

Annexation Stability and Financial Markets

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Abstract

Throughout the course of history, annexation has littered the international scene as major powers exert their force in the takeover of smaller lands. Sometimes these takeovers are violent and others are not, but what we undoubtedly see is that annexation will be successful if economic indicators rise, post-acquisition. We will focus our attention to three prominent cases of annexation by major powers: Crimea, Kashmir and Hong Kong. We will briefly examine what our study suggests for Ukraine and Taiwan. Our first aim will be to arrive at a developed scenario analysis that identifies actions taken by governments to harmonize territorial integrity. The second aim is to identify the consequences of annexation from a financial pers. Results of this study suggest that financial conditions within the contested areas are an indicator of political stability and successful annexation. Regardless of external pressure from the international community, successful annexation can be achieved. Findings indicate that as overall GDPPC rises and property values rise, the contested area has support from local constituencies for annexation by the major power.

Keywords: Annexation, Real estate, Conflict, Economy, International, Financial

1. Introduction

Despite pressure from the international community, major powers continue to forcefully take over smaller states. We have been seeing annexation in one or form or another for centuries and the post-acquisition consequences are rarely studied. Over the past twenty years, we see that annexation has occurred in Crimea, Kashmir and Hong Kong. The aim of this case study will be to explore the political and financial consequences of these takeovers, so that we can better understand this phenomenon and how it might apply to the current state of affairs in Ukraine and Taiwan.

Previous research has studied annexation up to the point of takeover, and much has been studied on the events leading up to annexation. In 2014, Kugler successfully predicted that

Russia would succeed in the annexation of Crimea. Stakeholder analysis has shown the political likelihood of violence stabilizing. But what happens to these states post-annexation? That is the aim of this research. In this study we will pair international politics and financial markets together, to identify conditions and effects of annexation by major powers. We will conduct a complete political as well as financial analysis, to better understand the impact of annexation. The research will first employ a computational modeling assessment to show that contested areas can produce varying degrees of success for the annexation. This assessment will start by identifying all stakeholders, their stance, and influence. It will allow us to identify the most likely scenarios and possible consequences in each contested area.

After this initial political assessment is complete, we will move to a complete financial analysis of the regions. This financial analysis will look at data in three regions this study addresses: GDP per capita and property values. These three variables, will help us develop a comprehensive picture of the chosen economic indicators in each region. We will examine the impact of each indicator at the point of annexation. For the purposes of this study, annexation will be defined as the forceful incorporation of territory previously autonomous.

As previously mentioned, we will be examining all instances where annexation has occurred with a world power over the past two decades. The three cases involving the annexation of a smaller state by major powers, consists of: Kashmir, Crimea and Hong Kong. These three cases illustrate a process of annexation that is experienced continuously over time. We see that although there is a particular date where we can say this annexation occurred, the impact ripples beyond the actual event. In this research, we aim at considering the likelihood of successful annexation, given certain government action and resulting macro-economic effects. Understanding these actions, we will look at how each stakeholder is able to influence the outcome.

All of the cases involve an overwhelming powerful state confronts an extremely weak annexee. We will want to see how this smaller state is changed by being absorbed by this larger power, primarily in the economic and political sense. Our aim is to conduct a comprehensive, multi-case study to identify the trends that lead to a successful annexation, and to better understand how financial indicators help us to determine the political stability in contested regions. Each of these cases will allow us to see varying degrees of successful annexations. This will be an important contribution to research in this field, because it will suggest that successful annexation follows a repeatable pattern that can be applied across cases in the future.

As scholars have thought for some time, political and economic factors determine success or failure. Successful annexation can therefore, also be thought of in terms of politics and economics. We will use these two measures to determine the degree of success or failure. The first goal is to identify the level of political dissent - internal and international - immediately following annexation. We will accomplish this by examining the consequences and actions of each event. We will seek to identify the economic consequences that affect the annexee. In this study, we define “annexee” as the weaker state that is absorbed by the major power.

2. Method

The political analysis will be performed using an expected utility analysis that detects the level of confrontation and cooperation immediately following a political annexation. We will employ subject matter experts on each of the cases to generate the data used for each case study. This data identifies all stakeholders and defines their position on the question of annexation, their individual influence, their group affiliation's influence, and the salience of the issue to them. The subsequent data set for each crisis will then be ran into a simulation, which will produce potential outcomes in each case.

To assess the impact of economic changes, we will proceed by examining property values and changes in overall Gross Domestic Product per Capita (GDPPC). Data for each case will be collected, controlled for inflation and then used to calculate a few different statistics, which will allow us to better understand the degree of change in each measure.

We expect that there will be a positive GDPPC in the contested region will increase support for annexation. Rise in property values will also support annexation, but buying property in contested areas is risky, and continued resistance may cause the real estate market to suffer.

2.1 Political Analysis

In this study, we carried out political assessments of the level of confrontation between competing groups within the annexed region, and across to the international system. The data generated in each of these cases is available for review and duplication. The method used for these analyses include subject matter experts' examinations of each case, which help us to identify all key stakeholders involved. The complete list of all stakeholders can be examined by the reader. After identifying who plays an important role in each event, we define their position on the annexation. This information was used to generate a scale for analysis. Asking where each stakeholder stands on the issue, we form a scale between 0 and 100. We place each player somewhere on that scale. Then we start defining their influence, group affiliation and power in the conflict. These indicators allow us to map out where each agent stands in respect to the annexation, and truly allows us to see how their positions will influence the overall outcome of each event. We will examine these positions on a visual chart that will allow the reader to see where each stakeholder stands and how much influence they have over the outcome.

When examining each of these three cases, we see that the issue was always the same. We find ourselves asking, do the competing actors support the contested region's independence, or do they favor annexation by the large state? Answers varied in each of our examinations. The Crimean population supported Soviet annexation – but this move was opposed by the West and tacitly agreed to by China. This will pose an interesting question of whether or not external opposition really plays a part in the success or failure of annexation. We expect it does not matter, but further analysis will confirm or deny this hypothesis. In Kashmir, the majority Muslim population opposed integration into India supporting autonomy or an integration into Pakistan. The international community was mute. In this case we will see whether the internal population can stop an event from happening. Hong Kong is a more

complex as the dispute is over the level of autonomy within China rather than independence. In this case China has thus far acquiesced in large part to Hong Kong. Most recent events show us that the one country, two systems model will be dissolved by 2020. Uses the analysis of these three cases, we will develop a theory for future annexation. We posit that annexation by great powers follows a very simple path:

1. Successful political annexation requires support of the local population. International pressure is irrelevant.
2. Political annexation is contested and may fail without local population support. A consequence of local population is seen in rising property rights. International support is marginally relevant for great power annexation.

