Examine and explain the use of finance to control international relations.

Finance has long been a way for actors to exert control over the global state system. With the advent of neoliberal policies and globalisation, control over financial tactics and markets has become an essential instrument in the toolkit of international statecraft. As this essay recognises and defines, control will be understood as the exertion of power from certain actors to others to coerce and cultivate desired behaviours. Inside this framework, we will see how both states and non-state actors have, historically and to this day, used finance to control international relations. Furthermore, this essay will use parts of realist, postcolonial, and neoliberal theories to examine how finance is used to regulate international relations, as both used in practice and explained by theory. As this essay argues, states use finance as a soft-power tool to influence international relations, as demonstrated by economic sanctions, conditions for international aid, and the rise of Multinational Corporations (MNCs). Firstly, the essay will discuss how economic sanctions are used to constrain states to act in specific ways and how realist theory can help us examine how this occurs today. Secondly, the essay will tackle how the condition of international aid is an example of financial coercion, as seen through a postcolonial lens. Thirdly, this essay will discuss the rise of MNCs in financial control of the state system and how a neoliberal lens can eloquently highlight this. Lastly, this essay will address some criticisms and arguments for its claims.

Economic sanctions are one way actors use finance to control international relations. In hopes of coercing actors, sanctions directly hurt the financial capability to change a targeted state's political policy or direction (Felbermayr et al. 2021, p1-2). One prominent example of successful economic sanctions are those imposed on Iran in response to its regime change and the continued enrichment of uranium. Economic sanctions started soon after the 1979 revolution and continued into the Clinton administration with $5 billion in losses after other Western states began to pull out of nuclear plant agreements (S.H. Mousavian & M. M. Mousavian 2018, p171). In a few words, Iran's economy was suffering. By 2013, sanctions and isolation from the global banking system had caused extremely high inflation, unemployment, 42% and 18%, respectively, and an annual 5% shrinking of Iran's GDP (S.H. Mousavian & M. M. Mousavian 2018, p178; Hufbauer et al. 2020, p2). With mounting economic pressure causing civil unrest in Iran, securing a deal with the West was in its best interests. This saw the lifting of sanctions in exchange for regular checks of its nuclear programme (S.H. Mousavian & M. M. Mousavian 2018, p118-183). Concerning the central thesis, this is a practical example of finance being utilised as a tool to exert control in the international system.

Realist theory can bridge the gap to understanding the use of finance to control international relations in recent years. Historically, Iran's continued enrichment of uranium despite years of heavy sanctioning can be explained by the tenets of defensive realism. In that, in the post-Iran-Iraq War environment, Iran's perceived 'irrational' behaviour of non-compliance was trying to deter further conflict with its enemies in an anarchic international system (Tabatabai & Samuel 2017, p155-159; Waltz 1998, p616). Compared to current events, Russia's continued invasion of Ukraine despite extreme sanctions can be chalked up to a similar explanation. Despite significant sweeping sanctions from 38 developed economies, NATO expansion was considered an existential threat to Russia, hence its 'irrational' behaviour (Mulder 2022, p21; Ma 2022, p15-16). The U.K. alone froze £18.3 billion in Russian assets (Mills 2023, p11). Furthermore, sanctions on Russia have been proven to be effective as the lack of advanced semiconductors used in precision-guided munitions is becoming increasingly difficult to come by (Jie & Son 2022). Combined with the high cost of production for these types of weapons, we can synthesise how sanctions and economic isolation directly affect Russia’s warfighting capability (McDermott & Bukkvoll 2018, p211). When viewed through a realist lens, this proves that financial control can influence not only economies but also other forms of hard power. As the next paragraph will discuss, international aid is another way states can exert control through the use of finance.

The conditions for international aid by the West is another way finance is used to coerce actors in international relations. If economic sanctions can be compared to the ‘stick’ method of coercion, it is safe to say that international aid, in its many forms, can be considered the metaphorical ‘carrot’. Finding its roots in the Marshall Plan that financed the rebuilding of war-torn Europe, aid in the form of financial assistance was only given under the condition of ‘good’ behaviour (Hufbauer et al. 2020, p4). It is important to recognise this vague definition of ‘good’ behaviour often means agreeing to the political will of another actor or state. By controlling the allotment of aid depending on how cooperative a state can be, hegemonic Western actors can coerce other states in the international system. For example, in 2016, Turkey was offered $3.3 billion to stop the EU's inflow of refugees to Europe (Hufbauer et al. 2020, p4). Moreover, by recognising Bretton Woods institutions as inherently Western, we can see how they can be used and manipulated to serve the states that helped create them (Hufbauer et al. 2020, p2; Schmitt 2020, p4). Although some might argue that the pre-conditions of good governance for international aid by the West are founded on the beliefs of transparency, austerity, and privatisation, it's the financing of authoritarian regimes rife with corruption proves self-interested motivations (Polack 2004, p283; Babawalew et al. 1996, p119-120). To specify, the United States' financial support of the Batista regime in Cuba remains a prime example of this (Chomsky 2000, p84).

