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Introduction

Debates about secession and counter-secession often focus on questions of identity, political history, and legal rights. Yet economic grievances and perceived opportunities are as important if not more so in secession and counter-secession strategies. They were powerful drivers of the decolonisation processes of the 20th century that were responsible for most of the new state formations in history. More recently, secessionist movements have claimed that their territories are being shortchanged in current political formations and that independence would carry financial rewards. The Lega Nord, the Flemish nationalists, and the Catalan secessionists are all cases in point.

Economic issues also play a crucial role in counter-secession strategies. To prevent the secession of a territory, states have provided economic enticements in the form of prestige projects, market access, and transfer payments. They have also used negative sanctions, be they boycotting, blockading by military means, or isolating a territory internationally, thereby threatening to exclude it from trade deals and investment opportunities.

This chapter first discusses economic countermeasures outside of Europe, namely against the process of decolonisation that led to a steep increase in newly independent states after World War II and economic sticks and carrots that have been used in non-colonial counter-secession strategies. It then dedicates a special section to the European Union, where economic aspects and trade issues have played a crucial role in independence aspirations and counter-secession strategies alike.

Economic sticks and carrots in counter-secession outside Europe

Decolonisation accounted for a surge in independent states after World War II. The number of independent states hovered around 50 from 1850 to 1950 and then shot up to above 150 at the end of the 1970s. India

(1947), Vietnam (1954) and Egypt (1954) were notable examples. Ghana (1957) launched the independence drive in Sub-Saharan Africa, which accounted for a majority of new states in the postwar decades.

Decolonisation had important economic drivers. Its proponents decried the exploitation of their natural and human resources and the systematic underdevelopment of their territories, while their peoples enjoyed no or only limited political participation to decide over their fate. Local elites who felt their ascendance was blocked or feared relative decline began to develop narratives of national liberation that were based on newly "imagined communities" (Anderson, 1983). Over time they drew in broader segments of the population and cultivated social bases of support. In such cases nationalism became a mass phenomenon.

The economic side of the decolonisation narrative focused on the importance of industry for economic development, and the need to foster "infant industries" with protectionist policies. It was not dissimilar to the narratives of catch-up development that Friedrich List and Alexander Hamilton propagated in Germany and the USA in the 19th century, when both countries were economic latecomers (Chang, 2002). In more recent times Asian development states, such as China and South Korea, opted for this kind of state intervention before gradually engineering an opening-up via export promotion.

Colonial policies used economic pressures to fight secession movements. India for example was by far the most important colony to the British Empire. Many British political and military initiatives circled around safeguarding transportation routes to India, whether it was the Suez Canal, the build-up of a chain of protectorates around the coastlines of the Arabian Peninsula, or the Great Game with Russia over influence in Iran. The agitation of the Congress Party for independence put arch-colonialists like Churchill on high alert. When the Bengal famine of 1943 erupted and British authorities in India asked for urgent famine relief, he quipped: if food was so scarce "why Gandhi hadn't died yet" (Mishra, 2007). The famine killed about 3 million people and was caused by war-related inflation, bureaucratic neglect, and racial prejudice. In a crude way it served Churchill's counter-secessionist strategy. It also helped a recruitment drive of the British military that enlisted about 5 million soldiers from its colonial possessions during World War II, as Bengali recruits opted for enlistment to escape famine and possible death.

Beside economic pressures and hardship, colonial counter-secession strategies also used incentives. In the late 1950s France tried to prevent the independence of Algeria, whose northern part was actually not a colony, but legally part of France. The Plan de Constantine (1959–63) envisaged spending on infrastructure, education, and industrial development. "All of Algeria must have her share in what modern civilization can and must bring to men", declared de Gaulle when announcing the plan in 1958 (Davis, 2010). However, it was too little too late to appease the people of a country that was impoverished, grappling with growing shantytowns since the 1920s, and had seen its traditional socioeconomic structures destroyed. The plan was unable to prevent the eventual independence of Algeria in 1962.

