Exploring the Security Dimension of Sino–US Trade Asymmetry

Implications for the International Trade System

Alexis Littlefield

Examining the Sino–US relationship in the context of economic interdependence from a nuanced realist perspective does not place economics and finance in a subordinate role in the field of national security. Nor does it argue for support of an American-dominated liberal system of trade. Instead, it argues the trade relationship has created a less secure environment for both states, with the United States suffering the greater vulnerability. The question then becomes how can we better understand the implications of the "Chimerica" relationship upon security and the current trade system?

The Sino–US relationship in the context of trade is a frequently addressed issue in the news. One day's newspaper contains three separate articles that touch on this theme as follows: Regarding the trade relationship, China's vice premier Wang Qishan states that "economic interdependence deepens day by day and one cannot do without the other."[1] Regarding the impact of trade asymmetry upon US security, National War College professor Bernard Cole states that it is "more difficult for the US to intercede on behalf of Taiwan on sales of significant weapons systems" such as the F-16C/D as the "financial interrelationship" between the United States and China grows.[2] Finally, in an op-ed regarding the impact of the relationship upon the trade system, Susan Shirk states, "The Chinese as well as the US (pinpoint) the main cause of the (financial) crisis (as being) the US' flawed financial system."[3] The security implications of Sino–US trade interdependence, the financial interrelationship, and the stresses upon the financial system are all addressed in this article.

Alexis Littlefield is a PhD candidate at the Graduate Institute of International Politics, National Chung Hsing University, Taichung, Taiwan.

In the academic media, the question of how Sino–US trade asymmetry affects security is only just emerging. Daniel Drezner addresses the question what are the security implications of China's creditor status? Based upon China's inability to use its creditor status in any meaningful way to compel the United States to act according to China's interests, the ability of the United States to find other sources of credit, and the inability of China to find non–US debt instruments in any large quantity, his answer to this question would be "None." However, he bases his argument on the assumption that Sino–US trade is mutually dependent and acknowledges that "escalating US budget deficits might shift the Sino-American financial relationship . . . to asymmetric dependence."[4]

This point has been reached and will only intensify. Further, China has gained diplomatic concessions from the United States, and these will also increase in quantity and quality. Just recently, President Obama decided not to meet with the Dalai Lama, a first for a US president since 1991. Human rights are no longer part of the Sino-American dialogue, and economic issues are the focus of the relationship. Beyond the question addressed by Drezner, this study ponders the impact of Sino–US trade upon the current liberal trade system, the role of a stronger China and a weaker United States upon the system as the unipolar economic structure becomes bi- or multipolar, and whether there are security implications in this puzzle.

In this journal, James Rickards took a different approach to the security implications of Sino–US trade asymmetry and focused on the concept of financial warfare. He argues that US "financial markets are more vulnerable than ever, the methods for attacking them are easy and inexpensive, and the returns to the enemy in terms of the destruction of wealth and confidence are inestimable."[5] The leverage of the Chinese to exercise the option (pun intended) of financial warfare is possible because of the large reserves of US dollars they have invested in hedge funds which can be leveraged to a ratio of 100:1 by using options on futures. They could "simultaneously swarm global systems with one-sided sell orders" on popular indices. This strategy "would rely on a panicked reaction which amplifies the initial attack and feeds on itself."[6]

International relations scholars have tended to separate international political economy (IPE) and security studies, but as James Caporaso states, "Security studies and IPE are increasingly becoming one integrated literature rather than two."[7] Michael Mastanduno maintains that with the change in the international structure from bipolarity to unipolarity, there has been "renewed interest in the intersection of economics and security along with a critical reassessment of the scholarly pattern that considered the two as separate areas of inquiry."[8] This discussion of Sino–US trade asymmetry leans towards the financial implications of the trade relationship. Buzan and Little note, "For most of history, economic interactions have been about trade (but) in recent times they (have) come to be about the far-flung organization of production and finance."[9]

Dale Copeland posits that the propensity of interdependent states to go to war depends not on the degree of interdependence but on their expectations of future trade relations.[10] This hypothesis, if correct, adds one more element of security and risk to the trade relationship.

Both the United States and China are mutually and vulnerably dependent upon each other ("Chimerica"), but the United States much more so. It is easier to conceive of China gearing down its exports for a local market than to conceive of the United States paying off its debts, increasing exports, and increasing savings. The role of trade upon a nation's ability to project itself (i.e., hard or soft power) and the stresses on the trade system (e.g., the liberal trade system) upon world security are discussed below. Finally, regarding the role of a hegemonic power, what impact does an emerging China have upon world order? In other words, as US leadership erodes and Chinese leadership increases, what effect will this have on the global community, and what security issues arise, if any?

Four distinct sections will help frame some answers. What is the link between trade and security? Wherein is the instability in the current trade system, particularly with regards to the Sino–US trade relationship? Given that the current American-dominated liberal system is unsustainable, how will the emergence of a new system affect international security? As China's absolute and relative economic position increases, what would its leadership role look like in world economic affairs?

The link between economics and security is addressed in the next section. The following section explores the symbiotic economic relationship that has developed between the People's Republic of China and the United States of America, termed *Chimerica* by Niall Ferguson.[11] These viewpoints show how both sides are responsible for undermining the system, as the United States promoted its rendering of a liberal trade regime while the Chinese side increased trade reserves by pursuing an aggressive export strategy. Each factor contributes to the instability and unsustainablity of the system. The third section raises the question of trade systems and security. The final section presents writings of Chinese scholars and their analyses of a spectrum of Chinese views on China's leadership role in world society to ascertain what a greater Chinese role may look like and how it concerns security.

What is the Link between Trade and Security?

