The Influence of Economic Interdependence on Political Relations between China and the USA: Are Economic Ties Contributing to Trans-Pacific Peace?

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Abstract

The purpose of this Ph.D. project is to test the theory of a peacemaking effect of economic interdependence, which has been put forward by liberal thinkers like Kant and Montesquieu, in a qualitative case study. The US and China have been chosen as research objects due to their high level of economic interconnectedness and the growing potential for bilateral conflict. China’s increasing territorial ambitions and the so called US “Pivot” to Asia reinforce the argument that the shift of power between the US and China endangers peaceful bilateral relations. Proponents of power transition theory anticipate that US-China tensions over regional supremacy will continue to grow and could eventually lead to conflict. However, conflict would have costly consequences for both sides due to their economic interconnectedness. The existing economic nexus of trade, investments, Chinese currency reserves and US government securities has led to a symbiotic relationship between the US and China referred to as “Chimerica”. As a result, economic interdependence is so high that a discontinuation of economic relations would seriously harm both countries. The study wants to address the question if economic considerations exercise a restraining influence on US-China relations which can contribute to a peaceful coexistence.
1 Introduction

Research on economic interdependence is heavily dominated by quantitative methods and almost exclusively executed by Anglo-American researchers. As a consequence, the research field has seen no real innovations in the last years. Current research on the topic mainly consists of studies which analyse the correlation between economic exchange and political conflict. They differ from each other primarily by the selection of data sets and application of different mathematic methods. Remarkably, the findings often contradict each other, creating the impression that results depend to a large extend on the chosen methods and personal interpretation.

The obvious stagnation in this field of research could be addressed by conducting more qualitative studies. Professors like Ripsman and Blanchard argue that qualitative research would open up new perspectives and generate deeper insights into the effects of economic interdependence (Ripsman & Blanchard 2003). This Ph.D. project is intended to address the lack of qualitative research by conducting a qualitative case study on the effect of economic interdependence on bilateral relations between two states. A bilateral scenario was chosen because it allows to analyse interdependence in a limited setting and focuses on the player level rather than the systemic level. After all, states are still the key players when it comes to hard power in the international system. Due to their level of economic interconnectedness the obvious subjects for such a study are the US and China, which are arguably the most interdependent countries at present.

What make this country pair all the more worthy to research is the importance of US-China relations for international politics in the 21st century. The way the US, as the current superpower, and China, as an emerging superpower, handle their relationship will decide about the future world order. Due to differences in the form of government, culture and society and because China and the US often take opposite views on foreign policy matters the relationship bears a lot potential for confrontation (Buzan 2004: 71 & 142). This makes bilateral relations a tender subject. However, despite these differences, economic relations continue to foster. This constellation makes the country pair very interesting for research on the interaction of economic and political relations. Therefore, US-China relations are a well-suited case to examine the effect of economic interdependence on political relations.
2 Academic Debate and Concept

Events in recent years have made it obvious that the political world order is in transition. Emerging major economies like Brazil, Russia, India, China and South Africa (BRICS) have challenged “Western” authority and US hegemony over global affairs. For a time it looked like the world would move from a US-centric, unipolar post-Cold War world to a truly multipolar one. However, in the aftermath of the 2007 financial crisis the BRICS have lost economic momentum. Only China was able keep up decently high economic growth rates; although on a lower level than before the financial crisis. The US also underwent troublesome times but was able to stabilise gradually (World Bank 2016).

This development has led to a situation in which China remains the sole serious competitor to continued US hegemony. Thus, world politics in the 21st Century will be deeply shaped by the nature of the Sino-American relationship. For the development of world affairs it will be crucial whether their relationship will be characterised by cooperation or conflict; or in the words of Henry Kissinger “rivalry or partnership” (Kissinger 2014: 227).

One group of scholars, prominently represented by realist academic John J. Mearsheimer, sees China as a “potential peer competitor” to the US and expects a return of 19-century-style “great-power politics” in case China’s economic development continues (Mearsheimer 2001: 360/Mearsheimer 2010: 381-396), because “a wealthy China would not be a status quo power but an aggressive state determined to achieve regional hegemony” (Mearsheimer 2001: 402). The main argument of this group of scholars is rooted in power transition theory, which postulates that rising powers will inevitably come into conflict with established powers over the political structure and rules of the international system. Power transition theory assumes that it is in the interest of a rising power to revise the status quo for its own benefits and that it will do so once it is strong enough. Contrarily, the established power has an interest in preserving the status quo as it participated in designing the current international political order and benefits from the existing set of rules (Organski 1968/Organski & Kugler 1980).

