

War and famine. Peace and milk. — Somali proverb

EPS Affiliates Issue

“[F]igures suggest that China is not involved in an arms race. Although the overall amount of defense spending in US\$ grows significantly, the percentage of GDP remains stable in both China and its neighboring countries. This is not the case for the US or Russia...”

Juan Carlos Martínez Coll, p. 8

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We are very pleased to announce the formation of our new Italian affiliate

Chair: Raul Caruso, Catholic University of the Sacred Heart

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EPS Italy is engaged on issues related to peace economics and its relationship with sustainable development of economies. In particular, EPS Italy is committed to tackling the issue of the costs of violence in its variety of shapes and scales, with particular regard to the very fabric of economic progress. They are also dedicated to stimulating studies on the behavior of economic agents in environments afflicted by different forms of violence. Therefore, EPS Italy will organize workshops and large-scale events in order to stimulate both scholarly debate and public discourse on these issues. EPS Italy will co-host the 18th Annual Conference on Economics and Security (see below).

CALL FOR PAPERS

Eighteenth Annual Conference on Economics and Security
June 19 – 20, 2014 at University of Perugia, Italy

Hosted by University of Perugia, Economists for Peace and Security (Italy)

The 18th Annual International Conference on Economics and Security will take place in Perugia. As in previous years, the conference seeks to provide an opportunity for economists, political scientists and others from around the world to share ideas and discuss future developments in these areas:

- Regional security
- Economics of security
- Corruption and military spending
- Globalization and the restructuring of the MIC
- Militarism and development
- Security sector reform
- Economics of conflict and war
- Post-conflict reconstruction
- Economics of the arms trade
- Procurement and offsets
- Arms races and alliances
- Peace economics and peace science
- Conversion and demilitarization
- Economics of terrorism

Offers of papers on related topics are also welcome. The conference will have plenary sessions with keynote speakers and specialist workshop streams. If interested in organizing a session at the 2014 Conference, please send a proposal with a title, brief summary, list of titles, and proposed speakers. If you would like to present a paper, please send a title and an abstract of less than 300 words as soon as possible. Both should be sent before April 1, 2014 to lpieroni@unipg.it.

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From the Director

I have never been much of a nationalist. I had the opportunity to travel and live in Europe and South America as a child, and it became clear to me early on that, although people may speak another language or prepare their food a different way than I am used to, we have more in common than separates us. My father, who grew up in Middle America during the height of the Cold War, was impressed that I learned that lesson so young. When he first traveled to Russia in his twenties, he was surprised to find commonalities with people he had been taught were so different from "us."

This perspective has led me to a global rather than national outlook. For instance, American exceptionalism has never made much sense to me. Just because a country has the biggest economy, I don't see how that gives it the right to be the global bully. I learned early that no matter how passionately I may believe in the rightness of my position, there may be another equally valid standpoint on the other side.

Ultimately, I suppose, my concept of who "we" are has been larger than any single national boundary. Exposure to a variety of situations and cultures growing up also helped me to develop empathy and compassion for those who appear to be different. When I came to EPS, I found many kindred spirits who shared the same philosophy. I don't think I would have been attracted to the organization had it been solely US-centric.

I particularly appreciate the work that Amartya Sen has done on identity and violence. At one of our conference sessions a few years ago, he spoke on how a person might derive his or her identity from nationality, or gender, or race, or profession, or hobbies, or socio-economic background; that each of us in fact has many identities. He spoke about how these identities can either separate us and lead to violence, or they can bring us together and move us toward peace.

Mike Intriligator also wrote eloquently on what he calls global security. There are many threats facing us today that do not respect national borders: climate change and natural disasters, pandemic diseases, and resource wars. He wrote,

"They represent immediate and major threats to the planet or the human species and thus endanger global security...A common feature of all these threats is that they cannot be addressed by one nation, no matter how powerful, acting alone...[T]o deal effectively with fundamental threats to security...we will need to approach security from a global perspective rather than merely a national one. Our world is now so highly connected and interdependent that it is impossible to confine security to arbitrarily defined national frontiers."

I was drawn immediately to EPS's corporate ethos of internationalism, and our connection with the UN. We had at one point this statement on our website, "We note the high cost of war to the lives of those involved, directly and indirectly, and the increasing risk that the present military-dependent, competitive global security system will fuel uncontrollable conflicts between and within states. We support and work for policies and institutions so that change within states can be achieved through peaceful democratic processes and so that international disputes can be managed without war. We support the creation of systems by which international disputes can be solved through negotiation, arbitration and judicial proceedings through an enhanced United Nations and other multinational institutions that will also address common global environmental needs while avoiding waste and enhancing international economic security."

When we changed our name to Economists for Peace and Security, I was involved in updating and re-working our mission statement. The committee decided to begin with a reference to the UN's Universal Declaration of Human Rights. I quote often from our mission statement in my letters here. It is a document that I am proud of and that continues to inspire me, because it begins where my desire to be of service in the world begins, with the recognition that the inherent dignity and equal rights of all members of the human family form the foundation of freedom, justice and peace in the world.

