

# Deterrence, interdependence and Sino–US peace

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## Abstract

Nuclear deterrence and economic interdependence are key factors in cost calculations underpinning decisions on war or peace between states. This paper combines deterrence and interdependence in a proposed theory of major power peace, with reference to a number of insightful works on the ongoing transition of power from the US to a rising China. The paper explores the hypothesis that as long as the US and China can deter each other with a combination of conventional and nuclear forces, and refrain from actions to drastically reduce their economic dependence on each other, there is little risk of war between them. Peace will be further secured if important third party countries, notably Japan, remain covered by US extended deterrence and integrated economically with both China and the USA through trade and transnational production chains. Only if the US, Chinese or Japanese governments take politically motivated actions to radically reduce their economic dependence on one another are they likely to engage in a security competition of sufficient intensity to generate an arms race and a substantial risk of war. This does not just hold for all-out war but for limited war as well, given the risk of escalation.

## Keywords

China, USA, deterrence, interdependence, peace

## Introduction

At a Peace Research Institute Oslo (PRIO) seminar in October 2009, John Mearsheimer presented his tragic theory of great power relations with the conclusion that ‘China and the United States are destined to be adversaries as China’s power grows’ and that a balancing coalition will be formed against China resulting in ‘an intense security competition between China and its rivals, with the ever-present danger of great-power war hanging over them’ (Mearsheimer, 2001: 4; Mearsheimer, 2006: 160). From the perspective of offensive realism, US national security depends on a combination of conventional and nuclear power, bases throughout the world, and alliances with third party

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countries like Japan. Mearsheimer (2001: 396–402) argues that China is bound to seek hegemony in Northeast Asia, regardless of its political system, since this will be the best way to enhance China's national security. And the US will be obliged to prevent China's further rise if it approaches power parity. Hence China's continued relative rise will lead by necessity to a substantial risk of war. The only factor that can prevent it is a halt to China's relative rise, either because of a US economic rebound or a Chinese slowdown. The latter might come about as a result of demographic aging, of a failure to overcome the 'middle income trap', or as an effect of Western containment. Mearsheimer argues that the US will soon need to give up its engagement strategy and put the brakes on China's economic rise. After his lecture at PRIO, he was asked what he thought would be the best rival theory to his own, one allowing China to continue its peaceful rise to a level of parity with the USA. He answered: a theory combining nuclear deterrence and economic interdependence. He did not of course believe that such a theory would be better than his own but saw it as a possible challenger.

The offensive realist Mearsheimer rejects the possibility of trust between two unequal giants such as the US and China. Hence in his view, Charles Kupchan's argument in *How Enemies Become Friends: The Sources of Stable Peace* (2010: 395) that mutual accommodation holds a promise of facilitating a peaceful transition of power from the US to China if norms and rules develop that 'promote a nascent security community in Northeast Asia' can be nothing but naïve. The same goes for Henry Kissinger's assumption in *On China* (2011: 523) that it may be possible to develop 'strategic trust' of the same kind that once evolved between the UK and the US. If Mearsheimer is right that there cannot be genuine trust, then it might be thought that institutions and international law could do the trick, with China and the US accepting a common set of global rules, and sharing power in international institutions. Yet this also seems uncertain. China wants to revise the global rules and institutions, gain a greater role for its currency, increase its influence in global financial institutions or set up its own, and gain respect for 'historic rights' at sea. The US resists such changes, wanting to keep the global order in its present form. Trust and/or shared norms and institutions could no doubt solidify the peace but it seems risky to count upon them. Fortunately, however, they may not be necessary conditions for avoiding the risk of great power war. Mearsheimer could be right that the main factors likely to guard against an outbreak of war are deterrence and economic interdependence. While many scholars and writers have discussed each of them, few have tried to combine them in a single theory. This paper reflects on the interplay between deterrence and interdependence, with reference to some of the best recent works on the rise of China, in order to assess if they – when operating together – may ensure war avoidance.

The first consideration is whether nuclear deterrence is enough in itself to prevent war.

## Nuclear deterrence

Saadia M. Pekkanen et al's *The Oxford Handbook of the International Relations of Asia* (2014) sums up much of the current thinking about international relations in Asia. Among its thirty-nine chapters is one on nuclear politics by Jingdong Yuan. It notes that the region has the highest concentration of nuclear weapons in the world with three recognized nuclear powers (USA, Russia and China), two declared nuclear weapons states (Pakistan and India), and one country (North Korea), which is believed by some to already have acquired a capability to attack South Korea, Japan or China with a nuclear device. In addition, Japan, South Korea and Taiwan are considered to be 'nuclear-capable' (Yuan, 2014: 505). Yuan refers to Kenneth Waltz' (1981) suggestion that nuclear weapons could have a stabilizing influence in international relations but adds that the risk of nuclear war includes not only an incentive to be cautious but also a contrary incentive to act

provocatively, with the expectation that the other side may fear nuclear war more. Yuan further notes that China, since it acceded to the Non-Proliferation Treaty (NPT) in 1992 has become a responsible nuclear power with export controls in line with its commitments, and has played a significant role in trying to dissuade North Korea from developing nuclear weapons. The main challenge to Sino-US mutual deterrence from the perspective of the US and its allies is China's increasing capacity for access denial, which creates doubts about US power projection and ability to intervene in a crisis. Fear of deploying US aircraft carriers to areas within the fire-range of Chinese precision-guided land based missiles could undermine the credibility of US 'extended deterrence', i.e. preparedness to defend its allies. Much therefore depends on the US capacity to continue funding its military presence in Asia. If US extended nuclear deterrence is seriously doubted, then Japan, South Korea and Taiwan might all go nuclear. This would lead to strong Chinese reactions, and probably an arms race with multiple participants. On the other hand, there is also a risk that the ongoing deployment of land-based US missile defence systems in the region instils fear in China for its second strike capability, which could induce it to invest in strengthening its nuclear forces. This could have similarly destabilizing effects. Yuan's discussion of nuclear politics does not provide good reason for trusting that nuclear deterrence in itself will ensure peace between the US and China.