In a situation where the rising power is close to reach power equilibrium, like China will possibly do in the years to come, both powers are fraught with uncertainty about their competitor’s behaviour. According to power transition theory, the rising power must fear that the established power will try to stop its rise as long as it is still superior and the established power must fear that the rising power will try to dictate its own set of rules once power has shifted. The uncertainty about the intentions of the competitor can
ultimately lead to a security dilemma, pre-emptive actions and possibly even trigger a military confrontation. Therefore, periods of power transition are referred to as “zones of contention and probable war” by advocates of power transition theory (Tammen et al. 2000). In a large scale historic case file project for the Harvard Belfer Center for Science and International Affairs Graham Allison and his team have identified 16 cases of power transition in human history of which 12 resulted in a war over hegemonic power. Presumably the most prominent one is the case of Wilhelminian Germany challenging British hegemony in the run-up to World War I. These findings clearly support power transition theory, though Allison’s case study also shows that more recent power shifts have been less conflictual. Only three out of seven power shifts in the 20th Century resulted in war (Allison 2015).

Mearsheimer and his fellows view China in the classic role of a rising power, unsatisfied with the current world order and striving for a revision on its own terms. In fact, the USA and China favour significantly different concepts of world order. While the US advocate a system of pooled sovereignty and extensive networks of international legal and organisational structures, China takes a stand for bilateral problem solving and absolute national sovereignty as a shield against foreign interference. Opposing views on democracy and human rights constitute further sources for disagreement and conflict (Kissinger 2014: 6-8 & 229-230). Because of its non-conformance with “Western” values and its “alienation from the dominant international society” Barry Buzan calls China “the most obvious challenger [to the US and for superpower status]” (Buzan 2004: 71 & 142).

While China surely is at odds with many aspects of the liberal-democratic world order, it has at the same time greatly benefitted from it in the past. China’s rise was based on economic liberalisation and gradual integration into the world society. In order to achieve economic development it was necessary for China to adapt to capitalist market principles and to play by international rules (Ikenberry 2008: 30-34). This pragmatic approach to political and economic realities speaks against the thesis of China being a revisionist state.

Academics and politicians who believe that China will continue political liberalisation and global cooperation refer to China’s self-imposed foreign policy strategy of a “peaceful rise” through “peaceful development”, which emphasises a peaceful coexistence between great powers. They argue that the US engagement policy, which was started by Henry Kissinger in 1969, has already significantly changed China and they expect that China will continue to gradually adjust to values and structures of the international
system, if the US is willing to share power and accepts China as an important and responsible stakeholder in the current world order (Ikenberry 2008/ Zheng 2005/ Zoellick 2005).

This integrative approach towards China is criticised as “sleeping with the (potential) enemy” (Papayoanou & Kastner 2000). Sceptics claim that the “peaceful development” rhetoric is a Chinese scheme to hide its brightness and bide its time; just as a rising power would do according to power transition theory. They see China’s offer to establish a “new type of great power relations”, one that is designed to avoid historic mistakes, as a way to reintroduce spheres of influence and obtain regional hegemony over East Asia (Glosserman 2013/ Erickson & Liff 2014/ White et al. 2014). Furthermore, it is argued that even if the current Chinese leadership generation is honestly committed to a “peaceful development”, the possibility that future Chinese leaders - from a more powerful position - will introduce new, potentially more ambitious and aggressive development policies cannot be ruled out (Kissinger 2011: 512).

The debate about future scenarios for US-China relations reveals the crux of the matter: uncertainty about intentions and deep-rooted mistrust on both sides exerts negative influence on the relationship. Mistrust and uncertainty legitimise deterrence and military hedging, thus leading to a confrontational foreign policy, which in turn raises mistrust on both sides and bears the danger to get caught in a security dilemma. Politicians on both sides of the pacific already realised that addressing strategic distrust is key to a better understanding, but so far failed to establish trust regarding long-term intentions (Lieberthal & Jisi 2012).

However, strategic distrust has not yet led to a confrontation. Neither China’s territorial ambitions in the South and East China Sea nor America’s plan for an increased military presence in East Asia as part of the so called “pivot to Asia” have triggered serious counter reactions. Despite mutual distrust, US-China relations continue to feature a high level of prudence and restraint. This raises the question which factor is exerting restraint on the parties and prevents a more confrontational relationship?