The idea of "economic security as a major component of international security (is) one of the most attractive yet intractable concepts in the whole discourse about security."[12] One approach to draw a connection from economic security to international security is through the idea of interdependence. A standard realist reading of interdependence is an asymmetric dominance-dependence dynamic with the dependent party vulnerable to the choices of the dominant party. The realist argument of the economic-security nexus is simply that interdependence creates vulnerability as a source of power of one state over another. Realists (and Marxists, but from different approaches) tend to see economic interdependence as asymmetric and creating vulnerability, whereas liberals see interdependence as being generally equal for both parties. Paul Viotti and Mark Kauppi identify three realist views of economic interdependence, the first two of which are part of the theoretical basis of this study.

1. Interdependence is undesirable for any particular state if interdependence is defined in terms of vulnerability.
2. Increasing interdependence may produce conflict as opposed to peace.
3. In an interdependent world, there are certain virtues in having a hegemonic power capable of enforcing stability in a number of different issue areas.[13]

Liberals have argued that mutual economic interdependence precludes war or at least should greatly reduce the possibility of military conflict. In the decades leading up to 1914, trade in goods "reached almost as large a proportion of global output as in the past thirty years," writes Ferguson. Trade interdependence certainly did not prevent the Great War despite the overt economic irrationality of that venture. Ferguson goes so far as to ask the question "Was there also some connection between the effects of global economic integration and the outbreak of the First World War?"[14] There is little (if any) historical evidence of states going to war over economic issues; likewise, there is little evidence of economic issues preventing states from going to war. I argue the asymmetric economic dependence between the United States and China rather than fostering good will exasperates tensions between the two powers. Invariably this compels one to ask what financial circumstances could potentially lead to a crisis in Sino–US relations. This is addressed in greater detail in the second section.

There is mutual dependence in the Chimerica relationship. However, as Brad Setser states, "The US runs the risk that it needs China to add to its foreign exchange reserves more than China actually needs more reserves (creating) asymmetry that potentially gives China the ability to influence US policy."[15] An example of this is Hillary Clinton, who emphasized human rights during a visit to Beijing in 1995 but then backpedalled in 2009 and indicated that China's human rights record should not get in the way of cooperation on the financial crisis.[16] The writer noted, "The Chinese government absolutely can use its American dollar savings as a bargaining chip to force the American government to agree to China's acquisitions."[17] This is also a factor in the United States' lack of resolve to sell F-16s and other advanced weapons systems to Taiwan for fear of China's reaction.

Realists tend to see the economy as subordinate to political choices, such as grand strategy, statecraft, and international security, while trade, finance, monetary exchange, and other socioeconomic issues are traditionally viewed by the realist as subordinate. However, this view overlooks the intertwined relationship between economics and "grand" strategies and artificially creates a division between military, political, and economic factors. In terms of political-economic dynamics, the Chinese and American governments domestically cannot escape the political ramifications of an economically discontented populace, and on the geopolitical landscape, this dynamic is the basis for economic statesmanship and power politics. In terms of military-economic dynamics, the former is financed by the latter and the latter directly or indirectly supported by the former. In other words, military capabilities are usually greatest in states with advanced industrial economies and that effectively manage technology with capital, skilled labor, and raw materials, and such states will usually gain more leverage in their relations with others.

Benjamin Yeung of the University of Warwick, writing on the topic of economic security as a state of safety from financial crises, refers to a group of Chinese authors who observe economic security from a distinctly financial perspective. He translates one of these authors, Lu

Zhongwei, who was influenced by the 1997 Asian financial crisis. The author Lu states:

> Strategically, finance is not only [the ability to raise] money, but also a power, one so important that it can be compared with naval power or land power. . . . Whoever controls the rights to finance, will control the international economy. . . . Indeed, from the perspective of an individual, enterprise, or bank, the flow of capital is only an economic activity. But from the perspective of a state, from the perspective of international relations, it takes on a much wider strategic shade.[18]

To use an analogy of an individual, it is usually those who have witnessed poverty who gain a sense of security from having savings for a rainy day more so than those who have not had this encounter. China saw up close the exposure of its neighbors' financial and banking vulnerabilities during the Asian financial crisis (AFC) of 1997–98 and chose to learn from that error and keep a well-stocked piggybank. Deng and Moore maintain that during the AFC, China escaped much of the travails of its neighbors, but it also "highlighted the threats that global economic forces posed to national economic security (because the AFC) reinforced (Chinese) suspicion that the United States . . . seek(s) every opportunity for strategic gain, even in ostensibly economic matters."[19]

If one accepts there is a relationship between power and security, then there is a relationship between economics and security, given that there is a relationship between economics and power. Using historical approaches, Paul Kennedy and Niall Ferguson have argued that a strong economic basis is the foundation of a state's power. Ferguson defines the "square of power" as the tax bureaucracy, the parliament, the national debt, and the central bank. These four institutions of "fiscal empowerment" of the state enable states to project power by mobilizing and deploying financial resources to that end.[20] Economic factors not only are directly related to a state's material assets but also enable a state to project its soft and hard power. The United States has projected itself and its version of free trade throughout the twentieth century in the evolving trade system we know today. However, the system is undermined by the weakening of its main supporter, which is discussed in the next section.

Where is the Instability in the Current System?

One of the most intractable debates in the field of world politics concerns the association of structural polarity to international stability, and many theoretical expoundings notwithstanding, "disagreement persists over which type of structure and distribution of power is most stable."[21] For example, Deutsch and Singer argue in their 1964 article "Multipolar Power Systems and International Stability" on the one hand that multipolarity leads to stability because they see an increase in the number of independent actors in the system as an increase in interaction and opportunities.[22] Kenneth Waltz, on the other hand, maintains that multipolarity leads to instability because those increased numbers of actors increase levels of systemic uncertainty.[23] While scholars disagree about the types of structure upon stability, Charles Kupchan argues, "The end of America's unipolar moment and the return to multipolarity thus threaten to trigger structural sources of competition that may well override other sources of peace."[24] Now, stability of the current (trade) system is undermined by the weakening role of US hegemony, especially its relative economic decline.