Chinese thinking about deterrence is not more reassuring. The most well-known Chinese realist thinker is Xuetong Yan of Tsinghua University in Beijing. In 2003 he tried to explain why there had not been any inter-state wars in East Asia since the end of the Cold War, although the Cold War power balance in the region had given way to a system of US dominance. China had no capacity to take over the counter-balancing role of the USSR; although as a nuclear weapons state it could deter an outright American attack. Hence a new system had emerged which Yan calls 'deterrence in an unbalanced power structure'. There is no China-US power balance, he says, since China's military capabilities remain inferior. Moreover, if there had been a balance, it could not explain regional peace since the Cold War Soviet-American power balance had not prevented wars in Asia. How can peace prevail in an unbalanced system? Yan rejects the proposition that it is due to partnerships among major powers, such as between China and Russia. Partnership agreements may have improved the relations between the signatories but they also made other powers anxious. Yan also dismisses the idea that great power relations have become so complex that no one country dares to threaten the peace. Similar complexities in earlier periods did not prevent war. Instead he suggests a combination of one fundamental and two dependent factors. The fundamental one is nuclear deterrence in an unbalanced power structure. Although China is the weaker party in an asymmetrical relationship it has sufficient nuclear capability to deter a direct US attack: 'The configuration of power in East Asia changed from (Soviet-American) balance to asymmetry after the Cold War, but the nuclear deterrence in this region remained unchanged' (Yan, 2003: 35). In such a system, nuclear deterrence prevents direct war between the stronger and the weaker party. At the same time, the lack of a power balance prevents the weaker party from engaging in war against smaller countries while this possibility remains open to the stronger party. Structural reasons linked to nuclear deterrence thus explain why there has not been any war between the US and China, or between China and its neighbours. What remains to be explained, he says, is that there has also been no war between secondary regional (middle or small) powers with conflicting security interests, or between them and the US. Neither Russia nor China would have intervened if the US had attacked North Korea, Myanmar or Malaysia, and no country would have done anything to prevent a local war between Singapore and Malaysia, Myanmar and Thailand, or Thailand and Cambodia. Two other factors have prevented smaller wars from occurring, namely the two 'dependent factors' in Yan's theory: cooperation in the Association of Southeast Asian Nations (ASEAN); and South Korea's peaceful unification policy. While the combination of nuclear deterrence and asymmetrical power relations

explains peace between China, Japan, Russia and the USA, and prevents Japan from going to war against North Korea, the existence of ASEAN explains peace among its member states and also that the US has not intervened militarily in Southeast Asia since its withdrawal from Vietnam in 1973. Finally, South Korea's policy of peaceful reunification explains peace between the two Koreas and between the US and North Korea. The US cannot attack North Korea without South Korea's support. Since North Korea is too weak militarily to invade South Korea with any prospect of success, the peninsula is spared from war as long as South Korea does not want to unify the country by force.

Given the US military domination and its long record of warfare in East Asia until 1973, and in other regions up until this day, it can be no surprise that Yan's main underlying concern is the US threat. He finds, however, that the US is unlikely to attack any country in the region as long as none of them are willing to let their territory be used for such a purpose. The US always uses nearby bases when it invades a country. This makes the non-interference policy of ASEAN and the peaceful unification policy of South Korea essential for regional peace. Thus Myanmar needed ASEAN membership in 1997 to protect itself against a possible intervention.

According to Yan, the main risk in the unbalanced regional system is China's weakness. Deployment of US missile defence systems could disrupt the regional peace by eliminating its main foundation: China's capability for nuclear deterrence. It must follow from Yan's reasoning, although he does not say so explicitly, that if China's relative power grows sufficiently to generate a balanced regional system, then mutual deterrence will not just continue to secure the peace but also protect China's partners, neighbours and friends against the US threat. What is left uncertain is what will happen if the balance tips to such an extent that the US allies feel insecure. This situation, which is exactly what power transition theory is about would transcend Yan's logic and lead to greater risk of war.

The Australian analyst Hugh White's *The China Choice: Why We Should Share Power* (2012) is interesting because it looks ahead to a situation where China is likely to be more powerful than today. White recommends a drastic revision of the security system in East Asia, based on increasing doubts about the US capacity to maintain its strong military presence. China's capacity for nuclear deterrence is growing, and what Yan sees as a boon is for White a worry. After China carried out its first nuclear test in 1964 it could no longer be subjected to 'nuclear blackmail', and the balance shifted determinedly in the 1970s when China developed strategic missiles that could not just target the USSR but also American cities. China's strength increased further in the 1980s when the Soviet threat disappeared, so Chinese forces could be moved to the coast and resources set aside for building a modern navy. Today China has more than minimum deterrence. By targeting US bases in the region its nuclear forces can deter conventional strikes. Meanwhile, the credibility of US extended nuclear deterrence has been reduced (White, 2012: 63–64, 85). White thus proposes that the US give up its dominant role and share power with China, Japan and India in a 'concert'. If US primacy ends before a concert has been established, he warns, East Asia will be 'divided into competing camps in a classic balance-of-power system, punctuated by serious wars'. The US has allowed China to grow so vital to the world economy that there is no way to lock it out at any acceptable cost. Strategic containment would cause a huge economic backlash, and war between the US and China is already a 'significant danger'. Washington has three options: resist; pull out; or share power (White, 2012, 5–6, 25–26, 98–99). While the latter means giving up primacy, it does not mean withdrawal. The US can allow China a greater role while 'maintaining a strong presence of its own'. At sea this means to give up control while keeping a capacity to prevent anyone else from gaining control. Since 1945, the US Navy has dominated the seas around China. This cannot continue. China's naval build-up and deployment of land-based missiles have created a 'sea-denial era'. Naval powers are able to sink each other's ships but unable to protect their own. Aircraft carriers can no longer project power because they have to focus on threats to