To test the above hypotheses, we will apply an Excepted Utility Model that has been successfully used to anticipate the short- and long-term outcome of complex negotiations by scholars in the field of international politics by Kugler, Feng and Abdollahian in studies that model the economic and political aspects of complex international interactions (Feng, Kugler, Swaminathan & Zak 2008), (Abdollahian, Yang, Coan, et al, 2013). This approach will use data generated by subject matter experts for each of the contested regions. We will run an analysis concurrent with the annexation of each region. As previously mentioned, data is obtained from established subject matter experts who identifying five key indicators – the stakeholders in the contest, the relative influence of each such stakeholder, the group to which they belong, the relative influence of each group, the relative influence of stakeholders within each group, the position stakeholders advocate on the selected issue and the importance they attach to the outcome. This data will be used to identify outcomes, opportunities for negotiations and bargaining with other stakeholders, and will ultimately help us to test each of the above hypotheses (Abdollahian, Kugler, Nicholson, Oh, 2010), (Terano & Naitoh, 2004).

2.2 Financial Analysis

Political and economic stability have a direct relationship with one another, and previous research shows that political instability has a negative effect on private investment (Feng, 2001). The second half of this study will be a complete financial analysis of each of the cases in question. By analyzing, key economic indicators, we believe that we will be able to establish a framework for thinking about annexation from a financial sense. Failure and success will be thought of in terms wider than politics alone. We posit that stability in the annexed region is achieved by sustained economic success. The universal macroeconomic indicator of GDPPC will need to be evaluated in order to monitor the general financial condition of the region (Everhart & Sumlinski, no date). By examining property values, we will have a feel for supply and demand in the contested areas and investor's readiness to spend money in the region. Examining property values will allow us to have insight in the projected economic growth and will serve as a proxy for overall financial performance in the region. We will test the following two hypotheses:

1. As GDPPC rises above previous performance, the annexed region successfully

integrates into the larger society.

2. As property values rise, the annexed region successfully integrates into the larger region

We expect to see that political instability undermines and eventually reverses the effects of economic success. The method for testing these hypotheses will be through analyzing data pre and post integration for each of the contested regions: Kashmir, Crimea and Hong Kong. This financial analysis will be composed of data visualizations, showing the trends over time of each of the three variables for each case. I will also include some summary statistics, showing the numeric values of each of the three indicators. We will examine the amounts of each variable, controlled for inflation and then perform a few different calculations to look at the percentage changes from the previous year, from the date of the event, and the overall rate of change from the date of the event.

2.3 Expected Utility Theory

Addressing issues of decision making, the field of international relations has employed various means for developing theories. Requirements for labeling options, assigning preference, identifying tradeoffs and stakeholders, has made this field very complex. This study will use an Expected Utility Theory, as a proven model for decision making. As Thompson points out, “national security-level decision making postulates that decision-makers typically utilize compensatory decision rules as they process information en route to a final choice” (Thompson, 2018). Our model will use Expected Utility Theory to analyze each case of annexation in our study.

Expected Utility Theory was developed by Bruce Bueno de Mesquita in 1981, and has been used by scholars to analyze policy since. As Kugler and Feng suggest in *International Interactions*, this model has its roots in median voter theorem (developed by Black in 1958) and the subsequent theory on expectations and conflict escalation (developed by Black in 1990) (Kugler & Feng, 1997). “This model is a powerful tool for applied policy analysis, capable of outlining solutions that the interested parties are unaware of by identifying appropriate strategies that can alter undesirable outcomes. On the strength of its axiomatic foundations and rigorous specifications, the model can be used for academic research in the fields of political science, economics, and sociology” (Kugler & Feng, 1997). We feel that utilizing this model will not only build upon previous research in the international relations field, but it meets the requirements for a complex decision-making structure needed for analyzing actions taken by governments to maintain territorial integrity through annexation.

Bueno de Mesquita explains that Expected Utility Theory, “remains faithful to the rational choice perspective that suggests that decision makers do what they believe is in their best interest. Decision makers are modeled as individuals with bounded rationality, who are not able to look ahead over an unbounded time horizon, but instead see only one move ahead of their current choice” (Bueno de Mesquita, 1997). Functioning under the assumption that decision makers are rational actors, our model will start by identifying all stakeholder, their stance on the issue of annexation, their influence (individual as well as group) and the

saliency of the issue to them. In doing so we will arrive at a fully developed scenario analysis that will allow us to predict the likelihood of a successful annexation.

Setting the precedent for this modeling approach, in 1985 Bueno de Mesquita, Newman, and Rabushka used the Expected Utility approach to forecast Hong Kong's future as it shifted hands from the Great Britain to China (Bueno de Mesquita, Newman, & Rabushka, 1985). In this book, it is explained that using Expected Utility Theory allows for the analyzer to truly grasp an understanding of the various policy choices that are available to decision makers and forecast decisions and their full implications. In building the Expected Utility Model for Hong Kong, Bueno de Mesquita et al, explain that "It is a parsimonious model that requires only data on the relevant political actors who seek to influence policy, the policy preference of each actor arrayed on the possible policy continuum, estimates of the relevant capabilities of each group, and the saliency each group attaches to each issue. These data are readily available from experts who study given countries or substantive issues" (Bueno de Mesquita, Newman, & Rabushka, 1985). Using this model as the basis for our research, we will expand upon it by applying it to the current annexation of Hong Kong by China.

In 2000, Kugler et al, also employed the Expected Utility Theory to forecast the future of Kashmir. In this research, the crisis of Kashmir was analyzed from the position of all key stakeholders. Implications were made for Pakistan, India and the US. Results of this analysis found that conflict in this region would linger. After the recent events of the 2019 annexation, an updated analysis is needed and this study will provide that. In 2014, the Crimea annexation was analyzed and predicted by Kugler, using the same Expected Utility Model we will employ in this study (Kugler, 2014). The accuracy of its prediction still stands today and we will update it with the results of this study.