A possible explanation is provided by the influence of economic relations. In contrast to political relations, which gradually cooled-off over the last decade, economic relations between the two biggest economies in the world continue to flourish. One can say that Sino-American relations are characterised by „cold politics and hot economics“. Bilateral economic exchange is extremely important for both sides since the US is China's most important trading partner, even though exports to the US have been stagnating in
2016 and are not growing by numbers as high as 6.4% anymore like it was still the case in 2014 (NBS 2017). For the US trade vis-a-vis China also has a higher volume than vis-a-vis any other nation state. However, it is worth pointing out that this is mainly due to the very high number of imports from China in the US. When it comes to US exports China is only ranking on third place behind the United States’ neighbours Canada and Mexico (US Department of Commerce 2017). The economic nexus between China and the US, consisting of trade, investments, Chinese currency reserves and US government securities, has led to a symbiotic relationship referred to by economics as “Chimerica” - a hybrid economy, coalesced like the mythical hybrid creature Chimera, which combined parts of a lion, a goat and a snake (Ferguson & Schularick 2007). This flourishing economic relationship is not only fostering private business ties and intergovernmental consultations, but has also generated an extensive economic interdependence. In fact, economic interdependence between the US and China is so high that a discontinuation of economic relations would seriously harm both countries. Already a minor restriction to trade exchange would results in painful opportunity costs.

Naturally, both sides have an interest to avoid opportunity costs and preserve the gains they receive from commercial interaction. Since a deterioration of political relations can have negative effects on economic relations, there is an incentive to abstain from political confrontation. This logic is the basis for theories on the relationship between interdependence and conflict. Advocates of commercial liberalism assume a positive causality and claim that economic interdependence has a mitigating effect on conflictual political relations. The objective of this paper is to test economic interdependence theory by examining if economic interdependence is in fact exerting restraint on the parties and contributes to a better Sino-American understanding?

3 Theoretical Framework & Methodology

Early theories on economic interdependence have already been put forward by 18th century liberal thinkers like Montesquieu or Kant. In his book The Spirit of the Laws (1748) Montesquieu argued that:

"the natural effect of commerce is to lead to peace. Two nations that trade together become mutually dependent: if one has an interest in buying, the other has an interest in selling; and all unions are based on mutual needs" (cited in Hirschman 1977: 80).
Mutual dependence or in other words economic interdependence is defined by Montesquieu as a shared interest to exchange economic goods. For Montesquieu it is “natural” that once commercial relations are established states will feel the “need” to preserve the benefits of their interaction by keeping peace. Moreover, economic interdependence is seen as an impetus for closer political ties, which can eventually lead to a formal union of states that would permanently guarantee peaceful relations among its members.

It is astonishing how accurately Montesquieu’s vision is reflected in the ideas and ideals on which the European Union has been founded. The very same institution that received the Nobel Peace Prize in 2012 for having “over six decades contributed to the advancement of peace and reconciliation, democracy and human rights in Europe” (Nobel Media AB 2017).

What Montesquieu described as “natural effect” is specified by Immanuel Kant in his political opus magnum *Perpetual Peace* (1795) as the human desire to strive for prosperity, which he called the “spirit of commerce”. Since trade promotes prosperity, people will automatically engage in business with each other once granted the freedom of movement and trade – for the US and China this prerequisite was only fulfilled from 1972 onwards. Kant argues that “the spirit of commerce […] is incompatible with war” because war disturbs trade and destroys prosperity. Therefore, "the power of money" would constrain people and states likewise to go to war (Kant 1795[1984]: 33).

Montesquieu’s and Kant’s theories on economic interdependence have been picked up and refined by prominent scholars like Angel, Cobden, Ricardo, Smith or Mill and became an important school of thought within commercial liberalism. Commercial liberalism, as a branch of liberal international relations theory, advocates the promotion of free trade and market economies as a means to achieve prosperity and peace. The basic argument is that while in past times carrying out a war was a worthwhile and legitimate method to increase national wealth and power, this is not the case anymore. War is no longer accepted as “a continuation of policy with other means” and in an economically interconnected world it is much easier to achieve prosperity through economic output and trade rather than through territorial expansion and exploitation. This also means that free trade allows to enrich oneself not necessary at the expense of others, but to create added value for everyone through economic cooperation. Therefore, commercial liberals think that global trade can and to a degree already has turned world politics from a zero-sum into a non zero-sum game.
As prosperity increasingly depends on international economic exchange, countries become obliged to trade if they want to achieve high levels of economic development. This makes it almost inevitable to become, in one form or another, economically interdependent with other trading nations (Rosecrance 1986[2013]: 354-355) Countries who tried to isolate themselves from outside markets and purely relied on self-sufficiency strategies have failed utterly, as the examples of China before the 1970s and North Korea demonstrate. For a long time China has been afflicted by famines and North Korea still experiences food shortages and starvation (Cumings 2005: 436-446).

