Unstable Peace in the Pacific

https://www.e-ir.info/2011/05/22/unstable-peace-in-the-pacific/

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In discussions of U.S. hegemony in the Asia-Pacific, China looms large. Its meteoric rise has accelerated growth and brought billions of dollars of investment to the region. However, the United States—along with many of China's neighbors—have cautiously embraced China's rise, and despite a shared interest in preserving a stable environment for growth, tensions in the region have been on the rise and the potential for strategic rivalry in the long run remains high.

The two powers share a number of common interests, such as promoting a stable Korean peninsula as well as fighting terrorism and other non-conventional security threats. In addition, as the top two emitters of carbon dioxide, they share responsibility on environmental initiatives.[1] While these concerns certainly factor into the decision making of each side, the greatest common factor between the U.S. and China is their intertwined economies. The effect of this interdependent relationship has helped preserve peace in the region, but it is important to recognize that this same economic interdependence carries the potential to act as a destabilizing influence.

Economic development is a key pillar of Chinese foreign and domestic policy. Deng Xiaoping, a champion of market reform in China, believed economic growth to be more important to Chinese stability than ideological or political concerns. He emphatically argued that "no matter how the international situation changes, so long as we can ensure appropriate economic growth, we shall stand firm as Mount Tai."[2] More recently, President Hu Jintao's "Harmonious World" policy, officially laid out at the 17th Party Congress, explicitly endorses the current system of international norms and calls on all countries to work together to "advance economic globalization."[3] For decades, Beijing has made economic development of paramount importance.

One reason for this importance is that economic development plays a key part in maintaining the current regime in China. German theorist F.W. Scharpf differentiates between two types of political legitimacy; popularly mandated and institutionally granted "input legitimacy," and performance based "output legitimacy." [4] In China's case, "economic reform has preceded political reform, and the CCP's legitimacy derives from its commitment to economic development.[5] While China has re-emerged as a powerful player in the international arena, its focus remains directed inwards as it struggles to balance its rapid growth with increasing inequality and social unrest. China's economic rise has been facilitated by the regional security provided for by the United States since the end of Cold War hostilities in the region. Ashely J. Tellis, former advisor to the Undersecretary of State for Political Affairs and senior policy analyst at the RAND Corporation, similarly states that American protection provided a "stable security environment" which allowed Asian states to "mitigate the most acute tradeoffs between guns and butter."[6] U.S. hegemony has allowed China to benefit from globalized trade without having to incur costs for maintaining the necessary stable environment. In a 2008 diplomatic cable from the Beijing Embassy, U.S. Ambassador Clark T. Randt recalls a conversation with an unnamed Chinese party: "when it comes to the basic Chinese interest in securing energy supplies and raw materials for our economic growth, free-riderism works for us right now."[7]

This is not to say that the U.S. has not also benefited from globalization in Asia, the situation is a win-win for both countries. Although much has been made of the trade deficit between the two powers, since its admittance to the WTO and subsequent lowering of tariffs, China has been the fastest growing market for U.S. Exports.[8] In addition, China's growing economy "affords a rare opportunity to for U.S. Businesses" and its growing dependence on the outside world as a source of wealth is seen to have strengthened relations with the Western world.[9] The sentiment that increased trade and involvement in multilateral organizations has diminished the chance of conflict is one shared by many liberal scholars and is sometimes paired with the spread of democracy in what has been named the "Kantian Triangle."[10] By involving China in the globalized international system, the US has gained access to a dynamic foreign market and has also invested China in the status quo.

Considering the primacy of economic development in Beijing's decision making and the shared benefits of globalized trade, as China continues to focus on internal development over the short to medium term—10 to 15 years—it is unlikely that they will risk challenging U.S. dominance in the region by engaging in a serious strategic rivalry. In my opinion much of the pacifying influences of interdependence and China's investment in the U.S.-led status quo will continue as long as internal economic development remains Beijing's top priority. However, globalization can be a double edged sword and the remainder of this paper will address some of the less harmonious implications of economic interdependence between China and the United States. Of particular concern are how Beijing's interests will change as it develops, the influence of volatile domestic politics in both countries, and the unstable nature of the U.S.-China debtor-creditor relationship.

