

# The significance of economic interdependence for peace in East Asia

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**Abstract:** *The end of the cold war in 1991 also marked the end of the era of a bipolar world and ushered in a period of increased economic cooperation between East Asian countries. East Asia's modern political and security climate has enabled economic growth and better cooperation between various countries in that region. However, the region still faces many potential threats to regional peace and stability. In recognition of the potential future security challenges and uncertainties, regional economic interdependence is key to continued economic cooperation and political stability in this region.*

**Keywords:** *Economy, interdependence, East Asia, Peace*

## 1. Introduction

The Cold War led to a highly polarized world. It was common for countries in East Asia to follow very different political and economic systems, which coincided with the ideologies promoted by the United States and The former Soviet Union. For example, China was a communist nation that promoted shared means of production and living arrangements. On the other hand, South Korea adopted a capitalist system of production and economic development. This often led to rivalry and intense political differences, destabilizing the region and sometimes leading to armed conflict. However, with the Cold War ending more than three decades ago, this bipolar system has ended. East Asia is now home to very prosperous countries, and the political climate is largely peaceful.

At the center of this era of a peaceful and prosperous East Asia is increased economic interdependence between various East Asian countries. The region is characterized by increased economic and political cooperation and integration, even between historically bitter rivals. The region has achieved a level of economic growth that has not been seen before. This economic feat has been attributed to two main factors: a stable regional political environment based on international peace and prudent market-oriented economic policies pursued by individual countries (Sally, 2011, p. 56). As will be argued through the rest of this document, the secure and prosperous environment is largely due to economic interdependence between east Asian countries. Members have found it beneficial to set aside their traditional rivalries and take advantage of a more united and peaceful region.

## 2. The Relationship between Economic Interdependence and Peace

Those who subscribe to liberal ideals argue that more economic interdependence between countries will minimize the potential for armed conflict as the opportunity costs of a military engagement are far greater for the parties involved than the gains they will have from a military conflict (Lee, 2018, p.215). As will be explained below, this is precisely what has enabled the East Asian region to enjoy a long period of peace despite dozens of territorial disputes between member states such as China. The nation is so firmly enmeshed in the regional and international economic system that it cannot risk these relationships with trading partners for temporary gains from claiming territory it considers part it by force. According to the liberal view, trading between countries is better than fighting, and economically integrated nations would think twice before declaring war on their trading partners (Polachek, Robst, and Chang, 1999). There is a reason for hope of sustainable peace, as long as nations maintain high levels of interdependence (Copeland, 1996, p. 5).

Liberals argue that when countries establish ties with each other in certain areas, they are also more likely to cooperate in other fields. Greater cooperation is supposed to facilitate communication between countries and lead to fewer disputes, leading to tensions. Linkages create institutional and cultural

mechanisms of resolving misunderstandings that may arise between countries. In addition, peace is enhanced when countries mutually recognize the benefits of cooperation.

There are three points for why economic relations between countries can contribute to peace (Korbel and Chen, 2009, p.15):

1) Fighting with an economic partner is very costly to a nation since waging war negatively impacts a country's economy. Therefore, fighting with a trading partner is tantamount to fighting against oneself.

2) When two countries become increasingly intertwined economically, trade and economic interests take precedence over other national interests such as regional hegemony or military build-up.

3) Countries with strong interdependence can use economic means as leverage to force others to the negotiation table. Increased economic interdependence makes economic sanctions as effective as military threats.

This view of international order assumes that interdependent countries would seek to maximize the benefits of this cooperation and that good political relation will most likely continue for a long time if they act rationally. This mutual welfare means that actors will be less inclined to disregard the benefits of trading with their partners, especially if doing so would lead to crushing economic sanctions. Liberals hinge their argument on the assumption that trade has more benefits for all parties involved compared to war (Copeland, 1996, p. 16). The central claim by liberals is the idea that trade brings valuable gains to all states involved, and dependent states will often elect to avoid military conflict since trade is more beneficial and less costly and risky like war (Tanious, 2019, p10).