3. Results

Crimea

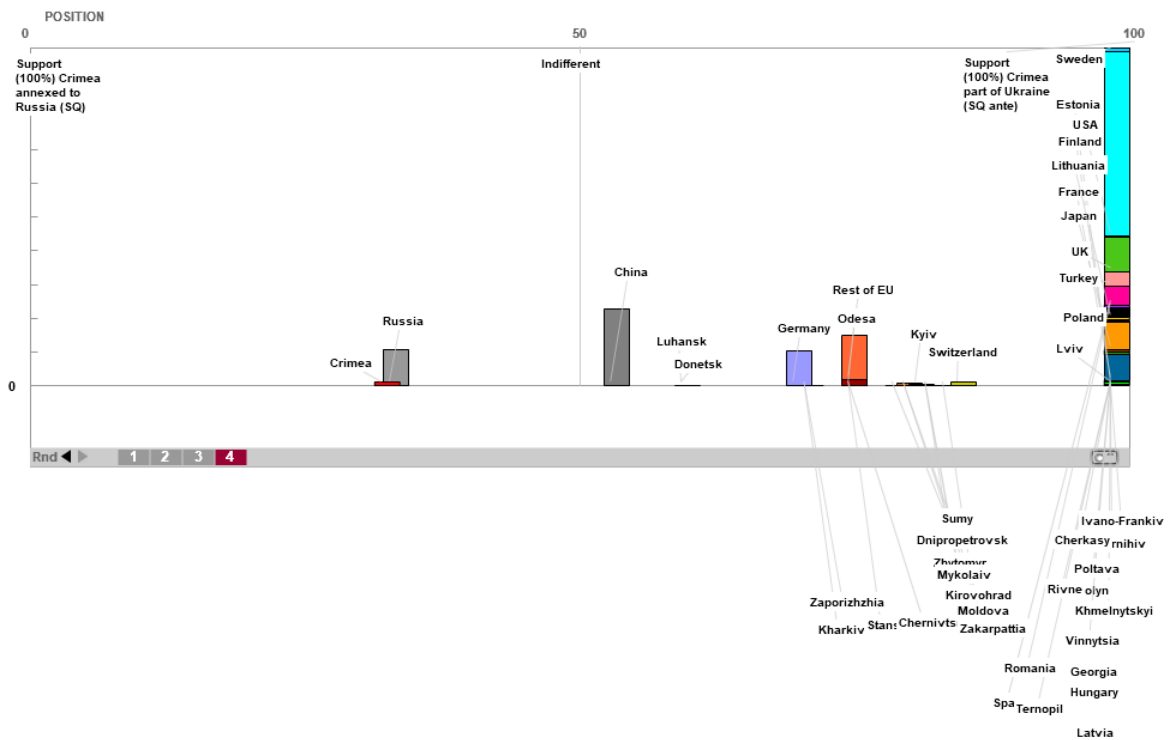


Figure 1. Political Analysis of Crimea showing stakeholders and relative positions on annexation

Kashmir

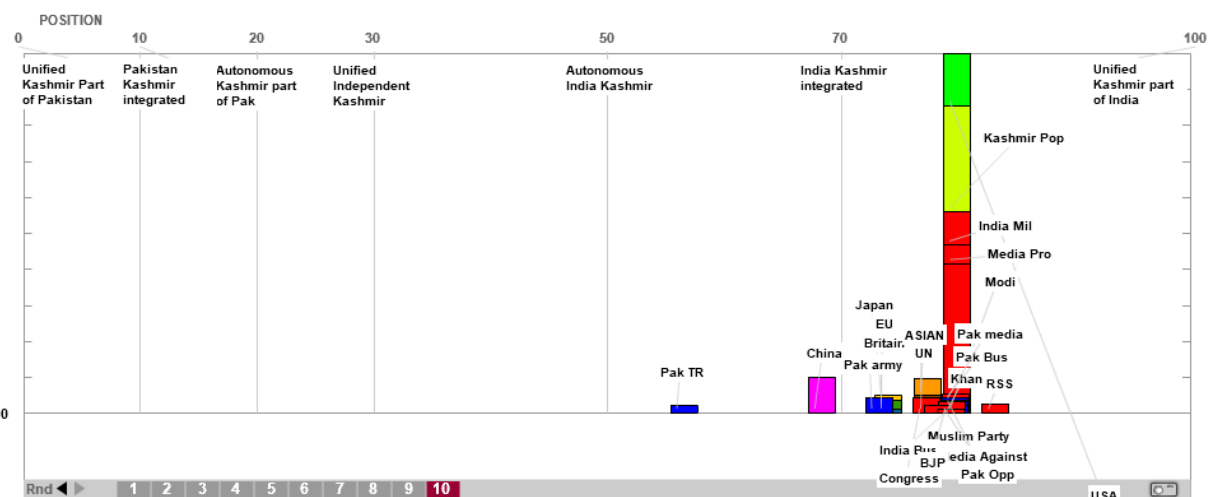


Figure 2. Political Analysis of Kashmir showing stakeholders and relative positions on annexation

Hong Kong

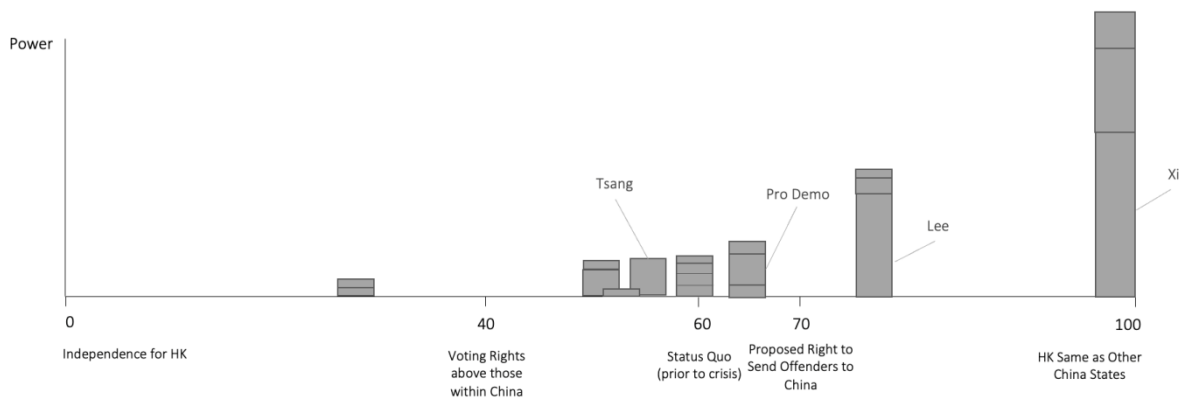


Figure 3. Political Analysis of Hong Kong showing stakeholders and relative positions on annexation

Building upon research by Kugler in 2014, this study updates the Crimea crisis for where it stands today (Kugler, 2014). Initial research from 2014, predicted that the annexation of Crimea would become the new status quo for Crimea, and we find that this was an accurate prediction. In 2014, the majority of the population supported the Russian incorporation and we find that this is still true. Even if there were some opposed to this annexation, Kugler’s research suggest that the Russian military would have the power to quiet any disturbances to this new status quo. The identification of external resistance to this annexation has been consistent since 2014. Members of the EU, UK and United States oppose Russia’s actions, but as we see from the results of the analysis, this does not seem to be very impactful on the success of the annexation by Russia. Crimea’s incorporation into Russia stands.

In the case of Kashmir, we see that Pakistan groups, China and Khan are on the side of the opposition. These stances range from wanting Kashmir to be unified with Pakistan to a slightly less strong position of simply integration. At the position of 30 (base case), we see the population of Kashmir that wants a unified independent state for themselves. We see that Asia, UN, Japan, UK, Media against, and the Muslim Party Congress are wanting an autonomous India Kashmir. India’s business group is between that position and wanting Kashmir integrated into India. Wanting integration with India, we see the stakeholders: US, India’s military, media that is pro, and BJP. Modi is close to that stance as well. Russia is on the far-right position. We see that over time Modi can persuade Khan, The Pakistan Military, Foreign actors and all India faction to accept the new status of Kashmir (R5-10). Once consolidation takes place, the only opposition will come from Kashmir rebels in Pakistan that have very limited support (R8-10). We expect that India’s annexation of its portion of Kashmir will not generate strong opposition from foreign actors, International Organizations and will be accepted by Pakistan Military and government. However, cross border terrorist activity and internal opposition within Kashmir may follow with very limited external support. In the final rounds 8 and 10, we show that most all agents have been moved towards India’s annexation of Kashmir. This analysis shows that Modi has the opportunity to move

stakeholder's away from opposing this annexation. There may still be some opposition from Pakistan TR, but even they move away from the position of Kashmir unifying with Pakistan. Overtime, there is an opportunity for Modi to move the population of Kashmir into support for integration into India and closer to Kashmir being unified with India. If this local support occurs, the chances of India's annexation of Kashmir becoming the status quo is more likely.

