
EXECUTIVE SUMMARY

This overview explores how growing levels of trade and interdependence fit into the grand strategies of Asian states and how changing economic relationships could affect regional stability.

MAIN ARGUMENT:

This volume suggests that trade is a critical instrument in Asia's economic growth. China's explosive growth during the last three decades, in particular, has created a web of interdependence conducive to rapid growth, linking both friends and rivals. Even India and Russia, which previously had not emphasized foreign trade, now have focused on increasing links with the global economy.

POLICY IMPLICATIONS:

- The complex and variegated growing trade dependence in Asia offers no assurance that interdependence will make violent conflict between states irrelevant.
- Asian states appear to view trading relations as vehicles to increase national wealth rather than as a means for procurement of collective security. These states have yet, however, to exhibit acute fears about their partners' relative gains from such relationships.
- This nonchalance may derive from three judgments relevant to the future of Asia: (1) The primacy of the United States is robust enough to ensure that differentials in relative gains are strategically insignificant; (2) Asian states expect regional peace to continue, thereby strengthening positive expectations for future trade; and (3) even if gains are diverted to military purposes in some states (such as China), these states do not yet pose consequential military threats and could potentially be contained without forgoing profitable trading relationships.
- Since Asian leaders appear content to straddle the divide on interdependence versus security, Asian countries will continue to enjoy gains from international commerce so long as these two goals are not perceived to be in absolute conflict.

Trade, Interdependence, and Security in Asia

Ashley J. Tellis

The production of order remains the central problem of international politics. Since the beginning of recorded reflection on the interstate system, political philosophers and theorists have sought to understand the causes of discord among nations and how these might be ameliorated. The realist tradition, the oldest and most venerable perspective on international politics, assesses the roots of conflict to lie in the security-seeking or power-maximizing behavior of contending political entities and suggests that peace—understood as the moderation of conflict but not the absence of competition—derives principally from the balance of power where the ambitions of one are contained by the countervailing strength of another. The liberal tradition, even when it accepts the realist phenomenology of the origins of conflict, offers a more hopeful perspective. This tradition suggests that the Hobbesian “war of all against all” can be moderated either by normative variables—such as the presence of democracy, which represents an incarnation of moral claims in politics—or by calculations of self-interest—as, for example, through economic interdependence, which provides opportunities even for egoistical agents to realize joint gains and thereby minimize the prospects of violent conflict.¹

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¹ A good survey of the contrasting perspectives can be found in Michael W. Doyle, *Ways of War and Peace: Realism, Liberalism, and Socialism* (New York: W.W. Norton, 1997).

Interdependence and the “Hobbesian Problem”

Whether economic interdependence offers a solution to the traditional “Hobbesian problem of order”² in the international system is of more than academic interest. Rather, it represents an important policy concern insofar as trade and interdependence could provide a foundation for durable stability in the international system, “after hegemony.”³ Whether holding a realist or a liberal view of international politics, one can easily acknowledge that systemic stability today is owed greatly to the hegemony of the United States—whether attributing to overwhelming concentration of U.S. capabilities or to the U.S. role as a standard bearer of liberal values worldwide. The liberal international economic order that Washington has promoted since the end of the Second World War has on the one hand had the desirable effect of ushering in prosperity on a huge scale in Europe and Asia. This same order could on the other hand also create the very conditions by which U.S. primacy might be decisively undermined if the resulting diffusion of economic growth produces new geopolitical competitors to the United States. The prospect of such an evolution—represented in the American mind most obviously by the rise of China—then raises the following question: will future international politics witness once again the violent struggles associated with a hegemonic transition (as many realists expect), or will the most recent bout of economic interdependence in fact mitigate the otherwise relentless momentum toward a conflict that might lead to major war (as many liberals hope)?⁴

Even apart from this question of the effects of interdependence on the quality of a potential systemic power transition, the issue of whether trade mitigates security competition is for many reasons an important one, especially in Asia. To begin with, the Asian continent is poised to become the largest single concentration of power in global politics, contributing close to half of the international product by 2025. Further, Asia hosts several major centers of economic power (Japan, China, South Korea, India, Australia, Russia, and Southeast Asia)—each of which is in different ways consequential for regional and global politics—as well as four major claimants for power-political recognition on a global scale (Russia, China, Japan, and India). Finally, the key Asian powers each possess significant

² Talcott Parsons first formulated this phrase in his classic work, *The Structure of Social Action* (New York: Free Press, 1937).

³ The affirmative claim is asserted and defended in Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, N.J.: Princeton University Press, 1984).

⁴ The classic statement on the relationship between differential economic growth and hegemonic war can be found in Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1981).

military capabilities and, interestingly, are increasingly bound to one or another by deepening economic linkages while continuing to remain enmeshed in various forms of manifest or latent geopolitical rivalry.⁵

The question whether growing economic interdependence can lead to political pacification of various Asian dyadic rivalries takes on added interest in light of Asia's circumstances. If the liberal tradition is correct, the existence of uneven growth in an otherwise rising Asia would matter less so long as the major powers were tied to one another in dense bonds of economic dependency: such bonds would be costly to break, thus providing insurance against the predations of conflict and thereby becoming instruments through which order is produced in an otherwise anarchic system.⁶ If the realist tradition is correct, the existence of dense interdependence between various key Asian states (including the United States as an Asian power) not only will fail to provide any antidote to the prospect of conflict but may in fact simply exacerbate the situation: since economic interdependence inevitably brings strategic vulnerability—in that states become dependent on others for vital goods or markets for their survival or prosperity—states become compelled “to control what they depend on or to lessen the extent of their dependency,”⁷ thereby creating a situation where interdependence leads “probably...to greater security competition.”⁸

This volume, *Strategic Asia 2006–07: Trade, Interdependence, and Security*, is conceived against the backdrop of this critical debate. The chapters herein are anchored in the proposition that, irrespective of whether one holds a realist or a liberal view, the question whether economic interdependence among states conduces to war or peace cannot be examined without first establishing the realities of trade and investment in various Asian economies and across important dyads. If significant current or prospective economic interdependence does not characterize the relations between key Asian countries, the issue of whether trade and investment has inflaming or pacifying effects becomes irrelevant. Accordingly, the first task intellectually is simply to establish the facts as they pertain to trade and

⁵ For more on this issue, see Ashley J. Tellis, “Overview: Military Modernization in Asia,” in *Strategic Asia 2005–06: Military Modernization in an Era of Uncertainty*, ed. Ashley J. Tellis and Michael Wills (Seattle: National Bureau of Asian Research, 2005), 3–37.