From the beginning, our organization has encouraged affiliate groups. With the

From the Director (continued)

announcement of our new Italian affiliate (see page one) we now have affiliates in 17 countries. It has been one of the highlights of my job to attend our annual international conference and meet members from around the world. Several times over the last few years, hosting the conference has been the impetus for the formation of a new affiliate, bringing us new groups in Greece and Egypt.

This issue showcasing our affiliates was suggested to me by Kate Cell, my predecessor as director of EPS, who knows how important a part of our work I consider them. I put out a call to our affiliate chairs, asking for reports on their activities or articles representative of work that they are doing. I am very pleased to share with you more information about their accomplishments. Our

affiliates vary quite a bit in their membership and endeavors, and I wouldn't have it any other way.

The Dutch Flemish Affiliate of EPS

Joel van der Beek

Inspired by the formation of ECAAR in the US, the Dutch Nobel Prize winner Jan Tinbergen founded a Netherlands-Flemish section in 1991. In his essay "Recollections" from Professional Experiences," Tinbergen wrote that economists should choose their work based on the most pressing problems facing our world: (a) how to organize a peaceful world; (b) how to strengthen solidarity with those living in poverty; and (c) how to take future generations into account.

These suggestions are now more relevant than ever. The tragic failure to organize peace in the Middle East leads one to ask: who controls the economic interests behind this drama? Recently there was a very substantial drop in official public Dutch commitment to development aid, accepted by the Labor Party, once Tinbergen's own political party. However, hundred millions of poor people, particularly in Africa, still are crying for solidarity.

Who is really concerned about arranging this chaotic world with the necessary minimum of planning that Tinbergen envisioned? According to Jan Tinbergen, economic science can collaborate with other disciplines to clarify a realistic view of our situation, and to design policies for improvement. This is the reason for the existence of our section of EPS.

The Netherlands-Flemish section of EPS unites some 200 individual economists from this region of the globe. In

mid-2011, the board of EPS consulted all its members regarding the legitimacy and the future of the organization.

According to Jan Tinbergen, economic science can collaborate with other disciplines to clarify a realistic view of our situation, and to design policies for improvement. This is the reason for the existence of our section of EPS.

Together with our members in the Netherlands and Flanders, we chose principles for our future direction:

- We will be an organization that is attractive to be(come) a member or friend of, focusing on professional economists in general, and specifically on economists specializing in conflict

- We are convinced that the medium of communication is the internet and distribution is through digital means

- As a consequence of the new ways of communications, country borders and the distinction between members and

non-members becomes diffuse and less important

- Information, providing a platform, being a vivid network, interaction between participants within the network, and with other networks will play a central role. With a "network" we seek more flexibility and thus scope for dynamism and interaction

- We will have a small board structure, with active members. Board members will play roles as initiators, facilitators, and referees.

2014 Isaac Roet Prize on nuclear disarmament

Together with the University of Amsterdam, EPS has recently launched the 2014 edition of Isaac Roet Prize. The Isaac Roet Prize is an international contest about the promotion of world peace through economic interaction. Since 1952, seven essay competitions have been organized. The set-up of this eighth edition is very different: we seek the best project proposal (business plan) to get youth involved to foster a world free of nuclear arms.

The best proposal will be awarded a prize of €5,000 plus seed funding to set up the venture. Several of our EPS members are in the jury. The jury of the 2014 Isaac Roet Prize consists of Jurgen Brauer, Tilman Brück, Steve Killelea, Joseph E. Stiglitz, Haim Roet, and Thierry Sanders. For further reading, please visit www.roetprize.org.

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The Dutch Flemish Affiliate of EPS (continued from page 3)

We have seen that this prize has stimulated many students to concentrate on the economics of peace. We have the impression that for some, it has even influenced their career and their focus.

Honorable/ extraordinary Chair Peace Economics

EPS is co-founder of and participates on the Board of the Foundation for Peace Sciences. Thanks to our input, the first endowed chair, "Economics of Conflict and Peace" (ECP) was established in 2005 at the Institute of Social Studies (ISS) / Erasmus University. The chair is held by long-time EPS member Dr. Syed Mansoob Murshed. The ASN Foundation, linked to the Dutch institution ASN Bank, financially supports this chair. (See www.stichtingvredeswet

[enschappen.nl](http://www.enschappen.nl) [only in Dutch]).

Platform for Sustainable and Solidarity Economics (New Economy)

EPS participates in Platform for Sustainable and Solidarity Economics. For over three years, together with many other NGOs, we have been campaigning for an economy that takes into account environmental sustainability, equitable global distribution, human dignity, and climate change.

At the moment our focus and lobbying are directed at the limited value of GDP as key parameter in the Macro Economic Outlook. We are convinced that these important aspects are substantially underexposed within traditional economics. (See www.platformdse.org [only in Dutch]).