themselves. White expects Japan to take responsibility for its own defence, acquire nuclear weapons and adopt an independent foreign policy. India will also have its say, while Russia remains preoccupied in Europe (White, 2012: 5, 72, 86–88). The US will maintain a great power role but no longer dominate the region.

White's proposal has stimulated much debate but his power-sharing proposal is no more likely to be heeded in Washington than Christopher Layne's (1997) proposal that the US withdraw from the Asian continent and resign itself to just offshore balancing. If the US is compelled by strategic factors or budgetary constraints to reduce its military presence in East Asia, it will no doubt do it piecemeal and hide it behind smokescreens of powerful rhetoric and new alliance arrangements. So far, the Obama administration has committed itself, with support from a Republican-dominated Congress, to rebalance (or 'pivot') towards Asia by committing 60 per cent of its naval forces to that theatre. The Pentagon's new naval strategy in 2015 for the first time explicitly mentioned the rise of China's naval capabilities as a threat. White's recipe will not thus be used but his claim that US nuclear deterrence is in a process of losing its credibility has not been seriously challenged.

Andrew O'Neil's *Asia, the US and Extended Nuclear Deterrence: Atomic Umbrellas in the 21st Century* (2013) claims, somewhat counter-intuitively, that nuclear deterrence is increasing its importance in Asia. What he means, however, is that it is called into question, so O'Neil actually confirms rather than refutes White's claim. O'Neil demonstrates how South Korea, Japan and Australia constantly seek to verify the credibility of US nuclear deterrence, which is becoming 'more, not less, central' to their strategic relationships with Washington. This is partly due to China's rise and partly to North Korea's nuclear programme. During the Cold War it was more generally accepted that the US would use whatever it took to counter a Soviet or Chinese attack on a US ally. Hence America's Asian allies did not develop nuclear weapons of their own. The US, however, has always hesitated to officially confirm any extension of its nuclear deterrence, and has done so explicitly only for Japan. South Korea, Australia, Taiwan, Thailand, Indonesia and the Philippines are not covered by any confirmed nuclear umbrella. The question of whether or not an attack on these territories would unleash a US nuclear response is thus open. Although O'Neil finds that the US commitment to extended nuclear deterrence on behalf of South Korea has become 'more conspicuous than ever' he does not think it can deter 'provocations from Pyongyang below the level of war' (O'Neil, 2013: 4, 68–69), and there is always a risk that such provocations could lead to a response unleashing all-out war. As for Japan, O'Neil finds it paradoxical that with its anti-nuclear public posture it is more pro-nuclear than any country when it comes to US extended deterrence. Japan's staunch defence of the Senkaku Islands against Chinese encroachments, defying US cautionary advice, may have to do with Tokyo's need to reconfirm the US commitment to prevent China from attacking Japan. In order to avoid getting into a situation where it must threaten to use nuclear weapons, the US will, however, hesitate to intervene on behalf of its allies. The threshold for US intervention has thus been lifted, and this increases the risk of a limited war, which could escalate.

The analyses by Yuan, Yan, White and O'Neil's thus give little reason for comfort. There can be no assurance that nuclear deterrence will prevent a crisis between China and a US ally from escalating if both sides expect the other to back down first, and it will not prevent the crisis from emerging in the first place.

What, then, if nuclear deterrence is combined with economic interdependence? In his *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (2011) Aaron L. Friedberg rejects the possibility that a combination of nuclear deterrence and interdependence may be relied upon to preserve peace between China and the USA. Although economic interdependence and the risk of nuclear war can help 'damp down' the rivalry, he affirms, they cannot reverse it. He does not find the record of Cold War nuclear deterrence assuring. Although a nuclear exchange between

the two superpowers was avoided, they sometimes came ‘terrifyingly close’. He acknowledges that the spectre of nuclear devastation makes an outright Sino–US war unlikely but it will not quell and could even encourage ‘military competition’. The credibility of US nuclear deterrence may dwindle as China’s strength makes it unlikely that the US will ever resort to nuclear arms. Friedberg thus recommends that Washington focus on improving its conventional forces, and maintain command of the world’s oceans (Friedberg, 2011: 38, 56, 278–279).

Although he thinks a rivalry cannot be avoided, the key point for this discussion in Friedberg’s analysis is the dampening effect of nuclear deterrence and economic interdependence. Could it be assumed that as long as both sides maintain policies of economic openness and integration they will prevent their rivalry from escalating to a level of open confrontation? This paper shall not now refer to Immanuel Kant or the well-known discussion of whether or not economic interdependence in itself can prevent war. History has shown that it cannot. When national leaders have other than economic priorities, or expect their nation to lose out in economic competition with potential adversaries, they may engage in risky behaviour leading to war (Copeland, 2000: 2, 6, 14, 20; Copeland, 2015: 2, 7). What this paper shall now consider is economic interdependence in a system where there is also nuclear deterrence, the assumption being that when national leaders are imbued with fear of a nuclear crisis and at the same time feel protected by an assumption that their potential adversaries share the same fear, they are less anxious about economic dependence and more likely to continue trading with potential adversaries even during a power transition. Could this explain that China and the US, even after their Cold War alliance receded into history, in spite of much tension and mutual suspicion, regardless of cultural differences, notwithstanding their opposite ideologies, have allowed themselves to be knit together economically within a global system of trade and production networks, thus constantly raising the human, social and economic costs of any future war? Could this mean that great power war will be avoided unless the US and/or China reverse course and decide to reduce their economic interaction?