This means that neither China nor the US can escape from being dependent on each other without imposing negative economic consequences on themselves. In the view of commercial liberalism this is a desirable situation as it compels both parties to cooperate and to avoid conflict.

The assumed positive effect of economic interdependence on conflict has been put to the test in several studies over the last decades. Most of these studies are based on quantitative methods which examine possible correlations between some indicator for the degree of economic interdependence, e.g. bilateral trade as percentage of GDP, and another indicator for bilateral conflict, e.g. frequency of militarised disputes. These large-N studies have produced mixed results, though tending to support a peacemaking effect of economic interdependence (McMillian 1997; Oneal & Russet 1997, Polachek, Robst & Chang 1999; Gartzke, Li & Boehmer 2001; Mansfield & Pollins 2001; Oneal, Russet & Berbaum 2003; Gartzke 2007).

However, quantitative methodology is criticised for creating simplified statistical models which are inadequate to capture and display the complex dynamic between economic interdependence and conflict (Pempel 2012: 1). As innovation in the last years was limited to the selection of different indicators and data sets, research on economic interdependence has basically come to a dead end.

Therefore, scholars like Ripsman and Blanchard highlight the need for more qualitative studies in order to give fresh impetus to research on the relationship between economic interdependence and conflict. They recommend narrowing down explanatory factors by conducting qualitative case studies in a limited environment. This is believed to help getting deeper insight into the underling mechanics of economic interdependence (Ripsman & Blanchard 2003). An obvious choice for such a case study are the US and China as they are possibly the most economically interconnected country pair in history.
Therefore, this study uses US-China relations as a model case to examine which specific effects economic interdependence can have on bilateral political relations.

4 Model construction and research design

In order to visualise US-China relations in a comprehensible way that allows to draw conclusions on influencing factors, a relationship model is needed which is limited to the most basic characteristics. A common method to analytically display a phenomenon is constructing an ideal type. An ideal type is an exaggeration of reality with the objective to facilitate the description and examination of a social phenomenon (Weber 1949: 90).

In an ideal type relationship model there are only two basic options for actors. Actors can either choose to cooperate or to head for confrontation. Every option in between is a mixture of cooperative strategies and confrontational ones. Neutrality is achieved when cooperation and confrontation are in perfect balance. In fact, the very meaning of the word neutrality, deriving from the Latin word “neutrum”, is being “neither” of it. Thus, neutrality can only exist in between two poles. In real relationships, however, actual neutrality is impossible to achieve. Even Switzerland is cooperating more with some countries than with others.

Since all possible relationship scenarios can be displayed as a combination of more or less conflict and cooperation – e.g. 50% cooperation and 50% confrontation for neutrality – a model of bilateral relations can be constructed with only these two characteristics. The result is a game theory like 2x2 matrix (see table 1).

The two basic options - cooperation and confrontation – are located on the outside and on the inside you find the outcome for each combination of options. As there are four possible combinations (US Cooperation & China Cooperation, US Cooperation & China Confrontation, US Confrontation & China Cooperation, US Confrontation & China Confrontation), there are also four basic outcomes, which give information about the nature of US-China relations in each scenario. Of course more than four outcomes are conceivable, but these four constitute the most basic and pure ideal types of possible relationships. One could easily add a scale ranging from 100% cooperation to 100% confrontation to each axis of the model, thus displaying all possible options and outcomes. However, for the purpose of better analysability the model is kept neat.
US-China Relationship Model

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<tr>
<th>USA</th>
<th>Engagement (Cooperation)</th>
<th>Confrontation</th>
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<tr>
<td>Engagement (Cooperation)</td>
<td>Power Sharing (Peaceful Rise)</td>
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<td>Confrontation</td>
<td>Containment (Preservation of Hegemony)</td>
<td>Escalating Strategic Competition and High Risk of Conflict (Power Transition Fight)</td>
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(Source: self-provided graphic; table 1)

