

Chapter 10

ECONOMIC INTERDEPENDENCE AND THE FUTURE OF U.S.-CHINESE RELATIONS

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As the states of East Asia become increasingly integrated into the world economy, the question of whether economic interdependence is a force for peace or a force for war takes on renewed significance. This chapter focuses on how such interdependence will likely affect the state that seems most destined to achieve superpower status: China. Scholars, policy analysts, and government officials are currently locked in a heated debate over whether the United States should “engage” or “contain” China. Those in favor of engagement argue, among other things, that drawing China into the global economy will encourage it to be peaceful.¹ This argument is founded on the liberal thesis that trade fosters peaceful relations by giving states an economic incentive to avoid war: the benefits received from trade make continued peace more advantageous than war.² Those in favor of containment, aside from fearing China’s relative growth through trade, would fall back on another realist principle: that interdependence only increases the likelihood of war as dependent states struggle to ensure continued access to vital goods.³

This essay shows that both theoretical perspectives have a part of the puzzle right. Yet by not specifying the conditions under which their causal logic should apply, they are incomplete as guides to understanding foreign policymaking in the East Asian region. Elsewhere, I have provided an argument to bridge the liberal and realist views. By introducing a second variable in addition to depen-

dence—namely, a state's expectations for future trade—we can determine when interdependence will drive actors either to peace or to conflict. If trade expectations are positive, dependent states will expect to realize the positive benefits of trade into the future, and thus be more inclined toward peace. If, however, such states are pessimistic about future trade, fearing a cutoff of vital goods or the continuation of current restrictions, the negative expected value for trade will push them toward aggression. This argument not only provides a better logical foundation for thinking about interdependence and conflict, but also helps clear up the empirical anomalies both liberalism and realism face in dealing with two important cases: the outbreak of major war in Europe in 1914 and again in 1939.⁴

The present article builds on the trade expectations argument in three ways. In the first section, I extend its theoretical logic through an examination of how the expected values of peaceful trade versus war shift with changes in an important boundary condition: relative power. The analysis thus considers how interdependence, trade expectations, and relative power interact to shape a state's rational foreign policy. In dealing with China, for example, the United States faces a clear problem. Continued engagement will help China grow in relative economic power. This increased power, if translated into military power, reduces the costs of Chinese expansion. Yet even more significantly, China's growing dependence also means severe costs to its economy should trade be cut off. Thus, while interdependence will provide an incentive for peace when China's trade expectations are optimistic, should these expectations become pessimistic due to foreign trade restrictions, China's dependence could drive it into conflict and war.

In the second section, to illustrate the dilemma, I briefly outline the history of U.S.-Japanese relations from 1920 to December 1941. Because of the potential parallels to future U.S.-China relations, the lessons from the U.S.-Japan case are worth noting. Japan in the 1920s, like China today, was eager to trade extensively with America and the outside world. In the 1930s, however, as the world became increasingly protectionist, Japan shifted to the building of an East Asian "Coproprosperity Sphere" to minimize the impact of protectionism on its economy. Washington eventually retaliated by imposing harsh sanctions. As Japanese trade expectations fell even further, given Japan's high dependence its leaders felt they had no option other than war.

Although there are some obvious differences between the 1930s and today's situation—in particular, the presence of nuclear weapons—the risks of a repeat of this scenario over the next two decades, with China now playing the lead role, cannot be easily dismissed. China has already extended its military influence into the South China Sea to control the area's potential oil and gas reserves and its trade routes. In face of U.S. and western trade restrictions, a coprosperity sphere in Southeast Asia—based on hegemonic influence if not formal imperial control—would seem not only attractive to Chinese leaders,

but also critical to national security. Needless to say, such expansionism would greatly increase the likelihood of a direct clash of U.S. and Chinese forces, possibly leading to all-out war.

The final section of this paper addresses the ways to avoid such a tragic repeat of history. I make an argument for what I call “realist(ic) engagement.”⁵ Maintaining American superiority in overall power and in power projection capability is essential to reducing Chinese incentives for expansion. Equally critical, however, is the building and sustaining of positive Chinese trade expectations both now and into the future. Adopting CoCom-type restrictions as part of an overall containment policy would only make a cold war inevitable by undermining Chinese confidence in future trade.

This means that U.S. leaders now and into the future must maintain a consistent economic policy emphasizing America’s strong commitment to extensive trade with China. This does not mean, as I discuss, that American leaders should never seek to use trade as a tool to encourage good behavior. Rather, they should avoid sanctioning techniques that seem arbitrary, inflexible, or overly driven by parochial domestic interests. Washington must nurture the expectation in Beijing that while the United States seeks free and open trade, this trade will only be forthcoming if China remains committed to maintaining the territorial status quo. In this way, the U.S. military presence and China’s economic dependence, working in tandem, will serve to keep the peace in East Asia.

ECONOMIC INTERDEPENDENCE, RELATIVE POWER, AND THE PROBABILITY OF WAR

This section analyzes the relationship between changes in relative power and changes in the expected values of both aggression and peaceful trade. The section has three components. To establish a basis for grappling with the concept of dependence, the argument begins by bringing together in one framework the liberal emphasis on the benefits of trade with the realist sense of the potential costs of severed trade. I then show how a dependent state’s expectations of future trade, when taken as an exogenous variable, will determine whether its expected value of trade is positive, inclining it toward peace, or negative, inclining it toward aggressive policies. Finally, I consider relative power as a parameter shaping both the expected values of peace and war.

The deductive logic of the argument, as with liberalism and realism, centers on an individual state’s efforts to manage its own situation of dependence.⁶ For sake of simplicity, I focus on a two-actor scenario of asymmetrical dependence, where state A needs trade with state B far more than B needs trade with A. The assumption of asymmetry means that changes in the trading environment are much more likely to affect A’s decision for peace or war than B’s. This allows us to focus on state A as the decisionmaking unit in the model: its responses to

changes in the specified variables and parameters will drive the probability of war in the system (i.e., the system of two states).⁷

If state A moves away from the initial position of autarchy to begin trading, and trade is free and open, it will expect to receive the benefits of trade stressed by liberals. These benefits can be conceptualized as the incremental increase in A's total welfare due to trade, as measured, say, by growth in the GNP.⁸ Logically, if A's economy is extremely large in comparison to B's, the absolute benefits of trade are likely to be quite small, all other things being equal: even if B is doing almost all its trade just with A, and trading very heavily, B's small size puts a limit on the benefits of that trade for A. Accordingly, as A and B begin to approach each other in relative size, we should expect that the benefits of trade that A receives will rise (again, all other things being equal),⁹ and this is confirmed by econometric studies.¹⁰

When a state trades, it specializes in and exports goods where it enjoys a comparative advantage, while foregoing the production of other goods, which it then imports. The very process of specialization, however, entails potentially large "costs of adjustment" should trade be subsequently cut off. This is especially so if the state becomes dependent on foreign oil and certain raw materials. With the economy's capital infrastructure (machines, factories, transportation systems, etc.) geared to function only with such vital goods, a severing of trade would impose huge costs as the economy struggles to cope with the new no-trade situation. In short, the severing of trade, as realists would argue, would put the state in a situation which was far worse than if it had never specialized in the first place. For a similar reason to the above, when state B is extremely small, state A will likely not suffer large costs of adjustment from a cut off of trade, given the upper limit on A's dependence on B. These costs should rise, however, as A and B move closer together in relative economic power.

This analysis provides a clearer sense of state A's true level of "dependence" on B. On a bilateral basis, that level is represented by the sum of the benefits that state A would receive from free and open trade with B (versus autarchy), and the costs to A of being cut off from that trade after having specialized (versus autarchy). If state A started with an economy of 100 units of GNP before any trade with B (the autarchic position), and open trade with B would mean economic expansion to a level of 110 units of GNP on an ongoing basis, then the "benefits of trade" could be considered as 10 units. If the specialization that trade entails, however, would mean the economy would fall to 85 units should B sever trade ties, then the "costs of severed trade" would be 15 units versus autarchy. State A's total dependence would thus be the benefits of trade plus the costs of severed trade after specialization, or 25 units.

This dependence level, as noted, will be affected by the relative size of the two economies. The more equal the two states are in GNP, the greater the potential benefits of open trade for state A, but also the greater the likely costs of

being cut off after specialization. When A is extremely large relative to B, however, A's dependence should be low both in terms of potential benefits and costs of severed trade.¹¹ (Other parameters will of course affect the level of dependence independent of relative power, including the overall compatibility of the two economies for trade, A's need for vital goods such as oil and raw materials, and the availability of alternative suppliers and markets.¹²)

In deciding between an aggressive or peaceful foreign policy, however, state A can not refer simply to its dependence level. Rather, it must determine the overall expected value of trade and therefore the value of continued peace into the foreseeable future. The benefits of trade and the costs of no trade on their own say nothing about this expected value. Dynamic expectations of future trade must be brought in. In determining the expected value of trade, state A will try to arrive at an estimate of how likely state B is to trade with it over the foreseeable future. If it has positive expectations that the other will maintain free and open trade over the long term, then the expected value of trade will be close to the value of the benefits of trade. On the other hand, if state A, after having specialized, comes to expect that state B will sever all trade with A, or continue present restrictions on trade with A, then state A's expected value of trade may be highly negative, that is, close to the value of the costs of severed trade. In essence, the expected value of trade may be anywhere between the two extremes, depending on the estimate of the expected probability of securing open trade, or of being cut off.