## **Interdependence with deterrence**

Mutual economic dependence between China and the US within an integrated global economic system including Japan, South Korea and the ASEAN countries is probably the most cited reason for expecting East Asia to remain peaceful. The cost of conflict is assumed to be prohibitive. So although East Asia does not derive its peace from strategic trust, institutional integration or shared values, peace may still be preserved because national leaders give priority to their economic development, realize how costly a conflict would be, and expect to make further gains from open trade.

Lampton (2014: 3, 7, 122, 136) holds that peace is enhanced by ‘the idea of global interdependence’, and puts forward an ‘interdependence theory’: institutional and economic interdependence dampens impulses toward conflict. While it does not make conflict impossible, and makes war even more destructive should it occur, it provides ‘incentives to keep conflict with major partners manageable’. There is now a ‘struggle for the soul of Chinese foreign policy between the realities of interdependence and the impulses of assertive nationalism’. Lampton does not go into detail about the question of when interdependence precludes war and when it does not. Christensen (2015: 41–46), however, is more specific as to why global interdependence today is of a different kind than in the past, and more likely to hinder war: trans-national production chains make it necessary for an aggressor state to ‘persuade a diverse set of foreign investors, suppliers of key components, and logistics companies to continue doing business’ after it has invaded a territory, and it is easy to see how difficult this may be.<sup>1</sup> Thus it is less tempting than in the past to go to war: ‘While transnational production and interdependence is certainly no guarantee against war’, says Christensen, ‘it is still a major force for peace’ (Christensen, 2015: 46). The Russian invasions of



Georgia and the Crimea, and the US invasions of Afghanistan and Iraq prove Christensen's point about how difficult and costly it is to reconstitute a functioning economy after invading a territory, but show also that some governments disregard the costs when they see weighty geopolitical reasons for resorting to force against an inferior country with no nuclear arms.

While conceding that interdependence restrains ambition and rivalry, White (2012: 50–52, 55, 116) doubts that restraints will prove stronger than pressures going the other way. He points at a psychological factor: '...most often people see it as shameful to put economic concerns first when issues of power and status are engaged'. When a choice has to be made in the glare of an international crisis, 'it is very hard to put economics first'. And if both sides think the costs will be worse for their adversary than for themselves, they may wait for the other to blink. Since there is now just 'one big global economy' no major power can slam economic sanctions on another without hurting itself severely, but the momentum of rivalry could build up 'before leaders or public wake up to the economic consequences'. Escalating rivalry could 'begin to erode economic interdependence, rather than interdependence curbing escalation', White adds. This must mean that interdependence actually does prevent or delay open conflict; only after governments have taken action to reduce their dependence are they willing to risk war.

Steve Chan's *Enduring Rivalries in the Asia-Pacific* (2013) is very optimistic: the general trend in East Asia, he says, is toward abatement rather than exacerbation of rivalries. Territorial disputes are less likely to escalate today than during the Cold War since East Asian states have shifted to policies emphasizing economic development. This has created a 'synergistic effect that restrains interstate tension and rivalry'. Ties have been multilateralized, with many third parties gaining a vested stake in interstate stability. While China has increased its military capabilities it has also acquired an interest in preserving regional stability. On its side, the US faces resource constraints that make it wary of providing too strong support to its allies. This should work against bipolarization of regional relations. Chan's optimism is not derived from recent events but from an assumption that underlying long-range forces create interests securing the peace: 'Economic interdependence and political pluralism promote stakeholders that have a vested interest in stabilizing and expanding foreign ties, and these stakeholders are, in turn, self-motivated to lobby their government to undertake policies that abate rivalry' (Chan, 2013: 20). Chan finds that the normal mechanism behind the outbreak and escalation of large wars is that a smaller state in an asymmetrical relationship chooses a confrontational behaviour in the hope of gaining support from a major patron; those with little or no hope of receiving foreign support and those with a great deal of confidence in their ally's commitment 'are less likely to initiate such confrontation than those that are in an intermediate position' (Chan, 2013: 108, 114, 186). Given the nature of Sino-US relations, no provocation by a smaller state in East Asia is likely to escalate. North Korea cannot count on Chinese support against South Korea. South Korea, Japan, and the Philippines are subjected to US 'escalation control'. From the perspective of power balance theory, says Chan, greater power parity between China and the US should have 'a stabilizing rather than a destabilizing effect'. This defies Mearsheimer's reasoning but conforms to Yan's analysis. Chan thinks China's rise should stabilize regional relations by 'curtailing any US tendency toward assertive unilateralism ... the last thing Beijing wants to do is to trigger a costly arms race or precipitate forces that will pressure its neighbors to choose between it and Washington' (2013: 82, 102, 104). While this seems reasonable, China's behaviour in the last few years does not quite confirm Chan's argument. The ways and the conditions under which cost concerns enter into Beijing's decision-making need to be gauged. Who calls for caution? At which stage in a crisis?

