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# The Problems of the Liberal Peace in Asia

**Oriana Skylar Mastro**

The conviction that economic ties will engender peace in Asia has been a lynchpin of the US strategic response to a rising China for over two decades. When the US–China Relations Act of 2000 passed under President Bill Clinton, proponents of the measure argued that increased Sino-American trade would contribute to China’s peaceful rise because Beijing would reject revisionism while it benefitted from the US-led world order. As one US senator commented at the time, ‘the world will be a safer place – or so we hope, and so history argues’.<sup>1</sup> Later, President George W. Bush described the exchange of ‘many handshakes of friendship and commerce’ between the American and Chinese people as enhancing understanding and therefore peace.<sup>2</sup> Moreover, many of his closest advisers hoped that Chinese economic growth would eventually result in a rising middle class that would demand political freedoms and compel reform of the one-party Communist system. Most recently, President Barack Obama extolled the benefits of China’s growing economic clout, declaring that ‘a peaceful and stable and prosperous China is not only good for Chinese but also good for the world and for the United States’.<sup>3</sup>

Economic liberalism plays a dominant role in US thinking for good reason: in most circumstances, economic ties tend to impose caution on leaders, encourage de-escalation of crises and improve overall bilateral relations. The idea also has strong historical roots in the work of thinkers

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such as Montesquieu, Immanuel Kant and Adam Smith. Contemporary international-relations scholars argue that, in recent decades in particular, globalisation has greatly increased interdependence – the economic aspect of which has a positive effect on international behaviour. Specifically, many have argued that increased economic integration raises the opportunity costs of conflict and promotes openness and frequent contact between states. This facilitates understanding and reduces incentives for conquest because production power is best captured through trade.<sup>4</sup> Free trade and consequent integration have allowed the economies of Taiwan, South Korea and Indonesia to flourish, encouraging more moderate politics and democratic practices that enhance regional stability. China's integration into the world economy has helped to lift 680 million Chinese out of poverty, while many countries, particularly those geographically closer to China, have made real economic gains.<sup>5</sup>

Many hope that the rise of China will be peaceful because it is occurring in such a context. The core interest of the Chinese Communist Party is to stay in power, and its legitimacy is based on continuing economic development and a rising standard of living. Although China is involved in the majority of the most dangerous territorial disputes in Asia, the country is tremendously integrated with the region; its merchandise trade accounted for 32% of its GDP in 1990, and 50% of its GDP in 2011.<sup>6</sup> Richard Katz, editor of the *Oriental Economist Report*, has described how 'in 2010, foreign companies and joint foreign-Chinese ventures accounted for more than 25 percent of China's entire industrial output, 39 percent of its apparel exports, and 99 percent of its computer exports.'<sup>7</sup> China's trade sector supports an estimated 200m jobs, and the export of goods and services constitutes 30% of the country's GDP.<sup>8</sup> Any conflict would disrupt these exports, and the loss in welfare would lead to a popular movement that could destabilise the government. Economic optimists argue that this fear should be enough to deter Beijing from risking war against key trading partners. The economic-liberalism argument should apply even more to China's neighbours, most of whom count the country as their largest trading partner. Katz has argued that the recent flare-up between China and Japan over the Senkaku/Diaoyu Islands did not escalate into a war because of 'mutual assured production',

a term coined to describe the fact that China needs to buy Japan's products as much as Japan needs to sell them.<sup>9</sup>

US policy is further complicated by the fact that most regional players are more and more economically reliant on China, but hope to deter Beijing's aggressive behaviour by leveraging their relationships with Washington. Japan has a security alliance with the United States and about 50,000 American troops stationed in its territory, but its largest trading partner is China. India harbours concerns about China's increasing power – largely because of a long-standing territorial dispute over the countries' shared border, which led to a war between them in 1962 – despite also counting China as its foremost trading partner. Vietnam relies on China for economic development but is sparring intensely with it over the Paracel and Spratly islands.<sup>10</sup> The Philippines is also dependent on the Chinese market but has turned to its alliance with the US to help manage the competing territorial claims it has with Beijing in the South China Sea. As China's relative weight grows, countries are beginning to question whether this strategy of relying on Beijing economically while reaching out to Washington for security is tenable.<sup>11</sup> As the Philippine ambassador to the US articulated in September 2013, 'the Asia-Pacific region has become the nexus of the world's most dynamic of opportunities, and the most intransigent of challenges'.<sup>12</sup>

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*The stakes  
are highest  
in Taiwan*

The stakes in trusting economic ties to dampen tendencies towards conflict are highest in Taiwan. Beijing claims Taiwan as part of China and has been developing its military capabilities over the past three decades with the objective of preventing Taiwan's independence. Taiwanese President Ma Ying-jeou launched free-trade talks with China in 2010, arguing that closer economic ties with the mainland through the Economic Cooperation Framework Agreement (ECFA) would make armed conflict more costly for Beijing and therefore less likely.<sup>13</sup> The agreement, which came into effect in September 2010, has increased economic integration across the Taiwan Strait, and relations between Taipei and Beijing are better than they have been for decades. Many are concerned, however, that these economic benefits could come at a steep price; as the US–China Economic and Security