Hegemonic stability theory asserts that a stable, open international economic system is most likely when there is a hegemonic distribution of power; that is, when there is one state that is much larger than any of the others. The crux of this theory is the need for a hegemon to provide collective goods, especially acting as a leader of last resort in the financial sector, such as proposed by Charles Kindleberger in his 1973 classic, *The World in Depression: 1929–1939*. Hegemonic stability theory also argues that if there is a hegemonic distribution of power, there is likely to be an open regime for trade. The dominant power favors such a regime because it increases its economic well-being and economic growth and provides it with more political leverage. A hegemon would also have the resources to entice or coerce other states into participating in an open regime, such as the rules by which international relations are to be conducted in various areas including trade, finance, health, environment, communications, air transportation, and navigation on the high seas.

Further, the hegemon provides the system with collective goods. Collective goods theory relates to the allocation of and payment for goods that, once provided, cannot easily be denied to others and whose use does not deny their use to others. Providing national or international security through alliances has been described by some theorists as collective goods. According to the theory of collective goods, the current liberal economic system requires a hegemonic leader to provide its required framework of collective goods. Historically, however, hegemonic leaders do not endure. As the United States loses its grasp, it cannot escape the pressures to bring the international economic structure closer into line with that of the more diverse international political structure.

Buzan's argument is that liberal systems are unstable because the hegemonic leader produces an effective liberal system only for a limited period and is unable to "sustain (its) position indefinitely."[25] The United States has become a source of international economic instability because it runs unsustainable deficits. Buzan asserts the well-being of a state depends not "on adapting towards the most advanced and successful practices elsewhere in the international system," but failure to adapt leads to "a steady loss of power, and a steady rise in vulnerability for those that have been more successful."[26]

One popular American view, presented in a front-page article of the *New York Times* at the end of 2008, is that this instability was created by Chinese savings and American consumption. Chinese savings—well over $1 trillion, mostly earnings from manufacturing exports—found its way into US government bonds and government-backed mortgage debt. According to Mark Landler, "Americans did not use the lower-cost money afforded by Chinese investment to build a 21st-century equivalent of the (19th-century British-financed) railroads. . . . (Rather this credit was used) to engage in a costly war in Iraq, and consumers used loose credit to buy sport utility vehicles and larger homes. Banks and investors, eagerly seeking higher interest rates in this easy-money environment, created risky new securities like collateralized debt obligations."[27]

Others attribute the instability to the artificially low value of the Chinese yuan or renminbi (RMB). In a 2009 *Foreign Affairs* article, Princeton University's Harold James quotes Martin Wolf, the *Financial Times*' chief economics commentator, who states that China's "inordinately mercantilist currency policies"[28] have caused dangerous imbalances. To maintain the competitiveness of its exports on world markets and keep a massive and restive workforce occupied, Beijing prevented the Chinese currency from appreciating against the US dollar (USD), preventing an increasing price for China's exports. The RMB-USD peg is an overt source of tension, as it is keeping Chinese exports artificially low and is a cause of concern not just for the United States but for other export-oriented nations as well. Inevitably, the RMB will be freely traded, especially if it is to become a currency of reserve, but by that time the US economy could have sustained much damage by this trade tactic.

One significant potential source of conflict between creditor and debtor states is the possibility of the debtor state being unable to repay its debt and/or the two states being unable to strike upon agreeable terms on how to settle the debt owed. The "best case" scenario in this instance is that the creditor nation would forgive the debt, which would cause the creditor state to lose creditability and creditworthiness in the international community but would also cause the creditor state to take a loss on its books. The worst case is the two states would seek to resolve their differences through force as the citizens of the states felt one side had cheated or manipulated the trade relationship through scheming.

The RMB-USD peg could fathomably become a sore grievance in the relationship and be used as an excuse for trade protectionist measures, which could potentially spiral. Depending on the scale of such a trade war, the United States could always up the ante by threatening to greatly devalue or default on its debt. The United States could also assign a value to lost trade through past and current copyright and patent infringements and "deduct" it from its China IOU. The Chinese have the option of nationalizing US investments in China, and the United States could freeze China's US investments, similar to its response to the Iran hostage crisis. These are worst case scenarios and, while unlikely, nevertheless options that have historically occurred on smaller scales.

One such occasion that had the potential to become more than a footnote was the September 2008 US government takeover of mortgage titans Freddie Mac and Fannie Mae, in part to reassure China, which had 10 percent of its GDP invested in them. If the United States had been unwilling or unable to do so, this would have been a blow to the economic relationship as well as the credibility of the United States as a place to invest. The irony in this takeover is that it places further pressure on the federal budget deficit, the value of the dollar, and therefore the value of dollar-denominated debt instruments of which China is the largest holder. This particular incident did not resolve any fundamental financial issues between the two countries and is one more instance of Uncle Sam plugging another hole in the crumbling dike of USD stability, of which China is fully concerned.

As Pingfan Hong observes, by the late eighteenth century, the United Kingdom had developed an alternative product to balance its trade deficit with China: opium. In the current system, he states tongue-in-cheek, the United States has a better alternative: "the greenback, which is virtually costless to print (and) China seems to be delighted to keep accumulating the greenback, at least so far."[29] The risk here for the Chinese as well as the Americans is that the value of the "greenback" is not fixed, and a decline in its buying power through inflationary "printing" measures presents problems for both countries. For the Chinese this means that some of its exports to the United States were "freebies," since the value of the dollar at the time of purchase and the value of the dollar at the time of payment is skewed. For the United States, the risk is the dollar will lose its place as the primary currency in trade, although an alternative has yet to appear.

The downside in holding foreign-denominated reserves entails the risk that the value of the reserve will be depleted through inflationary measures. The debtor state will attempt to water down its debt burden by issuing more currency. Weimar Germany is an extreme example, but even the United States has been using this method to weaken the value of its debt, first with Japan and now with China. The current literature overlooks and understates this as a source of potential friction in Sino-American relations, and any friction between two superpowers is easily translated to the question of security. How can antagonistic relations between two powers bode well for peace? A default would hurt US relations with all its creditors, especially with China as it is the primary consumer of US debt and in September of 2008 passed Japan as the largest holder of US debt (see table).