This leads to the first important hypothesis. For any given expected value of war, we can predict that the lower the expectations of future trade, the lower the expected value of trade, and therefore the more likely it is that war will be accepted as the rational option.

In making the final decision between aggression and peace, however, state A will have to compare the expected value of trade to the expected value of conflict and war with the other state. The expected value of war, as a realist would emphasize, cannot be ascertained without considering the relative power balance. Intuitively, we can expect that as one state moves from a position of relative inferiority in economic and military power to relative superiority, the expected value of war should move from being negative to being perhaps positive, or even highly positive. Thus, if Saddam Hussein were to invade both Iran and Kuwait again, and to be unopposed by third parties, we might expect that war would "pay" only in the latter case.

The logic behind this intuition can be unpacked more explicitly. We should expect three factors in particular, each influenced by relative power, to shape the expected value of war: the potential gains from defeating an opponent, the costs of war, and the probability of victory. Clearly, as state A moves from parity to great preponderance over state B, the benefits of victory should diminish, since the defeat of a smaller opponent provides a smaller prize. At the same

time, as A grows in relative size, the likelihood of victory should increase while the costs of war should decrease.¹³

Bringing these three factors together would suggest that the expected value of war is likely to be greatest for some moderately high level of relative power for state A.¹⁴ Germany's *ex ante* expected value for war in 1938, for example, was undoubtedly greater against a state like Czechoslovakia than against a state like Luxembourg; while the costs of war could have been foreseen to be low and the probability of victory high for war against Luxembourg, this tiny nation simply did not constitute much of a prize (i.e., the benefits of victory were very low).¹⁵ On the other hand, war between more equal great powers is certainly likely to have a much lower, and usually negative, expected value. The Spartan leadership took Sparta into war against Athens in 431 B.C., for example, under no illusions that war would be a profitable venture.¹⁶ Expressed in the above terms, while the Athenian economy presented a large prize should victory be attained, war with a near-equal adversary could be expected, *ex ante*, to be very costly, with a low likelihood of victory.

This discussion suggests that great powers, when they are relatively equal, will tend to attach a low or negative expected value to the option of war. In this context, the expectations of future trade will have a determinant effect on the likelihood of war. If state A has positive expectations for future trade with B, and A and B are roughly equal in relative power, then state A will estimate a high and positive expected value to continued peaceful trade, compare this to the low or negative expected value for war, and choose peace as the rational strategy. The higher A's dependence and the higher the expectations for future trade, the higher the expected value for peaceful trade, and therefore the more likely A is to avoid war. But if state A has negative expectations for future trade with B, then the expected value of trade will be low or negative. If the expected value for trade is lower than the expected value for aggression, war becomes the rational choice, and this is so even when the expected value of aggression is itself negative: war becomes the lesser of two evils.

Two additional points need to be mentioned. First, the above discussion has focused for simplicity on the situation of two great powers, states A and B. Yet in considering A's broader incentives for aggression, the value of A attacking a small third party, state C, should be factored in. If war against C pays, A's overall expected value for aggression would have to incorporate the probability that B will fight an all-out war to defend C. That is, in addition to relative power, we must keep in mind the issue of A's perception of B's resolve (the credibility of B's extended deterrence).¹⁷ The more A doubts that B will defend C, the higher the expected value of the aggression option. This has relevance in considering China's strategy versus Southeast Asian states: the lower Beijing's estimate of U.S. willingness to defend these states against Chinese power projection, the more conflict makes sense.

Second, the analysis has been built on the assumption that war would be largely a conventional affair. When nuclear weapons are introduced, it is clearly more difficult to make war “pay” in any meaningful sense. In the East Asian context, for example, current U.S. nuclear preponderance undoubtedly has a restraining effect on Chinese behavior, while the lack of such weapons in the 1930s gave Japan greater confidence in its expansionist strategy. Yet it is worth remembering that war between China and the United States could still occur through two mechanisms: Beijing’s doubt that Washington would actually use nuclear weapons in a dispute over third parties, such as in Southeast Asia; and the willingness of both sides to run the risk of an inadvertent slide into nuclear war to achieve their respective ends (as occurred in the Cuban missile crisis). Hence while nuclear weapons may qualify the conclusions of this paper’s argument, the basic logic for how trade expectations and relative power interact to shape the probability of war still stands.¹⁸

JAPAN AND THE START OF MAJOR WAR IN THE FAR EAST

The period of U.S.-Japanese relations from 1920 to 1941 illustrates the significance of economic dependence and trade expectations when considered simultaneously. In the 1920s, in a parallel to China’s current policy, Japan practiced “Shidehara diplomacy,” focusing on peaceful trade designed to help Japan modernize and grow as a great power. The key puzzle therefore is to explain Japan’s shift to imperial expansionism after 1930. The most common argument is that of unbridled militarism: the military gradually usurped power, highjacking the state for its own aims; in the process, civilian leaders who could have moderated policy were shunted aside.¹⁹ This view faces two problems. First, the closer Japan came to actual war from 1938 to 1941, the greater was civilian intervention against military, particularly by the emperor.²⁰ Second, the military was not always the most in favor of war. The foreign ministry was often more hard-line than the navy, while by 1940–41, almost all civilian leaders as well as the emperor accepted the necessity of major war. Through a series of “Liaison Conferences” coordinating military and civilian views, Japan moved by consensus toward total war, despite the recognized risks and costs.

Once Japan began modernizing after 1857, it had one major limitation: critical vital goods needed to build an industrial great power lay outside of national boundaries. While the colonial acquisitions of Korea and Taiwan helped reduce agricultural dependency from 1910 to 1940, they proved of little value as sources of raw materials.²¹ For these goods, Japan was almost totally dependent on trade with U.S. and European powers: America for oil and iron ore; British Malaysia, French Indochina, and Dutch East Indies for rubber, oil, tin, tungsten, and other minerals.

In the 1920s, it made sense for Japan to act cautiously so as not to alienate these critical trading partners. But what differentiates this Shidehara diplomacy from later policies is not the ends of statecraft—since 1857, security was seen to require economic growth, territorial expansion, and a strong military²²—but rather the means, that is, the degree of emphasis on trade (promoting growth but requiring a more peaceful diplomacy) versus military expansion (in which diplomatic costs would be paid). The shift to a more aggressive policy after 1929 is directly connected to the impact of the Great Depression and the subsequent trade restrictions by other great powers.²³ U.S. and European protectionist policies internally undermined the argument that economic growth through trade was the best means to Japanese security: pessimistic expectations for future trade lowered the expected value of trade, making military options more attractive. In this environment, the value of such areas as Manchuria, occupied in 1931, was manifest. As one government publication put it, the “shortage of the prime necessities of life in Japan, and the instability of their supply” made Manchuria essential to national security. Even if others wanted to supply Japan, their own expanding needs meant that Japan was reasonable to

fear as to whether advanced industrial countries will long continue to supply the material to our industries which compete with their own . . . if the economic policies of advanced industrial countries should be directed toward the prohibition or restriction of the export of raw materials to this country, the blow dealt to us would be very heavy.²⁴

If high dependence and a lower probability of continued trade promote aggression, why did Japan not fight America and Britain at this time? One basic reason stands out: while expectations of future trade were lower by the early 1930s, they were not yet so pessimistic as to make major war against other great powers more attractive than peace. The truly precipitous decline in expectations would only come with American policies after 1939.

Still, the lower expected value for trade meant the opportunity cost of expansion against *smaller* powers after 1930 was reduced; Japan now had less to lose should the other great powers react to this expansion. Moreover, Japan had to worry about the ominous growth of the Soviet Union and the United States. Since these powers possessed huge land masses and resource bases, they would not be as relatively hurt by the closed trading environment, leading to Japan's decline in relative power. Hence, like the German dilemma before both World Wars,²⁵ long-term security would be hard to maintain unless Japan created a large economic realm to match the other great powers. After 1932, therefore, Japanese leaders sought to dominate East and Southeast Asia—by peaceful means if possible, and by force if necessary—to secure the control over the raw materials and markets needed for national survival.

