Hegemonic transition in East Asia? The dynamics of Chinese and American power

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Abstract. The ‘rise of China’ is seen by some observers as a precursor of inevitable hegemonic competition in East Asia. At the very least, it seems likely that China’s influence in East Asia will grow at the expense of the United States. Whether this will eventually amount to a form of ‘hegemonic transition’ is far less clear. It is, therefore, an opportune moment to consider the relative strengths and weaknesses of China and the US in East Asia. This paper suggests that the nature of hegemonic competition and transition is more uncertain and complex than some of the most influential theoretical understandings of hegemony would have us believe.

Introduction

The ‘rise of China’ is certain to be one of the most important features of, and influences on, the international system in the twenty-first century. The opening-up of the Chinese economy under the leadership of Deng Xiaoping in the late 1970s triggered a remarkable and unparalleled economic expansion that is affecting both the People’s Republic of China (PRC) itself and the region of which it has historically been such a central part. This rapid recent transformation in China’s economic fortunes has not been greeted with universal enthusiasm, however. On the contrary, for some prominent observers of international affairs, especially in the United States, the rise of China is a harbinger of inevitable and unwelcome change. John Mearsheimer, for example, argues that ‘a wealthy China would not be a status quo power but an aggressive state determined to achieve regional hegemony’. The implication as far as American foreign policy is concerned is clear: China should be contained, its economic development slowed, and the concomitant decline in the position of the US should be delayed for as long as possible. While perspectives such as Mearsheimer’s have not been the only influence on American foreign policy, they reflect a prominent school of thought in the US and elsewhere which believes that the re-emergence of China as a ‘great power’ at the very least presages an hegemonic

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transition in East Asia, if not outright conflict as the US and China struggle for
dominance.

There is, of course, nothing new about such views. The idea that hegemonic
competition and transition are inescapable, cyclical features of the inter-state system
has been suggested by scholars operating from a number of perspectives, some of
which are briefly considered in the first part of this article. There are, however,
grounds for questioning whether such predominantly state-centric analyses capture
the complex nature of ‘China’s’ incorporation into the contemporary international
order, or of the multi-dimensional nature of ‘American’ power either. For example,
although it has been the growth of mainland China’s economy that has attracted
most attention of late, the possible emergence of a ‘greater China’ that incorporates
Taiwan, Hong Kong and the fifty million or so ‘overseas Chinese’ in Southeast Asia
highlights the potentially transnational nature of Chinese influence and power.³
Similarly, while it has become increasingly plausible and commonplace to argue that
American influence and power are inexorably waning,⁴ the US retains an enduring
capacity to influence international economic, political and cultural practices in ways
that are not captured easily by an exclusive focus on foreign policy or strategy.⁵

The possible limits of exclusively state-centric analyses notwithstanding, examin-
ing the prospects for hegemonic transition in East Asia remains a useful exercise
for a number of reasons. First, it provides a framework within which to explore the
comparative merits of the contending theoretical explanations of the political,
economic and strategic changes currently underway in East Asia. Second, it
highlights the relative strengths and weaknesses of China and the US, and illustrates
the complex, frequently contradictory and paradoxical, nature of their growing
interdependence. Finally an analysis of ‘China’s rise’ suggests that whatever merit
various theories of hegemonic transition may have had in the past, they may all need
to be rapidly rethought: the sheer scale of China’s economic development and the toll
it is inflicting on the natural environment mean that its continuing rise is anything but
assured. On the contrary, China’s embrace of rapid capitalist development – a
development which might have been seen as an unambiguous long-term manifesta-
tion of American hegemony and structurally embedded influence – may prove highly
destabilising and unsustainable; but not necessarily for traditional reasons of great
power politics.

Consequently, after considering how hegemonic transitions have been understood
theoretically, I explore the way in which China’s rise is affecting strategic relations.
I suggest that American military might is less valuable than it once was, and this has
given added significance to China’s growing economic power. China is attempting to
capitalise on this and play an active regional leadership role in East Asia. In the
course of the discussion I compare China’s foreign policy with that of Japan’s, a
country that also had the economic capacity to play a prominent regional role, but
which failed to do so, primarily because of its continuing subordination to the US.
China, by contrast, has no such inhibitions. And yet, the East Asian experience
suggests that historically-grounded expectations of linear hegemonic progress are

³ Y.-W. Sung, The Emergence of Greater China: The Economic Integration of Mainland China,
Taiwan and Hong Kong (Basingstoke: Palgrave, 2005).
⁴ See, for example, Chalmers Johnson, Nemesis: The Last Days of the American Republic (New York:
being undermined by rapidly emerging, and possibly implacable environmental constraints. Paradoxically enough, therefore, an exploration of the possibilities for hegemonic transition highlights both the limitations of some of our most influential theoretical paradigms, as well as the profound, possibly insurmountable practical limits to nationally-based rivalries.

Theorising hegemony

Expectations that East Asia would generate rising powers and become the site of a process of hegemonic transition are not new. What is relatively novel, is the idea that China, rather than Japan, might be the East Asian nation that achieved this. As recently as the 1990s, many observers confidently expected that Japan would overtake the US to become the world’s largest economy and assume a political status and influence that matched its economic weight, fundamentally reconfiguring East Asia’s intra- and inter-regional relations. Japan’s failure to assume this position tells us something about the respective nature of China’s rise, America’s enduring power, and the character of hegemony more generally. Before considering this in any detail, however, it is useful to illustrate some of the contrasting ways hegemony has been understood.