In the analysis of Hong Kong, we saw that all parties were stuck in their positions in the initial rounds of the simulation. The analysis does show a slight opportunity for the opposition to emerge, but it is very quiet. We see that there was no movement from Round 1 to round 3. This indicates a stalemate. The median position is at 100. Therefore, Beijing can impose its policy – as they eventually did. We see that none of the pro-democracy actors move towards the new imposed status quo indicating continued resistance. China can impose politically. We see that contiguity helps (unlike Panama) because the relative size of the parties is massively disproportional.

3.1 Description of Financial Data

In the case of Crimea, data is examined for the period of 2005-2018, which will give us a reasonable sample from both prior to and post, annexation which occurred between February and March of 2014. We examined the Gross Regional Product per Capita from both the Ukrainian and Russian Federal State Statistics Websites: Ukrstat and Rosstat. The 2005-2013 data was from Ukrstat, because this was the period of time that Crimea was monitored by Ukraine. The 2014-2018 data is from Rosstat, because this was the point at which the annexation had occurred and Russia began to record statistics for the state. The data used for GRPPC was controlled for inflation using the GDP Deflator from 2018. The data generated for this study is therefore referred to as constant 2018. The definition of GRP is: “Gross regional product (GRP) is a general indicator of the economic activity of a region that characterizes the process of production of goods and services for final use. At the same time, GRP is the gross value added created by residents of the region, and is defined as the difference between output and intermediate consumption, GRP is calculated at current basic prices and at constant prices. Key prices include production prices for the industry, subsidies on products, but exclude taxes on products” (data.gov.in).

Data from the 2006-2013 period was obtained from Ukrstat, the Ukrainian statistics site. The 2014-2018 data was from Rosstat, the Russian statistics site. To examine the real estate market in Crimea, we looked at data from the Federal State Service on House Prices on the Secondary Market and REM Navigator. The data from 2008-2013 was obtained from REM Navigator for the period where the region was Ukrainian and then the 2014-2018 data was from Rosstat.

For Kashmir, we will examine Gross State Domestic Product per Capita for Jammu and Kashmir that is available at the StatisticsTimes Website. Real Estate data will be obtained from the government website for Jammu and Kashmir, under the land rates subset. We will look at Average Real Value of Residential Plot per Kanal. All data for Kashmir will also be controlled for inflation, using CPI (Consumer Price Index).

For Hong Kong, we will examine the Gross Domestic Product per Capital and Gross Capital Formation data available from the World Bank and Census and Statistics Department of Hong Kong, and for the housing market, we will look at the house price data from Bank for International Settlements (Bank for International Settlements, 2022). All data will also be controlled for inflation using CPI (Consumer Price Index), as in the previous case studies. The World Bank defines GDPPC as: GDP per capita is gross domestic product divided by midyear population. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant local currency” (World Bank). 2021 data was obtained directly from the Census and Statistics Department of Hong Kong. The data for this study was collected from Census and Statistics Department of Hong Kong (Censtatd).

3.2 Results (GDPC)

Crimea



Figure 4. Crimea’s Gross Regional Product per Capita for 2005-2018 (constant 2018)

Kashmir

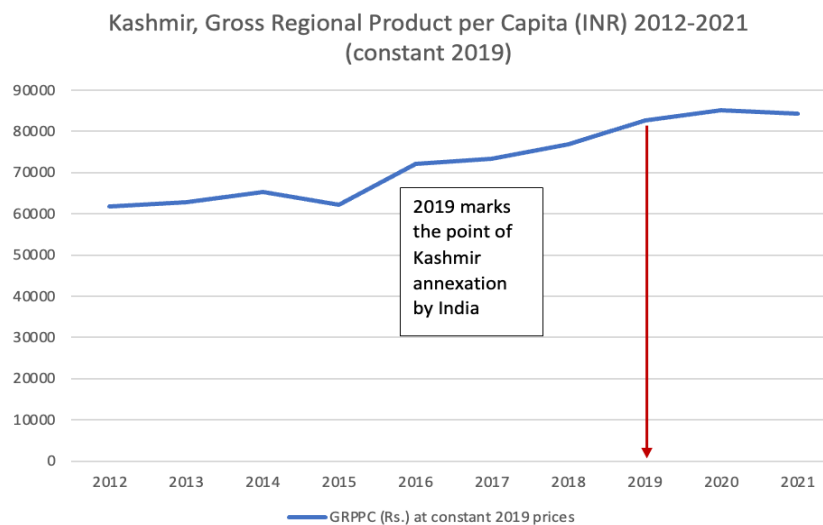


Figure 5. Kashmir’s Gross Regional Product per Capita for 2012-2021 (constant 2019)

Hong Kong

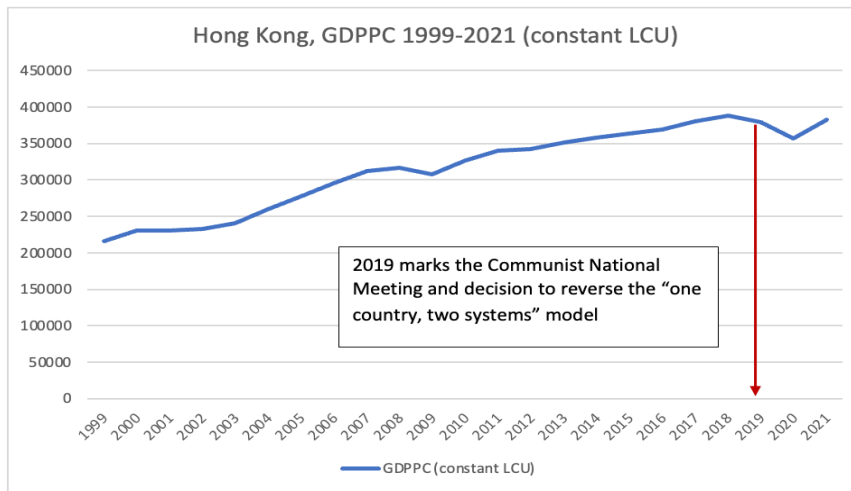


Figure 6. Hong Kong’s Gross Regional Product per Capita for 1999-2021 (constant LCU)