From 1934 to 1937, civilian and military advocates of “total war,” if necessary for Japanese security, rose in influence.²⁶ Although the Navy showed constant concern about provoking America, there was agreement that Japan needed to increase its economic dominance in Asia. The question by early 1936 was which direction to take. Navy commander Oikawa argued that Japan should expand north first, develop Manchuria, and then turn south. His argument showed the impact of diminishing trade expectations on Japanese policy:

No problem would arise if we [could proceed] . . . peacefully in all directions, but when the powers are raising high tariff barriers as they are today and are preventing artificially the peaceful advance of other countries, we must of necessity be prepared and determined to use force in some areas and eliminate the barriers.²⁷

In April 1936, with Manchuria unable to compensate for Japan’s high dependence on oil, Navy Minister Nagano argued that the only solution was expansion southward, where oil was plenty (i.e., the Dutch East Indies).²⁸

By 1936, plans for the creation of a Japanese hegemonic sphere were put in place, driven by economic necessity.²⁹ Should war become necessary—that is, should economic restrictions on Japan increase any further—the military had to be ready to act. In August 1936, cabinet and military consensus was codified in a document entitled “Fundamentals of Our National Policy,” which approved an army and navy buildup to secure Japan’s position in East Asia “and at the same time advance and develop in the Southern area.”³⁰ Importantly, however, expansion southward was to be “by gradual peaceful means” if possible, to avoid alienating the West.³¹

Trade expectations declined further after 1937. In June 1938, Washington initiated the first in a series of trade sanctions: a “moral embargo” on military equipment.³² The Japanese government reacted quickly. In November, it proclaimed that Japan must become more self-sufficient through “economic national defense.”³³ In April 1939, the navy circulated its “Policy for the South,” which emphasized “securing materials necessary to promote productive capacity.”³⁴ Oil was now the key concern; eighty percent of Japan’s oil still came from the U.S., and the synthetic oil program had been a dismal failure.³⁵ In 1939, Japanese trade expectations plummeted further after the U.S. announcement in July that the 1911 trade treaty with Japan would not be renewed. By that summer, Japanese plans for a mission to the Dutch East Indies (DEI) to secure additional oil supplies were drawn up.³⁶

The outbreak of war in Europe greatly altered the East Asian situation, providing a short-term opportunity to seize territory to overcome dependence: British and French forces were drawn home, while the U.S. fleet was divided between Atlantic and Pacific theaters. The Japanese also recognized that the

war would further exacerbate the raw materials situation, with powers like the United States curtailing exports to conserve supplies for their own military buildups.³⁷ Pessimism increased even more when, in January 1940, Washington allowed the 1911 trade treaty to expire. That month, the Japanese proposed to the Dutch that the DEI be incorporated into Japan's "Coprosperity Sphere." The Dutch not only refused, but actually increased restrictions on exports to Japan. With the DEI the only other major source of oil, the situation was becoming critical.³⁸

In July 1940, the economic situation pushed the army, as evidenced by its report "Main Principles for Coping with the Changing World Situation," into abandoning its goal of moving north. Indeed, the army, supported by civilian leaders, was actually pressing the reluctant navy into striking south. The navy again warned that this might lead to war with the United States, and was able to secure agreement that war should be avoided if at all possible. Still, Japan would take "positive steps" to incorporate the colonies of Southeast Asia into its realm.³⁹ Trade expectations continued their downward spiral. In July, a U.S. embargo on exports of scrap iron and aviation fuel to Japan was announced. Japan's navy, by August, now sought an immediate move against French Indochina to provide rice, rubber, and iron.⁴⁰ This was done with full awareness of the consequences: additional embargoes on scrap iron and oil, should they be forthcoming, would be "a matter of life and death for the empire;" if imposed, Japan would need "will inevitably have to make a firm decision to invade the Dutch East Indies in order to acquire its oil fields."⁴¹

A vicious dilemma was developing: if Japan did nothing, difficulties in securing supplies would exacerbate its declining position; if, however, Japan expanded in Southeast Asia by force, or even by political means, America would tighten its embargo and simply accelerate the decline. Moreover, the diminishing expectations for trade that had been pushing Japanese leaders to build regional military superiority—enough to acquire raw materials by force should trade relations not improve—was leading to further economic restrictions by the Americans, British, and Dutch, which only made trade expectations more pessimistic. In short, by late 1940 and early 1941, Japan had reached the worst of all scenarios, namely high dependence on others for vital goods but low expectations for future trade. With temporary military superiority, Japanese leaders felt they had to attack soon, before economic decline had progressed too far.

At the September 19, 1940 Imperial Conference, Prime Minister Konoye summarized his view of the future: "We can anticipate that trade relations with Britain and the United States will deteriorate even more. If worst comes to worst, it may be impossible to obtain any imported goods."⁴² By April 1941, with peaceful means of ensuring supply still preferred, the army and the navy emphasized that force would have to be used "if the empire's self-existence is threatened by embargoes" imposed by America, Britain, and others.⁴³ Such an

embargo came at the end of July 1941, when the Americans froze all Japanese assets and ended shipments of oil. Earlier that month, leaders had argued in Liaison Conferences that Japan should attempt to increase trade with America if at all possible.⁴⁴ Now the possibility of a complete cutoff in trade loomed large. In late July and then again in early September, Navy Chief of Staff Nagano argued that Japan was losing strength versus its main adversaries, particularly the United States, and therefore the time to go to war was now.⁴⁵

This view was carried into the critical Imperial Conference of September 6, 1941, when a consensus civilian-military plan was presented to Hirohito. Regarding upcoming U.S.-Japan negotiations, the plan sought U.S. and British agreement to restore commercial relations with Japan “and [to] supply those goods from their territories in the South West Pacific that our empire urgently needs to sustain herself.”⁴⁶ Prime Minister Konoye opened the conference, stating that

If we allow [the present] situation to continue, it is inevitable that our empire will gradually lose the ability to maintain its national power. . . . If the diplomatic measures should fail to bring about a favorable result within a certain period, I believe we cannot help but take the ultimate step in order to defend ourselves.⁴⁷

Suzuki, the Director of the Planning Board, reinforced this, noting that Japan’s primary problem was that “we depend on foreign sources to supply many of our vital materials.”⁴⁸ In particular, the stockpile of oil would reach critical levels within a year; hence, “it is vitally important for the survival of our Empire that we make up our minds to establish and stabilize a firm economic base.”⁴⁹

In the conference, the emperor secured the cabinet’s assurance that all efforts to solve the crisis through diplomatic means would be attempted. The negotiations with Washington that followed, however, did not go well, the key sticking point being China. In the reexamination of the September decisions at Liaison Conferences in late October, the main issue remained “the prospects for the acquisition of vital materials,” which would dry up by the end of 1942.⁵⁰ In the historic seventeen-hour November 1 conference, despite the army’s demand for immediate war, a collective decision was made to extend negotiations until midnight November 30; “if diplomacy was successful by then, war would be called off.”⁵¹ There were no illusions as to what war might entail. As army Vice Chief of Staff Tsukada indicated:

In general, the prospects if we go to war are not bright. We all wonder if there isn’t some way to proceed peacefully. . . . On the other hand, it is not possible to maintain the status quo. Hence, one unavoidably reaches the conclusion that we must go to war.⁵²

At the November 5 Imperial conference, Suzuki gave another long extended analysis of the raw materials situation. Regarding expectations of future trade, “the probability that we will experience increased difficulties in obtaining materials . . . is high.” In fact, Japan might be drawn into a war, “even though we wish to avoid it,” to secure their supply.⁵³

At the final Imperial Conference on December 1, Foreign Minister Togo explained that should Japan accept the latest U.S. proposals, which included the demand that Japan withdraw all its forces from China and French Indochina, “our very survival would inevitably be threatened.”⁵⁴ The president of the Privy Council, Hara, speaking for the emperor, now resigned himself to the tragic reality: “[It] is clear that the existence of our country is being threatened, that the great achievements of the Emperor Meiji would all come to nought [if the demands were accepted], and that there is nothing else we can do.”⁵⁵ With the nod of the Emperor’s head, approval was granted for war. The war in the Pacific would begin six days later.

The above analysis demonstrates the fundamental importance of trade expectations. Japanese leaders had made the decision before World War I to depend on foreign sources of oil and raw materials, given Japan’s limited natural resources. In the 1920s, this strategy was working effectively, as other great powers were still willing to trade extensively. But after 1930, with the beginning of highly protectionist British and American policies, Japan saw its national survival tied to expansion against its Asian neighbors—peacefully if possible, by military means if necessary. Although London and Washington had created their own economic realms using less-than-peaceful means, they would not tolerate Japan’s use of similar means. By late November 1941, Japanese leaders saw war, despite its high costs and risks, as preferable to the certain destruction that would come if Japan met the new U.S. price for reinstated trade. War had become the tragic lesser of two evils.

TRADE EXPECTATIONS AND THE FUTURE OF U.S.-CHINESE RELATIONS

The previous section indicates that in practical politics, unlike the international relations field, we cannot conveniently separate the realms of international political economy and security. International trade is not simply a question of “low politics” having little to do with the core issues of national survival. Rather, as the Japan case suggests, under certain conditions economic factors push states into conflicts that threaten each nation’s very existence.

When considering how America should deal with its most significant long-term concern—China—we must therefore recognize both the upside and the downside of increasing Chinese integration into the global economy. Liberal supporters of engagement are correct to say that interdependence can bind

China in a web of economic constraints. Chinese leaders clearly recognize that they need continued access to the world's markets and resources if they are to modernize their technological base and provide the wealth needed for future great-power status. Yet such an argument ignores the significant potential risks to increasing Chinese dependence. China's trade as a percentage of GNP has gone from 13 percent in 1980 to between 35 and 40 percent by the late 1990s.⁵⁶ As China continues to specialize to take advantage of its comparative advantage, any cutoffs of trade will have that much more of a devastating effect on its economy. This is especially so given China's growing need for raw materials and oil, as I discuss below. Moreover, as the paper's argument indicates, even if current trade is high, a dependent state's *anticipation* of cutoffs can drive it to aggression, as the expected value of the trade option falls in comparison to the expected value of conflict.

Proponents of straightforward engagement must also recognize another possible problem with their strategy: that of China's increasing relative power.⁵⁷ My argument does suggest that as China grows through trade, one would expect that states like the United States and Japan will become even more valuable trade partners; relatively equal states are more likely to enjoy high benefits of trade. But such states are also likely to face higher potential costs if trade is later severed. They thus have more reason to fear the vulnerability that goes with greater trade. Moreover, as China becomes stronger, the expected value of military expansion rises as the probability of victory increases and the costs of war fall. Vis-à-vis the United States, war would still be an unprofitable and foolhardy venture, to be sure. Yet compared to the smaller states in the region, China's growing economic strength, tied to military modernization, would give it the capability to project both power and influence.