One of the most influential and enduring conceptions of hegemony and hegemonic transition emerged from the realist tradition, and it consequently shares many of that paradigm’s well known strengths and weaknesses. Robert Gilpin, perhaps the foremost exponent of this model, claimed it is ‘the differential rate of change between the international distribution of power and the other components of the system that produces a disjuncture or disequilibrium’. Such disjunctions – especially changes in the relative economic standing of different states – undermine the balance of power, introduce instability and tension, and encourage rising states to try and transform the international system to reflect their interests. In this reading, conflict is inevitable as declining powers will seek to resist a process that inevitably diminishes their relative position.

And yet recent East Asian history suggests that there is nothing preordained about the way such relationships will develop or about the impact of economic, political or strategic power: Japan’s post-war subordination to the US is markedly at odds with the expectations of realists and serves as a reminder that international relations in the East Asian region might not follow a universal template.

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To understand why, and how this might affect China, it is necessary to say something about the nature of American hegemony and the specific circumstances in which it consolidated after the Second World War. In this context, East Asia was a key arena in which the rapidly escalating struggle with the Soviet Union would be played out. Significantly, however, and in sharp contrast to the experience of Western Europe, American policy in East Asia was preoccupied with establishing a series of bilateral, ‘hub and spoke’ security relationships with the individual states of the non-communist parts of East Asia, rather than the sort of integrated, region-wide order that eventually underpinned the development of the European Union. The notably different treatment of Asia’s newly independent or recently defeated states not only reflected American policymakers’ very different views about European and Asian political elites, but it profoundly influenced the sort of intra- and inter-regional relations that emerged over the longer-term in the context of American hegemony.

The American way of hegemony

‘American hegemony’ is distinctive and multi-dimensional in ways that merit spelling out. As far as East Asia was concerned, a preoccupation with containing the perceived threat of communist expansion not only gave a defining rationale to post-war American policy, but it directly underpinned the remarkable renaissance of Japan and the wider East Asian ‘miracle’, of which Japan’s economic development was such a central, calculated and strategically pivotal part. Without American aid and investment, there is no doubt that East Asia’s remarkable development would not have occurred at the pace it did. Equally importantly, without an initial willingness on the part of the Americans to turn a blind eye to the sorts of frequently authoritarian, neo-mercantilist, state-led development strategies Japan pioneered and which others – including China – have attempted to emulate, it is also clear that the region’s development would not have occurred in the manner that it did. That the US has been of late less willing to tolerate deviations from the ‘Washington consensus’ highlights another aspect of American hegemony, the relative importance of which is dependent on a wider geo-political context.

A second key dimension of American hegemony, then, is the way a particular set of ideas or values were operationalised as part of the so-called Bretton Woods institutions. Significantly, control of the international financial institutions (IFIs)
is one area in which there is increasing concern about the inequitable dominance of the US in particular and the ‘Western’ nations more generally: East Asian nations are strikingly under-represented in such bodies and a change in their status will be a key manifestation of a changing international order if and when it occurs.18 There is, however, another more informal, diffuse and intangible aspect of American hegemony which is reflected in the institutionally embedded dominance of a range of cultural and economic practices associated with the US, leading some observers to claim that it is uniquely placed to benefit from the very order it helped create.19

There is clearly something in this. After all, this is the way hegemony ought to work – from whichever perspective one approaches American power. Neo-Gramscian scholars have usefully drawn attention to the intersection of material power and ideas, and their crystallisation in formal and informal institutions.20 Whether or not one sees this as a manifestation of a self-conscious class pursuing an increasingly global set of interests,21 there is plainly a transnational dimension to contemporary processes of governance that may favour some nationally-based elites more than others, without necessarily being unambiguously under the direct control of any of them.22 This is an especially challenging possibility for those state-centric interpretations of hegemonic competition that consider it to be driven by nationally-based, competing elites, intent on promoting ‘their’ national interests. While the increased unilateralism and militarisation of American foreign policy serves as a salutary reminder that – in the context of national security, at least – there are still such parochial impulses,23 in other areas the very idea of a discrete national interest, let alone a universally supported strategy for pursuing it, is an increasingly problematic, socially-constructed artefact of cross-cutting political and economic interests.24

Nevertheless, the possibility that some states are advantaged as a consequence of their capacity to exercise a form of ‘structural’ power that flows from their position in the international system is central to any consideration of why some countries are more powerful than others.25 Barnett and Duvall distinguish structural power from ‘productive’ power, the latter referring to the ‘diffuse constitutive relations [that]
produce the situated subjectivities of actors’. This distinction is useful because it highlights a hitherto important aspect of American power, but one which has been steadily undermined of late as a consequence of its declining legitimacy. While the ability of American foreign policy-makers to impose or institutionalise particular economic and political practices has always been contested, the attractiveness of such ideas has been eroded by a growing antipathy toward American foreign policy, and by the emergence of competing ideas about the basis and conduct of international relations. Although such processes are still in their infancy, China has begun to enunciate an alternative vision of development and international order that may help to consolidate its own position at the centre of an emergent regional system at the expense of the US. At the very least, such developments raise important questions about the nature of regional influence and highlight the limits of American primacy, despite its overwhelming strategic dominance. To explain this apparent paradox, it is useful to initially consider the nature of the US’s material strength, before considering the contradictory nature of its political and economic relations with China and the region.