⁶ Susan McMillan, “Interdependence and Conflict,” *Mershon International Studies Review* 41 (1997): 33–58; and Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, 1986). See also Richard Rosecrance, “War, Trade and Interdependence,” in *Interdependence and Conflict in World Politics*, ed. James N. Rosenau and Hylke Tromp (Aldershot, U.K.: Avebury, 1989), 48–57.

⁷ Kenneth Waltz, *Theory of International Politics* (New York: Random House, 1979), 106.

⁸ John J. Mearsheimer, “Disorder Restored,” in *Rethinking America's Security*, ed. Graham Allison and Gregory F. Treverton (New York: W.W. Norton, 1992), 223.

economic interdependence in Asia in a systematic way. Such an approach would allow for focused scrutiny of any individual state and, by implication, for synoptic comparisons across countries.

Given the explosive deepening of globalization over the last two decades—understood as the growing share of global economic activity between people who live in different countries—this volume seeks to examine the role of trade and interdependence in the grand strategies of various Asian states. The focus is on understanding a number of issues in this context:

- how key Asian states view trade as advancing their national economic, political, and strategic objectives;
- how these states conceive of their trading relations with other regional powers as well as with the larger world;
- how the trade links that tie various Asian countries to one another as well as to the global economic order might affect national security and regional stability, and by implication the larger question whether and how trade and interdependence might conduce to war or peace.

An examination of this kind is undoubtedly challenging because it requires addressing issues of economics, political economy, and international relations simultaneously. Yet, undertaking at least an initial cut at such an examination is worthwhile for at least three reasons.

First, there is a large literature in political science, mainly associated with liberal international relations theory, that holds growing international trade—and specifically strong economic interdependence—to be positively correlated with international peace.⁹ This argument, which draws from the classical liberal tradition going back to Adam Smith and Immanuel Kant, has spawned a modern research program that uses quantitative statistical analysis to conclude that economic interdependence does indeed promote peace among states. The general causal argument underlying these statistical inferences is relatively simple: trade between states increases specialization across national boundaries; increased specialization increases the gains from trade on one hand, while deepening mutual dependency on the other hand; and growing mutual dependency makes war more costly and thereby

⁹ The literature on this issue is huge. Useful surveys can be found in Edward D. Mansfield and Brian M. Pollins, eds., *Economic Interdependence and International Conflict: New Perspectives on an Enduring Debate* (Ann Arbor: University of Michigan Press, 2003); Gerald Schneider, Katherine Barbieri, and Nils Peter Gleditsch, eds., *Globalization and Armed Conflict* (Lanham: Rowman and Littlefield, 2003); and Bruce Russett and John R. Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: Norton, 2001). An excellent critique of the interdependence and peace thesis can be found in Katherine Barbieri, *The Liberal Illusion: Does Trade Promote Peace?* (Ann Arbor: University of Michigan Press, 2002).

constrains states from seeking recourse to military force. This basic argument recently has been modified in two innovative ways. One argument made, for example, is that deepening interdependence leads to peace only when high levels of trade are expected to survive indefinitely into the future.¹⁰ Another argument maintains that increased trade enhances the prospects for peace mainly when a state's military power is based overwhelmingly on the domestically abundant resources in its factor endowment mix.¹¹ Predictably, all these arguments are open to challenge both by realist theorists of international relations as well as by other scholars on both methodological and substantive grounds. This volume is not intended to resolve these debates but, against the backdrop of these discussions, it is intended to explore whether and how the economic interdependence that characterizes any given Asian state might conduce to peace or conflict in the specific circumstances facing it.

Second, even as trade and interdependence are rising in Asia and beyond, the geopolitical structure of the Asian (and global) system is changing in ways that potentially could have serious consequences for structural stability over the long run. Increasingly obvious today is that China and, to a lesser degree, India have begun a successful ascent to great-power status that, if continued uninterrupted, would alter both the composition and the ranking of the world's major powers. The historical evidence thus far suggests that rising powers have invariably generated disruptive forces in the international order, usually leading to systemic wars that result in the replacement of one hegemonic state by another.¹² Even if systemic war is not at issue, the question whether the rise of China and eventually India could precipitate regional conflicts—or even serious crises short of war in their local environments—remains an important one. If China and India are moderated in their political ambitions precisely because they owe their national growth to dense international trade and interdependence linkages with countries that might otherwise be their political competitors, then the future of the current international system could be unlike that of the past: the rise of previous powers involved no such moderating effects, and the growth of the rising powers of the eighteenth and nineteenth centuries, unlike that of these two states, was primarily as a result of accelerated internal accumulation (or, when external accumulation was at issue, did not

¹⁰ Dale C. Copeland, "Economic Interdependence and War: A Theory of Trade Expectations," *International Security* 20, no. 4 (Spring 1996): 5–41.

¹¹ David M. Rowe, "The Tragedy of Liberalism—How Globalization Caused the First World War," *Security Studies* 14, no. 3 (July–September 2005): 407–47.

¹² George Modelski, *Long Cycles in World Politics* (Seattle: University of Washington Press, 1987).

involve tight interdependence with their principal rivals).¹³ “Mapping” the nature and the extent of the dependence of each of Asia’s major states on foreign trade, as well as identifying the webs of interdependence that arise as a result of various trading patterns, would thus provide the raw material to make some judgments about the hopeful view of Asia’s future for which liberal international relations theorists might argue. The result of these judgments, in turn, would also condition arguments as to how the United States ought to respond to the current growth of Asian economic power.