Jan Nederveen Pieterse describes the world economy as a Ponzi scheme, "a giant pyramid selling scheme (and) a strange cycle in which trade deficits help fund the US budget deficit and make up for its low savings rate."[30] The massive American debt is sustained by dollar surpluses and vendor financing in Japan, China, and East Asia. Brad Setser, a fellow for geonomics at the Council on Foreign Relations, states, "The extent of US dependence on only ten or so central banks, most of them in Asia, is stunning."[31] The following table provided by the US Treasury Department details the extent of foreign creditor holdings of US government debt.

The current trade system is severely undermined by the inability of the United States to act as a primary support for the system in such matters as lender of last resort. This is self-evident, given that the United States relies on other nations to service its own debts. Therefore, any loans the United States gives are in a sense loans other countries are lending via the United States with the American role being one of a facade rather than of any substance. This inability can be traced to the burgeoning US debt burden as a result of over-consumption and over-reliance on Chinese labor and savings, not to mention US fiscal irresponsibility in such areas as the war

Major foreign holders of treasury securities (billions of dollars)—(Holdings 1/ at end of period)

Country	Sep 2009	Aug 2009	Jul 2009	Jun 2009	May 2009	Apr 2009	Mar 2009	Feb 2009	Jan 2009	Dec 2008	Nov 2008	Oct 2008	Sep 2008
China, Mainland	798.9	797.1	800.5	776.4	801.5	763.5	767.9	744.2	739.6	727.4	713.2	684.1	618.2
Japan	751.5	731.2	724.5	711.8	677.2	685.9	686.7	661.9	634.8	626.0	625.2	629.6	617.5
United Kingdom 2/	249.3	226.9	219.9	214.0	163.7	152.7	128.1	129.0	123.9	130.9	132.4	133.1	112.8
Oil Exporters 3/	185.3	189.1	189.2	191.2	192.8	189.5	192.0	181.7	186.6	186.2	187.2	176.7	171.2
Carib Bnkng Ctrs 4/	171.7	179.9	193.2	189.7	194.8	204.7	213.6	189.1	176.6	197.5	205.0	203.5	169.3
Brazil	144.9	137.3	138.1	139.8	127.1	126.0	126.6	130.8	133.5	127.0	136.1	141.0	148.3
Hong Kong	132.2	124.7	115.3	99.8	93.2	80.9	78.9	76.3	71.7	77.2	70.6	69.8	65.5
Russia	121.8	121.6	118.0	119.9	124.5	137.0	138.4	130.1	119.6	116.4	108.0	110.8	99.6
Luxembourg	98.7	94.2	92.0	104.1	96.2	97.4	106.0	92.1	87.0	97.3	94.2	100.6	104.5
Taiwan	78.1	75.9	77.4	77.0	75.7	78.3	74.8	72.6	73.3	71.8	70.2	65.9	63.0
Switzerland	68.9	68.2	68.1	71.5	63.7	64.2	67.7	68.2	62.1	62.3	63.8	62.0	49.7
Germany	53.7	55.0	56.1	53.8	55.1	54.4	54.9	56.5	56.2	56.0	53.8	53.6	51.5
Korea	38.8	38.7	37.6	36.3	37.4	35.4	33.1	33.3	31.3	31.3	32.7	36.2	40.2
Singapore	38.3	42.0	42.3	40.8	39.6	39.7	39.1	39.3	38.3	40.8	38.7	34.0	32.2
Canada	38.3	26.2	20.2	19.0	11.5	13.1	11.9	10.9	9.0	8.2	12.7	14.0	16.0
India	35.9	38.5	38.9	39.3	38.8	38.5	38.2	34.6	32.5	29.2	22.3	18.3	20.3
Ireland	32.7	36.5	38.6	46.3	50.6	49.7	54.7	54.4	50.0	54.3	41.3	35.1	32.9
France	32.1	35.0	24.6	26.0	25.9	30.6	27.1	16.8	17.9	16.8	18.4	20.5	19.3
Thailand	30.1	33.5	31.4	29.7	26.8	28.5	26.0	39.7	37.2	32.4	33.9	33.6	27.4
Turkey	28.2	28.7	27.3	27.5	28.8	27.2	30.2	32.4	31.3	30.8	29.0	27.9	31.5
Norway	25.2	24.7	28.9	28.7	28.3	27.5	26.2	21.1	21.9	23.1	20.2	11.5	13.2
Mexico	22.1	27.5	27.7	29.5	31.5	35.3	36.2	37.8	34.8	34.8	33.8	32.2	32.5
Netherlands	21.3	21.3	21.5	18.9	16.3	16.5	17.6	16.1	16.8	15.4	15.6	15.7	15.6
Egypt	20.8	20.4	18.6	17.3	18.6	18.5	18.5	19.1	16.9	17.2	16.8	16.7	15.5
Sweden	18.3	16.7	16.5	16.5	13.0	12.7	12.5	12.7	12.4	12.7	13.1	13.5	13.6
Israel	18.3	17.7	16.9	18.1	19.0	19.1	19.4	17.4	16.9	18.8	13.8	12.4	8.7
Italy	17.6	16.9	17.3	16.7	16.7	16.1	16.6	16.4	15.6	16.0	15.9	15.2	11.6
Colombia	16.7	16.3	14.8	11.8	11.9	11.4	11.2	11.4	11.3	11.1	11.5	11.3	9.9
Belgium	15.0	15.6	15.7	15.7	15.7	15.8	15.4	14.5	15.5	15.9	15.3	15.8	15.4
Chile	12.9	13.0	13.5	14.3	14.7	15.1	15.5	15.2	15.2	15.2	15.1	15.4	13.4
Philippines	11.8	12.4	11.4	11.6	11.8	12.0	12.4	12.6	11.6	11.7	11.5	12.1	12.0
Malaysia	11.0	11.2	11.9	11.7	12.3	11.6	10.6	8.4	8.0	8.4	8.8	8.6	9.4
All Other	156.8	158.7	159.5	157.5	157.6	153.4	156.5	164.8	162.3	156.4	156.1	149.0	137.7
Grand Total	3497.3	3452.9	3427.4	3382.1	3292.6	3262.0	3264.7	3161.4	3071.6	3076.3	3036.0	2979.7	2799.5
Of which:													
For. Official	2369.5	2360.1	2346.2	2295.7	2287.5	2253.6	2248.6	2198.1	2165.8	2138.7	2104.1	2063.7	1981.0
Treasury Bills	597.7	607.3	606.6	571.9	586.2	530.6	542.7	521.2	486.9	457.9	427.2	360.6	276.8
T-Bonds & Notes	1771.8	1752.8	1739.6	1723.8	1701.3	1723.1	1705.9	1676.9	1678.9	1680.8	1676.9	1703.1	01704.2