Needless to say, Chinese leaders are well aware that military power projection, say against Southeast Asia, would pose certain costs and risks vis-à-vis its relations with United States and Japan. Yet like Japan in the 1930s, Chinese leaders would be more likely to see these costs and risks as tolerable should their expectations regarding the future trading environment turn pessimistic. As the expected value of continued peaceful trade fell, the creation of a Chinese co-prosperity sphere in east and southeast Asia would become an attractive option, even if only as the lesser of two evils. It is worth remembering that Japan was very reluctant to take on the United States in 1941. It did so only because military conflict, despite its recognized costs and risks, was seen as better than the continuation of the severe economic decline which was undermining Japan's long-term security. China could come to a similar conclusion within the next two decades, should it anticipate trade restrictions.

It is also worth remembering that Japan in 1941 had no desire to defeat and occupy the United States homeland. Rather, it sought to control Southeast Asia, and the oil-rich Dutch East Indies in particular, in order to compensate for U.S.

and British cutoffs. Yet given the United States' presence in the Philippines and U.S. expressions of resolve, Japanese leaders knew that an attack on the Dutch East Indies would lead to conflict with America. Thus it was deemed necessary to strike Pearl Harbor, in order to construct a defense perimeter which would keep the U.S. counterattack as far away as possible from Japan's core interests. Japanese leaders did expect the United States would fight for at least two years. But since the continental United States was not threatened, Tokyo hoped that the Americans would eventually see the costs of continued war as greater than the benefits. Washington would then concede the east Asian sphere to Japan, resting American security on control over North and South America.

Given the presence of nuclear weapons, Chinese leaders over the next few decades have even more reason to avoid a war with America against each others' homelands. Yet Beijing might calculate that the formation of a coprosperity sphere could be achieved without necessarily bringing on major war. As the Chinese navy grows and modernizes, power projection southward might seem to pose acceptable costs and risks should western trading practices turn hostile.⁵⁸ The potential for Chinese miscalculation, and a subsequent escalation to militarized conflict or war with the United States, cannot be easily dismissed.

China already feels freer to exercise what it sees to be its legitimate right to control the whole of the South China Sea. In 1995, soon after the U.S. withdrawal from Subik Bay and Clark air force base, the Chinese navy occupied Mischief Reef, a small atoll claimed by Manila and part of the highly contested Spratly Islands. This followed Beijing's use of military force in 1988 and 1991 to seize fifteen islands in the Spratly chain claimed by Vietnam.⁵⁹ China's interest in controlling the Spratlys stems in large part from the potential oil and gas reserves of the region.⁶⁰ Because of China's phenomenal economic growth and its huge population, in the early 1990s the country moved from energy self-sufficiency to energy dependence. For Beijing, the trends are very unnerving. As a result of stagnant production and phenomenal increases in demand, China is now importing approximately 30 percent of its required oil (after being a net exporter of oil for two decades). If present trends continue, by 2020 almost 60 percent of China's oil requirements will come from abroad.⁶¹ The energy resources of the South China Sea, Malaysia, Brunei, and especially Indonesia will therefore become increasingly attractive as China's oil dependence grows.⁶² This does not mean China will necessarily feel the need to occupy and formally control these countries, as did Japan in 1940–41. But Chinese leaders may come to believe that brandishing the military stick can coerce these nations into preferential trading relations with Beijing.⁶³ Since Washington would likely oppose such moves, the risk of escalation would be significant.

The above analysis in no way implies that military conflict with China is inevitable. If it were, then moving quickly to containment would be the best strategy. Such a policy would at least reduce Chinese economic power and thus its

future military power. Yet the problem with containment in the current environment situation is clear: if conflict is not inevitable, containment now will undoubtedly make it much more likely. It will provoke China into a more hostile posture, fueling both its incentive to engage in an arms race and to expand territorially. Indeed, even at China's current level of dependence, a hard-line strategy by Washington, especially one involving a renewal of CoCom-type restrictions, would so reduce Beijing's trade expectations as to make a marked jump in Chinese power projection more likely.

This chapter shows that mere engagement—the increasing integration of China into the world's economy with American help—is not enough. The United States must pursue a policy of realist(ic) engagement. This policy is founded on three interrelated conclusions flowing from the trade expectations argument summarized above. First, the United States should avoid allowing China to achieve significant relative gains through trade, since such gains in power increase China's incentives to expand.⁶⁴ As I discuss, U.S. efforts to integrate China into global economic institutions such as the World Trade Organization (WTO) on American terms are critical to the achievement of this end. Second, Washington must act to ensure positive Chinese trade expectations over the long term. Only if Beijing remains confident that trade will continue at high levels into the foreseeable future will it have an incentive to remain peaceful. China's accession to WTO is a crucial means to this objective. Third, the subtle interrelationship between military power, deterrence, and trade expectations must continue to be recognized. Without this recognition, Washington might pursue a political or military policy that ends up damaging Chinese expectations in the economic realm. An inadvertent spiraling to conflict would then be more likely.

Realistic engagement integrates the insights of both the realist and liberal views of world politics. Realists correctly note that relative losses through trade are of concern to great powers, especially when the trade partner is an emerging great power. Washington permitted Japan to gain relative power through trade in the 1920s, and suddenly awoke to a modern industrialized power capable of attacking U.S. interests in the Pacific. China's trade strategy today is deliberately designed to transfer the latest technologies—both economic and military—into Chinese hands. Rules covering joint ventures and foreign investment ensure maximum Chinese access to the technological know-how of global multinationals.⁶⁵ The huge trade surplus with America—approximately \$60 billion of the total U.S.-China trade of \$100 billion⁶⁶—supplies the foreign reserves needed to buy advanced military weapons from Russia, France, and Britain, and to acquire production technology from Japan, South Korea, Singapore, and other advanced states.⁶⁷

The delicate dilemma is clear: Washington must try to minimize the relative losses to China without at the same time undermining Chinese trade expecta-

tions. Reestablishing CoCom-type restrictions of the kind used against the Soviet Union during the cold war would be counterproductive. Quite rightly, Beijing will see such a U.S. move as an effort to undermine the Chinese economy. Moreover, should Washington seek, as it did during the cold war, to bring Western Europe and Japan into a new CoCom regime, Beijing would feel not only cut off, but actually surrounded by an emerging anti-China coalition. Such negative trade expectations would drive China to form a counter-economic sphere, using the techniques mentioned above.⁶⁸

The way out of this dilemma is to reduce China's relative gains without simultaneously doing harm to its absolute gains. Instead of cutting China off from the U.S. market, Washington needs to continue to encourage (and compel) Beijing to reduce its significant tariff and non-tariff barriers to U.S. imports. The November 1999 U.S.-China trade agreement, which set the stage for China's accession into the WTO, goes a long way toward achieving this end. The agreement forces China to lower tariffs on key agricultural products from 31 percent to 14 percent by 2004, to cut auto tariffs from 80–100 percent to 25 percent by 2006, and to reduce tariffs on most industrial products from an average of 24.6 percent to an average of 9.4 percent. The agreement also eliminates all tariffs on computers, telecommunications equipment, semiconductors, and other high-tech products.⁶⁹

The significant compromises made by China in this agreement were puzzling to many observers, but are explicable within the framework laid out above. The Chinese leadership understood that without such concessions, it could not achieve two core goals: the ending of the annual review by Congress of China's most favored nation status; and the forging of Washington's support for China's entry into the WTO. The first goal was secured by the Senate's approval of Permanent Normal Trade Relations (PNTR) in September 2000, after the House of Representative's similar vote the previous May. Full implementation of PNTR was contingent upon China's accession to the WTO, which took place on December 11, 2001. With this membership, Chinese leaders have secured a critical benefit: the establishment of stable expectations of long-term future trade with the United States, its most important trading partner. As Yang Donghui, the secretary-general of the China Federation of Textile Industries explained, a fundamental advantage of WTO membership "especially in the long run . . . is that the country will be able to enjoy stable multilateral preferential trade policies in a rules-based market."⁷⁰ Thomas Duesterberg notes that China's entry in the WTO will make it much more difficult for the United States to exercise the economic leverage it now enjoys.⁷¹ The Chinese government knows how much China would lose if MFN was ever denied. The fierce Congressional debates over the possible linking of MFN to the improvement in China's human rights record that took place in the early and mid-1990s were especially sobering to Beijing.⁷² The 1999 U.S.-China trade agreement and WTO

membership have ended this uncertainty, thus giving Beijing the confidence that further economic integration could proceed without undue risk.⁷³

China's efforts to secure membership in the WTO are part of a broader program of becoming more involved in the world's economic, political, and military institutions. China's membership in international intergovernmental organizations (IGOs) went from 21 in 1977 to 51 in 1996, and its membership in nongovernmental organizations skyrocketed from 71 to 1,079 during the same period.⁷⁴ Explaining the joining of the International Monetary Fund and the World Bank in the 1980s is not difficult: China needed massive infusions of capital to fuel its economic reforms.⁷⁵ But the Chinese leadership's relatively accommodating stance within international arms control regimes seems on the surface to be more puzzling, given Beijing's past intransigence and the potential restrictions on China's future military growth. The drive to be seen as a "responsible great power"—that is, the drive for international status for its own sake—may be one important motive.⁷⁶ Yet Chinese leaders have been historically among the most "realpolitik" of actors out there, rarely indulging in actions that do not further the external or internal security of the nation.⁷⁷ Something else, therefore, is likely dominating China's policy of institutionalized integration. Michael Swaine and Ashley Tellis label this policy China's "calculative strategy," namely, the strategy of defusing global suspicions of China's intentions in order to maintain the kind of secure economic relations that will sustain China's rapid growth rates. Good relations with the key players on the global stage will prevent any one of them from effectively forming a counterbalancing coalition that could halt China's development. In short, even if the United States wanted to re-create a CoCom-type regime to prevent trade with China, it would be difficult to get other key powers such as Japan and the European Union to go along with it.⁷⁸ Translated into the language of this essay's argument, Beijing's strategy is one of institutionalizing China's economic development in order to sustain and solidify the future trade environment. American efforts to encourage this institutionalization should be applauded, since by building positive expectations for long-term trade in Beijing, peace can indeed be fostered and reinforced.