Postcolonial theory can further help us examine the relationships between conditional aid and financial control. In that, the neoliberal economic policies pushed by Western actors and institutions set the stage for the dependence on postcolonial states and the existing skewed power relations between the two. In Nigeria, the 1970s saw a boom in oil export and production as the Arab-Israeli War made it hard to extract resources from the Middle East (Babawalew et al. 1996, p122). Additionally, the estimated $6.6 Billion oil export profits combined with the Structural Adjustment Program (SAPs) introduced by the World Bank to help Nigeria's economy through austerity and deregulation saw its cornerstone agricultural industry plateau and other sectors such as healthcare and education to suffer (World Bank Group 1988, p59; Babwalew et al. 1996, p30). Without the debt restructuring and austerity measures from the SAPs, Nigeria's economy would have been isolated from the global economy (Polack 2004, p283). Therefore, this created a reliance on oil exportation in Nigeria's economy, with 90% of its overall trade with the West reliant on this sector (Babwalew et al. 1996, p123). Postcolonial theory helps to draw parallels between this economic capitulation and the historical extraction of raw materials from the Global South in Africa (Macqueen 2007, p 27). In this way, postcolonial theory can highlight the historical exploitation that echoes these modern-day relationships between colonisers and colonised states (Becker 2020, p164-167). As this part of the essay argues, postcolonial discourses help to further call attention to the underlying reasons for finance being used by Global North states as a soft-power tool to control actors in the Global South. In that, the conditional nature of international aid means a dysfunctional structure of power that sees the relinquishment of sovereignty to the Global North and the weakening of actual state control (Nanda 2006, p280).

It is essential to recognise that not only states have access to this financial power in the international system. Markets or Multinational Corporations (MNCs) that have become highly profitable have in the past and to this day coerced states and, therefore, international relations. The best example would be Banana Republics set up in South America in the 20th Century. One watershed moment was the 1912 U.S. Invasion of Honduras which allowed the United Fruit Company unencumbered access to begin building infrastructure for the monoculture farming of bananas in the region (Koeppel 2009, p64). Furthermore, this partnership of state violence and industry continued when the U.S. military quashed workers striking in Guatemala, Panama, and Colombia in 1918 (Koeppel 2009, p64). A prime example of these transnational organisations' pervasive control in South America would be the Colombian Banana Massacre of 1929, where over a thousand plantation workers were murdered by their government to protect continued foreign investment in the region (Koeppel 2009, p85). This excessive use of violence to safeguard financial profits shows the immense power of MNCs to control states in the international system. As the next paragraph will discuss, with the help of neoliberal theory, the tobacco industry has similar control over the Global South today.

In a similar fashion to the Banana Republics, the tobacco industry has successfully exerted financial control over the Philippines and other states in Asia. As the adverse health effects of smoking began to be touted in the West, tobacco giants such as Philip Morris International (PMI) started to pivot their business toward developing countries in Asia (Alechnowicz 2004, p71). Moreover, with good growing conditions and cheap labour, PMI invested $300 million to expand the region's manufacturing capability (Alechnowicz 2004, p71). Furthermore, in the Philippines and other low to middle-income countries in Asia, multinational tobacco companies have been able to successfully lobby to limit effective public health policy and taxation of cigarettes (Alechnowicz 2004, p73; Gilmore et al. 2015, p1031). In fact, company documents have revealed that tobacco companies have been involved in bribery and deliberately tried to increase use among women, the underaged, and the uneducated, who may not be fully informed of the harmful effects of smoking (Alechnowicz 2004, p72; Gilmore et al. 2015, p1031). Additionally, the deregulation brought about by the SAPs in the 1980s, based on neoliberal thought, has allowed tobacco companies to invest heavily in the supply-chain management of monoculture farming, which has discouraged more biodiverse crop industries (Lencucha and Thow 2019, p516). In this way, we can see how neoliberal economic theory has directly promoted these MNCs' use of financial power in practice by corrupting or lobbying states. As this essay argues, by being able to lobby and challenge domestic policy successfully, MNCs have gained coercive power over developing states in Asia and therefore constitutes control.