Research-based columns: "Engaged Economists Writing About Conflict"

Together with Jurgen Brauer, we have initiated and established a column-service on conflict, war, violence, crime, and peace on highly esteemed professional platforms on the internet: at USIP <http://inec.usip.org/content/engaged-economists-writing-about-conflict>, at SIPRI <http://www.sipri.org/media/blogs/eps-blog> and at our own EPS sites. We aim to feed the columns into journalists' and policymakers' pipelines and hence into the news media and policy circles.

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ECAAR/EPS Germany: Engaged in the National Dialogue

Wolfram Elsner

A number of ECAAR/EPS Germany's members are working in public or semi-public research institutes and foundations of either general economic research (such as the DIW — German Institute of Economic Research in Berlin) or (mostly) specialized peace research institutes. The latter usually still are state-funded such as the IFSH — Hamburg Institute for Peace Research and Security Policies. The great bulk of these members' activities cover ongoing peace and security research and policy advice.

Furthermore, the peace movement in Germany has had some revivification in recent years. One of their new focuses has become an issue that was considered finished by the end of the 1990s: industrial defense conversion. While this is a national as well as a regional issue, certain cities and regions are the centers of the arms industries. Both national and regional conferences, workshops, and symposia have been organized not by ECAAR/EPS Germany, but by national and regional peace-movement or party organizations. I personally have been

invited to two workshops on defense-industrial conversion in recent months, one on a national level (by peace movement organizations) and one on the regional level of north-west Germany (by a party educational foundation), where there was a broad interest in the historical experience made in real arms and industry conversion and "civilization" in Germany in the narrow time window of the 1990s.

At these events, there was a new willingness to start again with political initiatives of industrial and product restructuring to reduce arms production and export. This coincides with some political party decisions taken by the social democratic party and the left party at state levels to take up the issue again. In the city-state of Bremen, for instance, there is also a political concern that the city ports are a major hub of arms exports.

Another issue has resurged recently at the universities: a nationwide movement in favor of "peaceful research" clauses for university research. A number of universities have adopted such

clauses through decisions of their academic senates in the last two years, and, here as well, ECAAR/EPS Germany members were actively involved. I myself have taken part in the preparation of a series of panels at the University of Bremen, at the end of which the academic senate indeed confirmed and operationalized an older decision from the 1970s.

A number of ECAAR/EPS Germany members have played, and will have to play, a role in these new developments. Regrettably, ECAAR/EPS Germany itself is not large and strong enough to initiate anything like that in the political/societal nor research spheres, but members known as individual researchers are asked to contribute through public panels.

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Optimal Corruption Level Hypothesis

Hamid E. Ali

The causes of corruption are associated with particular levels of economic development, political institutions, and government policies. Historically, corruption emerged in stages as a country's total productivity increased, and history does repeat itself. It has become conventional wisdom that poor countries are more corrupt than rich countries, but one of the things that the international and academic communities have missed is that corruption can act as a device to correct institutional imbalances.

Corruption can be defined as a misuse of public office for private gain. It encompasses abuses by government officials such as embezzlement and nepotism, and abuses and bribery linking public and private actors including extortion, influence peddling, and fraud. In this article we discuss, first, to what extent corruption as evolutionary phenomena is driven by institutional development. Secondly, what is the optimal level of corruption reduction?

Countries with developed institutions, including legal, financial and governing institutions, usually set guidelines to define the conduct of public officials at all levels to allow the market operate and

economic development to take-off. However, in less developed countries with weaker institutions, officials use discretionary rules to divert the intent of the laws in order to build economic and political empires without accountability or transparency.

The level of economic development is a reasonable proxy for institutional development. Higher GDP growth implies well-developed institutions, better internal controls, and less bribery and stealing of the state's assets. In less developed countries, with lower GDP and weaker institutions and internal controls, corruption practices often masquerade as compensations for low wages in the government sectors. The richer the country, the lower the corruption level in general.

Using the Transparency International Corruptions Perceptions Index, we are able to group countries as having pre-modern, modern, and post-modern corruption levels. Pre-modern corruption occurs where cycles of violence and the lack of institutions lead to activities such as smuggling and extortion. The modern corruption associates with weak and semi-strong state, usually in upper mid-