The U.S. policy of driving a hard bargain on normalized trade relations and WTO accession helps secure two of the elements of realistic engagement—the mitigation of China's relative gains and the stabilizing of positive Chinese trade expectations. The third element of realistic engagement—the interrelationship between deterrence and economic relations—poses perhaps the most difficult problem for U.S. policymakers. We have seen that trade can work with military power to enhance one's deterrence efforts: trade founded on positive expectations increases the other's estimate of the value of peace; military power, credibly projected, reduces the other's value for war. But states face a security dilemma when they try to defend far-flung interests by building military power

and projecting their willingness to use it. Other states may be inclined to see such moves as threats to security, requiring a reciprocal response. A spiral of mistrust could then likely arise, which could cause dependent states to wonder about the likelihood of continued trade.⁷⁹ The U.S.-Japan case of the 1930s shows how deterrence can backfire. Concern over Japan led Washington to take an increasingly harder line in East Asia—building up the Philippines, projecting the resolve to defend British and American interests, and increasing trade sanctions. These actions ended up destroying Japanese confidence in America's willingness to trade. War soon followed.

The United States must continue to pursue a contingent, but consistent, strategy of deterrence and trade with China. U.S. leaders must show China that while they are more than willing to trade openly, they will not tolerate unilateral changes in the status quo through military force. Maintaining naval forces in the region, but still at some distance from Chinese shores during peacetime, is thus wise. Forces in Guam, for example, can project power when necessary, without causing China to fear imminent attack. Yet if China contemplates an invasion of Taiwan or the coercion of Southeast Asian states, it must know that the United States has the resolve to respond. One of the tools of response, in addition to military action, must remain the possibility of economic sanctions. Indeed, the benefits of trade only create an economic incentive to remain at peace when the dependent state fears an end of those benefits should it aggress. If China were to feel that it could expand in Asia and not suffer any losses in current trade, interdependence would have no restraining effect on its behavior.

The difficult task for policymakers here is projecting the resolve to impose sanctions without at the same time undermining the other's expectations for future trade. This may seem to be an insolvable dilemma, but it is not. The method is to consistently signal that one's policy is contingent on the other's behavior: if it maintains the status quo, trade will be forthcoming; if it threatens the status quo, sanctions will be imposed until the status quo ante is restored.⁸⁰ The failure of U.S. policy in the late 1930s stemmed from a lack of consistency. Washington did not respond immediately to the Japanese invasion of China in 1937. Only in mid-1938 did it take some action, and then only in the form of a "moral embargo." When severe trade restrictions were imposed in 1940 and 1941, the Japanese did recognize them as efforts to compel a change in Japanese foreign policy. Yet in late November 1941, Roosevelt proved unwilling to renew trade ties unless Tokyo conceded to a new and larger set of U.S. demands, including the directive that Japan immediately exit China and Manchuria.⁸¹ In today's terms, this would be equivalent to suddenly requiring China to leave Tibet if it hoped to secure continued trade.

Continuity, as opposed to fickleness, is essential to effective U.S. policy. Leaders in Beijing must have a clear idea of those interests that the United

States will defend through military force and economic sanctioning, and those it will not. Vacillating policy only creates uncertainty which reduces the other's ability to know the benefits and costs of alternative paths.⁸² It is in this sense that domestic politics can play havoc with U.S. efforts to implement a policy of realistic engagement. Most obviously, the annual congressional review of China's Most Favored Nation status over the past twenty years has held U.S.-Chinese relations hostage to parochial politics and the ideological agendas of specific individuals.⁸³ The Senate's approval of Permanent Normal Trade Relations and China's accession to WTO have ended much of this uncertainty, thus moderating Chinese leaders' worry that ongoing trade will be disrupted by U.S. domestic struggles.

The future of American policy is clear: the United States must lay down a set of rules and principles, and stick to them. Beijing needs to know that the current trade deficit must be reduced significantly by the ending of unfair Chinese trade practices; rigorous monitoring and enforcement of the principles of the U.S.-China trade agreement and of the agreements allowing China's entry into WTO are thus critical. Beijing must also know that America's way of life rests on the principle of free trade with those nations which do not seek to change the status quo through force. China will receive the benefits of trade as long as it is peaceful. But if it is not, it will not only face the might of the U.S. military, but also suffer trade sanctions commensurate with its violations of others' territorial sovereignty. Washington must also signal clearly that these sanctions will last only so long as the violations continue. That is, Washington must foster confidence in Beijing that sanctions do not reflect a permanent state of animosity toward China and the Chinese people, but only a dislike of Chinese behavior. Avoiding any linkage of trade policy to human rights and domestic issues within China is thus crucial; the negative impact of the Jackson-Vanik amendments on the prospects for U.S.-Soviet détente in the 1970s shows the problems with such a policy.⁸⁴ The United States as a society must also avoid any "China-bashing" parallel to the Japan-bashing which occurred in the 1980s. Such displays would appear directed toward the Chinese people as a race and civilization. They would create the impression that the United States is fundamentally hostile to China as a country, as is therefore unlikely to trade even if China's foreign policy improves.

One might argue that the policy of realistic engagement, at least in its more ideal-typical form, is ultimately too subtle to be practical over the long term. In particular, its requirement for a nuanced combination of reassuring gestures and firmness seems to place overly stringent demands on the American political system—a system which has exhibited some significant divisions on foreign policy in the past. Yet there is much evidence that the United States, despite continued internal debate, has been moving slowly but surely toward a more cohesive China policy paralleling the principles outlined above. President

Clinton's own attempt to link trade to human rights in his first year in office was abandoned by May 1994, as the White House recognized that it was only alienating Beijing with no concrete results.⁸⁵ By the end of his tenure, Clinton had used a combination of economic inducements (particularly the promise of PNTR and WTO accession) and potential counter-tariffs should Beijing not end its unfair trade practices to pry open the Chinese market to U.S. goods and services. The administration of George W. Bush has signaled America's continued commitment to PNTR and to China's entry into the WTO, and thus to the ending of the annual Congressional review of China's MFN status. Even in the midst of April 2001 discussions to bring home U.S. servicemen whose spy plane made an emergency landing in Hainan island after colliding with a Chinese jet, U.S. and Chinese trade negotiators worked out a compromise on allowable Chinese subsidies to farmers that cleared one of the last remaining hurdles to China's accession into the WTO. This signaled that expectations of future trade would not be held hostage to the domestic emotions evoked by a minor diplomatic incident.

Yet when the problem is more severe, such as in the spring of 1996 over the crisis in the Taiwan straits, Washington has demonstrated the ability to project its power and resolve without simultaneously undermining the trading environment. Chinese military exercises and missiles tests around Taiwan were met with the dispatch of two U.S. carrier battle groups into the area. Beijing learned from that episode and what followed that while the United States will oppose China's use of unilateral force against its neighbors, American leaders will be cooperative when China's leaders are cooperative.⁸⁶ Within two years of the Taiwan straits crisis, Chinese and American officials were laying the foundation for China's entry into the WTO. Moreover, over the past two decades the United States has effectively signaled that it will continue to defend the commercial sea lanes, to restrain Japan from militarizing, and to deter conflict on the Korean peninsula—activities approved of by Beijing, at least implicitly. But China understands that it must abide by the geopolitical status quo to continue to receive the significant economic benefits that this status quo offers the nation at this critical stage in its development.⁸⁷

Finally, there appears to be broad domestic support for the U.S. Executive's efforts—both under the Clinton administration and now under the Bush administration—to compel China to moderate its trade surplus by reducing its tariff and non-tariff barriers to U.S. exports. Public displays of congressional anger at China's export-led strategy have been relatively muted, perhaps because China's exports to the United States do not threaten American jobs as much as Japanese high-tech exports appeared to do in the 1980s. Moreover, the lack of support for a return to cold-war era trade restrictions seems to reflect the widespread opinion that undermining China's faith in economic integration will

only spark a destabilizing rivalry.⁸⁸ Given this majority view, Washington can continue to quietly pressure China to open its markets without the U.S. tactics seeming to reflect a groundswell of anti-China sentiment. Indeed, assertive American efforts to pry open Chinese markets, even when it requires coercive bargaining, may actually *improve* Chinese long-term expectations for future trade. Demands for more access, and promises of continued access to U.S. markets in return, send the signal that the United States remains committed to free and open trade as a general principle.⁸⁹

In sum, realistic engagement is a feasible and necessary strategy for dealing with China over the next two decades. It allows the United States to maintain its relative technological and economic dominance, without denying China the opportunity to grow in absolute terms. The resultant optimism of Chinese leaders' regarding the future trading environment will thus enhance their perceptions of Chinese external security, even as it reassures them of their ability to satisfy the rising internal demands of the citizens.