Security and geopolitics

For traditional, state-centric analyses of hegemonic power and transition, military might is a pivotal measure of influence and determinant of dominance. In this context, there should be no doubt about the US’s continuing primacy. Despite the concerns expressed by many realist scholars about the rise of China and the supposed likelihood, if not inevitability of conflict, American ascendancy seems assured. As has frequently been pointed out, the US spends more on military hardware than the next 15–20 powers combined. Moreover, the US has an unrivalled ability to project power, as well as a major and expanding lead in the technical sophistication of its weapons systems – something many observers take to be an unambiguous and enduring expression of America’s continuing dominance. And yet, it is not obvious that this military strength is as decisive as it once was, or that the ability of other countries like China to challenge American dominance should be judged exclusively or even primarily by their ability to counter conventional military might. On the contrary, it is possible that the nature of contemporary international relations, in which the declining incidence and utility of traditional inter-state conflict is such a noteworthy part, may be opening a political space within which to challenge American primacy with comparative impunity – especially where this is reinforced with other, increasingly relevant and utilisable forms of structural power.

When trying to assess how important military power is, much depends on the specific historical context. Here the US’s record in East Asia is uneven and contradictory. At one level, it is plain that, despite not being ‘of’ the region in the way that China unambiguously is, the US exercised a decisive, continuing influence on the development of East Asia for more than half a century. The construction of the bilateral strategic relationships in East Asia noted earlier, was not only markedly different from the its approach to Europe (where it encouraged a process of regional integration), but the effective maintenance of an ‘uneasy stalemate’ in a divided East Asia was a key part of its own hegemonic role. Consequently, while the Cold War endured, there was simply no possibility that China could play a significant part in regional relations, let alone seek to reinsert itself at the centre of an increasingly integrated East Asia.

The cornerstone of American strategy in the region during this period was not simply ‘containing’ China, but consolidating the position of Japan as an economic and strategic bulwark against communist expansion. Two aspects of the relationship between the US and Japan have long-term implications for both the US’s relationship with China and our understanding of hegemony, and consequently merit spelling out. First, Japan’s historically subordinate role to the US and its consequent inability to play an independent, leadership role in East Asia, help to explain the stunted nature of its own hegemonic ambitions and capacities throughout the post-war period. Japan’s recent participation in American strategic initiatives like the missile defence scheme and the recently announced defence treaty with America’s other key regional ally Australia, not only limit Japan’s own policy autonomy, but are plainly designed with China in mind. The second point to make, then, is that – at the strategic level, at least – the US remains the lynchpin of an entrenched pattern of security relations that notionally disadvantage and constrain China. And yet, it is striking that, not only are the benefits of such ‘bandwagoning’ behaviour by countries such as Japan and Australia increasingly unclear, especially as they limit the possibility of developing a more independent relationship with the region, but American strategy may also actually work to China’s advantage.

The limits to military dominance

The possibility that inter-state warfare is not simply increasingly redundant but a counter-productive contributor to hegemonic decline is confirmed by America’s own experiences. Although most recent attention has focused on the ‘fiasco’ in Iraq, it
is worth remembering why so many make a comparison with America’s earlier experience in Vietnam. Not only did Vietnam have a massive negative impact on the US domestically, but it also inaugurated – for a generation, at least – a period of diminished ambitions and a greater reluctance to intervene overseas generally and in East Asia in particular. Equally importantly as far as the US’s overall hegemonic position was concerned, Vietnam sapped America’s own economic strength, while simultaneously allowing its competitors in Europe and Asia to catch up. Indeed, one of the great ironies and contradictions of America’s preoccupation with grand strategy was that it was instrumental in cultivating successful capitalist economies like Japan, which would ultimately have an ambivalent impact on its own economic position.37 History seems to be repeating itself. As Arrighi observes, ‘all the evidence seems to point to China as the real winner of the War on Terrorism whether or not the US eventually succeeds in breaking the back of al Qaeda and the Iraqi insurgency’.38

Much has been written about the ill-judged intervention in Iraq and the sort of American foreign policy that underpinned it.39 At first blush, such folly seems to confirm Kolko’s observation that ‘thinking about war in official circles and among those strategic analysts attached to them, not only in the United States but elsewhere, has remained remarkably impervious to experience’.40 But such a blanket assertion overlooks important differences in the way security is perceived and pursued, differences that have been especially sharply drawn in East Asia. The widely noted ‘comprehensive’ nature of security in much of East Asia, which embraces economic and diplomatic practices, and which has political survival and regime maintenance at its core,41 was pioneered by Japan and has been embraced by China, too.42 For the political leadership of the PRC, economic security is arguably at least as important as conventional sovereignty: without continuing rapid development the legitimacy of the extant regime will be increasingly called into question with potentially fatal consequences.43 In such circumstances, we should not be surprised if China’s strategic calculus looks rather different from the universalised expectations that inform much strategic thinking in North America.