Review Commission has said, the failure to prioritise defence, evident in Taiwan's declining military budget, could encourage Beijing 'to take on greater risk in its approach to cross-Strait relations, including pressuring Taipei to move towards political talks or using military force to achieve political objectives'.<sup>14</sup>

Given the influence of economic liberalism on US strategy in Asia and the stakes for many of America's friends and allies if economic ties fail to engender peace, the arguments connecting economic integration and stability deserve further attention. This article will evaluate whether the increasing benefits of trade are changing the priorities and perceptions of Asia's leaders and publics. As economic ties expand, relationships should improve, and leaders should be compelled to compromise in, not escalate, disputes, relying less and less on the use and threat of military force to accomplish their goals. Asian countries are indeed economically interdependent and, more specifically, the economy of China is closely interwoven with those of the other major players. In dealing with territorial disputes, however, economic integration has either not been a factor or, at worst, has heightened strategic tensions. The decisions of national leaders suggest that they see the political cost of failing to protect territorial claims as greater than the economic losses associated with a limited war.

### **Asian economies' increasing interdependence**

Asia's economies are increasingly interconnected and interdependent.<sup>15</sup> Although China's economic activity has significantly contributed to these trends, the desire for continued high economic growth has pushed all the region's economies to deepen their economic ties. Regional trade pacts, monetary arrangements, bilateral free-trade agreements and bilateral investment deals have flourished.<sup>16</sup> As a result, both trade and investment between the major regional players have been steadily increasing. The growth in trade over the past two decades has been impressive, with the value of East Asian exports burgeoning from \$419.4 billion in 1990 to \$3.4 trillion in 2008.<sup>17</sup> Asian countries are now as economically interdependent as those of North America or the European Union, and trade more among themselves than either regional grouping did at the outset of their integration efforts.<sup>18</sup>

Table 1 China's bilateral trade with key regional partners

Trade partner	Partner's imports from China (2002, 2011)		China's exports to partner (2002, 2011)		China's imports from partner (2002, 2011)		Partner's exports to China (2002, 2011)	
Japan	61,783,700	183,882,190	48,433,840	148,268,708	53,465,999	194,567,856	39,823,423	162,035,386
India	2,619,849	55,483,025	2,671,164	50,536,416	2,273,871	23,372,279	1,531,604	16,717,786
Philippines	1,351,979	6,504,583	2,042,241	14,255,388	3,217,161	17,992,317	1,355,825	6,102,252
Vietnam	2,158,836	24,866,392	2,148,380	29,091,568	1,115,892	11,116,531	1,518,330	11,613,324
United States	133,484,121	417,302,859	70,050,092	325,010,988	27,261,097	123,124,010	22,052,398	103,878,414

Source: UN Comtrade (United Nations Commodity Trade Statistics Database). Units = \$1,000s (value of all products imported or exported). Imports reported by one country do not coincide with exports reported by its trading partner due to factors such as valuation (imports cost, insurance and freight; exports free on board), differences in inclusions or exclusions of particular commodities, and timing.

Integration in financial markets has lagged behind that in trade, but over the past four years there have been signs that this is accelerating.<sup>19</sup> With its widening and increasingly complex supply chains and production networks, Asia is an exemplar of the globalisation phenomenon. Export growth in East Asia, Southeast Asia and South Asia is largely derived from trade in intermediate goods, meaning that regional production networks are flourishing. China is the central node in the process, with many intermediate and processed goods flowing there for assembly.<sup>20</sup>

Bilateral trade between China and its neighbours is a strong indicator of this increasing interdependence.<sup>21</sup> Japan's total trade with China has tripled since 2000, rising by 30% per year to more than \$300bn; between 1995 and 2011, increased shipments to China accounted for 45% of overall growth in Japanese exports.<sup>22</sup> China also depends on Japan: 60–70% of goods imported from Japan are machinery and parts used to make China's own exports.<sup>23</sup> In 2012 two-way trade between China and Taiwan was valued at \$169bn, over one-third of Taiwan's GDP that year.<sup>24</sup> China has also become a global investor; from 2005 to mid-2013, it spent \$57.8bn in the United States and \$157.2bn in East and Southeast Asia, with Australia, Indonesia and Vietnam being the top recipients.<sup>25</sup> Table 1 highlights this surge in trade over the past decade.

Both Obama and Chinese President Xi Jinping have characterised the US–China relationship as one of mutual dependence, given the countries' strong economic ties. US exports to China have increased by 542% since 2000, compared with an 80% rise in US sales in the rest of the world.<sup>26</sup> The economic impact of this pervades the US: last year, 30 American states exported more than \$1bn worth of goods to China, while another ten exported over \$500m.<sup>27</sup>

The cumulative total of US direct investment in China has surged from approximately \$11trn in 2001 to \$51trn in 2012; China's direct-investment flow to the US in 2010 was more than 100 times greater than that in 2004.<sup>28</sup> China also holds about 9% of total US federal debt.<sup>29</sup> China became the global leader in foreign direct investment in 2012, accounting for \$253bn (or 18% of the worldwide total), compared with \$175bn for the US.<sup>30</sup> If such macro-economic trends are any indication, the world is counting on the continued growth and prosperity of both China and the US.