CONCLUSION

This essay has sought to demonstrate the causal ties between relative power, economic interdependence, trade expectations, and interstate conflict. The argument presented allows one to consider the implications of various combinations of these factors for the likelihood of war between states such as the United States and China. The war between Japan and America from 1941 to 1945 is instructive. Inconsistent policy that shifts suddenly from "do-nothing" indifference to severe and inflexible trade sanctions can drive dependent states to war. This chapter has not explored the controversial question of whether Roosevelt deliberately drew the Japanese into war by imposing demands he knew Japan could not meet. But it is clear that his unwillingness to moderate U.S. sanctions in return for a moderation of Japanese policy made conflict in the Pacific inevitable.

U.S. leaders today seem to recognize that they cannot afford to repeat this mistake. They understand that they must specify clear and unequivocal principles that allow Chinese leaders to form positive expectations of future trade contingent on their good behavior. The severity of any trade sanctions that the United States imposes must not only fit the crime. More importantly, the punishment must be seen in Beijing as revokable—parole and rehabilitation into world society must be quickly granted should China mend its ways. Demonizing China as a state will only serve to dash Chinese leaders' hopes that they can ever receive the trade they need on terms compatible with China's sovereignty and its status as an emerging great power. Only by understanding the importance of Chinese trade expectations and their sensitivity to U.S. policy can U.S. policymakers design a strategy that can avoid the tragedy of war.

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ENDNOTES

1. Robert S. Ross, "Engagement in U.S. China Policy," in Alistair Iain Johnston and Robert S. Ross, eds., *Engaging China: The Management of an Emergent Power* (London: Routledge, 1999), pp. 176–206; Alistair Iain Johnston and Robert S. Ross, "Preface" and "Conclusion," in *ibid.*; Michel Oksenberg and Elizabeth Economy, "Introduction: China Joins the World," in Economy and Oksenberg, eds., *China Joins the World: Progress and Prospects* (New York: Council on Foreign Relations, 1999), pp. 1–41; David Shambaugh, "Containment or Engagement of China? Calculating Beijing's Responses," *International Security* 21, no. 2 (Fall 1996): 180–209; Shambaugh, "The United States and China: Cooperation or Confrontation," *Current History* 96, no. 611 (September 1997): 241–45; Andrew J. Nathan and Robert S. Ross, *The Great Wall and the Empty Fortress: China's Search for Security* (New York: Norton, 1997); James Shinn, ed., *Weaving the Net: Conditional Engagement with China* (New York: Council on Foreign Relations, 1996); Joseph S. Nye, "China's Re-emergence and the Future of the Asia-Pacific," *Survival* 39, no. 4 (Winter 1997–98): 65–79; Andrey Kurth Cronin and Patrick M. Cronin, "The Realistic Engagement of China," *Washington Quarterly* 19, no. 1 (Winter 1996): 141–170; Kyung-Won Kim, "Maintaining Asia's Current Peace," *Survival* 39, no. 4 (Winter 1997–98); Fei-Ling Wang, "To Incorporate China: A New Policy for a New Era," *Washington Quarterly* 21, no. 1 (Winter 1998): 67–84; Harry Harding, "A Chinese Colossus?" *Journal of Strategic Studies* 18, no. 3 (September 1995): 121; Jose T. Almonte, "Ensuring Security the 'ASEAN way'," *Survival* 39, no. 4 (Winter 1997–98): 91.

2. For a review of the liberal perspective, see Dale Copeland, "Economic Interdependence and War: A Theory of Trade Expectations," *International Security* 20, no. 4 (Spring 1996): 5–41; Susan McMillan, "Interdependence and Conflict," *Mershon International Studies Review* 41, Sup. 1 (May 1997): 33–58; Bruce Russett and John Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: Norton, 2001), ch. 4; Katherine Barbieri, "Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?" *Journal of Peace Research* 33, no. 7 (1996): 29–49; Arthur R. Stein, "Governments, Economic Interdependence, and International Cooperation," in Philip Tetlock, et al., eds., *Behavior, Society, and International Conflict* 3 (New York: Oxford University Press, 1993); Edward D. Mansfield and Brian M. Pollins, "Economic Interdependence and Political Conflict: A Conceptual and Empirical Overview," paper prepared for the Mershon Center conference on Interdependence and Conflict, September 15–16, 2000. The most extensive modern formulation of the argument, which is rooted in the writings of Kant, Cobden,

and Angell, remains Richard Rosecrance, *The Rise of the Trading State* (New York: Basic Books, 1986).

3. For a review of realist thinking, see Copeland, "Economic Interdependence and War;" McMillan, "Interdependence and Conflict;" Barbieri, "Economic Interdependence;" Mansfield and Pollins, "Economic Interdependence and Political Conflict." Those supporting a hard-line stance against China include Gideon Rachman, "Containing China," *Washington Quarterly* 19, no. 1 (Winter 1998): 129–40; Richard Bernstein, and Ross H. Munro, *The Coming Conflict with China* (New York: Knopf, 1997); Denny Roy, "Hegemon on the Horizon? China's Threat to East Asian Security," *International Security* 10, no. 1 (Summer 1994): 149–68; Gerald Segal, "East Asia and the 'Constraint' of China," *International Security* 20, no. 4 (Spring 1996): 107–35 [Segal is more inclined to engagement in "Tying China into the International System," *Survival* 37, no. 2 (Summer 1995): 66–73]. These authors do not necessarily focus on interdependence as a cause of conflict, but the realist argument would support their case. For a consideration of the liberal/realist debate on interdependence as it applies to East Asia, see Stuart Harris, "The Economic Aspects of Pacific Security," in *Asia's International Role in the Post-cold War Era: Part I*, Adelphi Paper 275 (London: Brassey's, March 1993).

4. See Copeland, "Economic Interdependence and War."

5. I borrow the term from Cronin and Cronin, "Realistic Engagement of China," but I place more emphasize on realist power politics as critical to maintaining the peace.

6. See Copeland, "Economic Interdependence and War," pp. 12–18.

7. The assumption of asymmetry can of course be later relaxed, to show the effects of symmetrical interdependence on both actors' desire for conflict versus cooperation.

8. See Richard E. Caves and Ronald W. Jones, *World Trade and Payments*, 4th ed. (Boston: Little Brown, 1985), chs. 3–4. Note that state A can still be aware of the benefits of trade even if present trade is nonexistent, since they represent the potential gains from trade that would accrue to the state should trade levels become high in the future.

9. In a two-actor system of 100 units, for example, where A was 99 and B was 1, even trade the equivalent of 100 percent of B's GNP would be only 1 percent of the total system size. On the other hand, in a two-actor system of 100 units where A was 50 and B was 50, if trade represented only say 5 percent of B's size, this would be 2.5 percent of the total system size. Thus we would expect, for example, that Germany today would find France a far more valuable trading partner than Luxembourg or Liechtenstein.

10. See Hans Linnemann, *An Econometric Study of International Trade Flows* (Amsterdam: North-Holland, 1966); Jan Tinbergen, *Shaping the World Economy* (New York: Twentieth Century Fund, 1962), Appendix VI; Brian M. Pollins, "Conflict, Cooperation and Commerce: The Effect of International Political Interactions on Bilateral Trade Flows," *American Journal of Political Science* 33, no. 3 (August 1989): 737–61. These studies show that the level of trade between any two states is a function of the size of one state's GNP multiplied by the other's. That is, if state A's GNP was designated Y_a , and B's GNP designated Y_b , then trade would vary according to the for-

mula $Y_a \times Y_b$ (factored down by some coefficient). We can thus see that a 100-unit two-actor system of 99–1 will expect to have far less trade than a system of 50–50 (for any given coefficient).

11. When A is very small relative to B, the potential benefits and costs will still be small in absolute terms, although they may be very high as a percentage of A's economy.

12. Since the notion of dependence is described in terms of the *potential* benefits and costs of trade given objective factors, leaders' concerns for relative gains and losses are not directly relevant. In practice, of course, such concerns can moderate leaders' willingness to trade with states that are near equals (and are therefore seen as possible military threats). The issue of relative gains is discussed below.

13. The latter two propositions follow directly from the insights of deterrence theory, which suggest that the larger the state in relative size, the higher the probability of winning a victory, while the lower the costs of fighting the war. See, for example, Alexander George and Richard Smoke, *Deterrence in American Foreign Policy* (New York: Columbia University Press, 1974), chs. 2–3.

14. I discuss this logic more formally in Copeland, "Modeling Economic Interdependence and War," paper delivered to the annual meeting of the American Political Science Association, Chicago, September 1995.

15. Evidence does suggest that war for the Nazis was indeed profitable vis-à-vis such nations, and particularly so for the medium-sized states like Czechoslovakia. Peter Liberman, *Does Conquest Pay?* (Princeton: Princeton University Press, 1996).

16. Thucydides, *The Peloponnesian War*, trans. Rex Warner (Harmondsworth: Penguin, 1954), 1: 80–88.

17. For references on the extended deterrence literature, see Dale C. Copeland, "Do Reputations Matter?" *Security Studies* 7, no. 1 (Autumn 1997), fn. 2.