Third, if the pacifying effects of trade are affected not only by the perceived durability of interdependence relationships over time but also by the composition of trade itself, then it is important to document not only the volume and direction of trade of key Asian states but also the dependence of these states on trade for certain key ingredients that contribute to national power. Accordingly, helpful in providing a textured picture of how in any given case trade may conduce to (or detract from) national growth and international security would be an examination of the following: how a country’s trade performance is divided by merchandise versus invisibles, raw materials versus finished goods, high value added versus low valued added products, direct versus portfolio investments, and products versus people as well as and whether that trade emphasizes certain key elements such as the acquisition of science and technology and weapons and defense goods. Additionally, of importance would be an understanding of how a country’s trade and interdependence affect the domestic political environment in a number of issue areas: how trade and economic interdependences cohere with a country’s grand strategy; whether (and how) trade creates constituencies at the mass or elite level that shape the country’s national choices; and, finally, whether (and how) the patterns and direction of trade condition the political relations enjoyed by a country with key economic partners in Asia and beyond. An examination of these factors would provide a more nuanced understanding of the benefits and the limits of growing interdependence for regional and global security.

A comprehensive study of trade and interdependence in Asia along all these dimensions would constitute an entire research program that could not be reduced to a single volume. Accordingly, the chapters in this survey ought to be viewed primarily as a first step toward addressing these questions. They incorporate many, but not all, of the variables highlighted above to some degree or another. Rather, they seek primarily to elucidate the importance of trade in the grand strategies of key Asian states and to

¹³ For details, see George Modelski and William R. Thompson, *Leading Sectors and World Powers: The Coevolution of Global Politics and Economics* (Columbia, S.C.: University of South Carolina Press, 1996).

describe the pattern of their trading relationships so as to establish a baseline that would allow future editions of *Strategic Asia* to interrogate more deeply the larger question of whether the ongoing processes of globalization in Asia would contribute to a peaceful evolution of regional politics (and of the international system more generally) or whether they are likely to be even more disruptive than usual in that they accelerate the differences in national growth and thereby exacerbate the potential disequilibrium in the regional and global balances of power.

Because this volume has more modest aims, it does not investigate, for example, the intriguing question of whether globalization as experienced in Asia is transforming the domestic political systems in key Asian states in a way that helpfully influences critical political decisions pertaining to war and peace. The volume also does not assess at any length how trade, interdependence, and globalization may be creating new interest groups in domestic politics and how these groups affect the distribution of state power and preferences in regard to questions of high politics. The unified state as rational actor is, therefore, retained largely as the unit of analysis primarily for reasons of convenience since the main objective of the research work reported here is to provide, first, the relevant information pertaining to trade and interdependence in regard to the principal states in Asia and, second, a set of analytical judgments about how such interdependence affects specific issues of peace and security associated with each country of interest in this volume. As such, *Strategic Asia 2006–07* provides a survey of how trade and interdependence affect security in complex ways in various Asian states and in the continent as a whole.

Interdependence and Security in Asia

The chapters in this volume of *Strategic Asia* suggest a complex picture of growing trade dependence on the part of almost all Asian states (see **Table 1**), yet no assurance that such interdependence promises to make violent power-political conflict irrelevant. The lack of such assurance derives from a variety of factors, ranging from a relatively weak trade intensity to a continuing primacy of power-political goals. The former, for example, is the case with the most important state in the international system, the United States, and the latter with the China-Taiwan-United States triangle. Consequently, the growing economic interdependence that defines all Asian states ought to be viewed, at least for the moment, as providing a vehicle for increasing national wealth rather than as a device that confidently assures the attenuation of power-political rivalry. More interestingly and to the point, however, is that most of the key Asian nations seem to

focus on trade principally as a device for maximizing “power and plenty,” that is, as an instrumental mechanism for assuring the fastest increases in gross national product, which can then be used by the governing regime to secure whatever goals—domestic or external—that may be of interest to the state.¹⁴ The significance of trade for most Asian powers thus derives from fundamentally realist impulses—expanding the national product to secure specific political aims—rather than from liberal instincts centered on achieving “peace on earth” through “free trade among men.”¹⁵ Even in those cases where trade is specifically directed toward mitigating conflicts—as for example in Chinese efforts at attracting Taiwanese and Japanese business investments to the mainland, Southeast Asian efforts at developing tight economic relations with China, or Sino-Indian efforts at deepening bilateral trade relations—the calculus in each instance appears to center on how trade and interdependence might be used “strategically” to advance certain geopolitical and geo-economic goals rather than because of the conviction, as Richard Cobden held, that free trade “unites” states, “making each equally anxious for the prosperity and happiness of both.”¹⁶

Stephen D. Cohen’s chapter on the United States provides a fascinating analysis of how the world’s most powerful country views—and exploits—foreign trade in a unique way born of the exceptional position of the United States in the international system. Cohen underscores that although the United States remains the world’s most powerful economy as well as its premier military power, “exports and imports both represent a smaller percentage of U.S. gross domestic product (GDP) than is the case in every other major economy and most minor ones.” As a result, the United States is not unduly dependent on the global economy for the country’s continued wealth and power. Such dependence is manifested mainly through the extraordinary American indebtedness, which because of unparalleled U.S. power and the reserve currency role of the dollar has permitted the United States to accumulate “so much external debt for so long” that the country is “at—if not already beyond—the boundaries of prudent economic behavior.” Cohen’s analysis leads inevitably to the conclusion that the United States enjoys great, although not untrammelled, freedom of action in international politics not only because it possesses enormous military and economic power but also because the country takes advantage of a peculiar benefit of interdependence arising from the fact that U.S. creditors have no choice but

¹⁴ The classic statement of this strategy is Jacob Viner, “Power and Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries,” *World Politics* 1, no. 1 (October 1948).

¹⁵ These phrases are borrowed from Daniel T. Griswold, “Peace on Earth? Try Free Trade among Men,” CATO Institute, December 28, 2005.

¹⁶ Richard Cobden, *The Political Writings of Richard Cobden* (London: T. Fischer Unwin, 1903), 225.

to offer what are in effect dollar tributes—whereby these creditors exchange real resources for paper currency—so long as they remain reluctant to rely on domestic demand as the main engine for generating economic growth in their own countries.