### **The growing instability of Asia's flashpoints**

Although trade interdependence imposes some caution on leaders under normal circumstances, the size of the effect may be insufficient to ensure peace, given the weight that Asian governments place on protecting their sovereignty amid a number of serious territorial disputes with Beijing. China's bilateral relationships with Vietnam, the Philippines, India, Japan and the US have soured considerably over the past five years, even as trade has grown impressively.<sup>31</sup> This is largely the result of China's increasingly assertive behaviour in its territorial disputes.<sup>32</sup>

China-Japan relations are at a nadir as the countries' territorial row in the East China Sea continues to draw them into confrontation, leading many to speculate about whether it will result in military conflict.<sup>33</sup> Anti-Japanese protests in China, sparked by the private sale of three of the Diaoyus/Senkakus to Japan in September 2012, caused more than \$100m in damage to the property of Japanese businesses. Japanese foreign direct investment was down by 32.4% in October 2012, but this proved to be only a temporary shock as it rebounded the following month.<sup>34</sup> The fallout from lost sales may have cut Japan's growth in the last quarter of 2012 by about 1%, possibly enough to keep the economy in recession after two quarters of contraction.<sup>35</sup> Before September 2012, Chinese government ships had intruded four times into the territorial waters around the Senkakus/Diaoyus; between September and December that year, Japan counted 68 intrusions, most of which were by Chinese *Haijian*-class maritime surveillance ships.<sup>36</sup> Chinese surveillance vessels now regularly challenge the Japan Coast Guard. In 2012 Japanese aircraft scrambled a record 306 times in response to intruding

Chinese aircraft.<sup>37</sup> On 17 April 2013, China's Type-052C missile destroyer *Lanzhou* and Type-054A missile frigate *Hengshui* both entered waters near the islands to conduct exercises, in a display of force. This came less than three months after a major incident in which a Chinese navy vessel activated its missile-guidance system and locked its fire-control radar on a Japan Maritime Self-Defense Force vessel. The US voiced strong concerns that such incidents could escalate tensions and increase the likelihood of miscalculations leading to war.<sup>38</sup>

Neither Tokyo nor Beijing has taken steps to de-escalate or reduce the likelihood of conflict. There has been no progress towards establishing a dialogue about interception procedures in the air or at sea, and no attempts to establish a hotline in case this confusion leads to an accident that costs Chinese or Japanese lives. This is largely because of deep-rooted historical animosity between China and Japan, stemming mainly from the Japanese occupation of China during the first half of the twentieth century. As both governments tap into nationalist sentiment to build popular support, neither is willing to make any compromises in the territorial dispute. More recently, semi-official actors in China called for an official claim of sovereignty over the Ryukyu Islands, home to 1.3m Japanese and 27,000 US troops in Okinawa. Chinese nationalists have for years pointed out that the ancient Ryukyu Kingdom made tribute payments to imperial China.<sup>39</sup> As Katz has put it, rather than believing that economic ties will impose caution, 'Japanese firms see no early end to the territorial tensions. Some feel that they may just have to accept that, every few years, there will be an outburst of boycotts and even some violence.'<sup>40</sup>

Although relations across the Taiwan Strait have been stable since President Ma took office in 2008, China's military posture against Taiwan has not softened. Instead, as analysis by the US Department of Defense shows, China continues to develop and deploy 'military capabilities to coerce Taiwan or to attempt an invasion, if necessary'.<sup>41</sup> Beijing still refuses to forswear the use of force, and has so far eschewed a military attack because it is optimistic about the long-term prospects for reunification. China has specifically laid out a number of circumstances in which it would use force, none of which are directly dependent on the economic relationship:



a formal Taiwanese declaration of independence; other unspecified moves towards independence; internal unrest in Taiwan; the country's acquisition of nuclear weapons; indefinite delays in the resumption of a cross-Strait dialogue on reunification; foreign intervention in Taiwan's affairs; or a foreign troop presence in Taiwan.<sup>42</sup>

China's bilateral relations with the Philippines are also on a downward spiral, primarily due to territorial claims. The most notable episode in this trend occurred in April 2012, when Chinese citizens fishing at Scarborough Shoal sparked a stand-off between Philippine patrol vessels and Chinese surveillance ships. Banners at an anti-China demonstration in Manila last year warned of the dangers of Chinese expansionism: 'Scarborough today – tomorrow the world.'<sup>43</sup> A year later, China issued an ultimatum to the Philippines demanding that Manila 'withdraw all its nationals and facilities' from a number of islands and reefs in the South China Sea, where some of them have been located for decades.<sup>44</sup> There were dozens of close calls in 2012, especially with Chinese ships on patrol in Scarborough Shoal chasing away Philippine fishermen and maintaining what Philippine Secretary of Foreign Affairs Albert del Rosario calls 'a de facto occupation'.<sup>45</sup> Most recently, tensions with the Philippines have centred on Second Thomas Shoal, where Manila accused Beijing of encroachment after three Chinese ships, including a naval frigate, came within five nautical miles of an old transport ship that the Philippines had run aground in 1999 to mark its territory.<sup>46</sup> In 2013 Manila brought the dispute before the International Tribunal for the Law of the Sea, much to the displeasure of Beijing.<sup>47</sup>