Apart from conscious political secession and counter-secession strategies, economic logic worked in favour of decolonisation, too: The urge to colonise faded with diminishing economic incentives. The costs of colonialism increased with the dissemination of military technology that reduced the advantage of empires. Further capital accumulation and productivity gains favoured influencing terms of trade and guiding the global commons over holding actual territory for the exploitation of raw materials (Gartzke and Rohner, 2011).

The politics of economic sticks and carrots of colonial counter-secession strategies can be found in non-colonial contexts, too. During the American civil war Unionists imposed a naval blockade on southern ports, thereby ruining the cotton export industry of the largely rural south. From 1863 Unionist control of the Mississippi also blocked cattle exports from Texas and Arkansas to eastern parts of the Confederacy. The decline in interregional trade and food imports led to shortages and bread riots in a number of southern cities.

Stopping short of outright blockade there are other means of negative economic counter-secession measures, such as cutting payments by the central government, stopping supplies of crucial utilities, such as electricity, or pointing to the negative repercussions of economic exclusion from existing trade arrangements: the Kurdistan Region in Iraq, Crimea, and Quebec provide some illustrations.

The federal government in Baghdad has had only limited influence in the Kurdistan Region of Iraq (KRI) since the latter gained semi-autonomous status in 1991. Oil is the most crucial source of government revenues in KRI and the rest of Iraq alike. Baghdad has sought to curb the independence drive in KRI by blocking a pending oil law and sanctioning international oil companies that have invested in the oil sector in KRI. In 2014 it stopped KRI's share of the federal budget and its oil receipts completely. KRI on the other hand has built its own oil infrastructure with a bespoke pipeline for oil exports via Turkey.

When Russia intervened in Crimea and engineered a secession of the territory from Ukraine, including a managed referendum, a considerable challenge in terms of utilities and transportation infrastructure arose. Most of Crimea's electricity supplies used to come via the Ukrainian mainland until unknown people blew up the transmission lines and the Ukrainian government showed little urgency in repairing them. As a result Russia has faced the challenge of building new power plants on Crimea under international embargo conditions.

Economic counter-secession arguments played a role when Quebec launched its referendums on secession in 1980 and 1995 (see André Lecours' chapter in this volume). In 1980 the federal government of Canada warned that an independent Quebec would end up impoverished and cut off from its most important market – the rest of Canada. In 1995 secessionist forces tried to disperse such concerns by arguing that Ottawa would come up with a deal of economic and political partnership in the wake of a positive secession vote. They saw their economic position strengthened in the wake of the NAFTA trade deal, which had made Quebec less dependent on the rest of Canada for trade. However, US diplomats signalled that an independent Quebec would not remain in NAFTA and would need to reapply for membership.

Since then the economic "Montreal effect" has left a sobering imprint on any renewed independence aspirations: Since the 1990s more and more companies have moved their headquarters from Montreal to other Canadian cities, such as Toronto, Calgary, and Vancouver. Such moves were spurred by more business friendly legislation in other municipalities, the growth of trade with Asia, and the importance of English in an increasingly globalised business environment, but also by the political and legal uncertainty in the wake of Quebec independence agitation (Lo and Teixeira, 1998; Lamman, 2013).

More often than not, economic counter-secession measures also include positive incentives which can, however, have ambiguous impacts, such as reconstruction, new infrastructure, prestige projects, and trade deals. Chechnya, Turkey, and China can serve as examples.

After the wholesale destructions of the two Chechen wars of 1994–96 and 1999 Russia embarked on a reconstruction campaign in 2003. Chechnya was reintegrated into Russia and granted limited autonomy under the client regime of Ramzan Kadyrov, who came to power in 2007. The totally destroyed capital Grozny was rebuilt from scratch after 2003. Russian foreign minister Lavrov sold it as a possible model for any future reconstruction of Aleppo after Russia intervened in the Syrian civil war on the side of the Assad regime.