According to Chan the people and governments of East Asia have turned away from being garrison states to a model of political economy emphasizing economic growth. This presents 'the most powerful firebreak against conflict contagion'. The region-wide transition to 'economy first'

policies has been successful, and ‘successful policies are likely to be continued ... emulated and replicated’. But can they continue to be successful if Western markets are no longer able to absorb huge quantities of Asian goods? Chan qualifies his argument: ‘...when states expect future economic relations to be disrupted or curtailed, they are likely to stop cooperating and might even lash out in war’ (2013: 135, 140, 147, 149). This same argument forms the nucleus of Dale Copeland’s ‘trade expectation theory’ (Copeland, 2015), which builds on his ‘dynamic differentials theory’ (Copeland, 2000). Copeland does not include nuclear deterrence as a part of his theory (he treats nuclear as no different from conventional deterrence), and has not studied Sino–US relations in particular. What he has done is to develop a comprehensive theory of major war, based on defensive realism while including liberal elements, and paying particular emphasis to the security–economy nexus. His findings, which are based on a number of historical case studies, are of considerable interest in the context of this paper. Copeland includes three kinds of power in his theory: military; economic; and ‘potential’. The latter includes several elements, such as size, age and education of the population, access to natural resources, and economic growth prospects. In Copeland’s most recent books he focuses more narrowly on just the economic aspect of potential power, namely ‘trade expectations’. His *The Origins of Major War* (2000) and *Economic Interdependence and War* (2015) include a number of elements and findings from which interesting implications for Sino–US relations today may be seen.

The risk of war between major powers is higher in bipolar than multipolar systems because the most powerful state in a multipolar system has to guard against the possibility that the others gang up against it (Copeland, 2000: 13, 16, 240). This bodes well for peace in East Asia as long as a clear bipolar structure between a Sino–Russian alliance and a US–Japan–India alliance does not materialize.

As in the Thucydides trap (see below), third parties can play a significant role in provoking wars between major powers (Copeland, 2015: 443–444). Hence the need to cautiously manage the disputes between the two Korean states, China and Taiwan, China and Japan, and China and the Philippines has lost none of its importance.

National leaders act on the basis of their *beliefs* about phenomena not necessarily on accurate knowledge (Copeland, 2000: 31–32; Copeland, 2015: 17). Beliefs about likely future trends are particularly salient, and the future cannot of course be accurately known.

In bipolar systems a state believing itself to be in decline is much more likely than a rising power to initiate conflict: ‘rising states should want to avoid war while they are still rising, since by waiting they can fight later with more power’ (Copeland, 2000: 2–3, 14, 20). Hence China and the US have a mutual interest in preventing each other from fearing decline. Strong military powers who believe themselves to be in decline (have negative trade expectations) are particularly dangerous (Copeland, 2000: 5, 13, 22, 237, 241, 244; Copeland, 2015: 429). Thus Beijing must be weary of tying itself up too closely with a declining Russia and even more weary of American fears of decline.

Dynamic relational factors such as ‘potential power’ or ‘trade expectations’ are more important in determining choice between war and peace than static factors, such as the actual level of trade, or a state’s form of governance on the ‘unit level’ (Copeland, 2000: 235–236, 238, 245; Copeland, 2015: 12, 14, 27–50, 435–436). To the extent that unit level differences count, the character of the target state is more important than that of the aggressor; while the liberal assumption that some kinds of regimes are more likely to initiate war than others is wrong, it is true that some kinds of regimes are more likely to be targetted than others.<sup>2</sup> To avoid becoming a target it may help to be seen as predictable, transparent, respectful of international law, and open to trade and investments.

In the conclusion to his exhaustive examination of how trade expectations have influenced various decisions for war in the period 1790–1991, Copeland is optimistic about today’s prospects:



‘there are strong reasons to believe that China will stay peacefully engaged in the system over the long term, at least as long as the United States proves willing to maintain an open and free-flowing global economic system’; ‘the reasons for optimistic economic expectations in both China and the United States should outweigh the reasons for pessimism for at least a couple more decades’ (Copeland, 2015: 432, 444). Chan’s and Copeland’s optimism depends on the continued success of globalization. If trade expectations falter on any or both sides of the Pacific the unit-level economy-first policies may lose their pacifying effect. Chan confirms that the dampening effect of economic inter-dependence on conflict behaviour depends on policies of economic openness and integration. Hence there is need to understand global financial politics, global trends and economic expectations in Beijing, Washington, Tokyo and other East Asian capitals before assessing the likelihood that economic interdependence will continue to ensure peace among major nuclear powers.

This is where Stephen Roach’s *Unbalanced: The Codependency of America and China* (2014) comes in. The risk he discusses is not a shooting but a trade war (which could be a prelude to a shooting war). Roach uses the term ‘interdependence’ for the globalized system of trade and transnational production networks and ‘codependency’ for the bilateral Sino–US economic relationship. Instead of seeing China as a national economy trading with other national economies he speaks of an East Asian ‘hub of a massive, integrated, pan-regional export machine’ providing low-cost goods to Europe and a savings-short America. China and the US are trapped in a ‘web of codependency’. In the 1980s–1990s, the economic integration of the Chinese and American economies was beneficial, allowing each to draw on the other’s strengths; but in the 21st century, the relationship ‘morphed into a destabilizing codependency’ (Roach, 2014: 3, 140). Lack of balance now presents great risk to both sides. Roach’s book is about those risks and the need to rebalance the economic relations between China and the US. China has built an extrovert economy, with a low level of private consumption, and much of China’s current account surplus has been placed in American bonds. This has made it possible to keep US interest rates down so the American consumers can uphold their excessive consumption: ‘America’s excesses have become the sustenance of China’s unsustainable development, and vice versa’. The 2008 crisis showed that this no longer works. There is an urgent need for reform in both countries; Roach thinks China is the most likely to undertake the needed reforms. China’s savings rate will decline, thus reducing its surplus and diminishing its demand for dollar-based assets. This will make it difficult for a savings-short America to borrow money. US interest rates will soar. Untold hardships will follow and strengthen protectionist impulses. Roach’s ‘bad dream’ is that the US resorts to trade sanctions against China. This would be the biggest US blunder since the 1930s (Roach, 2014: xi, xiv, 130, 192, 196–200, 247–249). Americans should instead see China’s growing market as an opportunity for reviving US exports, he submits. The Chinese have few inhibitions against imported goods. It should be possible to dramatically increase US exports to China, above all in services. This could rebalance the world economy and help avert the risk of a trade war.