Relations between Hanoi and Beijing have deteriorated along similar lines. In March 2013, Vietnam accused China of opening fire on a Vietnamese fishing vessel near the disputed Paracels, a claim that Beijing denies.<sup>48</sup> The following month, China pushed further, allowing a cruise ship full of Chinese tourists to disembark on the disputed islands.<sup>49</sup> Anti-China protests broke out again in Hanoi on 3 June, highlighting the public pressure that the Vietnamese Communist Party faces to stand up to China's muscular approach.<sup>50</sup> Deep-seated animosity and distrust of China stems from the party's experience with Chinese manipulation of Vietnamese strategy during Vietnam's wars with France and the US; China's naval campaign

against Vietnam in 1974, which allowed Beijing to consolidate its control over the Spratlys; and China's ground invasion of Vietnam in 1979. Despite international criticism, Beijing has only doubled down on its strategy of conducting a coordinated and deliberate campaign of coercive diplomacy in the South China Sea.<sup>51</sup>

Heightened economic interdependence has also failed to dampen the historical rivalry between China and India. The underlying cause is a dispute along the Sino-Indian border, which is divided into eastern, middle and western sectors. Both countries claim Aksai Chin in the western sector, which China considers to be part of Xinjiang and India part of Ladakh. In the east, India accepts the McMahon Line as its legal border and refers to the disputed territory as Arunachal Pradesh.<sup>52</sup> China disputes the legal status of the McMahon Line and claims the territory as part of Tibet. In the middle sector, the countries contend various areas.<sup>53</sup> They blame one another for the escalation of hostilities that led to a 30-day war in 1962.

Since that conflict, brief incursions by both sides have been common occurrences. The most recent such incident, in which Chinese military forces allegedly camped 19 kilometres inside the Line of Actual Control in Ladakh, was disconcerting largely because it is thought to have lasted for three weeks.<sup>54</sup> China denies the incursion, although if it did occur, it is possible that Beijing felt provoked: India has been 'thickening' its presence in the border areas of Aksai Chin and Arunachal Pradesh by increasing personnel, equipment and infrastructure there.<sup>55</sup> Ties continued to fray as the countries argued over China's construction of dams on Tibetan rivers that flow into India and visits by Indian officials to border provinces that China claims.<sup>56</sup> New Delhi has also watched warily as Beijing has built military infrastructure and road and railway networks near the border in Tibet, which could be used to launch another war against India. Beijing sees itself as the victim in such disputes, viewing New Delhi's support for the Dalai Lama and the Tibetan government in exile as a way of containing and harassing China. Growing economic ties have not led either side to stop building infrastructure or increasing military deployments along the border and, even after 50

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*Manila accused  
Beijing of  
encroachment*

rounds of talks and three major bilateral agreements, Sino-Indian negotiations over the border dispute remain dogged by suspicion and tension.<sup>57</sup>

While China's strained relations with Japan, India, Vietnam and the Philippines are due primarily to historical animosities – unimproved by economic integration – its deteriorating relationship with the US is the result of strategic rivalry. Elements of the competition between Washington and Beijing have begun to dominate the relationship. Although there are many areas of mutual interest and opportunities for cooperation, the two sides face a fundamental clash of interests: China wants its rival to disengage militarily from Asia, but the US has shown its determination to stay by announcing a 'rebalance' to the region. The purpose of rebalancing may be to enhance stability in Asia by reassuring China's neighbours of Washington's continued commitment to the region, but Beijing sees this policy as the epitome of destabilisation.<sup>58</sup> A decade ago, Beijing saw some benefits to the US presence, such as dampening the remilitarisation of Japan, but recent People's Liberation Army White Papers portray the American presence, alongside America's alliance system in Asia, as detrimental to the rise of China.<sup>59</sup> As US–China competition grows, issues involving third parties such as Japan, India or the Philippines will become more contentious. A dominant view among Chinese strategists is that the US encourages regional actors to confront Beijing, and that disputes between China and other regional actors are in Washington's interest. In America, on the other hand, there is a consensus that the recent source of instability has been China's provocative behaviour, which could indicate that it will seek to challenge the US-led world order.

### **Economic loss versus political cost**

All else being equal, trade interdependence creates a shared interest in peace and stability. One could argue that economic liberalism has stabilised Asia, given that Asian countries have not recently fought a war, despite spiralling disagreements. Tensions and the frequency of military encounters continue to rise, however, calling into question whether economic ties can override historical animosity, nationalism and strategic rivalry, which will make any crisis difficult to manage, contain and de-escalate.

According to the tenets of economic liberalism, trade dependency increases the costs of war between two states because it forces them to forgo the benefits of such commerce. Increased trade therefore encourages both sides to avoid a conflict. This argument assumes that societies receive salient economic gains from trade, that conflict among states disrupts trade and that the calculations of decision-makers are rational and based on these factors.<sup>60</sup> If the resulting 'capitalist peace' does not hold, it may be because leaders believe that any economic costs would be temporary and limited.<sup>61</sup> The greatest problem for the capitalist peace in Asia is that leaders often calculate that the loss of economic benefits from disrupted trade is dwarfed by the political costs that they would face for failing to stand up to perceived threats to national security. The real threats to the capitalist peace are the countervailing pressures of nationalism and resentment, and the imperatives of strategic rivalry. Although nationalism is not inherently destructive, the animosities of the 1930s and 1940s are often invoked emotively, spurring extremely nationalistic demonstrations – a problem aggravated by biased textbooks and government policies.<sup>62</sup> Asian countries' history and nationalism have sensitised their leaders and publics to the importance of national sovereignty and integrity. And following years of heightened tensions, regional defence policies and statements suggest that leaders are not prepared to bear the political cost of inaction in the face of territorial disputes or perceived security threats.