On the opposite side of the issue are the realists, who contend that economic interdependence promotes international security to some extent and increases the likelihood of disputes (Rana, 2015). Realists contend that interdependence increases the likelihood of war between countries as they attempt to protect their access to necessary goods and materials (Copeland, 1996, p. 16). Realists argue that, in cases of asymmetric interdependence, there is an increased chance that the weaker party in this dyad will be taken advantage of by the stronger partner, and the trade imbalance makes the stronger partner willing to resort to force should their strategic interests be threatened. According to this view, economic interdependence may contain only one partner from using military means when disagreements arise, but this does not deter the stronger partner from resorting to armed force when their interests are jeopardized (Mansfield and Pollins, 2003, p. 14). Using colonialism as an example, realists contend that economic leverage may be applied in conjunction with military force to develop and sustain inequitable economic relations. Therefore, high economic interdependence does not necessarily promote peace between countries but may create scenarios that may increase interstate disputes as economic giants compete with one another for access to resources and markets (Tanious, 2019, p11). As nations anticipate war, they may attempt to extend their control to places where critical economic supplies are found to fear being cut off from them during times of war, which leads to conflicts with other states with similar ambitions.

Drawing on perspectives from both sides, Dale Copeland (1996) concluded that interdependence might bring peace depending on future conditions of the trading environment. Whether interdependence leads to more opportunities for peaceful co-existence between two or more countries needs to be examined further, which is especially important when the US and China are engaged in a trade war with each other.

In his treatise on perpetual peace, Emmanuel Kant argued that economic interdependence strengthens liberal ideals and constraints by establishing interstate ties that promote conflict resolution rather than conflict. Historically, free trade was seen as the solution to war as increased trade among many nations would lead to mutual welfare, leading to interdependence. In turn, the increased interdependence between countries should deter armed force. The unilateral view of free trade as a deterrent to war is best illustrated by the creation of The World Trade Organization, which in addition to promoting global trade, is also aimed at fostering global peace through increased economic interdependence among countries. So far, economic interdependence between countries seems to have prevented another world war despite the highly polarized period of the Cold war.

Goldsmith researched liberal peace in Asia, concluding that liberal peace exists in this region mainly because of economic interdependence among Asian countries. Other realists concede that interdependence leads to peace while also increasing the occasions for disputes. However, there is enough evidence to prove that economic interdependence strengthens international order and reduces conflicts. A good example is US-China relations.

The US and China began their trade relations on a positive note, and the US was instrumental in facilitating China's access to outside financial resources to fund its development projects from the 1970s

to 1990s. However, their interdependence has shifted beyond the moderate level, and trade imbalances between them have seen the US adopt measures to safeguard its commercial interests. However, none of the two countries has resorted or is considering using traditional means of dealing with their colliding interests. Therefore, increased interdependence between them has become appealing to both partners even when dealing with internal affairs. With increased interdependence, there are better and less costly alternatives to armed force when national interests collide. This paper will assert that increased economic interdependence is positively associated with peace, using the case of China to demonstrate its significance to peace in East Asia.

### **3. The significance of Economic Interdependence to peace in East Asia**

East Asia is home to several powerful nations, each with its own national and regional interests. Despite the differences in institutional and cultural systems in countries like China, Japan, Taiwan, Korea, and Hong Kong, there has not been a major military engagement between these countries since the end of the Second World War. Policymakers and western political scientists have come to consider the rise of China to be a major security threat, not only to East Asia but to the rest of the world.

China is an example of an economic miracle that does not have any parallels in human history. In less than a century, China has moved from a peasant economy to global industrial power. The country could leverage its wide skill base and access to international finance to find one of the fastest industrial growth in history. Today, nearly all major companies have facilities in inland China or have licensed the production of goods to a Chinese company. The large pool of human resources has driven this at a cheaper price compared to western nations. At the moment, China has overtaken the US to become the largest trading nation globally and is poised to overtake the US to become the strongest economy.

However, with economic progress comes the desire to assert oneself in the international system, and China is no different. US policymakers are increasingly worried about a prosperous China. These concerns are not baseless. China has increased its annual military spending to become the second-largest military spender after the US. In 2019, China spent \$177 billion towards modernizing its military (Council on Foreign Relations, 2020). Even though the country only has a meager stockpile of nuclear weapons (320 warheads) compared to the US stockpile of 5800 nuclear weapons, there are plans to continue upgrading its nuclear arsenal and delivery systems (Arms Control Association, 2020). Many in the West consider China's military modernization to be a sign of its hegemonic ambitions. They believe that China wants to position itself as a worthy contender for the title of superpower, a position held by the US since the end of the cold war in 1991. However, China's rise has been largely peaceful, supposedly due to its inextricable relations with regional and global powers.