Department of the Treasury/Federal Reserve Board 17 November 2009

1/ Estimated foreign holdings of US Treasury marketable and non-marketable bills, bonds, and notes reported under the Treasury International Capital (TIC) reporting system are based on annual Surveys of Foreign Holdings of US Securities and on monthly data.

2/ United Kingdom includes Channel Islands and Isle of Man.

3/ Oil exporters include Ecuador, Venezuela, Indonesia, Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, Algeria, Gabon, Libya, and Nigeria.

4/ Caribbean Banking Centers include Bahamas, Bermuda, Cayman Islands, Netherlands Antilles and Panama. Beginning with new series for June 2006, also includes British Virgin Islands.

Source: US Treasury, http://www.treas.gov/tic/mfh.txt.

in Iraq. Some argue, especially in the West, that the intentional cap on the value of the RMB played a part in the Chimerica trade imbalance.

Given that the Current American-Dominated Liberal System is Unsustainable, How Will the Emergence of a New System Affect International Security?

The answer to the above question can be broken down by answering the following two and one-half questions: (1) Is there a link between the current American-dominated liberal trade system and security? (2) What other possible trade systems are there, and do they in any way impact security? The literature which explores world trade systems is sparse, and the question of trade system impact upon security sparser still. The question is invoked because it is a valid component to the other three questions this article addresses.

Barry Buzan most directly considers the first question in a 1984 article for *International Organization*. He asserts, "The use of force is influenced much more powerfully by military and political factors than by economic ones." Based upon the assumption that economics is "subordinate" to military and political factors, he asserts, "Security considerations therefore cannot be used convincingly either as a major support for maintaining the contemporary (American-dominated) international economic system or as a decisive point against moving toward a more mercantilist structure of international economic relations." He argued the misgivings that "the decline of American hegemony will lead to a collapse of the liberal economic system and therefore to a renewed cycle of conflict and war" are misplaced, and "the current liberal system does not have to be maintained for security reasons."[32]

Buzan's argument that the American liberal economic system does not lead to insecurity was written before the extreme imbalances that plague the current system, and now for the sake of security the current system needs to be replaced because its unsustainablity is a source of instability in world society. This leads us to the second question: What are the alternatives? Buzan offers an alternative system as "a model for a collapsing liberal system" which he labels a "benign version of mercantilism." He argues for substantial self-reliance in such vital sectors as defense, energy, and food. "Self-reliance would increase economic security by reducing such sources of international tension and conflict as that which arose over oil during the 1970s."[33]

There is little chance Asian countries like China, India, and Japan could, with their populations and given resources, meet their own security needs of self-reliance. Even a regional "partner" like Australia can prove unreliable or distrustful of Chinese intentions. A case in point is the Australian government's rejection of China's Chinalco (its state-owned aluminum corporation) $19.5 billion bid to expand Chinalco's existing 9.3 percent stake in Australia's Rio Tinto mining giant to 18.5 percent. The deal was rejected because it had drawn stiff political opposition in Australia, where mineral riches have fueled the country's prosperity and where some have begun to fear China's power in the region. Chinese officials, on the other hand, complained about the Australian government's protectionism and nationalism.[34]

Mark Beeson, professor of international politics at the University of Birmingham, conceives of the Washington consensus being replaced by the Beijing consensus. The United States, because of its dominant economy and political clout, was able to levy neo-liberal policy prescriptions under the rubric of the Washington consensus. Now, he maintains, there is an alternative Beijing consensus emerging around China's "pragmatic state-centric approach to development" and reinforced by China's "material influence and ideational appeal."[35] If indeed the Washington consensus is usurped by a Beijing consensus, how would a larger Chinese role unfold and impact the world?

The next section explores the possibility of a growing Chinese role as a source of stability and leadership in the economic system and the willingness of other nations to accept such a role. Kindleberger argues the system needs an underwriter to "provide a market for distress goods, a steady if not countercyclical flow of capital, and a rediscount mechanism for providing liquidity," as well as to "manage, in some degree, the structure of foreign exchange rates, and provide a degree of coordination of domestic monetary policies."[36] Perhaps such a role can be played by China, but as Pingfan Hong, UN principle economic affairs officer and chief for global economic monitoring, states cautiously, "Hopefully, the rise of China won't generate as many grave international clashes as China suffered when it converged with the developed world for the first time a few centuries ago."[37]

What World Economic Leadership Role is Emerging as China's Absolute and Relative Economic Position Increases?

The early twenty-first century is witness to a new tide of global leadership change as the US position of economic strength wanes and China's expands. Barry Gills, professor of global politics at Newcastle University, observes the current liberal trade system "as a whole is certainly not static . . . (it) is fully capable of undergoing very important historical changes and adaptations . . . the present 'globalized capitalism' is no exception."[38] The fundamental changes within the liberal trade regime that are beginning to manifest themselves have their beginnings in the later part of the 1980s when China, as well as Russia and India, began economic liberalization and integration in earnest.

China was a new entrant in a field of well-established, liberalized, competitive economies. China joined this liberal global trade system, not because it agreed with the concept of free trade and consumer choice in principle, but because it saw it as a mean to ends; hence Deng's famous line, "it doesn't matter what color the cat is so long as it catches mice." The cat in this case is the US–dominated liberal trade system, and the mice access to technology and capital, the basic building blocks of development and security in every sense of the word.