18. I should also note that my argument operates at the systemic level, and therefore does not consider unit-level motives for aggression. Such motives, when present, will clearly intensify state A's likelihood of expanding beyond the constraints and incentives established by relative power, economic interdependence, and trade expectations (the three causal variables of this analysis).

19. While this argument often incorporates many of the external pressures discussed below, it assumes that had the democratic process *not* been undermined, leaders would have chosen another course. For a review of the literature, and an important reworking of the argument, see Jack Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca: Cornell University Press, 1991).

20. After the failed coup attempt in February 1936, the emperor's crackdown on far-right elements greatly reduced the pressure they could bring to bear on the cabinet (see Edward Behr, *Hirohito: Behind the Myth* (New York: Vintage, 1989)).

21. See Ramon H. Myers and Mark R. Peattie, eds., *The Japanese Colonial Empire, 1895–1945* (Princeton: Princeton University Press, 1984).

22. This is captured in the slogan that defined the elite's objectives since the Meiji restoration: "rich country, strong army" (see W. G. Beasley, *Japanese Imperialism, 1894–1945* (Oxford: Oxford University Press, 1987)).

23. Akira Iriye, *After Imperialism: The Search for a New Order in the Far East 1921–31* (Chicago: Imprint, 1990), concluding chapter.

24. Imperial Government of Japan, *Relations of Japan with Manchuria and Mongolia*, Document B, pp. 141–43 (this document was found in the University of Chicago library, without publication house or date, but contents indicate that it was published around 1932–33). While the takeover of Manchuria was executed by the Japanese army, the civilian government in Toyko did not object; after all, it served the economic ends of the nation.
25. See Copeland, “Economic Interdependence and War.”
26. Michael A. Barnhart, *Japan Prepares for Total War: The Search for Economic Security, 1919–1941* (Ithaca: Cornell University Press, 1987), p. 37.
27. Stephen E. Petz, *Race to Pearl Harbor The Failure of the Second London Naval Conference and the Onset of World War II* (Cambridge: Harvard University Press, 1974), p. 170.
28. James B. Crowley, *Japan's Quest for Autonomy: National Security and Foreign Policy, 1930–1938* (Princeton: Princeton University Press, 1966), pp. 288, 299.
29. Barnhart's treatment of this (*Japan Prepares*) is the most complete.
30. Joyce C. Lebra, ed. *Japan's Greater East Asia Co-Prosperity Sphere in World War II: Selected Readings and Documents* (Kuala Lumpur: Oxford University Press, 1975), p. 62.
31. *Ibid*, p. 63.
32. Roosevelt asked firms to voluntarily restrict or halt their imports of such equipment to Japan (*Judgement: International Military Tribunal for the Far East*, Part B, Chap. V–VI (1948), p. 261).
33. *Ibid*, p. 334.
34. Lebra, *Japan's Coprosperity Sphere*, pp. 64f.
35. Barnhart, *Japan Prepares*.
36. *Ibid*, p. 146.
37. *Ibid*, p. 149.
38. *Ibid*, p. 207.
39. Quoted in Petz, *Race to Pearl Harbor*, p. 215. See also Tsunoda Jun, “The Navy's Role in the Southern Strategy,” in James W. Morley, ed., *The Fateful Choice: Japan's Advancement into Southeast Asia*, (New York: Columbia University Press, 1980), p. 247.
40. Barnhart, *Japan Prepares*, pp. 188–191.
41. Petz, *Race to Pearl Harbor*, p. 215.
42. Nobutaka Ike, trans. and ed., *Japan's Decision for War: Records of the 1941 Policy Conferences* (Stanford: Stanford University Press, 1967), p. 5 (cited herein as *JDW*).
43. “Outline of Policy towards the South,” in *Fateful Choice*, ed. Morley, p. 303.
44. *JDW*, pp. 96, 101.
45. *Ibid*, pp. 130–31, 106.
46. *Ibid*, p. 136.
47. *Ibid*, p. 138.
48. *Ibid*, p. 147.
49. *Ibid*, p. 148.
50. *Ibid*, p. 191.
51. *Ibid*, p. 204.

52. Ibid, p. 207. Since the September 6 conference, few believed that war would be short or painless (see *ibid*, p. 153).

53. Ibid, pp. 221–22.

54. Japan “would be forced to retreat completely from the mainland” (Ibid, pp. 270–71).

55. Ibid, p. 282.

56. International Monetary Fund, *International Financial Statistics* 53, no. 11 (Washington, D.C.: IMF, November 2000), pp. 228–30; Thomas G. Moore, “China and Globalization,” *Asian Perspective* 23, no. 4 (1999): 69. China’s total trade with the outside world has gone from a mere \$21 billion in 1978, at the beginning of reforms, to \$360 billion by 1999. By 1997, China had accumulated more than \$130 billion in foreign currency reserves, but also had an external debt of \$120 billion. See IMF, *International Financial Statistics*, p. 228; Stefan Halper, “Trading with China? Balancing Free Trade with National Security,” in Ted Galen Carpenter and James A. Dorn, eds., *China’s Future: Constructive Partner or Emerging Threat?* (Washington, D.C.: Cato Institute, 2000), p. 237; Oksenberg and Economy, “Introduction,” in Economy and Oksenberg, *China Joins the World*, p. 5; Nicholas Lardy, “China and the International Financial System,” in *ibid.*, pp. 206–230.

57. Michael D. Swaine and Ashley J. Tellis, *Interpreting China’s Grand Strategy: Past, Present, and Future* (Santa Monica: RAND, 2000); Zalmay M. Khalilzad, et al., *The United States and a Rising China: Strategic and Military Implications* (Santa Monica: RAND, 1999); Roy, “Hegemon on the Horizon,” Roy, “Assessing the Asia-Pacific ‘Power Vacuum,’” *Survival* 37, no. 3 (Autumn 1995): 45–60; Harding, “A Chinese Colossus?” Nye, “China’s Re-emergence and the Future of the Asia-Pacific,” William H. Overholt, *The Rise of China* (New York: Norton, 1993); Nicholas Kristof, “The Rise of China,” *Foreign Affairs* 72, no. 5 (November–December 1993); Douglas T. Stuart, “Preparing for Multipolarity in the Asia-Pacific,” *Journal of East Asian Affairs* 11, no. 1 (Winter–Spring 1997): 91–120.

58. In the short term, China has reason for caution given the current inferiority of its navy to that of the United States. See Evan A. Feigenbaum, “China’s Military Posture and the New Economic Geopolitics,” *Survival*, no. 41, no. 2 (Summer 1999): 71–88. Yet there is evidence that many Chinese officials believe that with U.S. forces dispersed around the world, and with the American public apparently unwilling to absorb heavy casualties, China could engage the U.S. military in the region and prevail. See Thomas J. Christensen, “Posing Problems without Catching Up: China’s Rise and Challenges for U.S. Security Policy,” *International Security* 25, no. 4 (Spring 2001): 4–40.

59. In 1974, China seized the Paracel Islands by force. These islands lie right off Vietnam’s coast, and had been claimed and partially occupied by Vietnam. See Mamdouh G. Salameh, “China, Oil, and the Risk of Regional Conflict,” *Survival* 37, no. 4 (Winter 1995–96): 143–44; Lee Lai To, *China and the South China Sea Dialogues* (Westport: Praeger, 1999), p. 13.

60. Salameh, “China, Oil, and the Risk of Regional Conflict,” To, *China and the South China Sea Dialogues*, pp. 11, 130–32; Michael Yahuda, “China’s Foreign Relations: The Long March, Future Uncertain,” *The China Quarterly*, no. 159 (September 1999): 657; Mark J. Valencia, “Energy and Insecurity in Asia,” *Survival* 72, no. 3 (Au-

tumn 1997): 85–106; Bernstein and Munro, *Coming Conflict with China*; Michael Leifer, “Chinese Economic Reform and Security Policy: The South China Sea Connection,” *Survival* 37, no. 2 (Summer 1997): 44–59; William J. Dobson and M. Taylor Fravel, “Red Herring Hegemon: China in the South China Sea,” *Current History* 96, no. 611 (September 1997): 258–69; Aaron Friedberg, “Ripe for Rivalry: Prospects for Peace in a Multipolar Asia,” *International Security* 18, no. 3 (Winter 1993–94): 5–33. China’s long-term goals apparently extend beyond the Spratlys. In 1995, Indonesia felt compelled to send a diplomatic note to Beijing questioning why certain Chinese maps showed a dotted line around the Spratleys that encompassed Indonesia’s natural gas field in the Natuna Islands, 300 miles southwest of the Spratleys. Jakarta was unnerved by the fact that in the previous year, Indonesia’s state-owned oil company had signed a \$35 billion deal with Exxon to develop the Natuna gas field. To, *China and the South China Sea Dialogues*, p. 131.