Why does Roach expect China rather than the US to take the initiative to rebalance the world economy? Where critics of China’s political system often claim that change is extremely difficult in China and that Xi Jinping’s ‘China Dream’ will therefore fail Roach criticizes the US decision-making system for inhibiting change. The main reason is not budgetary constraints or the political stalemate on Capitol Hill. Roach reproaches US financial policies for being driven by an ultra-liberalist ideology, while China’s policies are pragmatic. The big culprit in Roach’s narrative is the doctrinaire former chairman of the Federal Reserve Alan Greenspan. He reacted to any sign of trouble by always lowering the US interest rate. China’s former Prime Minister Zhu Rongji would each time use the opportunity thus offered to produce and export ever more. Zhu’s successor Wen Jiabao understood that this was unsustainable but failed to do much about it. Following in Greenspan’s footsteps, his

successor Ben Bernanke led the US into the Great Crisis of 2008. Roach compares the two countries' institutions of macro-economic management. While the Chinese are centralized, have broad responsibilities and are dedicated to maintaining stability, the US are uncoordinated, compartmentalized and operate under a philosophy that allows for 'creative destruction'.

Some Western analysts are pessimistic about the prospect of further economic reform in China. They point out that while the 1997–1998 Asian crisis led China to adopt market economic reforms paving the way for World Trade Organization membership in 2001, the 2008 global financial crisis led just to a huge stimulus package allowing local governments and publicly owned companies to invest in projects with little prospect of economic return, and build up an enormous debt (Christensen, 2015: 242–245; Naughton, 2015). Roach, however, expects Xi to drastically reform the Chinese economy and force the US to follow suit: 'China's rebalancing should be seen as America's opportunity, a basis for its long-term resurgence'. The big risk, according to Roach, is that Americans fail to realize the necessity of structural reform, use China as a scapegoat for their troubles, and repeat their tragic mistakes from the 1930s: 'America's economic climate is just as precarious today as it was in 1929, if not more so. The same is true of the world economy' (Roach, 2014: xiv, 28, 35, 58–59, 204, 240–244).

A trade war would do enormous damage. It could foster a resentful and aggressive China and lead to the situation foreseen by Mearsheimer (2001), where a declining America decides to halt China's rise.

## Decisions for war or peace

Andrew J. Nathan and Andrew Scobell's *China's Search for Security* (2012) is noteworthy for its systematic inclusion of economic factors in a security oriented analysis. The driver of China's foreign policy is its search for security, the book claims. Where the offensive realist Mearsheimer sees regional hegemony and global power as means to acquire national security, the defensive realists Nathan and Scobell distinguish between security and hegemony: Beijing wants security *but not* global power. When Beijing says it wants peace it means stability so it can 'concentrate on economic development' (Nathan and Scobell, 2012: 28). A country's foreign policy is driven by its factual interests, although the causal path from interest to policy may be distorted by misinformation, miscalculation, value commitments, institutional weaknesses or leadership shortcomings. Nathan and Scobell think China will remain a 'status quo power in a system designed by the West' but hold it possible that future Chinese leaders may challenge US pre-eminence if Washington does not keep up the economic foundation for US power (Nathan and Scobell, 2012: 13, 346, 357). What could unravel the global system would not be China's rise but US decline. This is the main risk, as they see it. If 'the West weakens itself to the point of creating a power vacuum', then China will acquire bases around the world and replace the dollar with the renminbi in its foreign trade. The US would thus have to decide whether and when to resist, and this could lead to war. The recipe for peace is that the US maintains its strength and conducts a cautious foreign policy. China is likely to act rationally on the basis of its search for security (Nathan and Scobell, 2012: xi, 359). It follows from their reasoning that the risk of war will increase if China can no longer depend on the US for its economic development, while the US retains sufficient military power to believe it can win a war. Again it is seen that a politically motivated reduction in the Sino–US economic interdependence is a likely precursor to any crisis leading to war.

If Nathan and Scobell's reasoning is combined with Roach's analysis of financial politics and Copeland's 'trade expectation' argument it seems that the key to minimizing the risk of war is to rebalance the global economic system in a way allowing the major powers to remain codependent. A combination of mutual nuclear deterrence and economic interdependence is likely to preserve

global peace as long as no major power expects to see a rapid decline in its relative power. Deterrence and inter-dependence are both, however, precarious. One depends on credibility, the other on the expectation that flows are kept open within a mutually beneficial financial and trading system.

The arguments cited so far are all structural, building on the assumption that deterrence and interdependence prevent or reduce the risk of war regardless of who holds power in Beijing, Washington (and Tokyo) or, to put it differently, assuming that no government will be knowingly prepared to set the world ablaze or accept the cost of a global economic recession. Some scholars are weary of structural arguments and prefer to look at leadership or agency. Who ensures caution in Chinese and US decision-making? Is it the two presidents themselves? Is it the standing committee of the Chinese Communist Party politburo and the US National Security Council? Is it the Pentagon and the PLA? Is it China's Prime Minister and the US Secretary of the Treasury or the Chairman of the Federal Reserve? Is it transnational company executives with access to decision-makers? Or is it media, think tanks and other opinion-makers? Ultimately the two presidents decide, so their capacities, priorities and motivations are essential, as well as the opinions of their formal and informal advisers. This should inform the research agenda.