What is surprising, perhaps, is how much Chinese strategic thinking seems to have in common with the US, despite their very different circumstances. Johnston has detailed the continuity of realist thinking in Chinese military strategy,44 and it is plainly the expectations about state behavior that flow from such zero-sum

37 Stubbs, Rethinking.
perspectives that inform much thinking about China in the US.\textsuperscript{45} What is equally striking, however, is that despite high profile criticisms of Chinese defence spending, it remains relatively modest, and is likely to remain a fraction of America’s despite the growth of the Chinese economy.\textsuperscript{46} True, China’s defence spending has grown as its economy expands, but what is more important is the quality of its military, which remains no match for the US. As David Shambaugh has pointed out, China is twenty years behind the US in terms of technological sophistication and the gap is growing, causing China’s strategists to develop a ‘new security concept’ that privileges ‘soft’ over ‘hard’ power, and which is aimed squarely at China’s regional neighbours.\textsuperscript{47}

Despite the attention that Taiwan continues to receive as a supposed regional ‘flashpoint’, it is evident that its military leaders recognise that China would face certain defeat.\textsuperscript{48} It is, of course, always possible that miscalculation, accident or – most plausibly, perhaps – the sort of nationalist sentiment that is already proving a headache for China’s leaders,\textsuperscript{49} could trigger a conflict between the US and China, but it seems more likely that the longer conflict is deferred, the less likely it will become.\textsuperscript{50} On the one hand, this is a product of China’s own grand strategy which ‘aims to avoid the provocative consequences of the more straightforward hegemonic and balancing strategies’.\textsuperscript{51} On the other, it is a function of the sort logic of economic interdependence that liberals would expect to see, a possibility that is taken up in more detail below. What is worth briefly noting at this stage are the sorts of initiatives that China has undertaken in the region as a result of this recognition of its own strategic limitations.

‘Soft balancing’ Chinese style?

Over the last few decades there has been a steady, but remarkable change in China’s foreign and security policies. China’s elite foreign policymakers have become more numerous, knowledgeable, and professional. Despite the fact that they are still dedicated to pursuing the PRC’s ‘national interest’, the way such interests are discursively constructed has affected overall policy. As David Lampton points out, in such circumstances, ‘even narrow calculations of national interest may produce

\textsuperscript{45} See, for example, Department of Defense, Annual Report to Congress: Military Power of the People’s Republic of China (Washington, DC: Department of Defense, 2006).
\textsuperscript{46} An authoritative report by the Rand Corporation projected that China’s defence spending would remain less half that of the US, even if its leaders made it a major priority, something they considered unlikely given the need to continue pushing economic development and managing demographic and social change. See, Keith Crane et al., Modernizing China’s Military: Opportunities and Constraints (Santa Monica, CA: Rand Corporation, 2005).
\textsuperscript{49} See, Peter H. Gries, China’s New Nationalism: Pride, Politics, and Diplomacy (Berkeley, CA: University of California Press, 2004).
\textsuperscript{50} Robert Ross makes the important point that, not only have Taiwan’s leaders actually become more reluctant to acquire new weapons systems from the US with which to defend themselves against China, but Taiwanese business leaders and investors are effectively acting as a ‘fifth column’ as the mainland assumes an ever greater economic importance to Taiwan. See Robert S. Ross, ‘Balance of power politics and the rise of China: Accommodation and balancing in East Asia’, Security Studies, 15 (2006), pp. 355–95.
progressively more cooperative behavior'. Of course, such shifts in policy-making style and content might be read as ‘structurally-induced’, and a consequence of an essentially realist-inspired recognition of China’s still limited international influence in the face of continuing American dominance. Such a possibility has been central to the notion of ‘soft balancing’, which seeks to explain the conspicuous failure of states to try and off-set American strategic pre-eminence in the way that realist thinking suggests they ought. While there is something in this, it is also clear that China’s evolving foreign policies reflect the cumulative influence of greater engagement with international institutions. Put differently, China’s elites have been ‘socialized’ into a new, externally-derived normative order in ways that have affected the PRC’s longer-term international behaviour. The consequences of this transformation have been manifest in the increasingly sophisticated use of such institutions and a regional ‘charm offensive’ that is designed to reduce nervousness about its rise and undermine the dominance of the US.

A number of aspects of China’s recent engagement with the East Asian region are worth highlighting. First, and most paradoxically, perhaps, China has of late demonstrated a greater enthusiasm for multilateral engagement than has the US, which was the architect of the very system in which China has become an increasingly effective part. The increasing preference for unilateralism on the part of the US has been widely noted, as has its impact on the moral authority and legitimacy of American foreign policy as a consequence. What is equally striking, is the increasingly skilful way China has engaged with international institutions to burnish its own credentials as a ‘responsible’ international actor, a tactic that not only highlights possible American failings by contrast, but which makes it more difficult for the US to ‘contain’ China as a result. Nowhere has the juxtaposition been more stark than in China’s ever closer relations with the Association of Southeast Asian Nations (ASEAN). Whereas the US has frequently snubbed ASEAN, China has established a Free Trade Agreement, signed ASEAN’s Treaty of Amity and Cooperation, and taken a much softer line on contentious issues like the potentially resource-rich Spratly Islands, over which China and a number of Southeast Asian states have potentially competing claims.