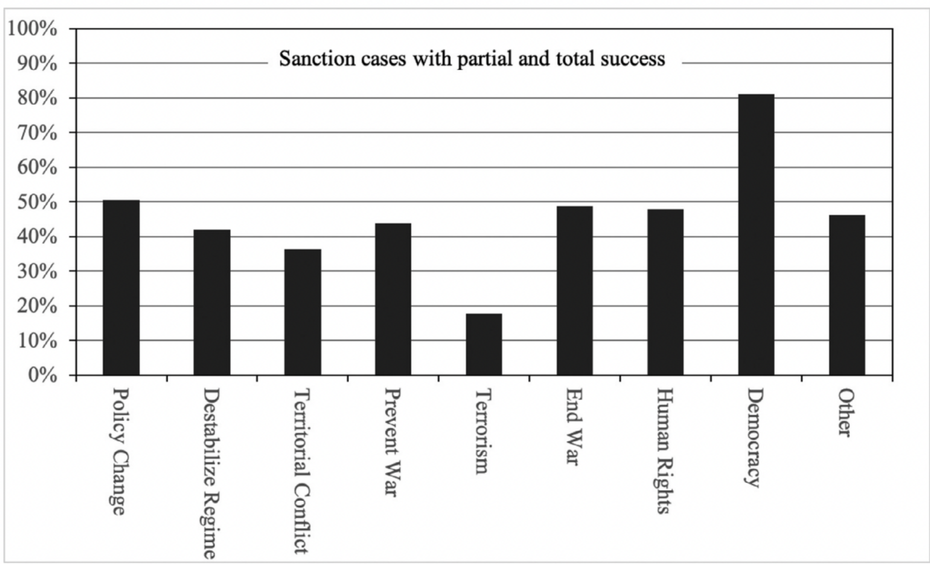

Fig. 5. Sanction Success, 2000-2016.
Note: This Fig. is produced from the Global Sanctions Database. The Fig. depicts the rate of sanctions that were declared successful in achieving their objectives (as listed on the X-axis) during the period 2000 and 2016.

Fig. 5 - (Felbermayr 2021, p11)

Before concluding, some counter arguments must be made. It is vital to recognise that political scientists have concluded that economic sanctions have only succeeded in their political objectives 30% of the time (Felbermayr 2021, p3). The significant variance in success rates depends on the political purpose, as shown in the graph above. Secondly, although sanctions might not always be considered successful, the power of this financial tool to cause public pressure from its citizenry onto its government, just like the case for Iran, means it follows the definition of control outlined in the introduction of coercive behaviour. So though the political effects might not always be successful, economic domination in the form of sanctions still constitutes extensive levels of control for particular states or actors. For this reason, economic sanctions still serve as a compelling example of financial power in the international state system.

In conclusion, the use of economic sanctions in Iran and Russia, conditions for international aid in Nigeria, the rise of MNCs in Asia, and the theories used to understand them have explained the use of finance as a soft-power tool to control international relations. By using realist, postcolonial, and neoliberal theories, this essay has demonstrated the practical use of finance to control international relations and the lens' that can help bridge the gaps in our understanding. As this essay has argued, the advent of financial control in international relations is not a new tactic or tool. In fact, financial control in history, as highlighted by this essay and postcolonial discourses, has and to this day is steeped in a colonial tradition of empire and Western control. As neoliberal theory has historically promoted these unequal power structures, it is paramount to champion more critical theory in current discourses around finance today.

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Introduction:

- Since the liberalisation of the world economy brought about by globalisation and neoliberal policies, finance has become an important instrument in the tool kit of international statecraft.
- Basic idea is that controlling financial markets and institutions means coercing states in the international system. Important to also recognise the power non-state actors hold in the form of conglomerate industries that can lobby the government effectively.

Thesis: As this essay argues, states use finance as a soft power tool to influence international relations as explained by economic sanctions, conditions for international aid, and the rise of non-state actors and transnational organisations.

Body para 1: Economic sanctions
TS: Economic sanctions are one way that finance is used as a form of control in international relations. By coercing actors who rely on foreign markets and trade, certain more powerful states can change the behaviour of other ones.

- E.g. Iran Nuclear deal → Example of how the easing of sanctions helped the US reach security goals while Iran reaches its economic ones
- But even though the Iran nuclear deal only came after decades of sanctions, Realist theory can help us understand why similar economic isolation with Russia even more damaging but why it continues to invade Ukraine despite it.
- Furthermore, sanctions on trade, specifically the defence industry, can bottleneck production of warfighting materials and therefore capability → e.g. Russian smart munitions in Ukraine → Proves that financial power can not only influences economies but other forms of power such as violence or the threat of it

Body para 2: international aid and loans
TS: The conditions for international aid to less fortunate states in the global south such as is another way finance is used to coerce actors in international relations.

- E.g. "good governance" as a prerequisite for aid in Africa → have sources. Bretton Woods institutions
- China is investing in infrastructure in Africa for BRI for its own economic growth.
- If sanctions were the stick, aid and loans are the carrot in the way finance can command actors in the international system.
- States accept this type of foreign influence or control to gain financial assistance → Accepting neoliberal policies often means influence on domestic policy -- >e.g. Nigeria, Sudan, Zimbabwe Structural Adjustment Program in the 1970s example of austerity as a pre-condition for aid.
- Use postcolonialist theory to explain why there is lack of trust of foreign involvement and the skewed power relations that earmark these relationships.

Body para 3: Conglomerates and Industries

TS: It is important to recognise it is not only states that have access to this financial power in the international system. Markets or companies that become extremely wealthy have in the past and currently coerce states and therefore international relations.

- E.g. Banana Republics in South America as prime example of historically
- Tobacco lobby in SE Asia
- Use neoliberal theory to highlight how other mainstream or critical theories may overlook the importance of non-state actors in international relations.