The ideal type relationship model above can be used to analyse past and current policies as well as to make assumptions about future relationship scenarios. US-China relations before 1969 have been quasi non-existent. They would best be described as neutral since there was neither much cooperation nor that much confrontation. With the US-China rapprochement in the 1970s cooperation between the US and China increased and the nature of US-China relations increasingly approximated relationship scenario one in the upper left of the model. This process was accompanied by economic gains for both sides and a gradual liberalisation of Chinese politics and society. Therefore, commercial liberals, as was described above, favour continued cooperation as a way to preserve gains and to promote China's integration into the “Western” world order. As of lately, China-US relations are not anymore characterised by high cooperation alone but started to move from the upper left scenario to, depending on whom you ask, the right, downwards or downwards and to the right (see table 2).

People who see China as a potential revisionist power and criticise America’s engagement policies as appeasement are afraid that China will supersede the US as the
world’s sole super power in the near future and wants to restore the old Chinese world order of “Tianxia” – all under heaven – with China constituting the heavenly kingdom on top of all other nations. This would be scenario two in the upper right.

People who believe in China’s peaceful development and interpret America’s pivot to Asia as a containment strategy think that the US wants to preserve its hegemony and will put China in its place. This would be scenario three in the lower left.

Advocates of power transition theory assume that the US will try to contain China, while China will try to acquire economic as well as military superiority. As was discussed above, in this scenario the uncertainty about each other’s’ intentions is said to result in an escalating strategic competition, which bears a high risk of conflict and can possibly even lead to war. This would be scenario four in the lower right.

**US-China Scenario Model**

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<td>Engagement (Cooperation)</td>
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<td>Power Sharing (Peaceful Rise)</td>
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<td>Scenario 2</td>
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<td>Appeasement (Chinese Superiority, Tianxia)</td>
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<td>Confrontation</td>
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<td>Scenario 3</td>
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<td>Containment (Preservation of Hegemony)</td>
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<td>Scenario 4</td>
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<td>Escalating Strategic Competition and High Risk of Conflict (Power Transition Fight)</td>
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(Source: self-provided graphic; table 2)

Scenario four has much in common with a paradox in game theory known as the prisoner’s dilemma. In a situation in which two prisoners would be best of if both would give no evidence, it is still very likely that they will incriminate each other for fear of defection by
their partner. For the US and China, too, cooperation would be the best choice, but since a
defection from cooperation cannot be ruled out, both sides might choose to “play safe”
and start to take preemptive measures. The more both players try to increase their security,
e.g. by increasing military capabilities or building alliances, the more suspicious both will
get and the more reason both have to be assertive. As this negative spiral effect is
unintended and only results from the personal desire for security, it is described as
“security dilemma” in Internal Relations (IR) theory.

With regard to US-China relations the questions arises whether the US and China
are actually at risk of running into a security dilemma? Recent developments in both
countries’ foreign policy give at least cause for concern. China’s quickly growing military
budget and the increased capabilities of the People’s Liberation Army (PLA) may be
understood in China as obligatory investments in national security, but must necessarily
worry observers in the Pentagon and the White House. The same is true for America’s
pivot to Asia. Although not necessarily a containment strategy, but an adaptation to
changing global priorities, decision-makers in Beijing are not amused about increased US
military presence in the Asia-Pacific. Every change in the global balance of power is a
dangerous high-wire act. Therefore, it is undeniable that the shifting power constellation
between the US and China is potentially dangerous. Competition between the US and
China grows, thus increasing the probability of disputes and incidents. However, this does
not mean that a security dilemma is inevitable as strategies exist to stop the negative spiral
dynamic of an escalating competition.

The dynamic of a “security dilemma” between two players is basically the same as
in an iterated prisoner’s dilemma. As foreign policy is not a one time decision making
situation, countries can switch between strategies of cooperation and confrontation over
time. For an iterated prisoner’s dilemma strategies have been developed to escape from the
dilemma. Since the “game” now has more than one round, players can learn from their
opponent’s behaviour and try to encourage cooperation by signalling a benign attitude.