Asian leaders do not seem to be preparing for peace, but are instead spending more than ever on their militaries.<sup>63</sup> Driven by both booming economies and increased uncertainty about the future security environment – caused by Chinese military modernisation, provocative actions by Beijing and lingering doubt about US staying power – Asian countries spent a total of \$321.8bn on defence in 2013.<sup>64</sup> Defence spending in Asia exceeded that in Europe (including European states that are not members of NATO) for the first time in 2012.<sup>65</sup> Furthermore, during 2008–12, Asia and Oceania accounted for 47% of global imports of major conventional weapons, with India, South Korea and Singapore among the top importers of such arms worldwide (first, fourth and fifth respectively).<sup>66</sup>

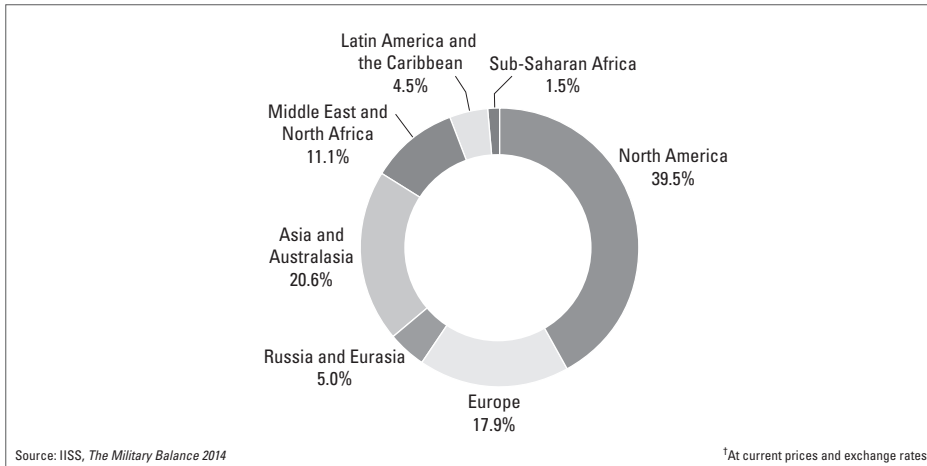


Figure 1: **Planned Global Defence Expenditure by Region 2013<sup>†</sup>**

The Asia-Pacific will be responsible for 26%, or almost \$200bn, of global naval and maritime security builds in the next 20 years, including six aircraft carriers, 128 amphibious ships, 21 auxiliary ships, 12 corvettes, two cruisers, 42 destroyers, 235 fast attack craft, 115 frigates, 34 mine countermeasures, 82 offshore patrol vessels, 255 patrol craft and 116 submarines.<sup>67</sup> India has been the largest importer of conventional weapons for the past five years and has more active-duty military personnel than any other Asian country, apart from China. India's defence budget rose to \$36.3bn in 2013 and the country is projected to become the fourth-largest spender worldwide by 2020, overtaking Japan, France and Britain.<sup>68</sup> China has had a nearly unbroken run of double-digit annual increases in military spending over the past two decades; last year, its budget grew by 8.7% to approximately \$112bn.<sup>69</sup> Even South Korea boosted its defence budget by more than 60% between 2000 and 2011, from \$17.1bn to \$29bn.<sup>70</sup> Figure 1 shows Asia's planned defence expenditure in relation to other regions.

There are a number of reasons for Asian countries' recent acceleration and expansion of their military-modernisation programmes, but the most decisive factors are strategic considerations related to changes in the regional security environment.<sup>71</sup> Most Asian states only started this process in earnest during the past few years, and have generally focused on capabilities specifically designed to counter increased Chinese assertiveness,

especially in territorial disputes. Vietnam reached out to Russia to acquire new, sophisticated air-defence systems and Su-30MK2 fighters, and to order six *Kilo*-class submarines.<sup>72</sup> The Philippines has undergone the most remarkable transformation: having allowed parts of its external defence forces to almost disappear, the country has engaged in a serious arms build-up. In 2011 Manila procured two retired American cutters and purchased ten small patrol boats from Japan. In 2013 the Philippines began negotiations for a dozen South Korean fighters and is considering procuring two Italian guided-missile destroyers.<sup>73</sup> Japan has increased its defence spending for the first time in 11 years, and Prime Minister Shinzo Abe has openly claimed that the impetus for the change was concern about Chinese coercion and intimidation.<sup>74</sup>