3.3 Results (Property Value)

Crimea

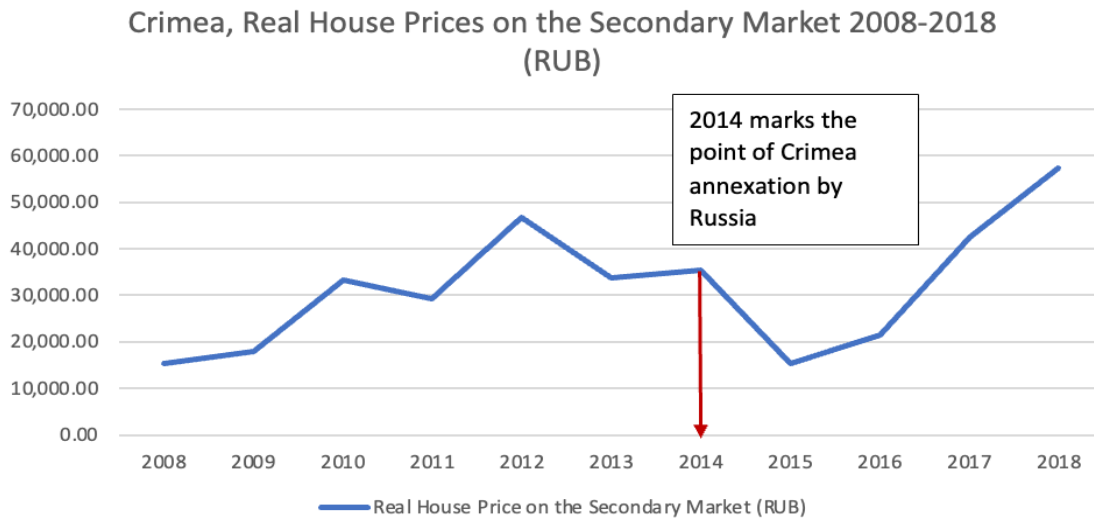


Figure 7. Crimea’s Real House Prices on the Secondary Market for 2008-2018 (RUB)

Kashmir

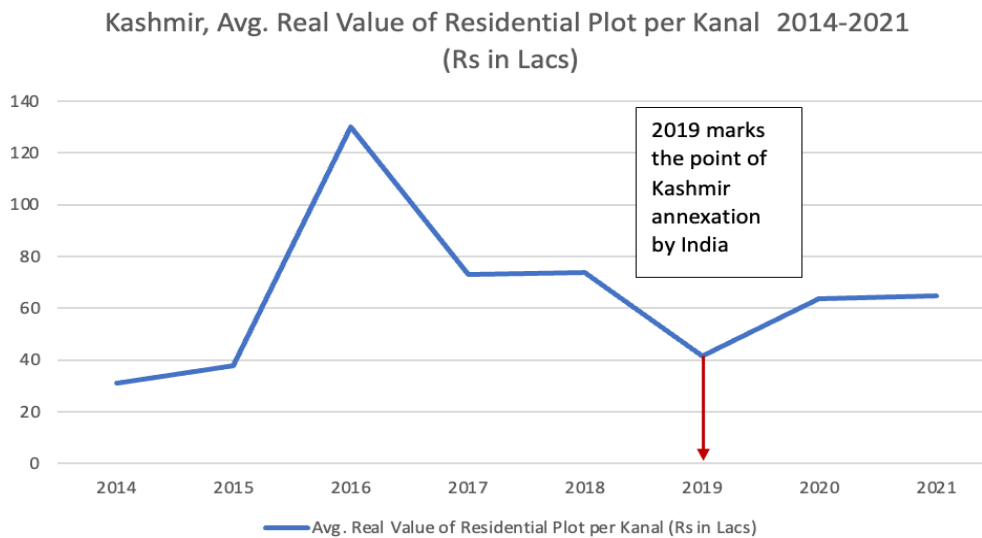


Figure 8. Kashmir’s Average Real Value of Residential Plot per Kanal 2014-2021 (Rs in Lacs)

Hong Kong

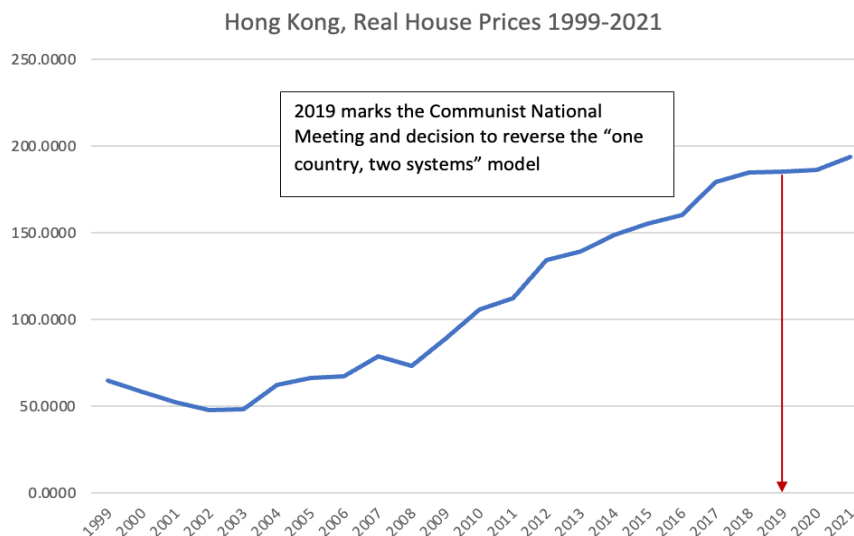


Figure 9. Hong Kong’s Real House Prices from 1999-2021

4. Discussion

Expanding on the results of this analysis, we find that three primary points can be drawn. First of which, is that the support of the local population seems to be the strongest determinant of successful annexation. The reverse is also true, if political annexation is contested, it may fail without this domestic support. The second point identified, is that results confirm that international support is only marginally relevant. Although strong international opposition may exist, with the support of local populations, this opposition

simply does not matter. Finally, we find that as annexation stabilizes and becomes the new status quo, the economy rises. Generally, GDPPC grows and we see property values rise. The market may experience an initial dip in real estate, as potential purchasers are unsure of the annexation, but quickly within one to two years, the market rises well above pre-annexation. We expect that without this strong local support for the annexation, resulting in an unsuccessful annexation, the economy suffers. This can be seen in the unstable period in Hong Kong between 2015-2019. Economic declines are followed by strong local opposition to the annexation. We think this will be a telltale sign of internal difficulty—politically and economically. Another interesting observation can be seen when looking at investment data. In the appendix, data will show that there is a dramatic increase during the conflict period. This surge in investment contributes to the stabilization of the region and once the violence ends, we see the investment levels drop.

4.1 Conclusion

This research aims at understanding annexation and its full impact in the nuclear era. Unlike other studies, this one seeks to tie the two worlds of financial markets and politics together, by exploring the consequences of annexation in a political and financial sense. We began this study with a brief review of historic cases where annexation was successful and when it was not. We found that in cases such as the Panama and Suez Canal, when contested areas have independent self-sustaining wealth, major powers fail at annexation. In contrast, when smaller areas are weaker and will financially benefit from annexation, the major power is successful, as in the case of Hawaii.

