SPECIAL LECTURE REPORT

ECONOMIC INTERDEPENDENCE AND CONFLICT

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Centre for Economy Development and Law

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Economic interdependence among states can define the susceptibility of conflict in international relations. Dr. Joe Thomas Karackattu elaborates on this with theoretical as well as illustrative elements in his lecture. The documentary "Guli's Children" visually notes the age and depth of economic relations between Kerala and China.

SPECIAL LECTURE REPORT

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SPECIAL LECTURE ON ECONOMIC INTERDEPENDENCE AND CONFLICT IN WORLD POLITICS

Economic interdependence is a defining factor in international relations. Dr. Joe Thomas Karackattu, Assistant Professor at the Humanities and Social Sciences Department, IIT Madras, delivered a special lecture on the topic "Economic Interdependence and Conflict in World Politics", organised by the Centre for Economy, Development and Law (CED&L) at Government Law College, Thrissur, on 3rd February 2017. The session was followed by the screening of a documentary tilted "Guli's Children", directed by Dr. Joe himself.

Dr. Joe initially briefed various explanations as to the causes of war, discussed by international theorists. Classical Realists rely on the concept that human nature is basically evil which leads them to accumulate more power. Desire for power obviously culminates in occurrence of conflicts. However, this concept will tend to describe the longer periods of peace in human history as anomalies. The assumption of classical realists is that the international political system is anarchic, where 'anarchy' is the non-existence of an institutional hierarchical order. Each actor in international politics is an independent sovereign entity whose actions for self preservation and enhancement of military capability result in conflicts. On the other hand, Neo-realists are of the opinion that anarchy does not mean chaos; states are the only actors in international politics and they have to help themselves, though institutional cooperation is possible among them.

Constructivist approach is that, "anarchy is what states make of it". European Union can be sited to substantiate that cooperation is possible even in the absence of institutional hierarchy. The countries which took inimical position during the World Wars cooperate on a common balancing system; interests and identities change over the course of time. Liberalists share similar argument with Neo-realists: anarchy should not necessarily mean disorder; common and conflicting interests of various states can be addressed so as to maximise economic welfare and ensure security.

After the description of the basics of theoretical approaches, Dr. Joe Thomas moved on to analyse how economic interdependence affects conflicts. He made a critical appraisal of the Realist conception that military capability alone can have any impact on state's behaviour, through the example of China and Taiwan. The very sovereign existence of Taiwan is claimed my mainland China. Yet, Taiwan's largest trading partner and investment destination is China. Likewise, China and the United States have serious political differences in almost every sphere of interaction. But their strong trade relations and investment ties reveal that a qualitative shift away from the times of unhealthy diplomacy during the 1950s and '60s and indirect competition in the Korean war has occurred.

Dr. Joe restated the topic of current lecture, how greater economic interaction affects the likelihood of conflict between countries. Many theorists from Montesquieu are of the opinion that peace is the natural effect of trade. According to liberal theories, increased economic interdependence between two countries increases the cost of conflict between them since they will have to afford the loss of economic benefits along with the military expenditure. Trade relations are made through process of conscious self selection based on comparative advantages. Hence, normally, countries that trade a lot would genuinely try to avoid conflicts. The case of India and Pakistan can illustrate the point that strength of trade interactions and susceptibility to occurrence of conflict are in inverse relationship. Quoting from the American political scientist Richard Rosecrane's *The Rise of the Trading State* (1986), as wars become costly, alternative paths to pursue political objectives become more appealing.

After the Tiananmen Square massacre in 1989, the US and the West in general decided to impose sanctions restricting export of dual use technologies to China, with very vague definitions of terms, able to be interpreted at the will of the imposer. But despite these, China has raised to the position of the world's largest economy, second largest exporter of merchandise goods, particularly in the area of medium and high technology products. This has become possible through establishing domestic lobbies in each country. China was opening up in economic terms to the rest of the world, since 1978. The very huge market provided by its population, extremely cheap supply of goods, are used by the US, 70-75% of whose economic growth is driven by consumption. Thus China survived the sanctions through economic relations.

As the International Relations theorist Dale Copeland argues, future expectations of trade benefits are critical to the decision to fight or maintain trade ties. A trade relationship that is deteriorating and shows little potential of rebounding will be easier to break than weak trade ties in a relationship for which growth in trade is expected.