China’s activist diplomacy is, therefore, surprising, successful, and at odds with what we might expect: not only is it remarkable that the formerly prickly People’s Republic has become an effective mainstay of East Asia’s burgeoning regional institutional forums and diplomatic architecture, but it has done so – at least partly – at the expense of the US, which ought to have been better placed to benefit from the prevailing international order. It is significant, for example, that what may prove to be the most important attempt to create an indigenous institutional forum with which to manage intra-regional relations – ASEAN+3 – explicitly excludes the US and reflects a much more narrowly defined conception of ‘East Asia’, rather than the all encompassing notion of an ‘Asia-Pacific’ region that has been championed by the US and key allies like Australia. Equally importantly – and even more surprisingly – China is beginning to exert the sort of ideological influence that was once thought to be the exclusive preserve of the US, and what was taken to be the inherent attractiveness, if not superiority of its political system, economic structures and even ‘lifestyles’.

But claims about the supposedly irresistible influence of the Anglo-American model of capitalism and the concomitant rapidity of ‘convergence’ on a neoliberal template were always somewhat overstated. In much of East Asia, the economic and political reforms associated with the ‘Washington consensus’ have often been regarded with ambivalence and actively resisted. Indeed, China’s own developmental experiences are much closer to those of the ideal-typical, East Asian developmental state. I consider some of the impacts of China’s economic transformation below, but the point to emphasise at this stage is that China is actively promoting an alternative ‘Beijing consensus’, one ‘defined by a ruthless willingness to innovate and experiment, by a lively defence of national borders and interests, and by the increasingly thoughtful accumulation of tools of asymmetric power projection’.

This preoccupation with pragmatism and the preservation of the state has an appeal not just in an East Asian region that has been historically concerned with protecting sovereignty, but also across other parts of the non-Western, ‘developing world’, where China is playing an increasing prominent role.

The rather surprising success of Chinese diplomacy might seem a confirmation of hegemonic transition, especially when combined with evidence of the apparently unstoppable rise of the Chinese economy. Things are more complex than they seem,
however. When we consider the basis of China’s recent ascent – its remarkable economic expansion – it is not obvious whether the US or China is in the ascendant, or even whether a national, state-centric focus is the most appropriate way of measuring their respective standing.

The political-economy of hegemonic transition?

Given the attention that has been paid to China’s remarkable, historically unprecedented growth, it might be supposed that evidence of its ascension and the extent of the potential challenge it poses for the US might be unambiguous. In some ways, it is. Double digit average growth rates for more than two decades have transformed China and triggered a dramatic rise in living standards, especially along its eastern seaboard. But the impact of this highly uneven transformation and the spatially-realised economic and social disparities it has created, is fuelling massive internal migration, and generating domestic instability as a result.\footnote{International Herald Tribune, 29 July 2007.} The contradictory impact of wrenching economic change is one reason that assessing the significance of China’s economic development is problematic. Another is the quality and nature of the economic changes themselves.

Despite the hyperbole that characterises some accounts of China’s development, there are significant grounds for caution. As Shaun Breslin points out, China’s recent economic development started from a very low base, and despite extraordinary, sustained growth rates, average per capita incomes still remain well below those of Russia.\footnote{Shaun Breslin, ‘Power and production: Rethinking China’s global economic role’, Review of International Studies, 31 (2005), p. 736.} Equally importantly, there are doubts about the long-term impact of China’s place in the international division of labour. The massive foreign investment that has been such a distinctive, important and enduring part of China’s economic development may have underpinned the scale of the transformation underway there, but it also helps to explain the often subordinate nature of China’s integration into global and regional production networks.\footnote{The Economist, 11 January 2007.} The rapid growth of China’s manufacturing sector has been dominated by foreign affiliates, which account for more than half of China’s overall foreign trade, of which a further half is the simple assembly and processing of imported inputs for finished goods that will eventually exported.\footnote{Guillaume Gaulier, Françoise Lemoine and Deniz Unal-Kesenci, China’s Emergence and the Reorganisation of Trade Flows in Asia (Paris: CEPII, 2006).} In some ways China echoes the concerns that were expressed about ‘ersatz capitalism’ in Southeast Asia in earlier decades,\footnote{It was thought that Southeast Asia’s role as a source of low-skill, cheap labour for foreign multinationals would inhibit indigenous capitalist development – an idea that still has some resonance. See, Kunio Yoshihara, The Rise of Ersatz Capitalism in Southeast Asia (Quezon City: Manila University Press, 1988).} although there are already signs of China making the transition to more sophisticated forms of manufacturing.\footnote{Financial Times, 28 August 2007.} In any case, China’s sheer size means that even a role as predominantly an export platform is causing major economic restructuring across the entire East Asian region.
A number of points are worth emphasising about China’s place in regional and global production networks. First – and most importantly as far as claims about possible Chinese hegemony are concerned – China’s economic expansion is not coming at the expense of its neighbours.\(^78\) On the contrary, one of the reasons that the region has bounced back so well from the economic crisis of the late 1990s is because the region – including Japan\(^79\) – has generally benefited from rapidly expanding trade surpluses with China. However, unlike Japan, which conspicuously failed to play a political or economic leadership role in the region, China has been open to foreign investment.\(^80\) Recently, it has also begun to play the role of a regional growth engine, sucking in imports, establishing itself at the centre of increasingly integrated, regional production networks, and generally making the region less reliant on the US.\(^81\)