As discussed above, the win-win nature of Sino-American economic relations can act as a stabilizing influence. The U.S. is China's top trading partner and for the U.S., China is second only to Canada.[11] Also, China receives billions of dollars in interest payments on its $1.2 trillion of U.S. treasury bonds, which allows the U.S. government to finance a great deal of its budget.[12] Trade-conflict researcher, Solomon Polachek bases his argument for the pacifying effect of trade on the costs of any potential conflict:

the price of being belligerent is an implicit price that increases with the level of trade. Ceteris paribus, the greater the amount of trade, the higher the price of conflict, and the less the amount of conflict that is demanded.[13]

While Polachek's conclusion certainly speaks to the current cost-benefit analysis, it does not anticipate how uneven relative gains may influence decision making, or how factors outside of the trade relationship may override the cost of belligerence. Grieco, another prominent voice in the trade-conflict debate, addresses the problems posed by relative gains:

…most states concentrate on the danger that relative gains from joint action may advantage partners and may thus foster the emergence of what at best might be a potentially more domineering friend and at worst could be a potentially more powerful future adversary.[14]

This is a sentiment echoed by Tellis who sees Washington as being in the "awkward position" of facilitating the economic rise of what could be its "most significant geopolitical rival over time."[15] Uneven gains create tension, especially if Washington feels that trade with China is only diminishing its own status, and can easily transform shared economic benefit from a pacifying to antagonizing factor.

Another area that receives a great deal of attention is the large amount of U.S. treasury reserves held by the Chinese government, currently estimated at $1.2 trillion. This massive investment in the U.S. dollar has tied the American and Chinese economies even closer, but it has created its own tensions as well. Currency valuation plays a key role in the relations between the two countries. Given China's massive holdings in U.S. treasuries, it has an incentive to keep the value of the dollar high while its export oriented economy benefits from its tightly managed—and some would say artificially depreciated—renminbi. For years, U.S. legislators have been calling for Beijing to appreciate its currency—often with threats of punitive measures—in an effort to decrease the trade deficit and minimize the cost of its debt to China.[16] Bowles and Wang articulate the problems of disagreement over monetary policy that could lead to an undermining of the U.S. dollar.[17] They explain Beijing's resistance to U.S. monetary pressure as a result of previous Asian crises:

…many Chinese policy makers see the 1985 appreciation of the yen as part of the Plaza Accord as being directly responsible for the emergence of the bubble economy which burst in 1989 and ushered in a recession from which Japan has yet to recover… by forcing an appreciation on Japan as a result of its 'financial hegemonism', the US was able to obtain ten years of economic prosperity. Now…China is being faced with pressures to revalue as a result of the new financial hegemonism of the US and Japan.[18]

While the U.S. argues that readjustment is simply part of "burden sharing" in the international economy, Chinese leaders feel that the U.S. is not doing its part and is trying to increase its relative gains by forcing the costs of readjustment on other countries. The pair concludes that it is not difficult to imagine a frustrated China "[selling] dollars in sufficient quantity to make the markets overreact" or that the U.S. might take tougher measures against China and "impose trade sanctions sparking a reaction from Beijing."[19] The interdependence of the American and Chinese economies is by no means a stable relationship. China is currently invested in the future of the dollar, but as it diversifies its holdings to other currencies and U.S. treasuries represent a smaller percentage of its savings—a move that the People's Bank of China has already made a priority[20]—it will more capable of challenging U.S. "financial hegemonism."

It is unclear if economic interdependence is driving a sustainable convergence of interests or if it is simply raising the stakes of conflict to levels that are currently unacceptable, as Polachek argues. The problem with the latter scenario is that these stakes may become acceptable in the future and peace by what has been called "mutually assured economic destruction" is inherently unstable. Like the nuclear environment of the Cold-War, this is not a desirable peace, but rather a tense environment with the potential to deteriorate based on uncertainty or mere miscalculation. Even with such strong economic ties, some scholars have argued that war does not have a significant impact on trading relationships and therefore, its pacifying effect may be misunderstood.[21] As long as China continues to develop as it has—and the U.S. continues to decline—Beijing will find itself less dependent on the U.S. for regional and economic stability. This will grant China more room to maneuver and lessen the potential costs of a strategic rivalry with the U.S.