This arms build-up is potentially destabilising because it creates incentives for states to pre-emptively seize disputed territory and natural resources before the other side has the capability or opportunity to respond.<sup>75</sup> Even if the build-up does not accidentally spiral into armed conflict, the intentions expressed by Asian leaders risk wars by design. Many such figures have explicitly stated that they are willing to defend their territorial claims even at a high economic cost. During a 2011 confrontation between a Chinese vessel and a Vietnamese oil-exploration ship, Vietnamese President Nguyen Minh Triet declared that his country was 'ready to sacrifice everything to protect our homeland, our sea and island sovereignty'.<sup>76</sup> After an alleged Chinese incursion into his country, Indian Defence Minister A.K. Antony asserted that 'there is no question of India ceding to China any part of Indian territory' and that all steps were being taken to safeguard national security.<sup>77</sup> Although some of this could be purely rhetorical, public threats and promises are meaningful because there are domestic and international repercussions for leaders who go against their word.<sup>78</sup>

Tokyo and Manila are even more expressive about their willingness to uphold territorial claims, no matter the cost. On many occasions, Abe has vowed publicly that he will 'never make concessions' over the sovereignty of the Diaoyus/Senkakus and will defend Japanese territory 'at all costs'.<sup>79</sup> Abe has also warned that Beijing's fuelling of anti-Japanese sentiment is

undermining [its] friendly relationship with Japan and having an adverse effect on its economic growth ... Such behavior is going to have an effect on their economic activity at the end of the day, because it will lead to losing the confidence of the international community which will result in less investments in China.<sup>80</sup>

In his second state-of-the-nation address, Philippine President Benigno Aquino III warned that 'we do not wish to increase tensions with anyone, but we must let the world know that we are ready to protect what is ours.'<sup>81</sup> In May 2012, during the Scarborough stand-off, del Rosario called on business leaders to 'take a position of patriotism that what is ours is ours and we will stand for it ... It is possible that everyone will need to make a sacrifice.'<sup>82</sup> Although Manila and Beijing agreed to boost bilateral trade to \$60bn by 2016, the Aquino administration now appears unlikely to sacrifice territorial claims for its economic relationship with China.<sup>83</sup>

Beijing has also made nationalistic and unwavering statements about territorial issues, often combined with threats of economic punishment. In his first foreign-policy speech as leader of both the ruling Chinese Communist Party and the armed forces, Xi declared that China will 'never give up' its core territorial and security interests.<sup>84</sup> Xinhua news agency reported that 'the Japanese government also should not expect that the Chinese government will step back. The Chinese government ... will not exchange for peace at the cost of national security and sovereignty.'<sup>85</sup> Former Chinese premier Wen Jiabao set the tone for such arguments by stating, in reference to the East China Sea dispute, that 'the Chinese government and people will not yield an inch.'<sup>86</sup> The Chinese Ministry of Commerce warned that Japan's actions 'will undoubtedly hurt the development of Sino-Japanese economic and trade relations'.<sup>87</sup> In response to increased tension with Vietnam, a major-general in the Chinese army warned that 'China loves peace; however, we are never frightened by the threat of the use of violence. The time when the Chinese people succumbed to shells and bullets is long gone.'<sup>88</sup> Beijing warned Manila during the Scarborough stand-off that the 'Huangyan Island/Scarborough Shoal issue may be a small political one, but may hinder trade relations between [the] Philippines and China'.<sup>89</sup>

The regional security situation is likely to deteriorate further as nationalism increasingly drives Beijing's foreign policy with the advent of Xi's 'Chinese dream', which calls for the revival of the Chinese nation after an era of colonial subjugation. Although nebulous, one of the concept's clear aims is for China to occupy what it considers to be its rightful place in the world: that of a great power.<sup>90</sup> Given China's long-standing sense of victimhood at the hands of its neighbours, the promotion of the Chinese dream could fuel historical animosities to the point of explosion.<sup>91</sup> Beijing's coercive diplomacy is already propped up by the support of the people; according to an online survey by the *Global Times*, which is affiliated with the *People's Daily*, 83% of about 23,000 respondents cited military power as a way to resolve the territorial dispute in the South China Sea.<sup>92</sup> During China's skirmishes with, and provocations of, Japan, Chinese microbloggers demanded that Beijing teach Tokyo a humiliating lesson.<sup>93</sup>

### **Will the public support a war?**

Although the economic downsides of war have not inspired Asian leaders to back down on territorial disputes, there is hope that goodwill between the people of Asia will minimise domestic support for a limited conflict. One of the arguments for economic interdependence as a guarantee of peace is that trade leads to increased interaction between people, which dissolves stereotypes and engenders trust and understanding, while weakening public support for war.<sup>94</sup>

Interpersonal exchanges among the main Asian players have indeed increased. In 1994, 78% of Japanese students choosing to study abroad went to a US college; by 2007, the figure had shrunk to 46%. During the same period, the proportion of those heading for Chinese universities rose from 9% to 24%, amounting to an increase of more than 18,000 students.<sup>95</sup> By the end of 2011, more than 1.4m Chinese students were studying abroad, an average increase of 23% for three years in a row. The number of foreign students going to China to study also increased by an average of 10.8% for two years, totalling 290,000 in 2011.<sup>96</sup> Between 2001 and 2011, the number of American students studying in Asia doubled to 45,000, with the greatest number going to China, followed by Australia, India and Japan.<sup>97</sup> In



November 2009, an agreement was made to send 100,000 US students to China and 10,000 Chinese PhD students to the US.<sup>98</sup>