Second, despite the concern regularly expressed in the US about its expanding trade deficit with China, it is actually American firms that are largely responsible for the dramatic growth of ‘Chinese’ exports to the US. As Hughes points out, ‘Wal-Mart alone purchased $18 billion worth of Chinese goods in 2004, making it China’s eighth-largest trading partner – ahead of Australia, Canada and Russia’.\(^82\) Put differently, powerful economic and political actors in the US have a vested interest in maintaining cordial relations with an open, outward-looking China, and making simple calculations or depictions of ‘the national interest’ problematic as a consequence.

Paradoxically enough, therefore, despite some doubts about the depth of China’s development process, its sheer scale is ensuring that even Japan and the US are increasingly reliant on the Chinese economy for their own development and stability. In America’s case, this odd symbiosis has reached unexpected and potentially dangerous proportions. While the highly visible nature of the trade relationship generally captures the headlines, a growing financial interdependence is also undermining American strength and constraining its own policy autonomy. One of the most striking and potentially unsustainable features of the contemporary international economic system is the US’s massive trade deficit with China on the one hand, and China’s concomitant accumulation of the world’s largest foreign currency reserves, on the other. China currently invests much of this very conservatively in American Treasury Bills, allowing US interest rates to remain lower than they would be otherwise, and consumption (of Chinese exports) to continue unabated.\(^83\) While this relationship may benefit both parties in the short-term, Arrighi argues that ‘adjustment will inevitably result in a further decrease of US command over world economic resources, a reduction of the weight and centrality of the US market in the global economy, and a diminished role for the dollar as international means of

\(^78\) Despite widespread fears about the impact of China’s rise on Southeast Asia in particular, ASEAN’s exports to China continue to grow. Dominic Ziegler’, Reaching for a renaissance: A special report on China and its region’, The Economist, 31 March 2007.


\(^80\) By contrast, Japan has been reluctant to open up its domestic market, something that has undermined its regional leadership ambitions and heightened concerns about the impact of its neo-mercantilist policies. See, Walter Hatch, and Kozo Yamamura Asia in Japan’s Embrace: Building a Regional Production Alliance (Cambridge: Cambridge University Press, 1996).

\(^81\) The Economist, 14 April 2007, p. 87.

\(^82\) Neil C. Hughes, ‘A trade war with China?’ Foreign Affairs, 84 (2005), p. 94.

\(^83\) International Herald Tribune, 9 March 2007.
payment and reserve currency’. China’s growing immunity to American economic leverage has been clearly revealed by the latter’s failure to engineer a devaluation in the yuan. The concern expressed by policymakers in the US about the investment strategies of China’s rapidly expanding sovereign wealth funds and their desire to invest in ‘American’ financial assets is also indicative of China’s growing economic influence.

**The limits to Chinese power**

But while China’s power is growing, it should not blind us to clear short- and long-term constraints on its position. On the one hand, China cannot risk exploiting the potential structural leverage that its massive dollar holdings appears to confer, lest it trigger a crisis in which it would be a major victim. This possibility has become especially relevant following recent turmoil in global financial markets, to which China was exposed, but which had their origins in the US – something that may further erode the long-term position of the American economy. On the other hand, however, it is important to remember that the very fact that China has become such a key player in global trade networks and financial markets is testimony to two enduring, under-appreciated, structural and institutionalised aspects of American hegemony. First, the continuing size of the American economy, the importance of its domestic market, and (thus far, at least) the centrality of its financial institutions, mean that the US continues to benefit from its entrenched position and dominance. According to some observers, ‘financial markets have played a directly imperial role [making] it possible for the American economy to attract global savings that would otherwise not be available to it’. While there is evidence that even here American dominance may be threatened, it remains a formidable force in which even profligacy and indebtedness may paradoxically be sources of strength.

The second aspect of American power that has been decisive as far as US-China relations are concerned is institutional and reflects its continuing influence over the IFIs. The fact that China has effectively abandoned socialism in all but name, and sought to join a capitalist economy dominated by the US is a ‘victory’ of long-term