This reluctance, in the case of China for example, is rooted in an economic strategy centered on the logic of export-led growth. In the final analysis, however, this hesitancy may be driven as much by the political imperatives of eschewing the creation of real consumers who might inevitably demand full political rights. The reasons that other Asian states, such as Japan, subsidize continued U.S. overconsumption differ from those of China at a political level. At an economic level, however, the reasons remain the same: these states, reluctant or unable to create genuine effective demand at home, are compelled to mortgage their economic growth to continued U.S. consumption of their exported products. Given this strategy, these states simply have no choice but to finance the continuing U.S. trade deficits if they are to stand some chance of maintaining their growth rates in the absence of significant internal consumption. In such circumstances, the U.S. dependence on trade, which is relatively modest to begin with, could have even less of a political restraining effect than might otherwise be case, which is arguably good news for the pursuit of U.S. strategic objectives in Asia, especially when these embody some risk of conflict with a country such as China.

Michael Chambers' chapter on China provides a superb case study of a country that is disproportionately dependent on trade with the international system for its growth in national power yet seeks to exploit that interdependence in order to "create a buffer zone to help Beijing resist any hostile pressure," especially from the United States. In Chambers' reading, the PRC's export-led economic strategy, conceived and directed consciously by a purposeful state, is centered fundamentally on creating the wherewithal to support China's rise as a traditional great power with the full panoply of political, economic, and military capabilities. Export-led growth then becomes the instrumentality that enables Beijing to keep the United States invested in strong economic links with China, thereby hopefully dissuading Washington from constraining China's rise. At the same time, however, such growth creates webs of interdependence that tightly tie the prosperity of China's regional neighbors to their relations with Beijing. The high trade intensity that characterizes the Chinese economy is thus oriented toward realizing economic and strategic objectives simultaneously: trade is clearly viewed as providing the fastest means of enlarging the national product, which in turn provides the state with the resources required both to maintain the social contract that preserves the state's power and to

secure those capabilities deemed necessary to protect national interests. Simultaneously, however, trade is seen as providing a strategic instrument that could tie the hands of China's most important adversaries, such as the United States and Japan, through exactly the mechanism highlighted by liberal interdependence theory—namely the high costs of conflict among specialized trading partners—while concurrently limiting the freedom of action of China's regional neighbors, who presumably would be unwilling to bandwagon with countries that might imperil the source of their current prosperity.

This same strategy is now conceived by Beijing as helping to wean the Taiwanese from any temptations to independence. In an anomaly from the perspective of liberal interdependence theory, however, Beijing appears to be willing to put all economic achievements of the last three decades at risk if necessary to prevent Taiwanese secessionism—by refusing to rule out war with China's principal trading partner, the United States. This response appears to derive from complex considerations involving the unity of China as a state, the legitimacy and survival of China's ruling Communist party, and the fear of further strengthening China's foreign competitors. Therefore the pacifying benefits usually attributed to deep economic interdependence by liberal thought appear to be at conspicuous risk at least as far as this contingency is concerned. And while arguing that China's zeal for great power capabilities via economic growth provides reasonable assurance that Beijing's geopolitical behavior will be moderated for the next decade or so, Chambers also notes that “as China's economic power, military capabilities, and political influence expand, the PRC may develop new interests at odds with the current international system.” If the current patterns of Chinese economic growth continue to hold, this moment would undoubtedly embody a critical test of whether economic interdependence does in fact conduce to peace.

There is perhaps no better example in the postwar era of how trade can contribute to rapid economic growth and the accumulation of great power capabilities than Japan. A country with poor natural resources and a political order destroyed by war, Japan rose from the ashes of defeat to become the second largest economy in the world through the exploitation of an asymmetrically open international economy, especially the U.S. market, while relying on the security offered by its U.S. protector. As **Table 1** indicates, Japan still exhibits a remarkably low degree of openness to foreign trade, second only to Central Asia among the key economic centers surveyed in this volume. Michael Mastanduno's chapter describes this dynamic in some detail and explores how Japan, the trading state par excellence, is struggling to become a “normal” country able to sustain high

TABLE 1 Trade intensity in Asia, 2004

Country or region	% of trade with Asia	% of trade with the United States	% of trade with rest of the world	Trade as % of GDP
Central Asia	39.2	3.4	57.3	19.9
China	53.9	15.1	31.0	65.3
India	28.2	10.7	61.1	41.6
Japan	48.0	18.8	33.1	22.1
Russia	19.8	4.9	75.3	57.3
South Korea	51.7	15.1	33.2	83.8
Southeast Asia	61.1	13.3	25.6	47.8
United States	33.5	–	66.5	23.7

SOURCE: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 2005.

NOTE: No data for Southeast Asia was available for Brunei or Burma. No data for Central Asia was available for Turkmenistan.

levels of economic performance even while pursuing new power-political goals. After a disastrous recessionary decade, ironically rooted in the supernormal success of Japanese mercantilism up to the 1980s, the Japanese economy appears to be slowly returning to the path of renewed economic growth. Although Tokyo recognizes that creating effective domestic demand is critical to the country's economic resurgence, the structure of the Japanese economy—including conspicuously unfavorable demographic trends—ensures that Japan will continue to remain dependent on overseas markets for sustained growth over the long term.

Whether Japan can become a true great power in such circumstances—where the country continues to remain noticeably dependent on external sources for almost all its raw material inputs as well as for markets for the bulk of finished goods—remains an interesting question. What is even more intriguing about the Japanese case is that Tokyo's deepened integration with the East Asian economic system—which promises to rapidly eclipse trading relations with Japan's most important traditional partner, the United States—involves reliance on partners that are either suspicious of Japan because of the burdens of history (for example, China, South Korea, and Southeast Asia) or likely to be deeply competitive with Japan for reasons associated with conventional balance-of-power politics. Japan thus far appears to have avoided the worst consequences of this tension: key Asian trading partners, each for their own reasons, have welcomed tightening economic interdependence with Japan, even as they continue with considerable wariness to watch the country's transition into a “normal”

power. As Mastanduno emphasizes, the oddity is that Tokyo's political and security relations with key neighbors have worsened despite Japan's greater economic integration with East Asia. This leads him to speculatively conclude that economic interdependence may not conduce to peaceable relations, at least in this region.