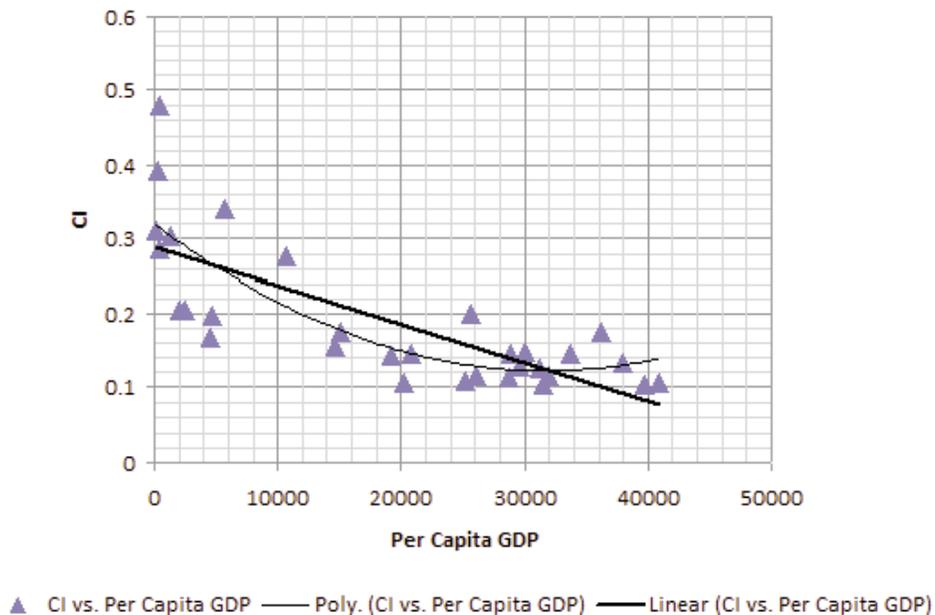
dle income countries. Modern corruption focuses on strategic assets such as oil field and diamond mines, and bribery of public officials. Post-modern corruption is the dominant paradigm resulting from conflict of interest, fraud, lack of transparency, and the revolving doors between business and government. Countries that experience the post-modern corruption have a high level of economic wellbeing and fragmented forms of government.

Generally, we find a correlation between income and corruption levels, with low income countries being pre-modern, lower and upper middle income countries being modern, and high income countries being mostly post-modern. As GDP expands, societies leap from the rudimentary stage of corruption to the next stage, where the corruption tends to be covert with higher rewards, and then level off as GDP growth accelerates. At no time in history has corruption been reduced to zero and society must accept some level of corruption with minimum marginal costs.

Understanding the evolutionary process of corruption is important for any

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Figure 1: Inverse Corruption index and GDP per capita (in dollars)



Optimal Corruption Level Hypothesis (Continued from page 5)

future regulatory measures the international communities may want to adopt. Policies that effectively root out post-modern corruption differ from those required for pre-modern corruption.

We can say that post-modern corruption is the ideal level of corruption a society might tolerate; as long as it does not subvert the rule of law or the system of government, it is the easiest to regulate and control. In the post-modern society, regulation of transparency in business transactions or political party contributions can significantly reduce the corruption level.

Modern (mid-level) corruption can be fought by measures that encourage pluralism and empower civic society. Political participation should flourish at expense of political control exerted by

political oligarchs.

However, those same measures are impractical and add very marginal value in rooting out pre-modern corruption. For instance, the anti-corruption laws enacted in Africa in the last decades were ineffective. One official recounts that Nigeria's Anti-Corruption Commission failed to bring a single case against a senior government official from its founding in 2000 until 2005.

The marginal reduction of pre-modern corruption is socially costly compared with modern or post-modern corruption levels. Pre-modern corruption is inefficient, but it does generate economic activity. Any aggressive attempts to fight corruption will slow down economic activities and production levels. However, as economic development

proceeds, the country has enough resources to adopt better control measures such as accountability and rule of law, and thus to reduce the corruption levels. We cannot apply uniform policies to all levels of corruption.

From a policy prospective, economic aid should not be tied to government commitment to fight corruption; it should be tied to governments' improvement on basic education, health and civic society. The root causes of pre-modern corruption can be tackled by efforts to nurture economic development that empower the social and political capital through time. The current reforms initiated by the international community are more relevant to post-modern society and doomed to failure in pre-modern corruption societies attitudes and habits.



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For membership details, visit <http://epsusa.org/membership/membership.htm>, or see page 2 to contact us.
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The South African Arms Deal Saga

Terry Crawford-Browne

After more than a decade of cover-ups and denials, South Africa's President Jacob Zuma in September 2011 told the national executive council of the ruling African National Congress (ANC) that he would lose the case I had brought against him in the Constitutional Court (CC). Zuma reportedly only agreed to my demand for a commission of inquiry into the arms deal scandal to avoid having the CC dictate to him.

The rationale for the arms deal was that US\$5 billion spent on warships and warplanes from Europe would somehow generate US\$18 billion in offsets to create over 65,000 jobs and stimulate economic development. The scandal has become the byword for a culture of corruption that has blighted South Africa since the 1994 transition to constitutional democracy.

ANC whistleblowers told me back in 1999 that the arms deal was just the tip of the corruption iceberg. The common denominator, they said, with oil deals, taxi recapitalization, toll roads, drivers' licenses, Coega harbor development, Cell C, diamond and drugs smuggling, weapons trafficking and money laundering was 10 percent kickbacks to the ANC in return for political protection.