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84 Arrighi, ‘Hegemony’, p. 70.
86 The establishment of the China Investment Corporation with $200bn to invest is indicative of this potential, as was China’s $3bn investment in the initial public offering of Blackstone, a US private equity group. See *Financial Times*, 29 July 2007.
87 This is clearly something the Chinese authorities are aware of themselves. See, *Financial Times*, 16 March. It is also precisely the same situation Japanese policymakers confronted in the 1980s and ‘90s, but which they conspicuously failed to act upon. See R. T. Murphy, ‘East Asia’s dollars’, *New Left Review*, 40 (2006), pp. 39–64.
90 There is now a very real prospect that New York’s position as the centre of global finance will be overtaken by London, something that could further erode both the influence of Wall Street and the importance of the US dollar. See, Merrill Stevenson, ‘Britannia redux: A survey of Britain, *The Economist*, 1 February 2007.
historic significance as far as the US is concerned, albeit one that seems strangely unrecognised in the debates about the ‘China threat’. The symbolic and practical culmination of this process was China’s accession to the WTO, which involved agreeing to protocols and provisions which ‘far surpass those made by the founding members’. At one level, then, there is a seemingly unambiguous confirmation of continuing American hegemony and its long-term ability to shape the international system according to its preferences that compels rivals to comply. And yet, the alacrity with which China has adapted to the new order, its ability to ‘work the system’, especially when combined with America’s recent unilateralism and loss of legitimacy, all suggest that such ascendancy is not inevitable or immune from challenge.

Having apparently vanquished socialism, American policymakers find themselves embroiled in a competition to define the nature and governance of capitalism itself. China’s less doctrinaire approach to development, to say nothing of the US’s own incipient mercantilism, both mean that the ascendancy of neoliberalism is far from assured: the emerging, intensified resource competition between the US and China – now established as the first and second greatest consumers of oil and energy respectively – has exposed the limits of American’s commitment to market forces, and reinforced China’s determination to shore up its own position through activist diplomacy and long-term economic links.

To some extent the US has been here before: for much of the 1980s and even into the 1990s, Japan looked set to eclipse the US economically. Ironically, Japan was also able to benefit from the overarching geopolitical and institutional order the Americans played such a large part in creating. In Japan’s case the challenge ultimately fizzled out, largely as a consequence of its own political and economic failings. But this time the challenge looks more formidable. All things being equal, China looks set to overtake the US in the next decade or two as the world’s largest economy and reinforce its growing economic and political importance to the region, to say nothing of the rest of the world. In China’s case, though, its ascendancy is not likely to be halted by its own faltering ambitions or inept diplomacy, but by political crisis and the simple carrying capacity of the planet.

The legitimacy of China’s political leadership is increasingly dependent on economic development, which while it has been spectacular, remains surprisingly brittle. In addition to the social impacts noted above, concerns have been expressed about the stability of the banking sector, particularly given its role as a source of continuing credit for under-performing state-owned enterprises. The ability of the

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95 In a revealing example of American attitudes, the US government refused to allow the take-over over Unocal, by China’s state-owned oil company CNOOC on national security grounds. See, Francis Schortegen, ‘Protectionist capitalists vs capitalist communists: CNOOC’s failed Unocal bid in perspective’, *Asia Pacific: Perspectives*, 6 (2006), pp. 2–10.
Chinese economy to generate sufficient jobs for its still growing population remains a central concern of a government that has a greater notional commitment to the welfare of the proletariat than its American counterpart does.\footnote{Murray S. Tanner, ‘China rethinks unrest’, \textit{Washington Quarterly}, 27 (2004), pp. 137–56.} More fundamentally, perhaps, China’s transition from socialism to capitalism has been complicated and compromised by an absence of the sort of state capacity that made Japan’s earlier development so successful and sustained,\footnote{For an insightful discussion of China’s modest state capacity in comparison with other parts of East Asia, see Thomas G Moore, \textit{China in the World Market: Chinese Industry and International Sources of Reform in the Post-Mao Era} (Cambridge: Cambridge University Press, 2002).} and by an even greater reliance on patronage, corruption and the maintenance of ‘circles of compensation’ as a consequence.\footnote{This was how similar patterns of inter-locking, mutually-satisfying political, bureaucratic and business elites were described in Japan, a country that highlights all that can go right and wrong with the developmental process. See, Kent E. Calder, \textit{Crisis and Compensation: Public Policy and Public Stability in Japan} (Princeton, NJ: Princeton University Press, 1988).} Indeed, Minxin Pei’s gloomy, but well-grounded conclusion is that political transition will be difficult if not impossible in China, as ‘rapid short-term economic growth may have a perversely negative impact on democratisation because it provides all the incentives for the ruling elites not to seek political liberalization’.\footnote{Minxin Pei, \textit{China’s Trapped Transition: The Limits of Developmental Autocracy} (Cambridge, MA: Harvard University Press, 2006), p. 207.}

The final reason for questioning China’s ability to continue on its current trajectory and establish itself at the centre of East Asian affairs is the most fundamental and potentially the least remediable. China’s seemingly insatiable appetite for resources, and energy,\footnote{David Hale, ‘China’s Growing Appetites’, \textit{The National Interest}, 76 (2004), pp. 137–47. But some observers remain broadly optimistic that China can manage its energy dependence if it can achieve effective reform and international integration. See, Tatsu Kambara and Christopher Howe, \textit{China and the Global Energy Crisis: Development Prospects for China’s Oil and Gas} (Edward Elgar, 2007).} which has been such a key part of its developmental project, may prove increasingly difficult to satisfy – its pro-active diplomatic efforts to secure future supplies notwithstanding. Even more importantly, the attitude of generations of political elites who have seen the natural environment as something to be systemically exploited, has meant that its own environment has been devastated, to a point where ‘China’s environmental problems now have the potential to bring the country to its knees economically’.\footnote{Elizabeth C. Economy, \textit{The River Runs Black: The Environmental Challenge to China’s Future} (Ithaca, NY: Cornell University Press, 2004), p. 25.} The environment is already so degraded that it has generated social disturbances among a population whose lives are being cut short, and whose access to basic amenities like safe drinking water is increasingly insecure.\footnote{\textit{The Guardian}, 17 August 2006.}