We have also explored the topics of negotiation, bargaining, influence, and have arrived at a fully developed scenario analysis of the likelihood of integration in the three major cases of annexation. This political analysis provides the foundation for this study, but by exploring the economic consequences as well, we have provided a cross-disciplinary approach to understanding and defining success in annexation. We have accomplished this by looking at the fully financial implication from the stand point of the smaller region and the dominant power. We see how this impacts the economy, in relation to property values. Our goal has been to push research forward for policy makers by providing recommendations and implications for all parties involved in annexation and this has been accomplished.

The premise of this study was to test the hypotheses laid forth for political and financial analyzes. We have confirmed that successful political annexation requires support of the local population. International pressure is irrelevant. In addition, this study confirms that political annexation is contested and may fail without local population support. The support of local population results in rising property rights. International support is marginally relevant for great power annexation.

From a financial perspective, our results are confirmed that as GDPPC rises above previous performance, the annexed region successfully integrates into the larger society. As property values rise, the annexed region successfully integrates into the larger region. This study points to the fact that there is a hidden opportunity in this annexed region. We see that the first few years immediately following a successful annexation, many investors are afraid to

purchase real estate. This may briefly allow for a dip in the market, where we might suggest this is a great time to invest, despite what others may be thinking.

Our research has set the groundwork for future innovation. We hope that scholars begin to look at annexation in a more holistic and cross-disciplinary manner after reading this study. In applying the framework, we have laid out, natural implications arise for Taiwan. Given the events in Ukraine that have mobilized the West, the annexation of Taiwan may be more difficult. The Chinese annexation would require military action in excess of the action we saw in the Russian annexation of Crimea. As far as the crisis in Ukraine, we expect to see the financial theory stand. Property rights and GDPPC drive political stability. This market-oriented theory, explains why Crimea has stabilized after the Russian annexation. As the economy thrives in an annexed region increases, the stability of that state also increases. The market drives the stability and success of the annexation. The same principle will stand in the potential annexation of Ukraine.

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Appendix

Appendix 1

A Brief History of Each Case Study

The following case studies provide context for each of the contested regions analyzed in this paper. Although the aim of this research is not to examine the reasons for annexation but rather the consequences of, it is still important to understand the background on each conflict we examine.

Crimea

Located in east Europe, Crimea is a small region nestled between the Black Sea, Ukraine and Russia. This territory has gained much international publicity in its annexation by Russia, and it is often thought of in two parts. The first being the Republic of Crimea and the other being the federal city of Sevastopol. Both parts of the territory were incorporated into Russia as the 84th and 85th Federal Subjects of the Russian Federation (Tass, 2019). Despite internal sentiments of the people of Crimea, the UN as well as the West has been rather vocal on their dissatisfaction with Russia's aggressive maneuvers to reclaim Crimea from Ukraine's control (United Nations, 2014).

Crimea was initially annexed by the Russian Empire as a consequence of the Russo-Turkish War in 1783 (Anderson, 1958). However, after the Russian revolution Crimea was an independent state in 1917. WWII had devastating effects on the Tatars in Crimea, as many of these native Crimeans were sent out of the country to central Asia. This mass deportation is now actually recognized as an act of genocide (Thomas, 1993). During 1954, Crimea came

under the control of Ukrainian SSR but when the Soviet Union collapsed in 1991, Crimea was once again to experience independence. Shortly after the collapse, in 1997, the Partition Treaty allowed Russia to continue basing their fleet in Crimea and this foreshadowed the future Russia held in this region (Michel, 2015). After the Ukrainian Revolution in 2014, Russia seized the opportunity to regain control of Crimea (Tass, 2019). Russia was criticized by the United Nations and the United States for this violent acquisition of Crimea (United Nations, 2014). Despite international criticism, Russia holds to the fact that a referendum was held regarding the reunification with Russia and the results stated the majority of Crimeans were in favor of joining Russia again. The United Nations refuses to recognize this vote, and many have said that the referendum was not legal. Regardless of outside opinion, Crimea was fully integrated with Russia in March 2014 (Tass, 2019).

Since this absorption into Russia, public opinion in both states has been strongly in favor of the Russian government. Elections are held for Crimea and Russia continuously wins the majority of the seats in parliament. There has been a small movement amongst the Tatars to abstain from these elections, but this voice seems to be in the minority and the movement has not gained much traction.

Kashmir

Kashmir has been the cornerstone of conflict in the east, since the end of British rule in 1947. With the formation of Pakistan and India, the two states have not seen eye to eye on who would control this region nestled between the Himalayas and the Pir Panjal Range (RT, 2019). Despite attempts at multilateral diplomacy and democratic ideology, the people of Kashmir have yet to formally cast a vote on their preferred alignment (Welle, 2019). Meanwhile, brutality and human rights violations continue in the region (Kazi, 2014). India currently controls Kashmir, and their latest announcement of dominance in the region was met by a devastating terrorist act in 2019 (BBC, 2019). The international community continues to watch as these two nuclear equipped countries continue to struggle to reach an agreed upon solution.

The Kashmir Valley is a largely Muslim territory, which has led to their reluctance to wanting to join the Hindu led India. With a population of approximately 4 million people, 95% are Muslim where only 4% are Hindu (BBC, 2020). With such a majority of the territory practicing the Muslim faith, Pakistan has made the argument that Kashmiris are better aligned to their state, although many have speculated that joining Pakistan may actually weaken their standing in the international system (Abi-habib, M., Mughal, J.; Masood, S., 2019). Understanding the positions of each opposing state, one can see that solving this territorial dispute is not an easy one. The UN has had several failed attempts at trying to put this issue to an official vote and the people of Kashmir have not had the ability to formally voice their majority opinion (Subbiah, 2004). While the voice of Kashmir remains largely unheard, India claims that Pakistan has supported rebels and terrorism in the territory. They claim that Pakistan is spreading anti-India propaganda in the region and has attempted to stir rebellion in Kashmir multiple times (Global Conflict Tracker, 2020). While Pakistan claims that India is themselves committing human right violations, despite the fact that they have not been

formally acknowledged or investigated (Kazi, 2014). To complicate matters further, China also controls the Aksai Chin region, and claims that this is not a part of the Kashmir territory since their victory over India in 1962 (The Brookings Institution).