In his definitive book on the arms trade, *The Shadow World*, my colleague Andrew Feinstein records that corruption in the British and American arms industry is so institutionalized that it is not even recognized as such in Britain or the US.

Nor is South Africa unique in using judicial commissions of inquiry as places to park political hot potatoes until they are cold. Three senior judges were appointed to the Seriti Commission, but one resigned immediately citing "personal reasons." Then, the Commission's secretary purportedly committed suicide. Next, a senior investigator resigned in January 2013, alleging that the Commission has a "second agenda to silence the Terry Crawford-Brownes of this world." Recently another judge resigned.

Three of the Commission's terms of reference refer to arms deal offsets, and

whether promised jobs and technology transfers materialized. I made my first written submission in June 2012 setting out that offsets fail section 217 (1) of South Africa's Constitution requiring all government procurements to be conducted "in accordance with a system which is fair, equitable, transparent, competitive and cost-effective."

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In August 2012, I requested Judge Seriti to subpoena the former British Prime Minister Tony Blair, while he was visiting South Africa, to explain why he and BAE pressured our government to buy fighter aircraft that the Air Force had rejected. Amongst the documents I had submitted to the CC were 160 pages of affidavits detailing how and why BAE paid bribes of £115 million, with the collusion of the British government, to secure its fighter aircraft contracts.

Despite the fact that US authorities in 2010 and 2011 fined BAE US\$479 million for what were euphemistically described as "accounting irregularities," my request was rejected as "premature." The German Frigate and Submarine Consortia have conceded in Germany that bribes were paid for the frigate contracts and, secondly, that offset contracts for the submarines were simply "vehicles to pay bribes."

Even our government now reluctantly admits that the offset benefits never materialized. In short, the whole arms deal process was fraudulent.

Together with other commentators and whistleblowers, I was subpoenaed to appear before the Commission as a witness in March 2013. Just two weeks before commencing, the hearings were inexplicably postponed until August. I am now informed that I will only be called next year, if at all.

The Commission's mandate expired in November 2013, and it has already hugely overrun its allocated budget. Accordingly, I have requested the Public Protector (ombudsman) to intervene with the President to terminate the Commission when its mandate expires, or preferably sooner. Zuma's intentions to bury the scandal or silence me have clearly failed.

As a 12-minute Carte Blanche television program broadcast in September 2013 reveals, the Seriti Commission has degenerated into a farce. See it here: <http://carteblanche.dstv.com/player/351894>.

My lawyers are now drafting papers for a new round of litigation. We seek to have the arms deal contracts nullified as unconstitutional, and also fraudulent. The "remedies in case of bribes" clauses in the contracts give South Africa the right summarily to cancel the contracts and to claim compensation. In the words of the British jurist Lord Denning: "fraud unravels everything."

Our aim is to have the slightly used warships and warplanes returned to Europe, and to recover the money. In so doing, we would thus recover the bribes since obviously they were built into the prices.

The financial consequences of cancellation would also fall to British and German taxpayers who guaranteed the transactions, rather than to South African taxpayers.

We hope, in turn, that Europeans will demand explanations from their governments on the pressures they exert in promoting arms exports to countries such as South Africa.

Tensions around China: appearances and reality

Juan Carlos Martínez Coll

Chinese leaders have promised "a peaceful rise." But will the rise of the next superpower be peaceful? Chinese self-confidence, fueled by rapid GDP growth — together with a mix of historical resentment, territorial disputes and increasing nationalism — seems to have resulted in rising tensions across the region. These tensions are currently unchecked by any institutional arrangement aimed at conflict resolution. In August 2013, in the space of a few days, Japan, India, and China all publicly presented new aircraft carriers. Are we witnessing an arms race in the region? These developments should certainly be considered a step up in the escalation of threats to regional peace. Could war erupt in the coming years?

On August 6, 2013 in Yokohama, Japan launched its new helicopter carrier Izumo, the largest warship in the Japanese navy since WWII. While the four helicopter carriers planned for construction are officially for peaceful purposes such as disaster relief, their decks could be easily adapted, if necessary, for the takeoff and landing of F35 fighters.

On August 12, the first Indian-built carrier, INS Vikrant, was launched at the shipyard of Cochin. The carrier is only half-finished; it is estimated that it will not be operational before 2018. India already possesses an old British aircraft carrier and has just purchased an old Russian carrier that will be available later this year.

A few days earlier, on August 1, a series of unofficial photographs appeared on Chinese internet-based

news pages showing the construction of an aircraft carrier at a shipyard in Shanghai. China also owns the Liaoning, an old Soviet-built aircraft carrier. It will take a long time for the new Chinese carrier to be operational, but having built a prototype, other ships could follow rapidly.

The simultaneous construction of warships does not necessarily make for an arms race. In fact, the relatively slow speed of the construction looks nothing like racing. SIPRI (Stockholm International Peace Research Institute) estimates that China's military spending in 2012 accounted for only 2% of GDP, well below that of the United States with 4.4% of the world's largest GDP devoted to defense.