China has been wildly successful in its goal of catching mice via the metaphorical "black" cat of "bourgeois capitalist-roader" trade. The success of China within the system is all the more remarkable when one considers the speed of its rise from a trade recluse to becoming the primary creditor of the United States within two decades. Further, the system in which China thrived is not a system that is particularly selfless towards developing countries. It is a system based upon the principle of market efficiency and competition for resources, markets, and labor.

Buzan states, "The inherent inequity of the liberal market . . . favors established strength over new entrants . . . so that mercantilism becomes a strategy not against the liberal logic itself, but against the self-interested use of that logic by those already in a strong position within the system."[39] The Chinese approach to the system has been mercantilist, but this may change as it moves from being a periphery nation to a central one within the system. Here one can draw interesting comparisons between China and its neighbor Japan, but this is beyond the scope of this article. Suffice it to say, both have used various means to protect local markets (e.g., non–trade barriers such as arbitrary legislation against foreign competitors), but China arguably seeks a larger more influential role in the world than Japan.

Chinese scholars and commentators have been proclaiming aspirations of how China should use the current economic crisis to boost its strategic influence. *The Economist* notes that an article in *Economic Reference*, a journal published by a Chinese government think tank, maintains the crisis will "severely weaken the economic, political, military and diplomatic power of developed countries" and this provides China with an "historic opportunity" to "strengthen its position."[40] A strengthened, more involved China in itself can be a welcome development, provided that it is "peaceful" not only in rhetoric. That China, in spite of its policy of never taking the lead (絕不當頭), has global ambitions is the world's worst-kept secret and could potentially be a positive development so long as the nationalists are not able to influence policy on issues such as Taiwan. If and when China does decide to take the lead, what can we expect of such leadership in the fickle world of global economics?

Rosemary Foot remarks that at the 16th Party Conference, "Hu Jintao moved on to emphasize the importance of economic globalization, the multidimensional nature of security, and the need to recognize the responsibility of the great powers, including China, for maintaining global order."[41] If one understands "maintaining global order" to mean avoiding conflict over issues such as Taiwan, then this would be a welcome role for China to fulfill. However if "maintaining global order" means establishing a global order that jives with the nationalists in China, then any such "order" will entail disorder.

Martin Jacques is confident (not surprising given the title of his book) that China will translate its economic wealth to other outlets of power projection. He states, "Rising powers in time invariably use their newfound economic strength for wider political, cultural and military ends. That is what being a hegemonic power involves, and China will surely become one." He envisions the resurrection of the Chinese tributary system as a future paradigm in international relations. Tributary relationships with China involved "neighboring states acknowledg[ing] China's cultural superiority and its overwhelming power by paying tribute to the Middle Kingdom in return for benevolence and protection."[42] However, the concept of a newly revived Chinese tributary system is ambiguous, lacks evidence, and is characteristically underdeveloped when posited as a future model of Chinese leadership. Other than the revolutionary recommendation that the non-Chinese world become China's vassal, how else may China use its influence in the world?

The ambitions of the Chinese and their leaders to see China rise is in itself a natural and respectable goal of any people. However, the question is Will this rise be one of integration and make the world a more harmonious place or one of selfish nationalism and conflict? The answer depends in no small part upon the influence or lack thereof of those of the nationalistic bent. One should not pretend to use the opinions of a few nationalists to determine the direction or nature of China's greater role in shaping world affairs, but it would be rash to disregard these views, especially when they are coming from within the government. Further, the momentum of nationalistic sentiment in China shows no sign of diminishing.

Typical of this hawkish movement are the positions of Luo Shou and Wang Guifang, of the Military Sciences Institute Strategy Research Division, who articulate three stages to China's rise, which to non-Chinese (including Taiwan) are far from benign. They state that in the first stage China will "construct a secure surrounding environment (by) the integrity of state sovereignty and the national territory not becoming even more split." The second stage requires moving beyond the Asian region to develop "a global security environment more beneficial to China's interests by expanding our international space and realizing the unification of our fatherland." When China enters the third stage, which is expected to be towards the middle of the century, it "will have joined the ranks of the world's supreme powers. Its primary task will then be to plan and operate a new international political and economic order that can universally be accepted by international society."[43]

In other words, according to the above statements, some in China see the unification of Taiwan as a prerequisite to becoming an architect in a new global political and economic order. It is this narrow view of the nationalists that could prevent China from becoming a world leader. Arguably, the views of these two men are not shared by most Chinese, but it is positively not an uncommon view in China either. What leadership is possible without some sort of willingness on the part of other nations to grant China such a leadership role? Leadership is not wholly the prerogative of the willing leader but also the prerogative of those being led. Any use of hard power will hurt any gains in soft power, as was the United States' experience in both Vietnam and Iraq.

In 2003 at the South-North Leaders Dialogue in Evian, France, in response to a slight world economic downturn, Chinese president Hu Jintao ironically stated there was a need to

> promote the establishment of a new world economic order, and stronger support for enriching the South-North cooperation. . . . Developed countries should fulfill their due responsibilities and obligations by further opening markets, eliminating trade barriers and practically meeting their commitments to increase financial and technical support, debt relief. . . . Developed countries are vitally influential in global and regional economic development, they should adopt practical and effective financial and monetary policies to carry on necessary structural reform, boost domestic demand, increase imports and rebuild market confidence, in order to play an active role in promoting global economic growth.[44]

The irony in his statement is that the advice he had given for the North in 2003 is precisely the same advice the North was giving to the South by 2009. In fact, it was the North's "domestic demands" and "imports" that have created the economic imbalance. Perhaps China's leaders will finally seek to create opportunities to increase domestic demand of Northern products. The devil of course is in the details, because much of the intrinsic value of Northern products is in their R&D, such as patents and copyrights, rather than the manual labor. Furthermore, the Chinese are more interested in pursuing financial statecraft by purchasing strategic assets through bodies such as the China Investment Corporation (CIC) rather than issuing consumer vouchers for the average Chinese to use up some of those excess foreign reserves for products that help employ people and create more balance in the trade system.