Immigration and tourism are also on the rise. US immigrants are increasingly likely to come from Asia. In 2011 the combined total of legal immigrants from China and India was larger than that from Mexico.<sup>99</sup> There is greater interaction through tourism as well, which has performed the best in terms of the Asian Development Bank's integration indicators.<sup>100</sup> The first direct flight from Taipei to Beijing in 60 years took off in March 2008; Taiwan now has air links with more Chinese cities than does Hong Kong.<sup>101</sup> In 2008, before the ECFA, 300,000 Chinese visited Taiwan; in 2012 an estimated 2.3m visited, an amount almost equal to the population of Taipei.<sup>102</sup> Chinese tourism to the Philippines is also on the rise, with 288,000 Chinese citizens visiting the country in the first eight months of 2013, a 61% increase from the same period in 2012.<sup>103</sup> Vietnam's largest source of tourists is China, with 1.5m people travelling to Vietnam from there in 2012.<sup>104</sup>

But as interpersonal ties increase, perceptions in China of its main economic partners (and vice versa) have only deteriorated.<sup>105</sup> In 2002, 55% of Japanese had a favourable view of China; this number plummeted to 5% in 2013, with 96% responding that China's growing military might was bad for Japan, according to a Pew Research Center poll. Although nearly half of Filipinos hold a favourable view of China, this number also represents a fall-off in positive sentiment since 2002.<sup>106</sup> According to the Lowy Institute, 60% of Indians believe that China is a major threat; only Pakistanis score higher in this category.<sup>107</sup> In Taiwan, according to a March 2013 Mainland Affairs Council poll, 51.9% of people believed that China felt hostility towards their government, a slight increase in negativity.<sup>108</sup> According to the Pew Research Global Attitudes Project, in 2012 only 39% of Chinese said that they believed that Beijing's relationship with the US was one of cooperation, a sharp drop from the 68% who said so two years earlier. On the other hand, 26% of Chinese said that relations with the US were hostile, a jump of 18% since 2010, with the rest of the public not offering an alternative assessment.<sup>109</sup> Perceptions of China in the US were no more positive. In a 2012 poll, 52% of Americans viewed China's potential emergence as a world power as a major threat to the US.<sup>110</sup> Not only did economic ties fail

to create trust, they bred resentment and suspicion. Americans were clearly concerned about Beijing's growing economic strength, responding that, in dealing with China, being tough on economic issues was a very important priority for the US.<sup>111</sup>

The perception that Beijing's economic practices are unfair and include strategies such as economic coercion explains the failure of interpersonal ties to create peace dividends. The widely held belief that China engages in inequitable state-subsidised competition with local manufacturers and therefore benefits more than its trading partners causes serious friction.<sup>112</sup> Despite the advantages of a massive increase in trade, the American public focuses on its negative consequences, with 71% pointing to the loss of US jobs to China and 61% to America's trade deficit with its rival as serious concerns.<sup>113</sup> China's alleged cyber espionage in the commercial sphere, blatant disregard of intellectual property rights and alleged currency manipulation only add fuel to the fire. Such negative perceptions abound in Australia, India, Indonesia, Japan, Malaysia and South Korea, all of which count China as the largest source of imports.<sup>114</sup>

In India, the public increasingly believes that China is benefitting more from the countries' increasing trade. The value of India's exports to China is only one-third of those moving in the opposite direction.<sup>115</sup> As a result, India has a trade deficit with China of \$40bn, up from \$1bn in 2002. Indian leaders blame China for this, contending that Beijing has erected market barriers in the areas where India has the strongest competitive advantage, such as pharmaceuticals and information technology.<sup>116</sup> In general, bilateral or regional trade pacts allow the strong to impose their will on the weak more than multilateral arrangements do, creating resentment.<sup>117</sup> Increased economic ties have generated trade dependencies which, coupled with concerns about Chinese coercion, have chipped away at any trust and mutual understanding created by greater interpersonal engagement. In America, 78% of the public believes that the large amount of US debt held by China is a very serious problem, most likely because of suspicion concerning Chinese intentions.<sup>118</sup>

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*Economic ties  
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and suspicion*

These concerns are not unfounded. The dangers of asymmetric dependency have been hinted at by official and semi-official statements, such as the Chinese foreign minister's assertion in 2010 that 'China is a big country and other countries are small countries and that is just a fact.'<sup>119</sup> Beijing has used trade as a weapon to force countries to alter their policies, most notably when it blocked exports of rare-earth minerals to Japan in September 2010, in response to the country's detainment of a Chinese fishing crew. Since 2011, China has also used its economic leverage to influence Cambodia's chairing of the Association of Southeast Asian Nations, pressure the Philippines during the Scarborough Shoal stand-off and punish Norway for awarding the Nobel Peace Prize to Liu Xiaobo, a prominent human-rights activist who has called for political reforms in China. A recent study found that when Beijing is angered by another country arranging formal meetings with the Dalai Lama, that nation's exports to China will fall by 8.1% or 16.9% (depending on the method of measurement) and will remain depressed for two years.<sup>120</sup>

### **Strengthening stability**

Globalisation and free trade have many positive effects: they have not only lifted hundreds of millions out of poverty but can also impose caution during peacetime and encourage the de-escalation of crises. However, economic ties do not guarantee peace, especially in current circumstances. Although economic interdependence and interpersonal ties have grown rapidly, they have struggled to bolster stability because of a concurrent inflammation of underlying destabilising factors, including historical animosity, nationalism and strategic rivalry. Deep economic integration may help to ameliorate security disputes in some contexts, but in Asia's acute territorial disagreements, especially those involving China, close economic ties have sometimes exacerbated mutual distrust and resentment. Recent interactions between China and regional actors such as the US, Japan, India, the Philippines and Vietnam suggest that there are circumstances in which each country would be willing to accept economic losses for strategic purposes. These countries most likely believe that such losses would be limited and temporary, and that their people would support action that protects

territorial and security interests, especially because they would expect some privation in wartime.