The table below shows defense spending in billions of USD and as a percentage of the GDP in a few countries in the North Pacific, plus India. The figures suggest that China is not involved in an arms race. Although the overall amount of defense spending in USD grows significantly, the percentage of GDP remains stable in both China and its neighboring countries. This is not the case for the US or Russia, the only countries in this table whose defense expenditure, seen as a percentage of its total GDP, is growing significantly.

China's military expansion is nevertheless concerning in the context of the recent dispute with Japan over the Senkaku-Diaoyo islands. The crisis resulted in demonstrations organized by extremist elements in both countries, as well as in calls for commercial boycotts. China also shares disputed maritime

boundaries with Vietnam, the Philippines, Indonesia, Malaysia and Brunei. All of these disputes have been reignited recently. Furthermore, in mid-April and in mid-July, Chinese troops camped for a few days in Indian-controlled territory in the Ladakh region, whose sovereignty is disputed by both China and India.

India will hold general elections in May 2014. The leaders of the Congress Party and the Bharatiya Janata Party will compete in promises to increase defense expenditure in order to guarantee the inviolability of India's disputed borders with Pakistan and China. Shinzo Abe, the Prime Minister of Japan, is increasingly alluding to Japanese nationalism in his speeches and intends to reform the Japanese Constitution and eliminate, or at least water down, constitutional constraints on the armed forces. Meanwhile, Xi Jinping, the President of the People's Republic of China, speaks to the People's Army about the legitimate Chinese Dream, a phrase with ambiguous connotations. Liu Mingfu, a Chinese military official, defined the concept in the title of his 2010 book as "China's Dream: Great Power Thinking and Strategic Posture in the Post-American Era."

However, nationalist claims and military posturing by new leaders in China and Japan can be seen as an initial negotiating position for further peaceful bargaining. Some piss-marking and growling might be necessary to build a respectful coexistence. It is also true that no country in the area is interested

Defense spending in billions of US\$ at constant (2011) prices and exchange rates and as a percentage of GDP

	China		Japan		Taiwan		South Korea		India		Russia		USA	
	B.US\$	%GDP	B.US\$	%GDP	B.US\$	%GDP	B.US\$	%GDP	B.US\$	%GDP	B.US\$	%GDP	B.US\$	%GDP
2000	37	1.9	60.2	0.97	10.4	2.7	20	2.6	27.9	3.1	32.5	3.7	394.2	3
2006	84.02	2.1	60.9	0.97	9	2	25.6	2.6	36.8	2.5	56.4	3.8	588.8	3.9
2012	157.6	2	59.2	1	10.5	2.3	314.8	2.7	49.4	2.5	90.6	4.4	668.8	4.4

Data: SIPRI

Tensions around China: appearances and reality

in serious disruptions that could affect their economic systems, China particularly so. Year after year, Chinese GDP growth (and its defense budget) is gaining ground compared to the rest of the world; time plays to China's advantage. The longer China holds the current status quo, the greater its relative strength vis-à-vis its neighbors, both from an economic and a military point of view.

This is not the case for the United States. Washington is aware that US supremacy is being challenged and that within ten years, China's GDP will overtake America's, and so might its defense budget. The Chinese space program is showing surprising successes. In cyber warfare and espionage, it seems that China is catching up with the NSA (or is it the other way around?). The strength of the People's Liberation Army is no longer based exclusively on its large number of troops.

Will America accept the loss of its global supremacy? How far will Washington go to maintain its superpower status or to slow down China's progression? Time plays against the US.

A good neighborhood

Chinese media accuse America of trying to surround China with hostile countries. The US strategy in East Asia has traditionally been to maintain bilateral defense agreements with countries in the region. However, the "pivot to Asia," announced by Obama at the beginning of his first term, seems to have led to a change of strategy: the US is now promoting multilateral defense ties and enhancing ASEAN's role in security and conflict resolution. The ASEAN summit in July 2012 witnessed an unprecedented confrontation, when the proposed common conflict resolution mechanism for the South China Sea (which is rejected by China) could not be discussed due to the veto of Hun Sen, the Prime Minister of Cambodia (traditionally a Chinese ally). The Philippines, whose fishing boats had recently been expelled from the Scarborough Shoal by Chinese naval vessels, were the most ardent supporter of the proposal. Since the Philippines have little historical or legal

basis to claim Scarborough Shoal, China could present this dispute as an example of unprovoked harassment.

A considerable number of East Asian countries hold old grievances and sovereignty disputes with Japan as well, but it seems the US has managed to put them aside. The Trans Pacific Partnership (TPP), an ambitious trade agreement that excludes China and has recently been joined by Japan, seems to be a way to strengthen ties among countries that can make a common front with the US against China. China is excluded from the TPP not for political but for economic reasons. The economic system of China at the moment remains based on "soft" state planning, with subsidies to chosen sectors and foreign exchange controls, which are incompatible with the free-trade spirit of the ambitious TPP. China is neither interested nor eligible to become a member of the TPP, at least for now. However, the TPP, as the USA-EU free trade project, is a reaction to the failure of the WTO DOHA Round. That is to say, contrary to popular belief, the TPP is plausibly founded on economic rather than political rationales.