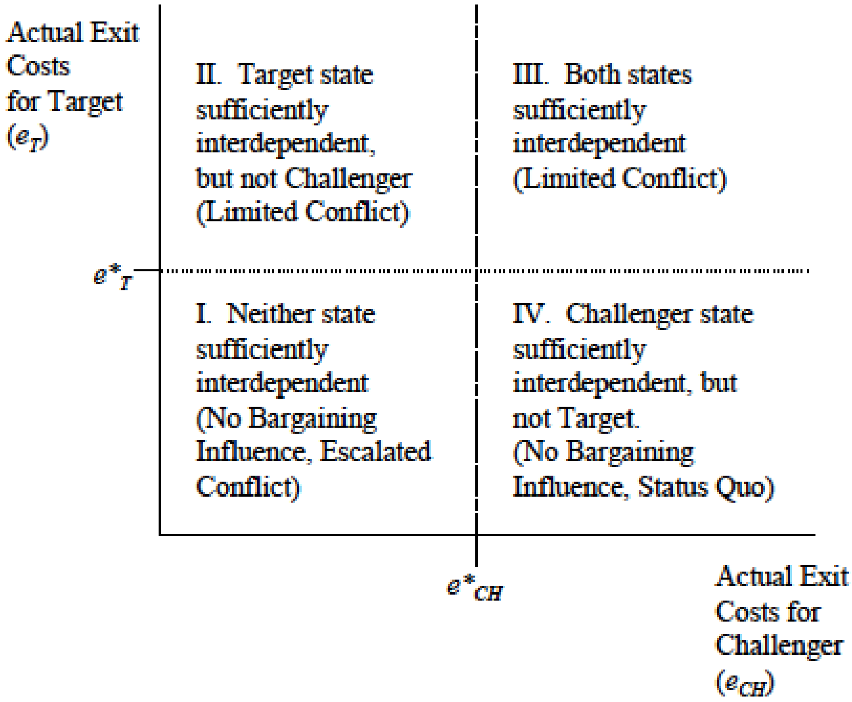
Delving more into theoretical aspects, 'economic interaction' can be thought of simply as the transaction of goods and services between states, whereas 'economic interdependence' carries with it a connotation of constraint and a tangled web of commitments that are costly to break for both the parties. There are sensitivity interdependence and vulnerability interdependence, of which the second is much more serious to rupture. Interdependence is defined by the costs incurred by each state in a dyad to remove itself from the bilateral economic ties. These costs of exit are in turn a function of the market in terms of the availability of substitutable goods, as well as adaptation costs associated with restructuring the transactions required to satisfy economic demand. Fewer numbers of either sellers or buyers will make the exit more difficult from a relationship. Thus market structure is a factor of consideration. Another factor is asset specificity. It is the degree to which an asset can be redeployed to alternative users without sacrifice of production value. Resources that are rigid in their relation to an international economic relationship make states vulnerable to its trading partners; on the other hand, resources that are more mobile or fungible enable states to adapt to potential changes that other states may threaten to impose.

The relationship between a state's actual exit costs and its exit cost threshold (basically, the level of pain beyond which exit cost cannot be tolerated) that determines whether economic interdependence affects its strategy with respect to political conflict, has to be in equilibrium. Dr. Joe Thomas illustrated the concept with reference to the India-Nepal conflicts that arose as an aftermath of controversial constitutional reforms in Nepal in 2015. There are various types of equilibrium according to the status of the challenger in the relationship under threat of exit:

1. Constraint equilibrium: the challenger is constrained by the relationship
2. Bargaining power equilibrium: the challenger is in a position to bargain
3. Crisis/escalation equilibrium: the relationship does not have any impact on the challenger

When the exit cost is higher than the exit cost threshold, the challenger's actions are constrained and the relationship drifts into constraint equilibrium. If the target state is sufficiently interdependent but not the challenger, it leads to bargaining equilibrium with limited conflict. But when both the challenger and target have exit cost much below the threshold, the relationship is less important and the states are not sufficiently interdependent. This escalates conflict. The graph below explains symmetry in exit costs and threshold.

Dr. Joe cited a case study of the US and South Africa during the apartheid era. Only around 3% of the total trade of the US happens with SA, while 20% of the external trade of SA is dependent on the US. Though it was very easy for the US to punish SA, they restrained from it considering the huge repository of natural elements like chromium and manganese in SA, for which the US will otherwise have to rely on the least probable partner Soviet Union. Thus, market structure constrained the action.



Despite the ban on military technology transfers after the Tiananmen Square incident, China used the threat of refusing access to its huge domestic market as a bargaining tool before the US. On the contrary, failure of Great Britain's attempt to use economic sanctions to persuade Argentina to move troops off Malvinas Islands culminated in conflict in 1982. These examples very clearly illustrate the relationship between economic interdependence and conflict in international relations.

After the special lecture, the documentary "Guli's Children" was screened. According to the director Dr. Joe Thomas "Guli's Children" tries to bring out the cultural-historical ties and traces of human genealogy that survive between Kerala and China. The film uses personal narratives, academic perspective, all blended in order to explore the various facets of India-China trade relations dating back centuries. Kozhikode ("Guli" in Chinese) had enjoyed central position in economic interactions. The descendants of a Malayalee family, who moved from Kozhikode to China over 700 years ago, testify this. This work of 43 minutes of length is a visual representation of Dr. Joe's research.