This conclusion, however, has profound consequences. The absence of peace could over time erode the webs of interdependence now developing in the region, thus undermining especially those powers, such as Japan, that depend most on regional trade for continued growth. In such circumstances, Tokyo would have little choice. With a predominantly domestic driven economic expansion unlikely at least in the immediate future, Japan's desire to sustain its current strategy of maintaining high economic growth while becoming a normal state may leave it with no other real option than to rely asymmetrically on the U.S. market (and those of other non-East Asian states) even more intensively than before. Whether this option of deepened economic dependence on the United States and other non-East Asian markets can be sustained, however, will depend greatly on the state of Sino-U.S. relations, Japan's relations with emerging states outside East Asia proper, and China's own behavior as a rising power. Yet as Mastanduno points out, "Japan could play an important regional role as an alternative to China..." for smaller states that "prefer having options rather than being excessively dependent on one powerful neighboring economy."

In the case of South Korea, the intersection of trade, interdependence, and high politics, forms a similar picture but with notable differences. Like Japan, South Korea has traditionally been a poster child for the success of trade-driven growth in the postwar era. The protection offered by the United States, coupled with asymmetric access to the American market, enabled Seoul to rapidly garner the benefits of development while warding off the North Korean (DPRK) threat without undue dissipation of South Korea's dramatic economic gains. As David Kang describes, emboldened by its success, South Korea today seeks to exploit the beneficial potential of trade-driven interdependence to advance simultaneously both strategic and economic goals. One element involves a dramatic new effort by South Korea to integrate longstanding adversary North Korea into a new peninsular rapprochement that Seoul hopes will simultaneously attenuate the military threats posed by a still powerful, though clearly weakening, Pyongyang; minimize the prospect of DPRK collapse (with a view to eliminating all instabilities associated with that outcome); and eventually pave the way for a gradual and peaceful unification of the peninsula. The other element involves efforts by South Korea to deepen economic and political ties with China, both because Beijing shares Seoul's priorities with

respect to North Korea—in contrast to the United States which, mindful of global consequences, emphasizes the elimination of Pyongyang’s nuclear weapons—and because the rapidly growing Chinese economy now offers more and increasingly profitable opportunities for South Korean trade and investment.

In relative terms, therefore, the United States comes out the loser as a result of these trends. Although Kang emphasizes that Seoul “firmly desires to continue its close relationship with the United States,” the structural factors he describes clearly forecast a tightening of economic and political ties between Seoul and Beijing that is likely to complicate U.S. strategic goals in Northeast Asia. The political benefits of economic interdependence between the two Koreas may not just yet be fully realized in the manner hoped for by liberal theorists—in part because genuine interdependence between the two sides of the Korean peninsula is still far away but also because the DPRK regime is still sufficiently eccentric in regard to the use of force. Yet the growing ties between Seoul and Pyongyang and between Seoul and Beijing, when contrasted both with the persisting alienation in relations between Seoul and Tokyo and with the growing uncertainty in future ties between Washington and Seoul, might turn out to be just the combination necessary to compromise South Korea’s autonomy in Northeast Asia. Kang’s analysis suggests that although neither foreordained nor desirable, such an outcome may be inevitable if the emerging patterns of economic interdependence come to strongly dominate national security decisionmaking in Beijing and Seoul.

The strength of the growing Chinese economy as a magnet for trade and by implication political influence, a strength that is so strongly evident in the case of relations between Seoul and Beijing, is also manifest in the interactions between Southeast Asia and China—but with an interesting twist. As Donald Weatherbee convincingly documents in his chapter, a rising China no doubt exercises a powerful gravitational pull on Southeast Asia, but the region’s states—in sharp contrast with Seoul—have consciously attempted to avoid being sucked into Beijing’s vortex. The patterns of economic interdependence witnessed in the region only empower the Association of Southeast Asian Nations (ASEAN) in one regard: although regional trade with China has risen (not surprisingly, given Beijing’s impressive trade-driven growth in recent decades) the United States remains Southeast Asia’s largest partner when all economic transactions—trade, investment, and development assistance—are taken into account. The Bush administration’s new “Enterprise for ASEAN Initiative” (EAI), which provides a roadmap for steadily moving from bilateral trade and investment framework agreements (TIFA) to region-wide free trade agreements, will

further consolidate the U.S. presence in Southeast Asia over the long term and provide powerful countervailing assistance to ASEAN, which appears determined to steer clear of becoming locked into tributary relations with China.

The intersection of economics and politics in Southeast Asia thus appears to satisfy realist expectations of interstate behavior. At one level, most of the region's small states have sought to pursue different kinds of free trade agreements with one another in order both to increase national economic growth in the fastest way possible and to mitigate any potentially adverse intra-regional rivalry. The pursuit of these two objectives, however, is shaped by the recognition that the ASEAN states are essentially minnows in a sea of whales. Hence, the efforts by these states at internal balancing and regional coalition building are consciously supplemented by the forging of strong economic ties with Japan, the European Union, and the United States, even as the security relations enjoyed by key local actors with Washington continue to be viewed as the ultimate guarantor of the region's autonomy. Deeply desirous of minimizing the threat posed by China, the Southeast Asian states have sought to integrate Beijing into their lattice of multilayered economic relations, while continuing to reach out to other major regional balancers such as Japan and India. As Weatherbee emphasizes, this does not imply that the Southeast Asian states are being assimilated into a web with China at its hub. Rather, ASEAN seeks to remain the hub of its own global network, with spokes of different sizes running to the United States, the European Union, Japan, China, and India. Thus the dense set of bilateral trade and investment relations pursued by the individual ASEAN states with all these outside actors would come to create "a peaceful and politically stable Southeast Asia open to all." Peace and order in the ASEAN strategy, then, do not derive merely from the fact of dense economic interdependence, but rather from the assurance that any attempt either by intra-regional or extra-regional actors to disrupt that interdependence by force would challenge the interests of other major powers, who would then respond in the manner necessary to restore the lost equilibrium.