This paper shall now look at four approaches to the question of agency, some referring back to the outbreak of World War I in Europe. The 2014 centennial brought multiple comparisons between Europe 1914 and Asia 2014. Some of the best are assembled in Rosecrance and Miller's *The Next Great War?: The Roots of World War I and the Risk of US-China Conflict* (2015). Their main message is that the so-called Thucydides trap is not just bilateral. What made the Peloponnesian War inevitable was not only 'the growth of Athenian power and the fear it caused in Sparta' but that Corcyra attacked Corinth, so Sparta felt it necessary to come to its ally Corinth's defence, leaving Athens little choice but to support its ally Corcyra (Allison, 2015: 77–78; Coker, 2015: 109). North Korea could conceivably pull China into war with the US, as it did in 1950. Japan, Taiwan or the Philippines could drag the US into war with China: 'The most likely route to war with China is via a dispute involving one or more of the United States' Asian allies' (Miller, 2015: xxi).

In his contribution to the Rosecrance and Miller volume, Richard N. Cooper (2015) discusses economic interdependence and war. He begins by confirming the often-heard argument that the outbreak of World War I provides evidence that high economic interdependence is no guarantee against war (Cooper, 2015: 57). Then he rehabilitates the often ridiculed Norman Angell, whose *The Great Illusion: A Study of the Relation of the Military Power in Nations to Their Economic and Social Advantage* (1910) did not actually argue (at least not mainly) that war was impossible but warned against the naval race between Britain and Germany because it could lead to a mutually destructive confrontation. After comparing the level of economic interdependence between the European powers in 1914, Cooper goes briefly through the July–August decision-making in Vienna, Berlin, Moscow, Paris and London, holding Tsar Nicholas II's decision to mobilize as the factor making war unavoidable. Cooper emphasizes that the fatal decisions were made by relatively few people and that none of them foresaw the destructiveness of the war that followed: 'If leaders had forecast the actual costs, they (and even the generals) undoubtedly would have worked much harder to avoid war' (Cooper, 2015: 69).<sup>3</sup> Such miscalculation can hardly be repeated today or in the foreseeable future. Given the existence of nuclear weapons, the memory of World Wars I and II, and how close the world was to Armageddon during the Cuban missile crisis, and also the awareness of the colossal conventional capabilities of the USA, China, Japan, Russia and India, any responsible statesman or woman today must know that all-out war brings mutually assured destruction. It is not possible for any sane leader to deliberately provoke all-out war. What remains possible is to gamble that the adversary backs down in a crisis, so that an individual state can

provoke with impunity or win a limited war. The latter happened in Korea and Vietnam at a time when the USA and USSR—and China from 1964—were Asia's only nuclear powers. An additional complication today is that a limited war could take the form of a cyber-war.

Christopher Coker's *The Improbable War: China, the United States and Logic of Great Power Conflict* (2015) offers the opposite argument of Cooper's on the basis of constructivist thinking. Coker feels that the world is in danger of making 'exactly the same mistakes today, as we are telling ourselves the same stories we did in 1914', namely that inter-state war has become a matter of the past. There is the same 'complacency about great power conflict'. Material factors alone cannot explain conflicts. They are driven by ideas, passions and beliefs. A big problem between China and the US is 'resentment' (Coker, 2015: 18–19, 65). An abundance of dangerous stories are told that could lead to war. The Chinese tell themselves the story of past humiliation, and look at the future in terms of basic conflict: 'It looks as if the Chinese are preparing for a protracted confrontation with Japan'. The Americans tell themselves the Thucydides trap story, and are more and more nervous about China's rising power: 'Confrontation ... is the American default mode, its unique cultural style'. If this situation persists, war may follow regardless of material factors. What the world needs is a 'new normative consensus' and 'a constructive cultural dialogue' about Chinese and Western values (Coker, 2015: 80, 119, 181).

Although this runs counter to Copeland's key finding that causes of war are relational and are not on the 'unit level' (Copeland, 2015: 435), it follows from Cooper and Coker that the drivers of unit-level decision-making must be studied. In his chapter in *The Oxford Handbook of the International Relations of Asia*, Yuen Foong Khong (2014) puts forward a forceful argument in favour of Foreign Policy Analysis (FPA) as an alternative or necessary supplement to International Relations (IR) theory. If the relative peace and economic dynamism of East Asia—and the relationship between the two—are to be understood, Khong claims that threat perceptions, national identity, ideology, and leadership, must be taken into consideration. IR neorealism is unable to explain why the East Asian region has seen relative peace and stability: 'It is the FPA variables, rather than international structure, that do the heavy lifting when it comes to ... explaining Asia's relative peace and stability' (Khong, 2014: 91). He finds that regional peace has come as a result of leadership changes in the region, with new leaders coming to power at certain junctures to implement growth-promoting export-oriented economic policies. These have led to substantial economic growth, which in turn has incentivized policymakers to avoiding actions that threaten peace and stability. Ominously, however, the same economic growth has enabled governments to invest heavily in modern weaponry, and this has increased the need for a strong US economic and military presence (Khong, 2014: 97).

