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Does Economic Integration Augur Peace in East Asia?

SCOTT L. KASTNER

East Asia faced an uncertain future as it emerged from the cold war two decades ago. There were certainly reasons for pessimism. The United States' relationship with China, which had blossomed in the decade after normalization, took a sharp turn for the worse in the aftermath of the government's Tiananmen Square crackdown.

Reckoning with Regions

First in a series

Relations between Washington and Tokyo were strained as the two countries wrangled over trade and other economic issues, and some

wondered whether America would maintain a robust security presence in East Asia as the cold war wound down. Deep-seated historical animosities persisted in the region, aggravating numerous territorial and maritime disputes.

Moreover, several of the factors identified by liberal international relations theory as helping to stabilize interstate relations were weak or absent in East Asia. Important states such as China remained authoritarian. Regional institution-building was in its early stages. And, though many states in the region had embraced economic development strategies premised on integration into global markets, intraregional trade was limited compared to Europe or North America.

Twenty years later, considerable uncertainty still surrounds prospects for stability in East Asia. China's rapid economic development has enabled the country to pursue a vigorous military modernization program, which in turn has fueled concerns about a regional security dilemma. Coun-

tries in the region have been unable to resolve the North Korean nuclear issue. Maritime disputes in the South and East China seas persist. And key relationships, including those between Japan and China and the United States and China, continue to suffer from high levels of mistrust.

But East Asia has also changed a great deal since the early 1990s. Among the most striking trends has been a shift toward regionalism, as evidenced by increasing economic integration and cooperation among countries along the Western Pacific. Nations in East Asia have become even more dependent on trade than they were at the end of the cold war, and intraregional trade has expanded as a share of East Asian states' total trade—a trend driven largely by the development of regional production networks. Meanwhile, interest in preferential trade agreements has proliferated: According to the Asian Development Bank, 93 free trade agreements involving Asian countries were in effect in 2011, up from 25 in 2000.

In short, perhaps more than any other region in the world, East Asia has come to be characterized by both extensive economic integration and persistent and serious political frictions. Will increasing regional economic integration help to mitigate the chances that these frictions could escalate to armed conflict?

TRADE PARTNERS

The People's Republic of China (PRC) lies at the center of changing economic trends in Asia. China's economy has averaged nearly 10 percent annual growth for the past three decades, and it has achieved this remarkable record in part by becoming deeply integrated into global markets. The PRC is now the world's largest exporting country, and China attracts more foreign direct investment than any other developing nation. In recent years

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China's outbound foreign direct investment and foreign aid have also increased rapidly.

Furthermore, China today is the primary trading partner of many neighboring countries, and several nations in the region that have had contentious political relations with the PRC have become deeply intertwined with China economically.

For example, economic relations between China and Japan have continued to develop despite a cool political relationship between the two countries. China's military modernization has generated considerable anxiety in Japan, while Japan's perceived unwillingness to show sufficient contrition for historical injustices—exemplified by visits to the Yasukuni military shrine by Japanese leaders—has sparked anger in China. Tensions between the two sides have flared in recent years over issues such as maritime rights in the East China Sea and ownership of the Senkaku/Diaoyu islands; the two countries became involved in a diplomatic standoff last year after Japan detained the captain of a Chinese fishing ship for ramming a Japanese patrol vessel.

Nevertheless, China today is Japan's top trading partner, and exports to China accounted for nearly 20 percent of all Japanese exports in 2010. Japan is China's second most important trading partner behind the United States, and Japan has also been a key source of foreign direct investment in the PRC.

Political relations between South Korea and China have generally been stable since the two countries established formal diplomatic relations in 1992; they have certainly been less frosty than Sino-Japanese relations. Still, the relationship can be testy at times, and China's historically close ties with North Korea are sometimes a source of tension between Seoul and Beijing. Relations became strained last year, for instance, when China remained reluctant to criticize Pyongyang for its role in the sinking of the South Korean vessel *Cheonan*, even after international investigators blamed North Korea for the incident. At the same time, Beijing was strongly critical of subsequent US–South Korean joint naval exercises in the Yellow Sea. Yet despite these occasional tensions, China has become, by far, South Korea's largest trading partner. Today South Korean exports to China are more than double South Korean exports to Seoul's second largest trading partner, the United States.