The Kashmir Valley has been the battleground where Pakistan, India and China have waged war for the majority of the 20th century and it continues today. The Indo-Pakistan War of 1947 marked the first official war of the territory and led to failed UN mediation on the issue (Shapiro & Fair, 2010). The UN established a commission to address the issue, called the United Nations Commission for India and Pakistan (UNCIP), and this council passed Resolution 47 in 1948 where they called for a cease-fire (Peacekeeping, 2020). The UNCIP asked for Pakistan and India to stop the use of military force in the region and hold a plebiscite where the accession of the state to India or Pakistan could be formally voted on. Both states failed to heed the direction of the council and a pattern of disagreement was established. This was followed by a failed attempt at demilitarization set forth by the Dixon plan and a military standoff in 1950 (Noorani, 2002). India and Pakistan continued to accuse the other of ill-intended motives and India backed out of holding a plebiscite. Violence was again heightened in 1962, but this time it was between China and India in the Sino-Indian war over Aksai Chin. China won this war and continues to control the territory today (Desk, 2018). Shortly after the Chinese victory, Operation Gibraltar was launched in 1965 and Pakistan attempted to lead a covert operation to enlist Kashmiris to unite in a rebellion against the Indian government using guerilla warfare techniques that they had seen used by the United States. However, this operation failed to mobilize a Kashmir resistance movement and many of those involved in the operation were actually turned into the Indian government by Kashmiris (Khan, 2015). In 1971, the Indo-Pakistani War led to a victory for India and a resulting recognition of Bangladesh as an independent state (Pike, 1971). This weakened the Pakistani position further and they ultimately surrendered. A summit was conducted in Simla, where the Simla Agreement was signed by both sides. During this summit, India advocated for peace and the two states agreed on settling their disagreements with the use of bilateral diplomacy and to honor the agreed upon Line of Control. The two states agreed to meet again to establish a final solution on the issue, but the meeting was never held and both sides proved to have a different understanding of the role the UN would play in the future (Mea.gov, 1972).

While surrounding states were taking up arms to decide the fate of Kashmir, an internal rise of Kashmiri nationalism was developing. Jayaprakash Narayan's letter to Nehru on May 1, 1956 clearly illustrates the sentiment of the Kashmiri people, "From all the information I have, 95 per cent of Kashmir Muslims do not wish to be or remain Indian citizens. I doubt therefore the wisdom of trying to keep people by force where they do not wish to stay. This cannot but have serious long-term political consequences, though immediately it may suit policy and please public opinion" (Noorani, 2006). As their voice continued to be ignored, the revival of the National Conference began in 1975 and continued until 1983, when the separatist and Islamism developed in 1984 (Bakaya & Bhatti, 2020). In the late 1980s, state elections occurred in Kashmir but to the disappointment of many onlookers, these elections were said to have been rigged by the Indian government. In 1999, the conflict in Kargil

between Pakistan and India left the international community scared that a nuclear outbreak would occur and President Clinton asked Pakistan to withdraw to end the conflict. A letter from Al-Qaeda leader, Osama bin Laden addressed the American people on the US support of India on the Kashmir conflict and cited this as one of the reasons he was fighting the US (The Guardian, 2002). Adding this terrorist undertone to a potential nuclear war, helped this Kashmir conflict to gain international attention in the 2000s.

In February 2019, a devastating terrorist act resulted in a suicide bomber from a Pakistani Islamic militant group, Jaish-e-Mohammed, killing over 40 Central Reserve Police Force (CRPF) members (Bhattacharjee, 2020). This resulted in the US voicing a public condemnation of the act and their assistance to India on counterterrorism efforts. A few months after this attack, Amit Shah announced that India was lifting the somewhat autonomous status that Kashmir previously had. This was followed by an internet blackout imposed on Kashmir by India, and it was only recently lifted in February 2020 (Al Jazeera, 2020). This block on communication has made it difficult for Kashmiris to communicate with the international community, and has again silenced their voice. As Kashmir continues to be controlled by India, Pakistan has continuously sought international support in resolving the issue. Recently, Pakistan reached out to President Trump to appeal for US assistance on the issue (Afzal, 2020).

Hong Kong

Hong Kong has been a sought-after territory for many states attempting to increase their influence in the East. From 1842, to the better majority of the 20th century, Hong Kong bounced between China, the United Kingdom and was even occupied by the Japanese for a short stint (BBC, 2019). In 1997 the Sino-British Joint Declaration called for Hong Kong to be officially transitioned from the United Kingdom to China, but it called for certain stipulations that were agreed upon by both sides. The declaration made Hong Kong an independent administrative unit of China, ruled by Hong Kong's Basic Law. This semi-autonomous status was agreed upon by both China and the United Kingdom. Shortly after the hand-over was complete, conflict began. A movement of advocating for democracy began to emerge in Hong Kong and created an anti-Chinese sentiment. For many years, China took a hands-off approach and allowed Hong Kong to function in a semi-autonomous manner, but this has changed. Attempts to incorporate Hong Kong into mainland China have been met with much opposition. Protests in Hong Kong drew the attention of the international community, as tension in the region was previously growing (pre-coronavirus) (Reuters, 2020). China's position is that Hong Kong will eventually be integrated into mainland China, despite the sentiments of Hong Kong nationalists.

After the transition from British to Chinese leadership, Hong Kong and China have implemented a policy coined the "one country, two systems" approach. Opinions on this approach vary among the residents of Hong Kong. Those who support integration with China favor the one country aspect of this approach, and feel that aligning themselves with mainland China will bring stability to the region. It is no surprise that those who sit on the other side of the argument favor the two systems aspect of this approach, and want the

sovereignty of the Hong Kong administrative unit to remain autonomous. Many of these supporters are advocating for a transition to more democratic policies and freedom for the people of Hong Kong (Wong & Mak, 2019).

For many years China ruled Hong Kong, but the Qing Dynasty of 1842 shifted this. The United Kingdom began their reign of the region shortly after, and the Treaty of Nanking sealed this change in power. For a brief period between 1941 and 1945, Hong Kong was occupied by the Japanese. In 1972, China requested that the United Nations take Hong Kong off of their list of non-self-governing states. This signaled a change in the autonomous status that Hong Kong had been accustomed to. By 1997, China officially regained control over Hong Kong but the British agreed to this under the stipulations agreed upon in the Sino-British Joint Declaration (BBC, 2019). Many of the residents of Hong Kong were optimistic when the power shifted to China, because there were some promises that were initially made. China had agreed to keep Hong Kong's independent economic, legal and political system, with the aim of eventually achieving a democratic government (Wong & Mak, 2019).

China allowed the island their autonomy during the initial transition; however this eventually began to change. Their hands off approach shifted over time, and attempts at a more democratic government were shot down. As the first decade of the 2000's came to an end, tension between Hong Kong and China intensified. Hong Kong nationalism grew, as China attempted to gain influence over the territory. Travel between mainland China and Hong Kong was made easier as the Individual Visit Scheme was introduced and the Guangzhou-Shenzhen high speed train was built, to allow travelers to easily commute from Beijing to Hong Kong. The Chinese government produced a report in 2014, which stated that Hong Kong should no longer have an independent judiciary system and they should be fully integrated with the Chinese system. This stance made it clear that China had little interest in upholding the promises made in the Sino-British Joint Declaration, and they would not support Hong Kong's desire to move to a democratic system. Hong Kong nationalists were incited, and a heightened desire for independence grew among local groups. Many Hong Kongers began to feel their identity was being taken from them, as their economic and political freedom began to be questioned.