61. See Erica Strecker Downs, *China’s Quest for Energy Security* (Santa Monica: RAND, 2000), pp. 7–9; Salameh, “China, Oil, and the Risk of Regional Conflict,” *Survival*, 137–39. On China’s growing oil dependence, see also Vaclav Smil, “China’s Energy and Resource Uses: Continuity and Change,” *China Quarterly*, no. 156 (December 1998): 943; Mark Burles, *Chinese Policy Toward Russia and the Central Asian Republics* (Santa Monica: RAND, 1999), p. 23; To, *China and the South China Sea Dialogues*, p. 11; Robert B. Zoellick, “Economics and Security in the Changing Asia-Pacific,” *Survival* 39, no. 4 (Winter 1997–98): 33; Michael B. McElroy and Chris P. Nielsen, “Energy, Agriculture, and the Environment: Prospects for Sino-American Cooperation,” in Ezra F. Vogel, ed., *Living with China: U.S.-China Relations in the Twenty-First Century* (New York: Norton, 1997), pp. 220–21; Segal, “Tying China into the International System,” pp. 62–63. Beijing is seeking to diversify its risk by establishing strong economic and political links with the oil-rich countries of Central Asia. Unfortunately, the high costs of transporting oil by pipeline have left China still primarily dependent on oil imports from the Middle East and Southeast Asia, via sea lanes controlled by the U.S. navy. See Burles, *Chinese Policy Toward Russia and the Central Asian Republics*; Downs, *China’s Quest for Energy Security*. Frustrations with domestic production and with the Central Asian connection have led China’s government-controlled oil companies to participate in the exploration of oil and gas fields in countries as varied as Peru, Thailand, Sudan, Papua New Guinea, and Canada. See *ibid.*, pp. 17–23, and To, *China and the South China Sea Dialogues*, 12.

62. On growing fears within China that future conflicts with other major powers will revolve around natural resources, particularly supplies of oil and gas, see Michael Pillsbury, *China Debates the Future Security Environment* (Washington, D.C.: National Defense University Press, 2000), xxv, 46–47; Moore, “China and Globalization,” pp. 76–77.

63. Saddam Hussein, for example, sought to use such a threat up to July 1990 to convince Kuwait to boost the price of oil; the Iraqi economy was devastated by the precipitous fall in world oil prices, due in large part to Kuwaiti and Saudi overproduction above previously-agreed-upon OPEC quotas. When Kuwait refused Iraqi demands, Iraq invaded the country. It seems likely that Saddam would not have taken this risky move had Kuwait abided by OPEC restrictions.

64. On realist arguments that states worry about relative losses through trade, see Joseph Grieco, "Anarchy and the Limits to Cooperation: A Realist Critique of the Newest Liberal Institutionalism," and "Understanding the Problem of International Cooperation: The Limits of Neoliberal Institutionalism and the Future of Realist Theory," in David A. Baldwin, ed., *Neorealism and Neoliberalism* (New York: Columbia University Press, 1993); Michael Mastanduno, "Do Relative Gains Matter? America's Response to Japanese Industrial Policy," *International Security* 16, no. 1 (Summer 1991): 73–113. For critiques of the realist argument, see essays by Duncan Snidal, Robert Keohane, and Robert Powell in Baldwin, *Neorealism and Neoliberalism*.

65. Margaret M. Pearson, "China's Integration into the International Trade and Investment Regime," in Economy and Oksenberg, *China Joins the World*, pp. 161–205.

66. David Shambaugh, "Facing Reality in China Policy," *Foreign Affairs* 80, no. 1 (January/February 2001): 56; Bates Gill, "Limited Engagement," *Foreign Affairs* 78, no. 4 (July/August 1999): 65.

67. Nathan and Ross, *Great Wall and Empty Fortress*; Bernstein and Munro, *Coming Conflict with China*.

68. On the cold-war trade restrictions against China, see Frank Cain, "The U.S.-Led trade Embargo on China: The Origins of CHINCOM, 1947–52," *Journal of Strategic Studies* 18, no. 4 (December 1995): 33–54.

69. Washington Post, September 2000, A1; Jialin Zhang, "Sino-Trade Issues After the WTO Deal: a Chinese Perspective," *Journal of Contemporary China* 9 (July 2000): 310–11.

70. Quoted in Mark A. Groombridge, "China's Accession to the World Trade Organization: Costs and Benefits," in Carpenter and Dorn, *China's Future*, p. 182.

71. Thomas J. Duesterberg, "Zhu Rongji, Political Magician," *Washington Quarterly* 22, no. 4 (Autumn 1999): 17.

72. Julia Chang Block, "Commercial Diplomacy," in Vogel, *Living with China*, pp. 197–210.

73. This is not to say that this was the only reason driving Beijing's desire for WTO membership. Chinese leaders also recognized that integration within the WTO bloc was necessary to the sustaining of China's modernization in the new information-age global economy and to furthering reformers' plans to reduce China's reliance on highly inefficient state-owned enterprises. See Moore, "China and Globalization," pp. 88–92; Edward S. Steinfeld, "Beyond the Transition: China's Economy at Century's End," *Current History* 98, no. 629 (September 1999): 271–75; Elizabeth Economy, "Getting China Right," *Current History* 98, no. 629 (September 1999): 258–59; Groombridge, "China's Accession to the World Trade Organization," in Carpenter and Dorn, *China's Future*, p. 182; Margaret M. Pearson, "The Major Multilateral Economic Institutions Engage China," in Johnston and Ross, *Engaging China*, p. 226.

74. Samuel S. Kim, "China and the United Nations," in Economy and Oksenberg, *China Joins the World*, p. 46.

75. Moore, "China and Globalization," 69; Pearson, "China's Integration into the International Trade and Investment Regime," in Economy and Oksenberg, *China Joins the World*; Lardy, "China and the International Financial System," in

ibid.; Pearson, "The Major Multilateral Economic Institutions Engage China," in Johnston and Ross, *Engaging China*.

76. Alastair Iain Johnston and Paul Evans, "China's Engagement with Multilateral Security Institutions," in Johnston and Ross, *Engaging China*, pp. 235–72; Michael D. Swaine and Alastair Iain Johnston, "China and Arms Control Institutions," in Economy and Oksenberg, *China Joins the World*, pp. 90–135.

77. Thomas J. Christensen, "Chinese Realpolitik," *Foreign Affairs* 75, no. 5 (September/October 1996): 37–52; Alastair Iain Johnston, *Cultural Realism: Strategic Culture and Grand Strategy in Chinese History* (Princeton: Princeton University Press, 1995); Swaine and Tellis, *Interpreting China's Grand Strategy*.

78. Swaine and Tellis, *Interpreting China's Grand Strategy*. On China's strategy of using cooperation in the near term to foster a climate conducive to economic growth and modernization, see Pillsbury, *China Debates the Future Security Environment*, xxxiv; Sheng Lijun, "China and the United States: Asymmetrical Strategic Partners," *Washington Quarterly* 22, no. 3 (Summer 1999): 158; Michael Yahuda, "China's Search for a Global Role," *Current History* 98, no. 629 (September 1999): 269; Yahuda, "China's Foreign Relations," pp. 655–56.

79. See Dale C. Copeland, "Trade Expectations and the Outbreak of Peace: Détente 1970–74 and the End of the Cold War 1985–91," *Security Studies* 9, nos. 1–2 (Autumn 1999–Winter 2000): 23–25.

80. For arguments which stress the importance of a contingent U.S. policy, see Shinn, *Weaving the Net*; Segal, "Tying China into the International System," pp. 70–73.

81. It is important to note that internally, the Japanese leaders had agreed that they would be willing to accept a deal to leave China (but not Manchuria) in a staged withdrawal; all recognized the war in China to be a losing battle. As with U.S. negotiations over Vietnam in the late 1960s, Japan in November 1941 was resisting an *immediate* exiting of China which would harm its reputation for resolve and thus its ability to control Korea and Taiwan. Roosevelt, insensitive to Japanese concerns, refused to bargain toward a more modest *modus vivendi* (even though the U.S. military sought such a deal to buy time for the American military buildup). See Ike, *Japan's Decision for War*; Dale Copeland, "Deterrence, Reassurance, and Machiavellian Appeasement," paper presented at conference on enduring rivalries sponsored by *Security Studies*, Washington, D.C., March 1996.

82. The one exception is Taiwan. Here, Washington has wisely pursued a policy of calculated ambiguity—being committed to "One China," yet simultaneously signaling to Beijing that it cannot be sure that the United States would not act to defend Taiwan should China attack.

83. On the need for consistency and the failure of the arbitrary linking of trade to human rights concerns, see Economy, "Getting China Right," p. 259; Bloch, "Commercial Diplomacy," in Vogel, *Living with China*, 196–97.

84. See Copeland, "Trade Expectations and the Outbreak of Peace," pp. 25–40.

85. David M. Lampton, "America's China Policy in the Age of the Finance Minister: Clinton Ends Linkage," *China Quarterly* 139 (September 1994): 597–621.

86. Robert S. Ross, "The 1995–96 Taiwan Straits Confrontation: Coercion, Credibility, and the Use of Force," *International Security* 25, no. 2 (Fall 2000): 87–123.

87. Feigenbaum, "China's Military Posture and the New Economic Geopolitics;" Sheng, "China and the United States."

88. As Assistant Secretary of State Joseph S. Nye told the U.S. House of Representatives International Relations Committee in 1995: "If you treat China as [an] enemy, then you will have an enemy." Quoted in Ross, "Engagement in U.S. China Policy," in Johnston and Ross, *Engaging China*, 184.

89. See *ibid.*, pp. 185–86, on the value of "market access talks" in the 1990s as an alternative to unilateral U.S. protectionism. By embedding the threat of U.S. sanctions with the context of these ongoing talks, Washington was successful in compelling compromises from Beijing on tariffs and non-tariff barriers while simultaneously upholding America's general commitment to the free trade principle.