Among China's traditional allies — Laos, Cambodia and Burma — the US seems to be inviting the latter to change sides, an invitation that has been welcome. The wide political support to Burma's transition appears to be aimed at freeing the country from its heavy dependence on China. On the other hand, Cambodia is being unfairly harassed by the United States. It is surprising, for example, that the US questions the legitimacy of the recent elections in Cambodia, which were monitored by international observers and where opposition parties campaigned freely, while keeping silent about the flagrant and continuous violations of political rights in authoritarian Vietnam.

Russia, the other regional power, is China's main political ally. They have solved all their territorial disputes with each other. Since 1991, a series of treaties and agreements have been demarcating the borders between the two countries, including the transfer of certain territories. The process culminat-

ed in 2008 in the settlement of all outstanding disputes. Their economic relations are strengthening significantly. China is now Russia's largest trading partner, with a volume of US\$88.16 billion in 2012. In the field of international relations, they seem to have formed a stable partnership, based on their permanent membership in the UN Security Council. They often form a common front against the US on several issues, including Middle East politics and most recently Syria. If in the near future tensions were to rise between China and the US, there is little doubt which side Russia would take.

In 2001, the Central Asian republics of Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan formed, along with Russia and China, the Shanghai Cooperation Organization (SCO). It is a framework for defense and security cooperation with an economic component. The SCO carries out joint military exercises on a regular basis. On the economic front, the SCO has developed ambitious joint projects, mainly in energy and transportation, which have resulted in a remarkable growth of trade along what has been called the "New Silk Road." The SCO is working in an open and transparent manner; other countries and organizations, ASEAN included, are invited to their meetings. India is among the countries with observer status and has been officially invited to become a full member.

Simultaneously, among US allies, Taiwan and South Korea are acting with extreme caution and avoiding any action that might upset Beijing. Taiwan is aware that, in case of armed conflict, it would become the main target of a Chinese attack. South Korea pursues its own "Korean Dream," a unified, or at least less-divided, peninsula. To make any progress towards unification, Seoul needs Beijing's friendship. Taiwan is the main target of Chinese expansionism. China would like to reach a reintegration agreement that would grant Taiwan a similar status to that of Hong Kong and Macau. Taiwanese radical parties are requesting an official declaration of

Continued on page 10

Tensions around China: appearances and reality (continued from page 9)

independence and international recognition, while the historical Kuomintang is following a more cautious approach. To support the Kuomintang politicians, now in government, Beijing leaders have exchanged their previously aggressive strategy for a more conciliatory approach. They seem to have understood that the Taiwanese people are more likely to be coerced into integrationist policies by trade and friendship than by threats. The Economic Cooperation Framework Agreement (ECFA) between China and Taiwan, signed in 2010, has boosted the economic links on both sides, with a sizable benefit for Taiwan. Trade between them amounted to US\$168.96 billion in 2012, with Taiwan enjoying a surplus of more than US\$95 billion.

The most serious threat to security in the area is North Korea. Analyzing the behavior of countries in the region, we assume a certain degree of rationality; that is, the ability of a country to calculate the costs and benefits of its political decisions. When it comes to armed conflict, a rational approach would indicate that a country will only be willing to enter into war if it believes the benefits will be larger than the costs, and this usually entails the likelihood of military victory. When Kim Jong-un, North Korea's hereditary president, threatens to strike Japan and the United States with atomic bombs, he is portraying an image of him-

self, and his country, as an irrational actor on the international scene. Yet this behavior, the deliberate attempt to seem irrational, paradoxically might be considered a rational approach. North Korea, or rather its regime, benefits from military posturing. This is aimed, first, at strengthening its internal standing and, second, at extracting foreign aid. In any case, China, as North Korea's unique partner and supporter, is the only country capable of taming North Korean aggressiveness. There are signs that, in a discreet way, China is doing precisely that.

A smooth transition

America does not want a military conflict in Asia. US pressure on China is largely aimed at deterrence. The US wants to promote restraint, transparency and dialogue on defense and security questions. Military contacts between the two powers, which China had suspended in 2010 because of US arms sales to Taiwan, have resumed. China's participation in the RIMPAC 2014 naval exercise (the biannual US Army war games in the North Pacific) has recently been confirmed.

US hegemony is giving way to a more economically equitable and politically multipolar world. From a military point of view, China could one day become stronger than the United States but, in this new international environ-

ment, no one country will enjoy absolute supremacy over the rest, as was the historical case of the Spanish and British empires, or even the US.