Although Washington does not have any direct stake in Asia's territorial disputes, the US could be drawn into military confrontations involving its allies and partners, such as Japan, the Philippines and Taiwan. More generally, the US could conceivably be compelled to act even if American allies are not involved, to maintain the peace and stability in Asia so critical to its national interests.<sup>121</sup>

Although they would not guarantee peace, there are four ways in which the US could strengthen the hand of economic liberalism in the face of the countervailing trends of nationalism, strategic rivalry and resentment. These are not comprehensive recommendations for a grand strategy but targeted approaches to better realise economic integration's full potential as a stabilising force.

The first recommendation is that the US take war planning seriously. Many argue that such preparation is unnecessary or even dangerous, given that economic ties should make war unthinkable.<sup>122</sup> Specific plans, however, would enhance deterrence. Only through war planning can countries get a more accurate sense of not only the costs of conflict, but also of the potential, limited benefits. Participants never leave a war game believing the conflict to be less costly and easier to fight than expected. Such planning allows the armed services to prepare specific response options for the president in case there is a need to react to provocation in a timely and credible manner. Along these lines, sustaining a US forward-deployed military presence and continuing military exercises and military-to-military exchanges, including those with allies and partner states in Asia, are critical to raising the perceived costs of armed conflict.<sup>123</sup>

However, the current economic environment in the US threatens these key components of deterrence. The Pacific Air Forces are cutting back on exercises, normally a key signal of American resolve to operate in the Asian theatre, because of sequestration. They have completely pulled out of exercises *Balikatan* in the Philippines and *Commando Slings* in Singapore, and are scaling back participation in *Cope Tiger* with Thailand, *Talisman Saber* with Australia, the Pacific Airlift Rally with Cambodia and the Langkawi

International Maritime and Aerospace Exhibition in Malaysia. *Red Flag Alaska* has also been cancelled. Budget cuts may compel the US Air Force to reduce other visible aspects of its operations, such as flying hours and scrambling against aircraft.<sup>124</sup>

The second recommendation is that Washington focus on the economic dimension of the rebalance. Asian countries believe that the US is rapidly losing the economic upper hand to China. In a recent poll, 61.4% of South Koreans said that America currently exerts the greatest amount of global economic influence, with only 25.4% choosing China. However, 60.4% stated that in the future their positions would reverse, with only 23.9% saying that the US would retain its primacy.<sup>125</sup> The power of the economic calculus to influence foreign policy and security decisions has rightly compelled the Obama administration to position economic statecraft as a pillar of the rebalance.<sup>126</sup> Economic power lies at the heart of US influence in Asia but has unfortunately taken a back seat to military and diplomatic concerns. Increased trade between Asian countries and the US will weaken China's economic leverage and may make it less likely to engage in coercion in this area, if it proves to be an ineffective tool.

The third recommendation is that Washington publicly condemn Chinese economic coercion. Both China's neighbours and the US may be able to affect Beijing's strategic calculations with respect to coercive diplomacy by extensively publicising all incidences of such coercion. China tends to avoid public comment on private dialogues and prefers to engage countries bilaterally. If Chinese economic coercion becomes a high-profile international issue, Beijing will be less likely to wantonly apply these tactics. As fear of such coercion decreases, public perception of China could improve, dampening the pressures of nationalism.

The final recommendation is that the US continue to push for fair and free economic practices. If economic freedom creates peace dividends, as political scientist Erik Gartzke argues it does, the Asia-Pacific's future is bright. The economies of many Asian countries are ranked among the most free in the world, although China is not among these.<sup>127</sup> Moreover, perceptions of unfair Chinese trade practices are the main driver of increased resentment, as is seen in opinion polls, despite growing interpersonal ties. Discussion of

sensitive economic issues is unlikely to be welcomed by Beijing, but these are themes that America's interlocutors must continue to press, even if it worsens the country's relationship with China.

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The choices and behaviour of many Asian countries suggest that they view trade as an inadequate brake on conflict. They seem to have concluded that the only way to mitigate the risks associated with China's economic ascent is to build an indigenous military capacity and increase strategic autonomy through economic diversification and strategic hedging. All of these states face a strategic dilemma in which they depend on China economically but must simultaneously hedge by building their own militaries and strengthening relations with the US. Economic ties should be expanded and strengthened for their own sake, and the recommendations above followed to enhance their positive effects, but Asian countries must not mistake this approach for the answer to their strategic dilemma. Economics will not save us, only good strategy will.

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