Buzan maintains, "If the key to economic security on the state level is the position of the state within the international networks of trade production and finance, then, the key at the system level is the stability of the whole network of market relations itself."[45] The mammoth task of maintaining the stability of the trade network is well beyond the capacity of the United States, which is no longer able to provide this service and therefore absolutely needs and should welcome a much greater Chinese role in stabilizing the trade system. If only China's nationalistic and mercantilist ambitions are far beneath the greater need to lead and mold a new economic order.

Conclusion

A greater Chinese role may not look like the US–dominated system that has been operating for the past century. It probably will not look like

Buzan's proposal of a benign mercantilist system either. The alternative to a healthier, more sustainable trade system is greater instability and conflict, and in the words of Leonhardt, "It's not especially pleasant to think about what the global economy will look like if China and the United States fail to fix their dysfunctional relationship."[46] For the United States, this means some drastic fiscal belt tightening at all levels of society and a willingness to play a smaller role in world affairs that reflects its weaker relative slice of the global economic pie, severe financial indebtedness, and a moderate loss of economic credibility. For China this means taking a more active leadership role that minimizes Sino-centric relative gains, especially in its neighborhood, and prioritizes absolute gains for all.

A peaceful, prosperous, and aye, a free China which respects the rights of its citizens and its neighbors would be welcome. A peaceful transformation of international society from one dominated or controlled by the West, particularly the United States, would require the acceptance of said powers to recognize "the need to coexist in an equal and reasonable manner with newly rising non-Western states."[47] Li Jidong (李继东), a lecturer at the International Politics Research Center of the PLA's Foreign Languages Institute has an optimistic vision for China and the world, "When a country's national material power increases, its culture naturally becomes an object of imitation."[48] Therefore, when China's economic power continues to increase, its potential to highlight its soft power will also automatically simultaneously increase. Note here that economic increase leads to the *ability* or option to increase soft power but not inevitably to an increase in absolute soft power. This depends on how China exercises and projects its economic might.

China's economic power is a double-edged sword when speaking of soft power. Martin Jacques ascertains, "Wealth and economic strength are preconditions for the exercise of soft power and cultural influence."[49] While economic power is a precondition, it is not the only condition. For example, in response to the low RMB (as it is pegged to the long-term weakening USD) and the pressure Chinese exports place on the products of its export-oriented neighbors, Michael Wines notes that China "is finding it harder to cast itself as a friendly alternative to an imperious American superpower. . . . (To) many in Asia, it is the new colossus."[50] Furthermore, the economic success of the Chinese, including overseas Chinese, can breed resentment, such as the ethnic riots in Milan in April 2007. The riots were initially sparked over a traffic fine given over the protests of a

Chinese merchant, but the escalation was fueled by the fury of Italians who complained Italian retail stores were being squeezed out by Chinese merchants who opened wholesale distribution operations for goods flooding in from China.[51]

However, wielding economic power and with it the perk of soft power is incomplete without the will to exercise political power in the form of leadership on key issues. Andrew Browne writes there is on the part of the United States and its allies hope that "China will use its new strategic heft (and) deft touch to help resolve . . . security issues (but) China has resisted tougher sanctions against a country that is its second-largest oil supplier," in reference to Iran, which he posits is "the biggest test to date of China's willingness to lead."[52] As it is, China's interests are its own interests, and actively engaging in matters regarded as US or European priorities is not the way China is inclined to involve itself, much less lead.

Colonels Geis and Holt in conclusion to their assessment of the rise of China prescribe for Sino–US relations a "comprehensive plan" that must be "designed, resourced, and executed" with the China of 2030 in mind.[53] This is sound advice that would be all the more applicable if we could put our finger on what the world leadership role of China a few decades from now would entail. Let us hope the China of 2030 is less focused on advancing only its own narrow economic interests and uses its newfound economic and soft power to spearhead and foster economic prosperity in the twenty-first century as the United States managed to do fairly successfully in the twentieth. SSQ

Notes

1. Agence France-Presse (AFP), "US PRC Hold Key Trade Talks Before Obama Visit," *Taipei Times*, 30 October 2009.
2. William Lowther, "Next 12 Months Key for US Arms Sales," ibid.
3. Susan Shirk, "The Summit of Low Expectations," ibid.
4. Daniel W. Drezner, "Bad Debts: Assessing China's Financial Influence in Great Power Politics," *International Security* 34, no. 2 (2009): 7–45, http://www.mitpressjournals.org/doi/abs/10.1162/isec.2009.34.2.7.
5. James G. Rickards, "Economic Security and National Security," *Strategic Studies Quarterly* 3, no. 3 (Fall 2009): 8–49.
6. Ibid.
7. J. A. Caporaso, "False Divisions: Security Studies and Global Political Economy," *Mershon International Studies Review* 39, no. 1 (1995): 117–22.
8. M. Mastanduno, "Economics and Security in Statecraft and Scholarship," *International Organization* 52, no. 4 (2005): 825–54.

9. Barry Buzan and Richard Little, *International Systems in World History: Remaking the Study of International Relations* (New York: Oxford University Press, 2000).

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

11. Niall Ferguson and Moritz Schularick, " 'Chimerica' and the Global Asset Market Boom," *International Finance* 10, no. 3 (2007): 215–39.

12. Barry Buzan, *People, States and Fear: An Agenda for International Security Studies in the Post–Cold War Era*, 2nd ed. (Boulder, CO: Lynne Rienner, 1991).

13. P. R. Viotti and M. V. Kauppi, *International Relations and World Politics: Security, Economy, Identity*, 3rd ed. (New York: Prentice Hall, 2001), 76.

14. Niall Ferguson, *The Ascent of Money* (New York: Penguin Press, 2008).

15. Brad Setser, "China: Creditor to the Rich," *China Security* 4, no. 4 (Autumn 2008): 22.

16. "China and the West: A Time for Muscle-Flexing," *Economist*, 19 March 2009, http://www.economist.com/world/asia/displaystory.cfm?story_id=13326082.