Etel Solingen (2015) goes further than Khong in a comparison of pre-World War I Germany and today's China. It is not interdependence per se, she claims, that inhibits war. Interdependence can work both ways. The main question is what kind of socio-economic coalition that dominates domestic politics. Is it a coalition with an active interest in internationalization or one that seeks to protect its nation against foreign influences? Internationalizing strategies emphasize access to global markets, capital, and technology, regional cooperation and domestic macroeconomic stability. This reduces uncertainty, encourages savings, and enhances both foreign and internal investments (Solinigen, 2015: 130). Conversely, inward-looking models benefit from enhancing the viability of statist, nationalist, protectionist, and military-industrial complexes. She finds that Germany pre-World War I conforms to the inward-looking model, and that this may explain its preparedness to go to war. The socio-economic coalition dominating Chinese politics today to some extent resembles imperial Germany's agrarian-industrial-military complex. The main similarities are a 'combination of rapid socioeconomic change and stagnant political institutions', and the active use of assertive nationalism as a legitimating device (Solinigen, 2015: 138). More

importantly, however, China's Communist Party regime differs from imperial Germany in holding its military under firm civilian control and embracing economic internationalization. China has radically integrated its economy with the global market and become part of an international division of labour, with trans-national production chains. China's internationalizers 'share incentives with the West – and much of the rest – to bolster a stable global economy'. Thus the prospects of China going to war are 'small in 2014, though nontrivial' (Solingen, 2015: 146).

It should be noted that Solingen has nothing to say about the socio-economic coalitions that hold sway in Washington, DC. She seems, unlike Roach (2014), to assume that the threat to peace comes mainly from China. In this she also differs from Copeland, who finds that it is normally the declining power who initiates war, and Mearsheimer, who claims that China's attempt to become Asia's regional hegemon will force the US to contain and weaken it (Mearsheimer, 2001: 402–403; Mearsheimer, 2006: 162).

## Conclusions

Several recent works on China and Sino–US relations have made substantial contributions to the current understanding of how and under what circumstances a combination of nuclear deterrence and economic interdependence may reduce the risk of war between major powers. At least four conclusions can be drawn from the review above: first, those who say that interdependence may both inhibit and drive conflict are right. Interdependence raises the cost of conflict for all sides but asymmetrical or unbalanced dependencies and negative trade expectations may generate tensions leading to trade wars among inter-dependent states that in turn increase the risk of military conflict (Copeland, 2015: 1, 14, 437; Roach, 2014). The risk may increase if one of the interdependent countries is governed by an inward-looking socio-economic coalition (Solingen, 2015); second, the risk of war between China and the US should not just be analysed bilaterally but include their allies and partners. Third party countries could drag China or the US into confrontation; third, in this context it is of some comfort that the three main economic powers in Northeast Asia (China, Japan and South Korea) are all deeply integrated economically through production networks within a global system of trade and finance (Ravenhill, 2014; Yoshimatsu, 2014: 576); and fourth, decisions for war and peace are taken by very few people, who act on the basis of their future expectations. International relations theory must be supplemented by foreign policy analysis in order to assess the value attributed by national decision-makers to economic development and their assessments of risks and opportunities. If leaders on either side of the Atlantic begin to seriously fear or anticipate their own nation's decline then they may blame this on external dependence, appeal to anti-foreign sentiments, contemplate the use of force to gain respect or credibility, adopt protectionist policies, and ultimately refuse to be deterred by either nuclear arms or prospects of socio-economic calamities. Such a dangerous shift could happen abruptly, i.e. under the instigation of actions by a third party – or against a third party.

Yet as long as there is both nuclear deterrence and interdependence, the tensions in East Asia are unlikely to escalate to war. As Chan (2013) says, all states in the region are aware that they cannot count on support from either China or the US if they make provocative moves. The greatest risk is not that a territorial dispute leads to war under present circumstances but that changes in the world economy alter those circumstances in ways that render inter-state peace more precarious. If China and the US fail to rebalance their financial and trading relations (Roach, 2014) then a trade war could result, interrupting transnational production networks, provoking social distress, and exacerbating nationalist emotions. This could have unforeseen consequences in the field of security, with nuclear deterrence remaining the only factor to protect the world from Armageddon, and unreliably so. Deterrence could lose its credibility: one of the two great powers might gamble that the other



yield in a cyber-war or conventional limited war, or third party countries might engage in conflict with each other, with a view to obliging Washington or Beijing to intervene.

The best way to enhance global peace is no doubt to multiply the factors protecting it: build a Pacific security community by topping up economic interdependence with political rapprochement and trust, institutionalized cooperation, and shared international norms. Yet even without such accomplishments, the combination of deterrence and economic interdependence may be enough to prevent war among the major powers. Because the leaders of nuclear armed nations are fearful of getting into a situation where peace relies uniquely on nuclear deterrence, and because they know that their adversaries have the same fear, they may accept the risks entailed by depending economically on others. And then there will be neither trade wars nor shooting wars, just disputes and diplomacy.

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## Notes

1. For an expert analysis of trans-national production networks, see Ravenhill (2014). A Chinese translation of this article will be published in *Asia-Pacific Security and Maritime Affairs* (ISSN: 2096-0484), no 2, 2015.
2. Copeland does not explain the 'democratic peace' phenomenon with any inherent quality of democratic institutions but with the expectation among well-established democracies that they will remain democratic and economically open in the future (Copeland, 2000: 239, 245–246; Copeland, 2015: 433–434).
3. German Field Marshall Helmuth von Moltke actually did warn the Kaiser in advance that a war would probably be long and result in the exhaustion of all the powers (Coker, 2015: 26), but as Chief of the General Staff in August 1914 Moltke was driven by the dictates of his logistical plans (Cooper, 2015: 64).

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