Turkey has sought to develop predominantly Kurdish south-east Anatolia with the GAP irrigation project, which includes the gigantic Atatürk Dam. GAP has aimed at doubling the irrigated area in Turkey, but its main thrust has been electricity generation, often used for capital-intensive agribusiness and food processing in specialised economic zones. While this might serve to co-opt local elites, the economic benefits for the broader population have been less clear. Many have been forced to migrate to cities where they can be more easily assimilated and controlled, thus complementing displacements that have occurred in the wake of conflict and the impounding of the dams.

China has regarded Taiwan as a renegade province since 1949. Its One China policy has successfully isolated Taiwan internationally on a political level. With the exception of two dozen countries, mainly in Latin America and some Pacific islands, no nation recognises Taiwan as an independent state today. Military threats between China and Taiwan have not been uncommon, but since the 1980s there has been a thaw and even close cooperation on an economic level. During the 2000s Taiwanese exports to China grew steeply, which is by far its most important trading partner. In 2010 both countries even signed a preferential trade agreement (Rosen and Wang, 2011). The Chinese strategy to keep Taiwan in its fold can be read as an important counter-secession strategy. China is a major market for Taiwanese goods and Taiwan is an investment destination for Chinese companies.

Economic counter-secession in the EU

Economic aspects of secession and counter-secession have gained increasing importance over the last century. For two reasons this is particularly true in the EU: On the one hand the EU defines itself as a values and rules-based community; coercive counter-secession measures, economic or otherwise, are more likely to be met with international disapproval and pressure. Blockades, embargos, and sabotage of infrastructure, quite common in different contexts and time periods as we have seen above, are not really an option for counter-secession strategies within the EU.

On the other hand membership of the common market, structural assistance, transfer payments, and monetary protection measures within the eurozone provide a strong incentive to remain part of the nation-states that form the European Union. The question of continued EU membership played an important role in the quests for independence in Scotland and Catalonia for example (Muro and Vlaskamp, 2016).

The costs of leaving the EU are considerable, even for larger countries, as the case of Brexit illustrates. The UK will lose unfettered access to the largest common market in the world and will become a less attractive destination for foreign direct investment that seeks to gain a foothold in this common market. It will be more difficult to finance its current account deficit, while a depreciating currency and reduced labour migration from the EU exert inflationary pressure. Rebuilding the administrative capacities that have been hitherto handled on the EU level, namely in trade, is also a challenge.

It has been argued that membership of the European Union has made secession more palatable for smaller states, as they could break away while still maintaining access to a large economic market (Alesina and Spolaore, 2005). The treaties of the EU are ambivalent. They do not specify what happens to the EU membership of territories that secede from their nation states (Guirao, 2016). Before the Scottish independence referendum in 2014, Scottish nationalists argued that they could maintain EU membership after a successful secession referendum. They eyed an "internal enlargement" via Article 48 TEU that deals with treaty amendments (Kenealy, 2014). However, with the Prodi doctrine the EU stated in 2004 that any territory that breaks away from an EU member state would be outside of the union and would need to re-apply for membership via Article 49 TEU – a process that normally takes years, even in the absence of vetoes by member countries.

It is probably no coincidence that this legal clarification is named after Roman Prodi, the former Italian prime minister from 1996–98 and 2006–08 and president of the European Commission from 1999–2004. With the Lega Nord Italy has seen one of the most prominent secession movements within the EU. The Lega Nord was founded in 1991. It has advocated more political and fiscal federalism and greater regional autonomy for Italy's prosperous north; between 1996 and 1998, in particular, that included the propagation of independence of "Padania", as the northern region is called by secessionist advocates (McDonnell, 2006).

Italy is a net payer into the EU budget, so withdrawal from the EU would not carry as high costs for "Padania" as for a net recipient, such as Catalonia, which is part of Spain. But beside payments to structurally weaker countries and regions, membership of the EU also provides access to the world's largest single market and monetary protection mechanisms for the eurozone members – factors that are not easily discarded, especially after economic turbulence in the wake of the global financial crisis of 2008. Given the economic costs of exiting the EU, the EU might rather hinder secessionist strategies than enabling them.

