, as there are a few gas suppliers and a consortium of buyers, but this consortium does not negotiate as one uniform actor vis-a-vis all buyers. In some cases the members of the consortium negotiate separately, "importers negotiate jointly for Norwegian gas, separately with Algeria and the Netherlands, and somewhere in between with the Soviet Union".<sup>3</sup> The designation monopsony on the buyer's side is thus not entirely accurate. Noreng observes however also that "a conventional economic analysis of the

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<sup>2</sup>. Øystein Noreng, "Structure and Bargaining in the West European Gas Market", Working Paper 1987/4, Bedriftsøkonomisk Institutt, Oslo, p. 4.

<sup>3</sup>. Bijan Mossavar-Rahmani, (ed.) Natural Gas Trade in Transition, Harvard Inetrantional Energy Studies, no. 1, 1987

West European gas market,..risks giving a static and incomplete picture" <sup>4</sup>.

The economists Hoel, Vislie, and Holtsmark classifies the European gas market as a bilateral oligopoly<sup>5</sup> in an attempt to model the gas market. Their formal model can however not take account of the political factors that influence commercial decisions, and they make an assumption of linear demand which seems unrealistic. But then they are not primarily concerned with political factors although their model needs to be able to include such factors.

The studies of the gas market by economists usually start by classifying the buyers and the sellers. Davis, a political scientist, suggests that another starting point is more adequate: He starts by classifying natural gas trade into three stages: production, transmission, and distribution. The goal of each of these stages is to provide stability, and the quest for stability restricts the autonomy of actors in each stage.<sup>6</sup> He argues that the quest for stability, or market control, is so important that companies will try to integrate vertically in e.g. the production and transmission phases in order to exercise as much control as possible. Further, the restrictions that all actors observe are many times implicit and self-imposed, as a safe-guard against surprises in the behaviour of other actors. As a result of this, there is extensive cooperation and integration between producers and transmitters, between transmitters and buyers. Sometimes the buyer is the transmitter, sometimes the producer enlists the cooperation of the transmitter to reach the consumer. There is not a buyer side and a seller side, but rather a series of agreements for cooperation stretching from producer to consu-

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<sup>4</sup>. Noreng, op.cit.,p. 6

<sup>5</sup>. Michael Hoel, Bjart Holtsmark, and Jon Vislie, "The Market for Natural Gas in Europe: The Core of the Game", Working Paper, Department of Economics, Oslo University, 1987.

<sup>6</sup>. Jerome Davis, " The Political Economy of European Natural Gas Markets", Cooperation and Conflict, XVIII, 1983, p. 3-20.

mer where great importance is attached to stability and adherence to unwritten rules of behaviour. This depiction contrasts sharply with the imagery conjured up by the market model of sellers and buyer competing fiercely against each other.

Price formulates another approach to the study of natural gas when he states that "international trade in gas is a commercial activity influenced by..three areas of interest: health, safety and environmental concerns; economics and national security interests.<sup>7</sup> In a very perceptive analysis he shows how these factors in various ways affect the outcome of gas negotiations. Another factor of increasing importance, we might add, is counter-trade opportunities.

None of the above studies attempt to formulate a conceptualisation of how economic and political factors interact in natural gas trade. They all recognise the importance of both types of factors, and take both factors into account to a varying degree. They all start with different classifications of the main actors of the market, and assign different importance to the role played by economic and political factors. There's also the added problem of the time dimension. Classifications do not take change over time into account. To give a analysis of change in the gas market, a study has to be historical.

Of energy studies that are longitudinal most deal with the evolution of the world oil market and related themes concentrating on oil. The few studies on gas have often chosen the country-by-country approach, analysing the development of the gas industry in each country. Davis' major work Blue Gold: The Political Economy of Natural Gas (London, 1984) chooses a similar approach, but discusses the industry as such in a separate chapter. He is thus able to cover the national aspect of gas trade as well as the truly interantional aspects of it.

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<sup>7</sup>. Robert S. price, "Governmental Policy and Inetrnational Natural Gas Trade", Journal of Energy and Development, Spring, 1986.

Studies that seek to explain changes in natural gas trade have not focussed on a particular aspect of this trade, but have mainly been historically comprehensive studies.<sup>8</sup>

The concept of regime change has not been employed in studies of natural gas trade, but it has been applied to the case of oil. Bull-Berg<sup>9</sup> applies the concept of a non-contractual regime to the development of U.S. oil policy, and in an earlier publication the author with Holter<sup>10</sup> examines world oil politics within the same conceptual framework. Choucrist uses an analytical framework in his study of energy interdependence.<sup>11</sup>

Bull-Berg and Holter define regime according to Krasner's usage where a regime consists of principles, norms, rules, and decision making procedures around which actor expectations converge in a given issue area or subsystem.<sup>12</sup> Regimes can be formal or non-contractual. In the case of oil, OPEC is a formal regime, whereas the understanding between 'the seven sisters' - the major oil companies constitutes an informal or non-contractual regime.