While outright conflict remains a distant possibility, existing conflicts in the Asia Pacific region, which have been been subdued by U.S. dominance, are certain to transform as China develops and its view turns outwards. Without directly admitting it, the U.S. has been hedging against China's expanding influence in the region by building upon its existing alliances with Japan and South Korea, as well as pursuing new regional partners such as India.[22] In his analysis of U.S. strategic hedging in Asia, Evan Medeiros argues that "U.S. efforts to bolster its security partners could unwittingly feed regional nationalism," which would tie the hands of Chinese leadership in the event of a future crisis with the U.S.[23] Harvard professor, Joseph Nye Jr. believes that perceptions of a China-U.S. rivalry have an overwhelming influence on actual decision making. Echoing Thucydides' writings on the Peloponnesian war, he proposes that "belief in the inevitability of war makes war inevitable."[24] Chinese perceptions of U.S. encirclement may cause it to take more aggressive measures to ensure the security of its borders leading to a dangerous action-reaction cycle.

These perceptions are reinforced by the dispute over Taiwan and China's list of territorial claims in the South Sea, as well as U.S. strategic hedging. Chinese intransigence on Taiwan and its commitment to the use of military force in the event of any move towards independence represent a serious security dilemma in the region and has shaped U.S. views of China's long-term ambitions, while U.S. arms sales to Taiwan are seen by Beijing as an attempt to obstruct the rise of China and a threat to Chinese sovereignty.[25] Neither side is willing to renege on its commitments, which forces each government to prepare for the worst. China's disputed claims to the Senkaku and Spratley islands also fuel fear of China's expansionist aspirations. The presence of natural gas and oil reserves on the islands make the claims important to Beijing's pursuit of energy security, a priority which Beijing has been willing to confront Washington on in the past with thinly veiled suggestions "that cooperation in the UNSC and in other areas is contingent on the U.S. not sanctioning Sinopec's investment in Iran's Yadavaran oilfield."[26] As China rises it will find American policing of its borders increasingly unacceptable and its territorial claims—especially Taiwan—hold the constant potential for armed conflict.

Domestic politics in each country are also beset by the dangers of confrontational rhetoric and the potential for political scapegoating will only increase in the years to come. Should Chinese development stagnate, it may feel the need to fall back on nationalist rhetoric to maintain support in light of its lost performance legitimacy. There is already a tendency within Chinese leadership to portray social unrest as being caused by American democratization efforts. Recently, some Chinese officials have even reported that "they believe the U.S. is fomenting revolution."[27] On the

American side, U.S. efforts to reverse its relative decline will take place "under the shadow" of steadily increasing Chinese power and whether or not its actions are oriented explicitly to cope with an emerging Chinese threat, the situation will provide domestic constituencies within the United States with the opportunity to cast the process in anti-Chinese terms, whether to gain support for stronger action, or simply for "narrow rent-seeking opportunities."[28] Should domestic politics sour, the pacifying effects of interdependence will deteriorate and the divisive aspects of the U.S.-China relationship will quickly rise to the surface. Future elections in the U.S. may be won or lost depending on how hard a stance candidates are willing to take on China. As a single party state, China may find itself better insulated from these pressures, but hardliners within the CCP may similarly capitalize on a negative shift in domestic attitude towards the U.S. Political scapegoating by either country can quickly undermine the countries' shared interests and pave the way for conflict.

Although the U.S. and China are currently bound by interdependent economies, there are many factors of their complex relationship that may lead to a security rivalry in the long term. Beijing's prioritization of economic development and China's general benefit from U.S. policed globalization will likely keep tensions controlled in the short term. As China develops and its capabilities and interests change, it will seek greater control over its borders and the Asia-Pacific region in general. Uncertainty of intentions between the two powers will only increase the probability of political scapegoating at the domestic level and lead to more aggressive foreign policies. Their interdependence provides the framework for a cooperative relationship, but if conflict is to be avoided in the long run, there must be confidence on both sides of the Pacific and a relaxation of the confrontational rhetoric that plagues the current dialogue.

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Date Written: May 2011