Elsewhere in Asia the list goes on. China today is Vietnam's largest trading partner, even though the two countries fought a war as recently as

1979, and despite continued frictions between Beijing and Hanoi in the South China Sea. In the spring of this year, relations became especially acrimonious after Vietnam accused Chinese boats of cutting the exploration cables of Vietnamese survey ships; in response, Hanoi undertook live-fire naval exercises and clarified rules for conscription in the event of war. Similarly, lingering border disputes with India and continued unease in New Delhi about Beijing's relations with Pakistan have not prevented a surge in Sino-Indian trade; China is now India's second largest trading partner. And decades of persistent tensions across the Taiwan Strait did not prevent cross-strait economic relations from taking off beginning in the late 1980s. Today China is Taiwan's principal trading partner and the primary destination for the island's outbound foreign direct investment.

In short, as China has grown more prosperous, countries in the region have increasingly come to depend on its booming economy—even if those countries have not always enjoyed close political relations with Beijing.

At the same time, China has embraced East Asia's move toward regional free trade agreements. Perhaps most notable in this regard, China and the Association of Southeast Asian Nations agreed to create a free trade area that went into effect in 2010; the new free trade region is the world's largest in terms of population. China and Taiwan last year signed a sweeping Economic Cooperation Framework Agreement (ECFA), which will serve as a roadmap to an eventual free trade agreement linking the two sides of the Taiwan Strait.

The PRC has also signed several bilateral free trade agreements with countries such as New Zealand, Thailand, and Singapore. And China, Japan, and South Korea are discussing the possibility of a trilateral free trade agreement linking the major Northeast Asian economies; the three nations announced in May that they hope to complete a joint study of such an agreement by next year.

A REGION TRANSFORMED?

Is deepening economic integration transforming East Asia into a less conflict-prone region? There is some reason for optimism in this regard. Indeed, a vast amount of scholarship has explored the general relationship between trade and conflict, and contributors to this literature have pointed to several ways that international economic integration can reduce the danger of war.

Most obviously, economic integration makes armed conflict more costly. Wars can be highly disruptive to cross-border economic transactions, and such disruptions have the potential to impart substantial adjustment costs on national economies. For instance, it is not hard to imagine the negative impact that a serious military confrontation in the Taiwan Strait could have on the economies of both sides. The risks of shipping to and from trade-dependent Taiwan would escalate dramatically, especially if the PRC were to pursue a blockade against the island. A serious increase in cross-strait tensions—even short of war—could have a deeply chilling effect on Taiwanese businesses operating in China, perhaps leading many to leave. And if the United States were to become involved in a cross-strait conflict, US-China economic relations in all likelihood would not emerge unscathed. The high economic costs of military conflict, in turn, may lead governments to be more cautious in risking such conflicts in pursuit of international goals.

Economic integration can also facilitate a more fundamental transformation in the underlying goals pursued by states. For example, international economic ties can spark coalitional change at the domestic level, as groups with a vested interest in for-

foreign economic ties grow larger and hence become more influential. These groups, in turn, are less likely to value foreign policy goals—such as those motivating territorial disputes—that can propel countries into military conflict. If economic integration is extensive, the actors benefiting from international economic ties will have the ability to influence state goals and perhaps effect a change in the makeup of the governing coalition itself.

Furthermore, as countries become more intertwined economically, citizens and officials from their respective societies come into greater contact with each other. According to Japanese statistics, for instance, more than 100,000 Japanese citizens have resided in China in recent years, and over half of a million Chinese nationals live in Japan. Not surprisingly, this phenomenon is even more pronounced across the Taiwan Strait: Many estimate that a million Taiwanese—primarily businesspeople and their families—currently live in mainland China. Recent years have seen over 4 million annual Taiwanese visits to the mainland,

and mainland visits to Taiwan have surged since restrictions were relaxed under Taiwan's current president, Ma Ying-jeou.