17. Ibid.

18. Benjamin Yeung, "China in the Era of Globalization: The Emergence of the Discourse on Economic Security," *Pacific Review* 21, no. 5 (2008): 655.

19. Yong Deng and Thomas G. Moore, "China Views Globalization: Toward a New Great-Power Politics," *Washington Quarterly* 27, no. 3 (2004): 117–36, http://www.mitpressjournals.org/doi/abs/10.1162/016366004323090296.

20. Sanjaya Baru, "Geopolitical Implications of the Current Global Financial Crisis," *Strategic Analysis* 33, no. 2 (2009): 163–68, http://www.informaworld.com/10.1080/09700160902775119.

21. Patrick James and Michael Brecher, "Stability and Polarity: New Paths for Inquiry," *Journal of Peace Research* 25, no. 1 (March 1988): 31–42, http://www.jstor.org/stable/423979.

22. Karl Deutsch and J. David Singer, "Multipolar Power Systems and International Stability," *World Politics* 16, no. 3 (1964).

23. Kenneth Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979).

24. Charles A. Kupchan, "After Pax Americana: Benign Power, Regional Integration, and the Sources of a Stable Multipolarity," *International Security* 23, no. 2 (Autumn 1998): 40–79, http://www.jstor.org/stable/2539379.

25. Barry Buzan, "Economic Structure and International Security: The Limits of the Liberal Case," *International Organization* 38, no. 4 (Autumn 1984): 597–624, http://www.jstor.org/stable/2706625.

26. Buzan, *People, States and Fear*.

27. Mark Landler, "Dollar Shift: Chinese Pockets Filled as Americans' Emptied," *New York Times*, 26 December 2008, http://www.nytimes.com/2008/12/26/world/asia/26addiction.html.

28. Harold James, "Fixing Global Finance," *Foreign Affairs* 86, no. 1 (February 2009), http://www.foreignaffairs.com/print/63590.

29. Pingfan Hong, "China's Economic Prospects and Sino–US Economic Relations," *China & World Economy* 14, no. 2 (2006): 45–55, http://dx.doi.org/10.1111/j.1749-124X.2006.00014.x.

30. Jan Nederveen Pieterse, "Political and Economic Brinkmanship," *Review of International Political Economy* 14, no. 3 (2007): 467–86, http://www.informaworld.com/10.1080/09692290701395726.

31. B. Setser and N. Roubini, "How Scary Is the Deficit?" *Foreign Affairs* 84, no. 4 (2005): 194–200.

32. Buzan, "Economic Structure and International Security."

33. Ibid.

34. David Barboza and Michael Wines, "Rio Tinto Ends Plan to Sell $19.5 Billion Stake to Chinalco," *NYTimes.com*, 4 June 2009, http://www.nytimes.com/2009/06/05/business/global/05mine.html.

35. Mark Beeson, "Comment: Trading places? China, the United States and the evolution of the international political economy," *Review of International Political Economy* 16, no. 4 (2009): 729–41, http://www.informaworld.com/10.1080/09692290802427766.

36. C. P. Kindleberger, "Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides," *International Studies Quarterly* (1981): 242–54.

37. Hong, "China's Economic Prospects."

38. Barry K. Gills, "The Swinging of the Pendulum: The Global Crisis and Beyond," *Globalizations* 5, no. 4 (2008): 513–22, http://www.informaworld.com/10.1080/14747730802567389.

39. Buzan, *People, States and Fear*.

40. "China and the West."

41. Rosemary Foot, "Chinese Strategies in a US–Hegemonic Global Order: Accommodating and Hedging," *International Affairs* 82, no. 1 (2006): 77–94, http://dx.doi.org/10.1111/j.1468-2346.2006.00516.x.

42. Martin Jacques, *When China Rules the World: The Rise of the Middle Kingdom and the End of the Western World* (New York: Penguin Press, 2009).

43. David Lynch, "Chinese Thinking on the Future of International Relations" (presentation at ISA 50th annual convention, "Exploring the Past, Anticipating the Future," New York, 15 February 2009), http://www.allacademic.com/meta/p_mla_apa_research_citation/3/1/3/8/0/p313801_index.html.

44. "Chinese president makes proposals for world development, cooperation," *Xinhuanet*, 1 June 2003, http://mu.china-embassy.org/eng/xwdt/t152353.htm.

45. Buzan, *People, States and Fear*.

46. David Leonhardt, "The China Puzzle," *New York Times*, 18 May 2009.

47. Foot, "Chinese Strategies in a US–Hegemonic Global Order."

48. Jidong Li, "Ru an quan li yu guo jia li yi—ru xue de jie yong" ["Soft power and national interests—borrowing and using Confucianism"], in *Zhongguo guo jia li yi yu ying xiang* [*China's National Interests and Influence*], eds. Xu Jia, Hu Wei, and Peng Xiao (Beijing: Shi shi chu ban she, 2006), 182–83.

49. Jacques, *When China Rules the World*.

50. Michael Wines, "China's Economic Power Unsettles the Neighbors," *New York Times*, 10 December 2009, http://www.nytimes.com/2009/12/10/world/asia/10jakarta.html.

51. Tom Kington, "Italy's first major ethnic riot sparked by parking fine," *Guardian*, 13 April 2007, http://www.guardian.co.uk/world/2007/apr/13/italy.tomkington.

52. Andrew Browne, "A Superpower Stirs: 600 Years After Bringing Home Its Armada, Will China Once Again Stride the World's Stage?" *Wall Street Journal*, 19 November 2009, http://online.wsj.com/article/SB10001424052748703683804574533843334412818.html.

53. Col John P. Geis II and Col Blaine Holt, "Harmonious Society: Rise of the New China," *Strategic Studies Quarterly* 3, no. 4 (Winter 2009): 75–94, http://www.au.af.mil/au/ssq/.