With the Umbrella Revolution erupting in 2014, Hong Kongers began to express their concern through protests (CBBC Newsround, 2019). By this point, it was clear to the international community that China had every intention of dissolving their boundaries that stood between them and Hong Kong. The Chinese police forces in Hong Kong have not responded well to the protests of young nationalist groups, and in 2019-2020 the clashes caught global attention (Reuters, 2020). The widespread sentiment among Hong Kong protestors is that the Chinese government is eroding their legal system and forcing them into conformity with the rule of law in mainland China. This view was exaggerated with the Fugitive Offenders Bill in 2019, which led many people to fear that China would use this bill to ultimate any political opposition (Mayberry, 2019). Protesters in Hong Kong have gathered in masses, and observers have indicated that approximately two million people have been involved in the marches. These protests have only slowed down due to the spread of the

Coronavirus in January and February of 2020 (Davidson, 2020). The civil unrest in Hong Kong has led to instability in the economic and business landscape in Hong Kong (Scmp, 2020). The economy was pushed into a recession in 2019 and the stock market has been declining (Worldbank). The Chinese government has attempted to censor the media in mainland China from much of the protests in Hong Kong, and for a while they were ignoring much of the riots. Recent voices from China indicate that their characterization of the events in Hong Kong have been colored by a condemnation of the protestors and a sentiment that the West may be spreading misinformation through media channels (Yang, 2019).

Appendix 2

Results (Investment)

The below analysis shows results for investment in each contested region. We see that the major power initially boosted the annexee’s economy with an influx of investment, that eventually trails off post-annexation. The investment spikes are either immediately before the annexation (Hong Kong), immediately following the annexation (Crimea), or the actual year of the event (Kashmir). Although these findings are interesting, they seem to be an indicator of an investment spike that is not substantive for the theory of this work or long-term stability in the contested region.

Crimea

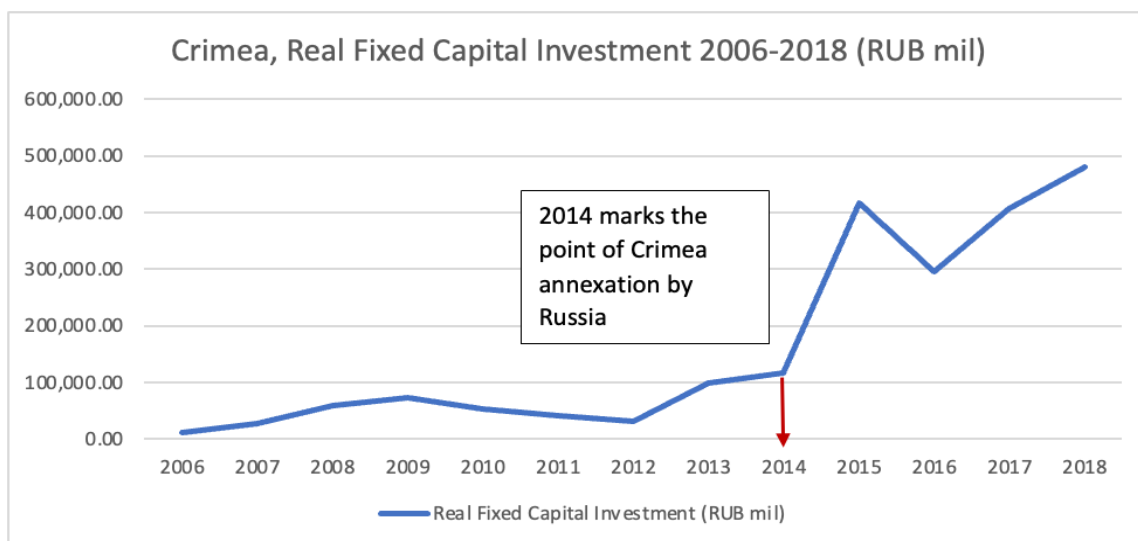


Figure 10. Crimea’s Real Fixed Capital Investment 2006-2018 (RUB mil)

Kashmir

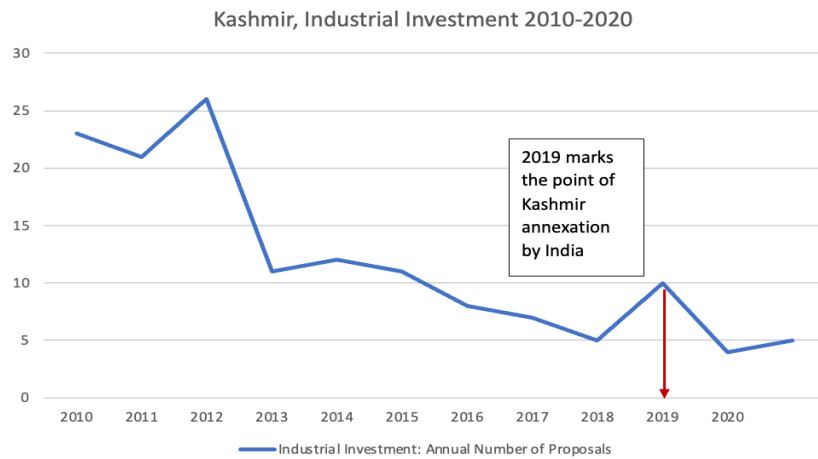


Figure 11. Kashmir’s Industrial Investment for 2010-2020

Hong Kong

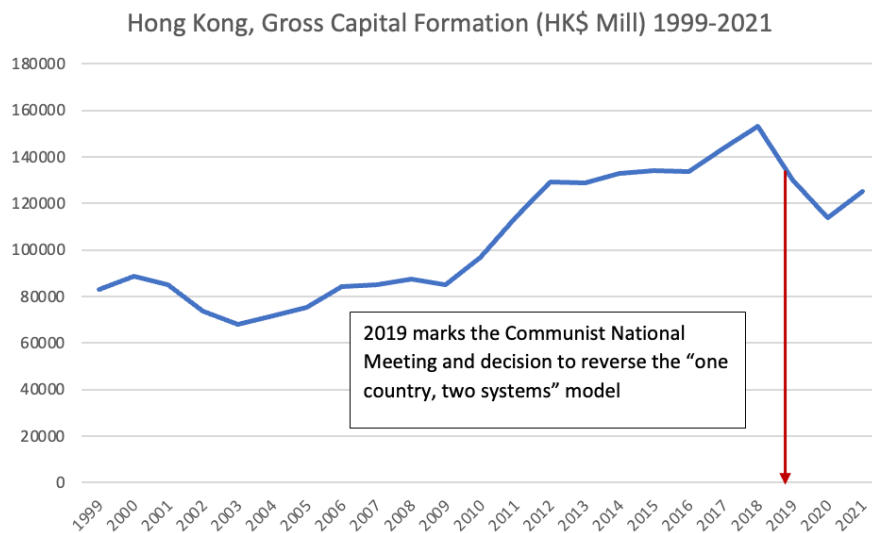


Figure 12. Hong Kong’s Gross Capital Formation (HK\$ Mill) for 1999-2021

For exhaustive list of all references or data in Appendix 1 and 2, please refer to: Khederlarian, 2020 dissertation: The Consequences of Annexation on Financial Markets or contact the author directly.

On behalf of all authors, the corresponding author states that there is no conflict of interest.

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