The patterns of trade, interdependence, and security that dominate the Southeast Asian region are as far removed as can be imagined from South Asia for many reasons. Unlike Southeast Asia, which is populated by states and economies of comparable size (with the exception of Indonesia, which is large but physically separated from the other regional states), the South Asian region is dominated—physically, politically, economically, and strategically—by India. India is the geographically unifying entity because the country happens to share borders with every other state in the region, none of whom share a common border. One way that this central

geographical fact defines regional politics is by making India the convenient object of all regional resentments, no matter what individual disagreements India's neighbors may have with one another. India's asymmetrically larger size, dramatically greater power-political standing, and conspicuously larger economy relative to neighboring countries only accentuate this dynamic further. Given that India's traditional economic strategy centered on self-reliance, New Delhi's trading relations with its neighbors historically have been essentially marginal: India did not need its neighbors for anything essential to its prosperity. In their detailed survey of South Asia in this volume, Kavita Iyengar and Devesh Kapur illustrate how a number of factors combine to produce remarkably low levels of economic integration: chronic political tensions within the region, poor physical connectivity, the lack of trade complementarity and similarities in comparative advantage, high tariff and non-tariff barriers (NTBs), and burdensome "behind the border" constraints.

New efforts such as the South Asian Free Trade Agreement are now underway to increase intra-regional trade. Similarly, attempts are also being made to boost extra-regional trade, with India in particular pushing to conclude various bilateral and regional economic cooperation agreements for both economic and political reasons; yet the pace of change is maddeningly slow. Intra-regional trade continues to be stymied by fear that smaller neighbors have of being overwhelmed by India's larger and more sophisticated economy. The slow growth of extra-regional trade, on the other hand, is attributable to other reasons. India's large size, history of emphasizing self-reliance, and relative self-sufficiency in terms of most natural resources (with the conspicuous exception of energy) invariably puts a premium on internal rather than trade-driven growth—just like the United States. True, the ideological rationales that traditionally reinforced this strategy are changing, as New Delhi gradually liberalizes India's economy. The democratic political system, however, restrains the government from rapidly and comprehensively integrating the economy with the liberal international trading order because the resulting gains and losses would deleteriously affect the fortunes of many key domestic constituencies.

The beneficial effects of interdependence on regional peace and security, for example between India and Pakistan, are therefore modest at best. As Iyengar and Kapur correctly conclude, "not only is the level of trade [within South Asia] too small, but even if it were to grow substantially, bilateral trade [within the region] will remain a modest fraction of overall trade—too small to matter, especially given the high degree of substitutability of products available in highly competitive global trade markets. Trade disruption will not impose onerous costs on any of these countries and hence will not be

a factor” that compels them to change their strategic attitudes. Even in the case of Sino-Indian relations, where dramatic increases in trade have been realized in recent years, this growth in “interdependence” is driven entirely by the realist goal of maximizing national power in both countries. Consequently, this growth is complemented by efforts that involve “quietly developing security assets to counter each other,” even as China appears poised “to emerge as India’s largest trading partner by the end of this decade.” On balance, therefore, increased interdependence in the Sino-Indian relationship will certainly complicate the political and strategic calculus in both countries but does not as yet assure a lasting peace, with significant consequences for the future of the balance of power in Asia.

Dina and Martin Spechler’s chapter on Central Asia graphically depicts a region—now populated by five “increasingly disparate states with different growth strategies, results, and political orientations”—that has lost the economic and political unity that characterized it during the Soviet era. The Spechlers note that while the energy, mineral, and human resources have enabled at least three states—Kazakhstan, Turkmenistan, and Uzbekistan—to pursue autonomous foreign policies, the presence of oil and natural gas has drawn several major outside powers (Russia, China, India, and the United States) to develop significant interests in the region. Two questions concerning trade, interdependence, and security are relevant to the region. First, are the intra-regional trade patterns and the use of natural resources likely to increase the probability of conflict among the Central Asian states or with outsiders? Second, does the role of outside powers in developing Central Asia’s energy resources increase the probability of violent conflict or to reduce power-political tensions?

The data adduced by the Spechlers suggests that intra-regional trade remains relatively modest, although informal trade is likely to be more substantial than official statistics suggest. The reality of relatively low intra-regional trade densities implies that regional economic relations are likely to have a marginal impact on questions of war and peace. These questions are likely to be affected more by local precipitants such as Islamist extremism, the trans-border drug trade, and border disputes than by local economic intercourse. The authors conclude that major conflict between the Central Asian states is in any event unlikely, but that contestation over water could precipitate localized tensions. Where strife between the major powers over regional resources is concerned, the authors again draw sanguine conclusions, arguing that secure energy supplies to Russia, China, India, or other Eurasian powers will reduce the probability of violent conflict. This inference is obviously reassuring, although much will depend on the strategies adopted by large local consumers of energy such as China, Japan,

and India; so long as these actors view markets as the principal mechanism for mediating oil and natural gas demands, the potential for armed conflict ought to be mitigated. Not to be overlooked, however, are circumstances in which the mercantilist approaches toward securing energy supplies might come to dominate the national strategies of these states, an issue that, at least in the case of China and to a lesser degree India, is not yet settled completely and in the case of Japan could change in the future. In such cases, the risk of conflict would increase to the degree that these nations came to view natural resources in foreign lands as assets to be “captured” for one’s exclusive use, a challenge that even the “export globalism” currently pursued by the Central Asian states may be unable to prevent.

Rounding up the country studies in this volume, Peter Rutland’s chapter on Russia focuses on a major global power that is currently enjoying an economic renaissance almost entirely because of upward price movements in the global energy markets. This fact underscores, among other things, the remarkable nature of Russia’s economic evolution from an autarkic, inward-looking, economic machine during the Soviet Union to the trading state that the country has become during the current era. Russia’s growing dependence on trade ought to augur well both for integration with the Western political community (an objective Moscow has assiduously pursued since the demise of the Soviet Union) and for regional peace and stability (if the liberal vision of interdependence is correct). Rutland’s analysis, however, highlights several variables that cast shadows on what is otherwise a welcome development.