Among various strategies, “tit for tat” is considered the most successful one to
avoid a negative spiral effect. This strategy requires from a player to make a cooperative
first move in order to show its goodwill. If the opponent chooses not to cooperate but to
defect, this behaviour must be punished with an equally uncooperative move to signal that
confrontation will not pay off. However, once the opponent starts to make concessions
this should be credited with a cooperative next move. Practicing forgiveness is important to
demonstrate the worthwhileness of cooperation. When a tit for tat pattern is maintained
over several rounds one’s own behaviour becomes predictable so that an opponent must not fear to be fooled but can expect that cooperative behaviour will be answered with cooperation in reverse. This way trust between players can be established and the security dilemma can be overcome (Jervis 1978: 171).

Essential for the success of this strategy is the goodwill of the actors and their willingness to cooperate with each other. Naturally, actors are more likely to cooperate if cooperation pays off and if non-cooperation has negative consequences. This is where economic interdependence comes in. Economic interdependence increases the costs of defection and the payoffs of cooperation. In a situation of economic interdependence, conflict would be accompanied by high costs due to the economic ramifications. Another effect is that cooperation becomes symbiotic in a situation of economic interdependence. The synergetic effects of interdependence create a mutual beneficial relationship that is very worthwhile for both sides. Thus, it becomes more rational to cooperate the higher the degree of economic interdependence between two actors is.

Possible Effect of Economic Interdependence

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<td>Engagement (Cooperation)</td>
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<td>USA</td>
<td>Scenario 1: Power Sharing (Peaceful Rise)</td>
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<tr>
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<td>Confrontation</td>
<td>Scenario 3: Containment (Preservation of Hegemony)</td>
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(Source: self-provided graphic; table 3)
Summing up the above, it is hypothesised that while US-China relations are moving from relationship scenario one (mutual cooperation) to other directions - possibly closer to scenario four with the risk of running into a security dilemma - economic interdependence has a diametric effect on US-China relations, which is at least slowing down the negative development and might even be strong enough to keep the relationship in the current scenario (see table 3).

In order to determine the costs of confrontation - and thus the level of incentive for the US and China to continue cooperation - this Ph.D. project will use the concept of complex interdependence by Keohane and Nye since it demonstrates how in a globalised world the fortune of states is inevitably tied together. In their research Keohane and Nye argue that interdependence has two manifestations: sensitivity and vulnerability. While sensitivity interdependence describes a state of mere interconnectedness in which states can look for other countries to compensate for the loss of trading partners, vulnerability interdependence describes a relationship in which both parties are reliant on each other because no other states can provide the goods they need or because other trading partners cannot sufficiently compensate the losses. Confrontation in a state of sensitivity interdependence can already cause considerable costs as compensation often requires adjustments and takes time. But only if states are vulnerable to the actions of other states does conflict or non-cooperation cause very high costs (Keohane & Nye 1989).

For US-China relations this means that the more vulnerable the US and China are to disturbances in their economic relations, the higher is the incentive to continue engagement policies and cooperation. In order to test the hypothesis that economic ties contribute to trans-Pacific peace, this Ph.D. project will therefore examine which economic sensitivities and vulnerabilities exist between the US and China. As the level of economic interdependence may vary across numerous fields of bilateral exchange and cooperation, this analysis will be done separately for different economic sectors and areas of cooperation. A preliminary examination of bilateral economic relations has shown that the following areas are the most relevant:

- Bilateral trade of processed goods
- Natural resources
- Strategic goods
- Computer chips and semi-conductors
- Foreign direct investments
- Government debts and dollar reserves
For all of these areas the level of interdependence will be examined in detail so that an overall picture of all sensitivities and vulnerabilities can be obtained. The results of this analysis will allow to make a statement about the level of incentive for cooperation which will function as approximation for the peacemaking effect of economic interdependence on US-China relations.

5 Human Factor

Past statements and proposals by high officials on both sides suggest that economic rationale is having a meaningful effect on US-China relations. In a private conversation between then-Secretary of State Hilary Clinton and then-Prime Minister of Australia Kevin Rudd, which has been transcribed by the US State Department and made public by WikiLeaks, Clinton expressed her concern about the challenges posed by China’s economic rise, asking, “how do you deal toughly with your banker?” (WikiLeaks 2009).