Recent economic cooperation between Taiwan and the PRC has also necessitated extensive contact between officials on the two sides of the strait. Indeed, the recently concluded ECFA agreement institutionalizes such contact by establishing a Cross-Strait Economic Cooperation Committee, composed of representatives from both sides, to handle negotiations and disputes related to the agreement. This increased societal and official interaction, in turn, can help to facilitate deeper understanding and trust, and over the longer term could potentially help countries in East Asia begin to overcome long-standing historical animosities that often exacerbate regional political tensions.

Finally, economic integration can reduce the likelihood of the sorts of dangerous miscalculations that help give rise to armed conflict. Disputes between states can turn into wars when state leaders drastically misjudge the resolve and the power

of their adversaries. For example, the United States and China found themselves at war on the Korean Peninsula in the 1950s after Washington seriously misjudged Beijing's willingness and ability to intervene should US forces enter North Korea. More recently, Saddam Hussein appears to have dramatically underestimated US resolve to invade Iraq in the run-up to the 2003 war.

Economic integration can make this type of miscalculation less likely in part because of the increased official contact and communication it fosters: State leaders may simply come to better understand each other's red lines that must not be crossed. But perhaps more importantly, economic integration makes it easier for states to communicate credibly with each other on issues of war and peace. Verbal threats to use military force become more costly because they can discourage international investors; state leaders will be more judicious in making such threats, and other leaders will be less likely to view the threats as empty bluster.

Economic ties also make it possible to impose economic sanctions when disputes arise. Sanctions, because they are costly, can likewise add more credibility to threats, and can also act as a substitute for armed conflict as a tool of coercion.

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Many have pointed out, for instance, that the PRC could cause tremendous harm to Taiwan without firing a shot.

THE LIMITS OF LIBERALISM

Nevertheless, the idea that economic ties make armed conflict less likely remains controversial and disputed. Some of this skepticism is grounded in the empirical record. Proponents of the realist school of international relations often point out, for example, that extensive trade flows in Europe in the early twentieth century did not prevent the outbreak of the First World War. At the end of the day, it is not clear that economic ties will act as a significant constraint on state behavior when high-stakes issues are on the table. Indeed, economic ties can even exacerbate disagreements between countries and help give rise to new disputes.

In today's world, for instance, a war between the United States and China would be almost unimaginably costly, in part because of the burgeoning economic relationship between the two countries. But the high costs of war could paradoxically encourage lower-level provocations that aim to reshape the status quo for the same reasons that nuclear weapons give rise to what nuclear theorists have called a "stability/instability paradox."

The idea is straightforward. Nuclear weapons dramatically raise the potential costs of a war between two nuclear powers. These increased costs are stabilizing since they make nuclear powers much more reluctant to fight wars against each other. But this very reluctance gives nuclear powers cover to pursue lower-level provocations, as they can be confident that other powers will want to avoid escalation.

Deepening economic integration in East Asia could have an analogous effect. For instance, it is not inconceivable that some countries in the region will act more, rather than less, assertively regarding their territorial and maritime claims to the extent they believe the increasing costs of war make other countries reluctant to escalate.

In addition, international economic ties are often themselves a significant source of disagreements between countries. Persistent disputes over the value of China's currency, for example, will not lead to militarized conflict in East Asia—but they could act as a significant barrier to more cordial relations. Furthermore, while the beneficiaries of deepening cross-border economic ties can become powerful new proponents of stability, international economic relations also generate dislocations

that can help mobilize competing voices. Surging Chinese imports into Southeast Asia have been a source of concern in the region because of their impact on local industries. As a case in point, thousands of workers took to the streets in Indonesia to protest the 2010 implementation of the ASEAN-China Free Trade Agreement.

In sum, though there are a number of ways in which deepening economic integration in East Asia could help make the region less susceptible to armed conflict, such an outcome should not be taken as an article of faith. Ultimately, to be more confident that growing economic linkages in the region are having a pacific effect, we would want evidence that the specific causal processes that could link trade to peace are actually occurring in East Asia. The Taiwan Strait, long characterized by both intense political conflict and a burgeoning economic relationship, offers a good place to take a closer look.