EU membership is indeed vastly popular among Catalans, less so among the Scots, and has played a prominent role in discussions about independence. In the years prior to the Catalan referendum on October 1st 2017, which Spain's Constitutional Court declared illegal and unionist forces boycotted, leaders of the secessionist camp were adamant that an independent Catalonia would be able to stay in the European Union or could accede to it after a short period of time. They felt that if that were not going to be the case, support for secession would wane. Countervailing evidence and statements by the European Union were brushed aside. "The big umbrella is the European Union … within Europe we can have a different political status", then Catalan President Artur Mas declared in 2012.

Scottish nationalists similarly argued during their campaign for the independence referendum in 2014 that Scotland would be able to maintain EU membership or retransition smoothly into the EU after a short period of time. However, European Commission President Jose Manuel Barroso cautioned that this would be "extremely difficult, if not impossible", in an attempt to temper such expectations. Proponents of British unity used the negative repercussions of potential EU exclusion in their campaign. They also denied the request of Scottish nationalists for continued use of the British pound after independence. Immediately before and after the Catalan referendum the EU made itself even clearer than Barroso in 2014, reiterating the basic tenet of the Prodi doctrine: that new states would be outside the EU and would need to apply for membership.

Re-accession during such an application process could be jeopardised by vetoes by any single member state. Such vetoes would be likely. Spain might oppose EU membership for an independent Catalonia out of spite and because partition of assets, pension liabilities, and government debts would likely lead to considerable conflict. Other European countries such as France, Belgium, or Italy would oppose it in order to discourage secessionist sentiments within their own territories. Spain also signalled that it would oppose Scottish EU membership in an effort to nip Catalan aspirations in the bud.

The Spanish government has used the threat of EU exclusion prominently in its counter-secession narrative and has sought to use the resulting anxiety among Catalan companies to its advantage. When Catalonia's largest bank, La Caixa, could not change its legal headquarters without the approval of its general shareholder assembly, the Spanish government accommodated it with a swift change of the legal requirements. Over 2,700 companies have moved their place of legal registration out of Catalonia between the October 1st referendum and the end of November 2017. About 1,000 have also changed their fiscal domicile to other parts of Spain. They feared the legal and political uncertainty, the loss of markets, deposit withdrawals, and speculation against their shares. While the immediate fiscal loss of this exodus might be limited in the short run, investments and jobs will follow over time if this process is not reversed.

Secessionists sought to belittle the impact, saying it would only amount to a legal procedure, while productive capacities would remain in Catalonia. Yet the reputation loss hurts investments and companies typically contract the most value added inputs such as legal, technical, and creative services at the places where their headquarters are located. Nobody would consider Apple a company from China, just because the iPhone is produced there. Many in Barcelona now fear the possibility of a "Montreal effect", i.e., the loss of economic dynamism that Canada's erstwhile economic centre suffered over the decades following independence agitation in Quebec. In another economic counter-secession move the federal government in Madrid has tried to alleviate such fears during the campaign for the Catalan elections on December 21st 2017 with the prospect of tax breaks for companies that relocate back to Catalonia. The promised fiscal gains of secession and the underlying statistical misinformation look increasingly dubious (Borrell and Llorach, 2015). Expectations of a smooth and economically painless road towards secession were widespread in Catalonia before October 2017. They have proven to be misguided.

Conclusion

Economics play a major role in counter-secession strategies. Negative sanctions such as blockades and boycotts rank less prominently today than in the 19th and early 20th centuries. Brutal suppression and famine during the British campaign against the independence of India would be difficult to justify and maintain in today's international environment. The same is true for a naval blockade that Unionist forces imposed on the south during the American civil war.

Positive economic incentives such as trade deals, prestige projects, and reconstruction have become more important. This is particularly true for the EU, with its large common market, pooled bureaucratic capacities, and transfer payments. Negative repercussions of an EU exit affect secession calculations. Rather than being the enabler of secessionist forces, the EU has become their cage.

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