This quote illustrates two thinks: First, Hilary Clinton acknowledged America’s dependence on China in terms of government debts, which is an important aspect of Sino-American economic independence. One might argue that this is a highly asymmetrical constellation, but in fact it is symmetrical. The double-edged nature of such a situation is illustrated in a saying which is commonly ascribed to John Maynard Keynes: „Owe your banker £1000 and you are at his mercy; owe him £1 million and the position is reversed“. If the US would choose not to repay its debts in the event of e.g. a military confrontation, China would suffer high losses. Money that China needs to maintain the high development rates the Chinese people have become used to.

Second, Clinton implies that the US was not “dealing toughly” with China - at least during her time in office - meaning that the US policy on China was less confrontational as it would have been in absence of economic dependencies. This is an important and very concrete indication that US foreign policy towards China has been influenced by economic considerations.

On the Chinese side such a straightforward quote is not available, but President Xi Jinping’s proposal for a “new type of great power relations” between China and the US tells much about the Chinese understanding of the relationship. When Xi considers it necessary to develop a new “new type” of great power relations he must have, as a first step, came to realise that the “old” or existing types of great power relations are inadequate and that competition between established and rising powers is potentially dangerous.
Therefore, the former president of the China Institutes of Contemporary International Relations, Cui Liru, believes the proposition of a “new type of great power relations” is intended as a mechanism to prevent hostilities (Cui 2013 et. al.). This supports the thesis that China is actively trying to avoid conflict with the US.

Since the election of Donald Trump, the dynamic has changed and human factors in US-China policy have attracted more attention. This is mainly due to President Trump’s comments on China throughout his campaign. On several occasions he framed China as antagonist to the United States and accused the Chinese government of, among others, currency manipulation, technology theft and price-dumming as this quote from his 2015 book “Crippled America” illustrates:

“There are people who wish I wouldn’t refer to China as our enemy. But that’s exactly what they are. They have destroyed entire industries by utilizing low-wage workers, cost us tens of thousands of jobs, spied on our businesses, stolen our technology, and have manipulated and devalued their currency, which makes importing our goods more expensive – and sometimes, impossible.” (Trump 2015)

Even before Trump entered office he answered a call from Taiwan’s President Tsai, raising questions about the United States’ position on the One-China policy. This gave way to speculations about a possible confrontation with China about Taiwan and trade relations. The possibility of a trade war was and still is openly discussed in the media, even though several scholars have shown that it would benefit nobody (Wen 2017).

This development has shown that economic incentives might sometime not be enough to restrain leaders from self-defeating actions, because “interdependence only constraints national policy if leaders accept and agree to work within its limits” (Rosecrance 1986 [2013]: 357). It seems that President Trump did not acknowledge the consequences of America’s interdependence with China. And he would not be the first one in human history.

The Nobel Peace Prize winner Norman Angell was convinced of the pacifying effect of trade, but came to realise at the beginning of the 20th century that statesmen still cherished the "great illusion" of power politics. He criticised politicians for their assumption that "territorial expansion and exercise of political force against others" would still be the best way to achieve prosperity and wealth for their own people. Angell believed that a "nation's relative prosperity is [not] determined by its political power" anymore, since
"the commerce and industry of a people no longer depend upon the expansion of its political frontiers" (Angell 1913[2013]: 299).

However, Angell was aware that this rationale was not yet recognised by politicians; he was even ridiculed by politicians for his theory that war had become economically self-defeating. Therefore, he had expected that wars would not end until the basic assumptions about international politics would change. The logic of free trade should put an end to war, but it does not because of the false conviction of political elites (Holmes 2011a).

Angell was even convinced that the Anglo-German rivalry and armament, which preceded the First World War, could have been overcome by a change of opinion and attitude towards war and free trade (Angell 1913[2013]: 301). European politicians had misunderstood the mechanisms of economic interdependence and drastically misperceived the costs of war. Therefore, it can be concluded that economic interdependence only constrains people when they realise the opportunity costs of warfare under a state of mutual dependence (Gartzke & Lupu 2012: 121).

For the case at hand this means that the influence of economic interdependence on political relations between China and the United States will in the near future heavily depend on President Trump’s understanding of mutual dependencies. And there are some signs that the importance of economic relations may have a positive effect on president Trump’s China policy after all. There is now less “tough talk” on China and even some kind of denial of past statements:

“Why would I call China a currency manipulator when they are working with us on the North Korean problem? We will see what happens!” (Trump via Twitter 2017).

Trump has also made a U-Turn on the One-China policy and agreed to expand economic cooperation with China in personal talks with president Xi Jinping. It is almost as if President Trump finally realised that dealing tough with China would harm the United States.
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