A LESS DANGEROUS STRAIT

For nearly two decades the Taiwan Strait has epitomized the "cold politics, hot economics" relationships that have characterized post-cold war East Asia. Cross-strait rivalry dates to the end of the Chinese civil war, when Chiang Kai-shek's Nationalist regime retreated to Taiwan. At the time, the newly established PRC lacked the capacity to "liberate" the island. But establishing PRC sovereignty over Taiwan remained an important long-term goal.

By the early 1990s, Taiwan (known as the Republic of China, or ROC) was well along a path of democratization that would help transform the nature of the cross-strait rivalry. In an increasingly free Taiwan, the nature of the island's relationship with China became the subject of open debate, while the ROC's first native Taiwanese president, Lee Teng-hui (1988–2000), pushed for an expanded international role for Taiwan. Taipei began actively seeking re-entry into the United Nations, and in 1995 Lee traveled to the United States to attend a reunion at Cornell University, his alma mater. These events, and others, convinced PRC leaders that Lee's ultimate goal was Taiwanese independence. In the aftermath of Lee's trip to the United States, Beijing undertook a series of military exercises near Taiwan—culminating in missile tests in the vicinity of Taiwanese ports shortly before the ROC's first presidential election in 1996.

Tensions flared again in 1999 after Lee characterized cross-strait relations as "special state-

to-state,” and tensions persisted during much of the presidency of Chen Shui-bian (2000–2008), a member of the officially pro-Taiwanese independence Democratic Progressive Party (DPP). Chen’s 2004 reelection—after campaigning on a strongly nationalist message—in particular led to a deep sense of pessimism in Beijing about long-term trends in cross-strait relations. Chinese officials repeatedly emphasized a willingness to “pay any costs” to prevent Taiwanese independence. In 2005 the PRC National People’s Congress went so far as to pass an anti-secession law that mandated the use of “non-peaceful means” in the event of “Taiwan’s secession from China” or “major incidents entailing Taiwan’s secession.”

Even so, while the cross-strait political relationship was generally adversarial during the Lee and Chen administrations, cross-strait economic relations grew rapidly. During the 1990s China became the primary destination of Taiwan’s outbound foreign direct investment, and by late in the decade Taiwan’s high-technology industries were increasingly moving production facilities to the mainland. In 2002 China became Taiwan’s largest export market, and in 2005 the PRC became Taiwan’s largest trading partner overall. These developments occurred even though many in Taiwan worried about over-reliance on the market of an adversary, and despite efforts by the Taiwanese government to manage the flow of investment to the PRC.

Taiwan’s current president, Ma Ying-jeou, has aimed both to improve the cross-strait political environment and to increase cross-strait economic cooperation. Since he came into office in 2008, relations between the PRC and Taiwan have stabilized considerably. Representatives from the two sides restarted a dialogue that had been frozen since the late 1990s, and negotiators have succeeded in reaching numerous agreements on issues such as bilateral tourism, direct transportation linkages, and financial cooperation. The process culminated in 2010 when Beijing and Taipei signed the landmark ECFA agreement.

Deepening economic ties between China and Taiwan clearly have been an important factor driving the recent improvement in cross-strait political relations. Part of the reason Ma has prioritized improving cross-strait relations is that he believes

East Asia has come to be characterized by both extensive economic integration and persistent political frictions.

a stable relationship with China is crucial to Taiwan’s economic future. Ma also believes that increasing economic integration will reinforce stability in cross-strait political relations. In order to facilitate recent economic cooperation with China, Ma has been pragmatic on sovereignty issues. For example, he has consistently emphasized that he will pursue neither independence nor unification while president.

Ma’s pragmatism in this regard generally resonates with Taiwanese public opinion. Surveys consistently show that a substantial majority of Taiwanese voters support maintaining the status quo in cross-strait relations. Studies aiming to better understand this finding have revealed that, although a sizable majority of voters would support a formally independent Taiwan if peace with the PRC could be maintained, an equally large majority would oppose independence if it were to provoke a PRC attack.