To begin with, Russia’s integration with the global economy centers primarily on the country’s exports of energy and critical raw materials—a situation well understood by economists to have the potential to reinforce the “resource curse.”¹⁷ Contemporary developments seem to corroborate this expectation: the Russian state, flush with cash from rising energy prices, has moved swiftly to retard the country’s movement toward democratization. Favored instead is a state-supported corporatism that has targeted liberal political elements within the country and, as a result, precipitated great unease within the West. Furthermore, given that the infrastructure associated with Russia’s energy estate appears to be rapidly aging, whether Russia will be able to sustain the country’s currently lucrative energy production and export strategy over the long term is unclear. Finally, there is a significant risk that Russia’s current strategy of selling advanced

¹⁷ Jeffrey D. Sachs and Andrew M. Warner, “Natural Resource Abundance and Economic Growth,” National Bureau of Economic Research, NBER Working Paper, no. 5398, December 1995; Ragnar Torvik, “Natural Resources, Rent Seeking and Welfare,” *Journal of Development Economics* 67, no. 2 (April 15, 2002): 455–70; and Sweder van Wijnbergen, “The ‘Dutch Disease’: A Disease After All?” *Economic Journal*, 94 (March 1984): 41–55.

weaponry to China could backfire, insofar as such sales could strengthen what is clearly a rising power and a potential Russian adversary. Not at all certain at this time is whether the Russian defense industry will be able to maintain the technological superiority that will help blunt future Chinese challenges, whether the Chinese economic penetration of the vulnerable Russian Far East—the locus of many critical Russian resources—will diminish, and whether the strength and capabilities of Russia's conventional defense forces will remain adequate given the enormous security challenges that continue to confront the country.

All told the Russian economy appears well-placed to benefit from the growing energy demands in Asia and elsewhere; there remain, however, considerable uncertainties as to whether these advantages can be sustained over the long-term and to the advantage of Russian democracy. Gnawing doubts also persist about whether the growing interdependence that now characterizes the Russian economy will actually contribute toward mitigating the security threats that are likely to confront Moscow in the future.

In addition to the country and regional chapters on trade and interdependence—this volume, continuing a tradition begun with the very first edition of *Strategic Asia* in 2001—includes three special studies that in interesting ways relate to the theme of this year's research.

The first study by Minxin Pei addresses what is probably the central question surrounding the rise of China as a great power and one that is intimately linked to the emerging patterns of trade and interdependence now witnessed in Asia: can Beijing sustain its meteoric economic growth over the secular period without political reforms? If the answer to this question is affirmative, not only will China have succeeded in blazing a new path not witnessed historically but from both a realist and a liberal perspective China's economic growth would also likely give way to serious political apprehensions. Pei answers this critical question in the negative, however, noting that "China will not likely continue this course of rapid growth without undertaking the necessary political reforms to make the Chinese political system more responsive and respectful of property and individual rights." Noting that a period of strong economic growth may obscure the need for fundamental political and structural reforms, Pei urges U.S. policymakers in particular not to take China's future economic success for granted. Instead, he argues that the West ought to focus on encouraging domestic political change within China as a means of helping the country both to sustain economic growth and to become a responsible global power. Such a policy, however, could increase tensions in Sino-U.S. relations in the near term; whether current and future U.S. administrations ought to take

these risks in light of the presumed benefits Pei highlights in his chapter, therefore, ought to become an important element of the U.S. debate on China in the years to come.

As the special study by William Thompson and David Rapkin on the emergence of China and India reminds us, there are two power transitions occurring in Asia today, with two large powers growing in strength and pressing claims for recognition on the global stage. Unlike most previous work, which has focused predominantly on the political facets of Sino-Indian rivalry, Thompson and Rapkin attempt to depict this “dual transition” in terms of the structural elements: the modes and relations of production in the global economy. Since the birth of new great powers has historically engendered considerable violence, the question whether the concurrent rise of China and India to great power status would prove the exception to this historical norm in the current age of interdependence remains a matter of great theoretical and policy interest. Thompson and Rapkin soberly conclude that although interdependence may accelerate the growth of national capabilities in both these countries, it cannot assuredly pacify conspicuous rivalries. Rather, the economic friction that interdependence autonomously generates can “offset or overwhelm its conflict-suppressing effects,” depending on various factors. What is important in the Sino-Indian cases, however, is that their impact on the global system is still open because, the authors argue, “the explication of historical patterns” ought to be viewed “as opportunities for social, or more aptly strategic, learning that can lessen the probability that the deadly dynamics of great power interactions characteristic of prior centuries will be repeated.” If the realists are correct in their assessments of international politics, however, no amount of learning may be sufficient for China and India to avoid the adjustment traumas associated with the rise of new great powers because other states, fearful of the worst outcomes for their security, are condemned to engage in individually beneficial but systemically sub-optimal behaviors that have the effect of exacerbating strategic rivalry. Whether this outcome can yet be escaped in the case of China and India remains to be seen, but the record that Thompson and Rapkin have themselves adduced and analyzed leaves little room for unalloyed optimism.

In addition to great-power rivalry, perhaps no other issue can do more to undermine the optimism concerning Asia’s continuing growth in economic and political power than the spread of pandemic disease—again, ironically encouraged by that increased movement of goods, services, and people that defines interdependence. Ann Marie Kimball’s special study on infectious diseases and their impact on interdependence highlights the transformative role of epidemics and their potential to retard growth in

East and Southeast Asia—the region that is most likely to emerge as the source of such a scourge despite their being among the most productive quadrants of the Asian continent. Despite the improvements in international cooperation that have occurred since the SARS epidemic, Kimball warns that the region still lacks the capabilities to cope with a truly virulent outbreak of infectious disease. If unmanaged, such a contingency could deeply undermine the “Asian miracle” through its corrosive impact on labor availability, irremediable alterations in family size and structure, pressure on savings and investment, and even increased suspicions between states (both those who are victims and those who are bystanders in an epidemic). Given the importance of this issue to the Asian countries themselves as well as to the United States, Kimball notes the importance of Washington investing in collaborative efforts to detect, treat, and manage the outbreak of infectious disease in a way that goes beyond simply being obsessed with “thwarting potential bioterror attacks against the American people.”