Krasner outlines two types of approaches to regime definition: What the special issue of International Organisation

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<sup>8</sup>. Jonathan Stern, International Gas Trade in Europe, London, 1984. Bruce W. Jentleson's detailed analysis of the controversy over imports of Soviet gas, Pipeline Politics. The Complex Political Economy of East-West Energy Trade (Cornell University Press, 1986), is an exception. This study deals with a specific period in Natural gas trade and relates it to the wider perspective of East-West politics.

<sup>9</sup>. Hans J. Bull-Berg, "United States International Oil Policy 1973-83: Pursuing a Competitive Regime or an Imposed Order?", Cooperation and Conflict, XX, 1985, pp. 173-194

<sup>10</sup>. Magne Holter and Hans J. Bull-Berg, Discussing the Politics of Oil 1954-74 within the Framework of the Regime Concept, report, the Fritjof Nansen Institute, Oslo, 1983.

<sup>11</sup>. Nazli Choucrist, International politics of Energy Interdependence, Lexington, Mass. 1976

<sup>12</sup>. "Structural Causes and Regime Consequences", Krasner, in Krasner, (ed.), International Regimes, Special issue of International Organisation, Spring, 1982, vol. 36, no.2.



calls the Moderate Structuralists and the Grotians. The former hold the view that a regime is established by actors who are rational individualists as a solution to collective inefficiencies. When decisions in an issue area are sub-Pareto optimal in the absence of collective rules it is rational to establish a regime that ensures that individuals act in a more rational way. A regime leads to a better outcome for all its participants than what would be the case if no such regime existed. This is why it is established, and why it persists.<sup>13</sup>

The Grotian perspective is much less focussed on the ability of actors to shape a regime. Actors on the world scene are not rational individuals who can choose the best option for themselves in a given situation, but instead largely embedded in an interdependent framework which defines and limits their sphere of action and choice. Regimes exist as limits to free action, and regimes are the results of the complex interdependence of the modern, post-WW II world. Regimes are the 'buffers' between actors and the outcomes of their actions in international politics, and regimes change only when actors consciously strive to change them, but always in an interplay with forces which seek to contain a regime - forces outside of the control of the individual actors<sup>14</sup>

As Holter and Bull-berg point out, these two regime delineations make different requirements for the empirical establishment of a regime. The Moderate Structuralists operate with a stricter, more limited regime concept than what the Grotians do.

The authors go on to look for the existence of an inter-

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<sup>13</sup>. See the articles by Stein, "Coordination and Collaboration: Regimes in an Anarchic World" and Keohane "The Demand for International Regimes", in International Organisation, *ibid.*

<sup>14</sup>. See e.g. article by Young, "Regime Dynamics: The Rise and Fall of International Regimes" and Puchala et al., "International Regimes, Lessons from Inductive Analysis", in International Organisation, *ibid.*

national oil regime in the period 1954-1974. They find that 1954 marks the beginning of the international oil regime,<sup>15</sup> which lasts until 1974, which again marks the culmination of the process which resulted in the lessening of the power of the multinational oil companies.

The authors further assert that this regime has not been replaced by another regime yet, "rather, a continuous conflict between consumers and producers over which norms should govern the transactions has prevailed ever since".<sup>16</sup> In the analysis of the oil regime, Bull-Berg and Holter introduce a distinction between dominant, potential, and competing norms of regime. They argue that the norms of the oil regime were in fact dominant norms, as actors used them as premises for action - there were thus no competing norms most of the time. Potential norms are those that are presented as challenges to the dominant norms, and which may eventually supersede them in the event of regime change. The identification of norms and the classification of these may be accomplished by looking at several variables: the degree of acceptance, the degree of compliance, degree of explicitness, the functional scope, etc.<sup>17</sup> On the basis of this approach several dominant norms of the oil regime are identified: it ought to be an oligopoly with no real competition, governments should not intervene, commercial principles should be the basis for decision-making, etc. The authors cross-index the testing variables for a regime norm with the proposed norms, and conclude that only two norms were decisive: the oligopoly norms and the non-government intervention norm.

Clearly the regime approach makes much sense in this

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<sup>15</sup>. See pp. 12-13 in Bull-Berg and Holter, *op.cit.*, for a discussion of the events that led to the establishment of this regime.

<sup>16</sup>. *Ibid.*, p. 13

<sup>17</sup>. See Holter, Bull-Berg, *ibid.*, for a discussion of these variables.

type of study. The understanding of the regime concept cannot however follow the strict definition by the Moderate Structuralists - it is impossible to establish causality in the construction of a regime. It seems that the regime concept is most useful when it is employed to study changes in the rules of conduct within an issue area over time.

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