This pragmatism doubtless arises in part because Taiwanese voters recognize that a war with China would be incredibly costly for Taiwan; deepening cross-strait economic ties almost certainly help to reinforce this belief. Pragmatism on the part of Taiwan’s citizens, in turn, makes it hard for strongly pro-independence leaders to be elected in Taiwan, as voters fear that such leaders might provoke conflict with China.

Although it is hard to predict how events will unfold if the DPP comes back to power, and in particular how the PRC would react to a victory by DPP candidate Tsai Ing-wen in next year’s presidential election, it is a good bet that Tsai would seek ways to extend the current détente in cross-strait relations. There is reason to believe, in short, that recent stability in cross-strait relations has emerged in part as a consequence of deepening cross-strait economic integration.

SOVEREIGN SENTIMENTS

Nevertheless, there is also reason to be at least somewhat skeptical about how deeply entrenched the causal processes linking increased economic integration to a reduced likelihood of military conflict actually are in the Taiwan Strait. For example, while deepening cross-strait economic ties are undoubtedly raising the costs of military conflict for both sides, other trends seem to be at least

partially offsetting these costs for Beijing. Importantly, the military balance of power in the Taiwan Strait has been shifting sharply in the PRC's favor. The ability and resolve of the United States to intervene in the event of a China-Taiwan conflict are also increasingly uncertain, at least looking forward to the longer term.

Moreover, while the possibility of economic coercion does give Beijing a way to punish Taiwan without firing a shot, economic sanctions could also backfire for China. Economic sanctions would most seriously hurt individuals and businesses in Taiwan that already have a direct stake in the cross-strait relationship. Punishing these sorts of actors could damage Beijing's long-term goals in Taiwan by alienating a constituency that tends to support stable cross-strait relations to begin with. In other words, it is not clear that the PRC would view economic coercion against Taiwan as a useful or desirable substitute for military conflict, nor is it clear that Beijing would necessarily impose economic sanctions as a signal of resolve before initiating military conflict against Taiwan.

Perhaps most importantly, although economic ties may be contributing to a sense of pragmatism among Taiwan's voters, there is little evidence to suggest a deeper shift in the preferences of most Taiwanese on cross-strait sovereignty issues. Surveys have found that the percentage of Taiwan's citizens who identify themselves solely as "Chinese" has declined to near negligible levels over the course of the past decade. On the other hand, the percentage of respondents identifying themselves solely as "Taiwanese" has increased dramatically since the early 1990s, and now represents a majority (having surpassed in recent years the percentage who identify themselves as "both Taiwanese and Chinese").

Support in Taiwan for political unification with the PRC, even over the longer term, remains miniscule. Meanwhile, the PRC has given no indication

that increasing cross-strait economic ties are leading to a softening of its position on sovereignty issues. The core sovereignty dispute between Beijing and Taipei is likely to remain untransformed for the foreseeable future.

NO GUARANTEES

Relations across the Taiwan Strait have improved greatly in recent years, and China-Taiwan economic integration appears to have been an important factor contributing to this new stability. But even the cursory discussion presented here suggests an exceedingly complex relationship between cross-strait economic ties and the possibility of a China-Taiwan military confrontation. Economic ties can influence the likelihood of armed conflict through several different causal pathways, and there are grounds for both optimism and pessimism concerning how deeply entrenched these different pathways have become in the Taiwan Strait.

The case, in short, offers both a cautionary and a hopeful tale for East Asia as a whole. On the one hand, increased economic integration and cooperation do not guarantee that the many disagreements in the region will be managed peacefully. Just as the cross-strait sovereignty dispute persists despite burgeoning economic ties, so maritime disputes in the South and East China seas, for example, likely will continue despite growing economic interdependence between China and its neighbors. It remains as important as ever to manage these disputes carefully.

On the other hand, it is hard to argue that expanded cross-strait economic linkages have not contributed to the current moderation in China-Taiwan tensions. If economic ties can have a stabilizing effect, even if only on the margins, in a conflict as intractable as this, there is cause for cautious optimism about the stabilizing potential of increased economic integration in the region as a whole. ■