Explaining International Order
Why Rules?

- Rules are general commands enforced by threats of punishment.
  - Rules v. coercion
- Efficient when relations are frequent or iterated.
- Rules can be domination (illegitimate) or authority (legitimate).
  - Ikenberry: Empire v. Consent
Cooperation

**Figure 2.1** Cooperation

**Figure A.2** The Prisoner’s Dilemma

- **A1**
  - C: Both prisoners get out and split the loot.
  - D: A1 goes free and keeps all the loot; A2 goes to jail.

- **A2**
  - C: A1 goes to jail; A2 goes free and keeps all the loot.
  - D: Both go to jail and split the loot later.

<table>
<thead>
<tr>
<th></th>
<th>C</th>
<th>D</th>
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<tbody>
<tr>
<td>A1</td>
<td>3,3</td>
<td>1,4</td>
</tr>
<tr>
<td>A2</td>
<td>4,1</td>
<td>2,2*</td>
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</tbody>
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When Is Cooperation Beneficial and Defection Costly?

- Aggregation
- Specialization and Exchange
  - Specific Assets
    - Portfolio Investment
    - Primary products (e.g. Planation Agriculture and Mining)
    - Forward Operating Bases for military/launch sites
    - “Strategic” locations
Bargaining

FIGURE 2.2  Bargaining

STATE B's WELFARE

B GETS $1000
A GETS $0

STATE A's WELFARE

A GETS $1000
B GETS $0

PARETO FRONTIER

STATE B’s IDEAL OUTCOME
B GETS $1000, A GETS $0

POSSIBLE DEAL 1

POSSIBLE DEAL 2

STATE A’S IDEAL OUTCOME
A GETS $1000, B GETS $0
Cooperation and Bargaining

**Figure 2.3** Cooperation and Bargaining

- **B** gets $1000, **A** gets $0
- **A** gets $200, **B** gets $200
- **A** gets $1000, **B** gets $0

Pareto Frontier
Why Rules?

- Facilitate cooperation
  - Provide information
  - Reduce transactions costs
- Define bargains
  - Adjudicate disputes
- Dominant country wants rules that favor its interests and limit what others can do.
  - Will bind itself to rules only as necessary to control others.
Governance

- Imposing and implementing rule is costly.
  - Control others
    - Monitor behavior
    - Impose rewards and punishments
  - Accept limits on your own freedom of action
  - Select and support collaborating leaders
Indirect Rule

\[(a_1, a_2) \quad \text{Dominant state} \quad \text{Subordinate state} \quad (q_1, q_2) \]

\[d_1 \quad (b_1, b_2) \quad (q_1, q_2) \quad (q_1, q_2)'

\[x_1 \quad x_2 \quad \text{q} \quad \text{q}'\]
Indirect Rule
Optimal Hierarchy

- Costs and Benefits
- Governance costs
- Expected costs of opportunism
- Extent of rule

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