Concluding remarks

The idea that a form of hegemonic transition might occur in East Asia is unlikely for a number of reasons. First, it is clear that China is not yet – and possibly may never
be – in a position to replace the US as the dominant power in the region. Not only does China still lack some of the requisite material strengths of the US, but – the ‘Beijing consensus’ notwithstanding – its lacks a distinctive vision or ideology around which supportive states might coalesce. Indeed, other than break-neck industrialisation and development, China’s ruling elite lacks a legitimating discourse with which to win the support of its own people, something that leaves the current regime highly vulnerable to economic downturn. And yet it is also clear that China has rapidly reasserted itself at the centre of a more coherent and integrated East Asian regional order, and that its neighbours, whether they like it or not, are increasingly dependent on China for their own well-being and development. In such circumstances, China is beginning to enjoy a degree of ‘structural’ power of a sort that has until recently been predominantly associated with the US. At one level, then, ‘hegemony’ is an enduring function of material power and economic strength, and not necessarily reliant on the active ‘leadership’ of the dominant power. In reality, it may be an attribute attached to more than one power and persist despite, rather than because of specific foreign policy initiatives. Indeed, as John Agnew argues, as far as the international political economy is concerned ‘empire American-style may be largely irrelevant to the world-in-the-making of hegemony without a hegemon’.107

The United States’ relationship with East Asia illustrates this second possibility. The US continues to benefit from the complex array of IFIs and security relations it helped establish in the aftermath of the Second World War, despite the fact that its recent foreign policy has undermined the efficacy of some of these selfsame institutions, and undermined support for, and the legitimacy of, many of its own foreign policies as a consequence. And yet, despite the apparent durability of American leadership, its relationship with East Asia generally and China in particular, suggest that this dominance is declining and may be less substantial than it appears. America’s frequently noted ‘unipolar’ position and the strategic primacy that underpins it,108 is highly dependent on East Asian capital for its continuation. Simply put, the American economy could not operate in the way it does, nor could the US pursue the sorts of foreign policies it would like, without massive inflows of capital from East Asia. It is possible, of course, that a new administration will overhaul America’s financial position as the Clinton administration did, and make the US less dependent on foreign lenders. But the fact remains that its long-term position vis-à-vis East Asia is declining, while China’s steadily improves.

Such a conclusion may be uncontroversial, but it is not entirely satisfying. The complexity of the interaction between the ‘American’ and ‘Chinese’ economies also serves as a powerful reminder that, in the absence of outright military conflict, these sorts of nationally-focused analyses fail to capture the increasingly integrated, interdependent nature of the economic relationship. Not only does the nature of contemporary trade and investment relations make them resistant to easy management in the national interest,109 but the very nature of the ‘national interest’ itself is increasingly contested and recognised to be a socially-constructed artifact at the

boundary of domestic-international relations. But thus far, at least, there is little
evidence to support the idea of a transnational class pursuing a putative common
interest as a consequence of such interactions. Despite China’s growing participation
in some of the most important international institutions of capitalist governance, the
underlying reality for China, as it is for the US, is that such agencies are used
instrumentally and in pursuit of predominantly nationally-inspired agendas—no
matter how unrealisable or inappropriate such agendas may be at times.

Such theoretical niceties are hardly likely to interest or inhibit policymakers, of
course. But it is not simply the complex nature of the global economy that is likely
to render older ideas of national dominance, if not hegemony, redundant. It has
rapidly become apparent that the natural environment is a ‘security’ issue of the first
order, one that threatens to derail China’s continuing development, and one that
is necessarily resistant to exclusively nationally-based solutions. Unfortunately, there
are signs that China is trying to follow the Japanese model, exploiting the regional
environment as a way of sparing its own. Such policies are not likely to be either
environmentally or politically sustainable in the long-term. Bleak as the prospects for
environmental sustainability in either China or East Asia currently are, they
highlight the limits of realist analysis: a zero sum scramble for rapidly diminishing
resources will only favour the strong for slightly longer than the weak. The only
‘realistic’ response to looming environmental crisis is one that involves admittedly
unlikely forms of cooperation in a region that is synonymous with fiercely protected
sovereignty. The ability of China’s leaders to transcend national imperatives and
provide regional leadership on this issue will truly be a test of their hegemonic
aspirations.

110 James N. Rosenau, Along the Domestic-Foreign Frontier: Exploring Governance in an Turbulent
112 See, Peter Dauvergne, Shadows in the Forest: Japan and the Politics of Timber in Southeast Asia
113 The Independent, 19 October 2005.
114 Paul Harris, Confronting Environmental Change in East and Southeast Asia: Eco-politics, Foreign
Policy, and Sustainable Development (UN University Press, 2005).