Today the world enjoys the most balanced distribution of power in recent history. This will remain so for the foreseeable future. However, the current balance of power might prove less stable. Radical nationalism thrives everywhere. Economic failure can bring radical ideologies to power. Industrial and military lobbies can push for destabilization. Irrationality has a strong appeal; any military commander with an easy trigger can cause sizeable damage.

In his book about the history of the Peloponnesian War, Thucydides wrote: "What made war inevitable was the growth of Athenian power and the fear which this caused in Sparta." Graham T. Allison, a political scientist and professor at Harvard, has coined the phrase "Thucydides Trap" to describe a situation where a rising power is feared by an established power, resulting in an escalation towards war. Allison says: "In 11 of 15 cases since 1500 where a rising power emerged to challenge a ruling power, war occurred." This was the case when Germany overtook Britain as Europe's largest economy, provoking two world wars.

If Athens' rise cannot be stopped, a peaceful accommodation remains possible, but only if Spartans have no fear.

UPCOMING EVENTS

- **January 3 – 5, 2014** The annual AEA/ASSA meetings will be held in Philadelphia, PA. EPS will host two panel discussions: Security Economics, and Costs and Consequences of Austerity. This year's EPS Annual Dinner will honor Jeffrey Sachs.

Please see the back page of this issue of EPS Quarterly for details, or visit <http://epsusa.org/events/events.htm>.

- **March 14 – 16, 2014** The 40th Annual Eastern Economics Association Conference will take place in Boston Massachusetts, at the Boston Park Plaza Hotel. Conference Registration Deadline: January 15, 2014; Hotel Reservations Deadline: February 15, 2014.

Conference details can be found at <http://www.ramapo.edu/eea/2014-conference/>.

- **June 19 – 20, 2014** The 18th Annual International Conference on Economics and Security will be hosted by the University of Perugia, Economists for Peace and Security (Italy).

For more information contact Luca Pieroni at luca.pieroni@unipg.it.

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CALL FOR PAPERS
14TH JAN TINBERGEN
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23RD -25TH JUNE 2014

We are pleased to announce that the 14th Jan Tinbergen European Peace Science Conference, annual meeting of NEPS, will be held on 23rd -25th June 2014 in the Hague at the **International Institute of Social Studies**, Kortenaerkade 2518, Den Haag, The Netherlands.

We welcome presentations that address any issue relating to peace and security broadly defined. As in the past, we strive for a multi-disciplinary program comprising contributions with a wide range of theoretical and methodological approaches, including strictly theoretical work, game theory and formal modeling, statistical and econometric analysis, qualitative studies, and experiments. Programs and lists of participants of previous editions are available at www.europeanpeacescientists.org/jtinbergen.html

All abstracts (150-250 words) with a tentative title must be submitted by **31st January 2014**

PhD students are eligible for the **Stuart A. Bremer Award**. Eligible papers cannot be co-authored with a senior researcher. The winner is rewarded with a bursary to attend the conference of the Peace Science Society (International). If you are a PhD student, please mention your status. List of previous winners is available at: www.europeanpeacescientists.org/sbremmer.html

Those who are interested in participating should submit their proposal including abstract, title, author' s name(s), affiliation(s) to the following address: conference@europeanpeacescientists.org

Conference fees are set to: 80 for senior researchers (NEPS members); 110 euros for senior researchers (non-members), 50 euros for phd students (NEPS members). 60 euros for Phd students (non-members);

Proceedings of the conference will be published on Peace Economics Peace Science and Public Policy. <http://www.degruyter.com/view/j/peps>

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Annual meetings of the Allied Social Sciences Association and American Economics Association January 3–5, 2014 in Philadelphia, PA

EPS will host two sessions
and a dinner in honor of Jeffrey Sachs

Friday, January 3, 2014 at 2:30pm
Security Economics (Panel discussion)
Philadelphia Marriott, Meeting Room 305

Panel Moderator: Richard Kaufman
(Bethesda Research Institute)

- Linda Bilmes (Harvard University)
- Michael Lind (New America Foundation)
- William Hartung (Center for International Policy)
- Cyrus Bina (University of Minnesota-Morris)
- Heather Hurlburt (National Security Network)

Saturday, January 4, 2014 at 10:15am
Costs and Consequences of Austerity
(Panel discussion)

Philadelphia Marriott, Grand Ballroom, Salon B

Panel Moderator: Allen Sinai (Decision Economics)

- Carmen Reinhart (Harvard University)
- Robert Pollin (University of Massachusetts-Amherst)
- Olivier Blanchard (International Monetary Fund)
- Susan Collins (University of Michigan)
- Robert Zoellick
(Peterson Institute for International Economics)

Saturday, January 4, 2014 at 6:30pm
Philadelphia Marriott Downtown
Dinner honoring Jeffrey Sachs
Host committee chaired by Richard Parker

Contact Thea Harvey for more information: theaharvey@epsusa.org

Summaries of EPS involvement at past ASSA/AEA Annual Meetings
can be found at <http://www.epsusa.org/events/aea.htm>