After the end of the Mao era, China's economic outlook has been characterized by the opening of its domestic market to the outside world and increased contact with the rest of the world. The country has also expanded its participation in international institutions, such as its membership in the WTO and the World Bank since the 1970s. Some scholars have drawn attention to the correlation between China's increasing linkages with the rest of the world and its softening of political relations with its East Asian neighbors.

Contrary to what some western scholars have projected, Lampton and Brzezinski have supported the idea of a peaceful Chinese ascendancy due to the extensive economic linkages with its Asian neighbors and the West (Feeney, 2018 p. 261). Research conducted in writing this paper found that the high economic interdependence between China and its neighbors has led to improved political relations and avenues for alternative conflict resolution instead of armed force (Masterson, 2012 p.4).

The exit of Mao from the Chinese political arena changed the government's outlook and the Chinese citizens. China embarked on a journey to dismantle the socialist economic system from 1978 under Deng Xiaoping's leadership. The country liberalized its economy and began accepting foreign direct investment, in addition to shifting its industry from an energy-demanding production process to less energy-consuming industries to take advantage of the international market. China's focus on the export market has paid off handsomely, with the country's trade with the rest of the world has grown by a staggering 4,500 percent since 1980, overtaking all other East Asian countries (Masterson, 2012 p.5). China is now one of the most trade-reliant countries globally, with over 60 percent of its GDP coming from foreign trade. Before China began its economic reforms under Deng Xiaoping's leadership, the country's position on the world trade list was 30, but as of 2020, it was ranked 1<sup>st</sup> in world trade (Ashraf, 2020). In addition to high volumes of export, china is also a net recipient of foreign direct investment. FDI is a significant source of employment and capital that continues to power china's rise. By 2006, FDI

accounted for over 93 percent of china's capital inflows (Masterson, 2012 p.6). The country is the world's best destination for foreign direct investment in 2021 (BBC News, 2021).

China has joined many international institutions that have enmeshed it firmly into the international system. This is theorized to prevent the country from pursuing irrational and precipitous adventurism, especially concerning the disputed Spratly Islands in the South China Sea and Taiwan (Feeney, 2018 p. 261). Were it not for its economic interdependence with other East Asian countries, and it is almost certain that China would have tried to reunite Taiwan with the Chinese mainland by force. Nevertheless, scholars suggest that china cannot risk antagonizing its East Asian neighbors, most of whom are heavily involved in trade relations. In this regard, economic interdependence seems to have prevented armed conflict about Hong Kong, Spratly Islands (which japan considered part of its backyard before), and Taiwan (which China considers to be a part of its sovereign territory).

Institutions in East Asia promote large-scale economic interdependence between members and create occasions for peaceful debate and negotiations. In this region, the Association of Southeast Asian Nations (ASEAN) has so far succeeded in keeping simmering conflicts between members quiet, especially regarding territorial disputes. Since its creation, ASEAN has successfully prevented armed confrontations between signatories, even though the region has more than a dozen territorial disputes among member states. As stated before, members seem to have opted for alternative means of resolving their differences rather than engage in armed combat, which is more destructive to their mutual welfare and less valuable than the benefits of maintaining trade relations. As China has moved from low levels of interdependence with its East Asian Neighbors, political relations have continued to improve. This is because, china being a successful economy, it has been reluctant to engage in military incursions because it does not wish to disrupt its economic growth trajectory (Naidu, 2015).

#### 4. Conclusion

This paper has explored the significance of economic interdependence to peace, focusing on the East Asian region. Two different views in this relationship have been discussed. The first view is that high interdependence between countries reduces the chance of armed conflict between them. This is what is referred to as the liberal view of economic interdependence. The primary argument here is that trade brings more value to all parties than war, and prudent governments choose to ditch their interests in favor of cordial political relations with others. The second view concerning this relationship is what is known as the realist view. The realist view argues that economic interdependence does not prevent conflicts but increases disputes between members.

Using the case of china and its territorial and global ambitions, we have shown that the country has been apt to avoid armed conflict with other East Asian countries. This is because more than half of China's GDP comes from external trade, and it would think twice before upsetting the international order in pursuit of territorial claims. The assessment of certain scholars that China's rise will be peaceful due to its dependence on international trade seems to be true so far. Therefore, the significance of economic interdependence appears to be the maintenance of international order and the prevention of unnecessary armed confrontations. Economic interdependence has been a key driver for peace and good political relations between East Asian countries, especially China and its relations with Japan and Taiwan.

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