Taking Stock

When viewed synoptically, the country and regional studies in this volume of *Strategic Asia* leave no doubt that trade has become a critical instrument in the drive to sustain national economic growth. The smaller countries of East Asia had settled on trade-driven growth strategies in the early postwar period; their success was sufficiently obvious by the late 1970s to entice China to follow suit. This decision had dramatic consequences in that it propelled China’s explosive economic growth during the last three decades and, as a result, has created a web of interdependence that links many East and Southeast Asian states—both friends and rivals—into a network that has been very conducive to rapid growth. Even large continental-sized states such as India and Russia, which for different reasons had not emphasized foreign trade previously, have now focused on increasing their links with the global economy. The emerging trend in *Strategic Asia*’s area of focus thus seems clear: growing trade and interdependence will increasingly be the norm between both friends and competitors, with all countries coming to realize the value of accelerated economic growth for achieving their national purposes.

This “rush to trade” as a strategy for increasing growth, and as manifested in Asia over the last few decades, has intriguing characteristics. Although all trade expansion at an economic level is invariably accompanied by the need to manage the character and consequences of that expansion domestically, the major trading states in Asia do not as yet appear to exhibit any acute

fears about the problem of relative gains.¹⁸ That is, these states remain at least thus far noticeably unconcerned about how much their partners may be profiting from any given trading relationship, so long as they are all seen to come out ahead in absolute terms relative to not trading at all. To the degree that concerns about relative gains are manifest, these states seem to be driven more by sub-national issues involving domestic political groups (who may be winners or losers in specific trading interactions) than by issues at the state level, where national security decisionmakers fret about the economic performance of their country relative to some competitors. In this sense, the behavior of these states seems to comport with liberal theories of international politics and may derive from three specific judgments that are relevant to the future of Asia:

- That the hegemonic status of the United States and its security commitments in Asia are right now so robust as to ensure that any differentials in relative gains have insignificant strategic meaning.
- That peace among the Asian states will continue for some time to come, thereby strengthening positive expectations for future trade among national decisionmakers in these countries and inducing them to expand their interdependence in order to realize its growth and welfare gains, without being unduly fearful about the consequences for long-term strategic competition.
- That even if in some states, such as China, the gains from trade are generating resources that are being diverted to military purposes, these states are still not able to pose consequential military threats. Such threats can in any event be contained by other political instruments that do not require their partners to forgo any profitable trading relationships in the interim.¹⁹

That the Asian states can continue to expand their trading links on these premises is particularly interesting because most of the regional states appear to view trade as a device for maximizing national power.

¹⁸ This issue is discussed systematically in Joseph M. Grieco, “Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism,” *International Organization* 42, no. 3 (Summer 1988): 485–529.

¹⁹ Whether this judgment is accurate is another matter altogether. The historical record is littered with examples of countries that failed to make accurate assessments of the pre-conflict balance of military capabilities, only to discover—too late sometimes—that the balance of power had indeed changed unexpectedly despite careful watching. For sobering judgments about the art of military assessment, see Aaron Friedberg, “The Assessment of Military Power: A Review Essay,” *International Security* 12, no. 3 (Winter 1987/88): 190–202, and Eliot Cohen, “Guessing Game: A Reappraisal of Systems Analysis,” in *The Strategic Imperative*, ed. Samuel Huntington (Cambridge, MA: Ballinger, 1982), 163–92.

The chapters in this volume illustrate clearly that the trading states in Asia perceive the deepening in regional interdependence less in terms of collective security and more in terms of latching on to the most efficient device capable of increasing national growth rates in comparison to some alternative economic strategy. Although domestic political considerations are ever present in this context, the state-level drivers nonetheless revolve primarily around a number of considerations:

- increasing national strength;
- providing the state with resources to advance power-political goals;
- minimizing the prospects of balancing on the part of one's competitors;
- creating networks of dependency that limit a rival's choices;
- expanding access and influence in strategic areas;
- generating conditions that would limit the freedom of action on the part of important extra-continental powers such as the United States.

Given such objectives, the fact that the Asian states currently neglect relative gains issues in their trading relationships may appear surprising at first sight. Yet on reconsideration, these attitudes are understandable because, as Albert Hirschman appreciated as early as 1945, decisions to trade generally involve efforts to maximize both economic and political utility.²⁰ So long as these two objectives are not perceived to be in absolute conflict, political rivals might continue to engage in productive trading relations because of their judgment that economic or political benefits are to be derived from trade with one's competitors. In fact, concerns about differential growth rates may themselves compel states to engage more vigorously in trading relationships than usual—despite all the risks arising from interdependence—if these interactions are seen to provide more effective mechanisms of increasing national economic capacity relative to all other alternatives.²¹ This calculus probably accounts for why even great powers pursued relationships involving economic interdependence at various points in history, including when security competition between them was particularly intense, as was the case between 1880 and 1914. Because most of the Asian states today find themselves encompassed

²⁰ Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley, CA: University of California Press, 1945).

²¹ For a good discussion of why states may trade despite concerns for relative gains see especially the essays by Duncan Snidal, Robert Powell, and Robert Keohane, in *Neorealism and Neoliberalism: The Contemporary Debate*, ed. David A. Baldwin (New York: Columbia University Press, 1993).

by exactly the same logic (while simultaneously remaining—despite the growth in intra-Asian trade—critically dependent on important markets outside Asia), their dependence on foreign trade as an engine for ensuring economic growth will likely continue for some time to come.

The behavior of the Asian states, therefore, suggests that their leaders have understood both the lessons of economics and the lessons of international politics all too well. They appreciate that robust economic growth alone enables them to protect their states in the manner they deem desirable, that trade enables these states to expand their national power faster in comparison to alternative national strategies, and that the growth in power, which derives from both trade and internal resource mobilization, enables them to ward off threats and manage risks while strengthening their ability to secure whatever strategic goals they may happen to pursue. In so doing, Asian states appear to straddle the realist-liberal divide on trade, interdependence, and security: they recognize that the demands of power and the demands of plenty may be opposed in the limiting case; until that point is reached, however, they want to enjoy the gains deriving from international commerce precisely in order to be better able to manage the tensions that all utility- and security-maximizing states must confront in an “anarchic” global environment. To the degree that such behaviors are likely to persist in a regional strategic environment that is “between the times,” the liberal hypothesis regarding interdependence and peace cannot yet be conclusively tested in Asia. And, if the realist reading of international politics is correct, such a test may continue to elude the continent, if not necessarily every dyad within it, for some time to come.