



Avoiding the Thucydides Trap Through Interdependence Between the United States and China

Kojima Akira, Member, Board of Trustees, and Adjunct Professor, National Graduate Institute for Policy Studies (GRIPS); Trustee, Chairman of the World Trade Center Tokyo

The United States, China and Japan are the world's three great economic powers. Of the three, China stands out with its rapid economic progress. Under President Xi Jinping, who solidified the system of unrivaled strength through the National Congress of the Communist Party of China in October 2017, China adopted the slogan of building a strong nation toward the 100th anniversary of its founding in 2049. The country is aiming to stand at the top of the world in every field. China overtook Japan in terms of gross domestic product (GDP) in 2010. The country is set to pass the United States in terms of GDP next.



Kojima Akira, Member, Board of Trustees, and Adjunct Professor, National Graduate Institute for Policy Studies (GRIPS); Trustee, Chairman of the World Trade Center Tokyo

Concerns have been voiced that a struggle for hegemony between the United States, the current hegemon, and China, a nation that is rapidly raising its head, may lead to a war under such circumstances. In particular, an argument by Harvard University Professor Graham Allison about an iron law of history in which hegemons clash with rising nations is attracting global attention. It is the argument about the so-called Thucydides Trap and relates to the lessons of history in which conflicts occurred from the double causes of the overconfidence of an emerging nation and the fears of the hegemon. The Peloponnesian War in ancient Greece that resulted from the feeling of fear that Sparta, the hegemon, had for Athens, which had risen suddenly, symbolizes such conflicts.

Professor Allison notes that his theory about the Thucydides Trap applies to 12 of a total of 16 struggles for hegemony that occurred in the last 500 years based on his own analysis of those conflicts.

As a counterargument for this view, Funabashi Yoichi cites an argument about failed succession made by Joseph Nye, another Harvard University professor. Professor Nye attributes the confusion of the world order to delays in the replacement of the hegemon by its successor and the transfer of hegemony. According to Professor Nye, a mismatch in the forms of intentions and no capacity on the part of Britain and capacities and no intention on the part of the United States occurred and caused the international system to collapse when the United States, an emerging nation, replaced Britain, the hegemon at that time.

So what will happen to the United States and China? President Donald Trump of the United States, who has adopted the slogan “America first,” appears to favor the surrender of global leadership. In the meantime, Xi Jinping has cautioned against US protectionism, emphasized the importance of free trade and acted as if China were the leader of free trade at the Davos Conference in January 2017. However, the greatest concern for the current Chinese leadership is domestic governance. The leadership is not showing a strong attitude of aggressively offering so-called international public goods.

Regarding the arguments about the lessons of history, the author would like to point out that the rapidly strengthening relationship of interdependence in the field of the economy has been a noticeable trend between the United States and China in recent years. Economic growth led by exports and investment is continuing in China. Structural reform for centering China’s economy on consumption has been discussed, but the conversion will take time. The US market has life-or-death importance for China while the conversion is in progress. China is warning against US protectionism for a practical reason.

The Chinese market is important for the United States as well. A considerable portion of the profits made by General Motors (GM) comes from its businesses in China. There are many other US companies operating in China. Those US companies are exporting goods to and importing products from the United States. In terms of business scale, their operations account for more than 10% of China’s total imports from the United States and 3% of the country’s total exports to the United States.

The scale of US government bonds owned deserves greater attention than trade. China owns more than 1 trillion dollars worth of US government bonds. China is the largest owner of US government bonds in the world. US government bonds owned by

China rose rapidly in value after the collapse of Lehman Brothers in 2008. Their strong growth enabled the United States to ease a historic financial crisis. The heavy decline of the US dollar, sharp rises in US interest rates, a bond crash and other phenomena will occur if and when China sells US government bonds in bulk. Such consequences will mean a loss in the value of US. dollar assets for China as well. It will hurt both the United States and China.

In fact, Henry Paulson, the US Secretary of the Treasury at the time, had telephone conversations with Chinese Vice Prime Minister Wang Qishan and Governor Zhou Xiaochuan of the People's Bank of China and secured their promise that China would not sell US government bonds and bonds issued by US government-managed institutions at the time Lehman Brothers collapsed. There is also an episode in which a Japanese government leader played a card noting that the government might sell US government bonds, withdrawing that card immediately after upsetting the markets in the 1980s when economic and trade friction between Japan and the United States was severe.

There is an argument over nuclear weapons called mutual assured destruction. We may be able to refer to the relationship of financial interdependence between the United States and China as the financial version of mutual assured destruction.

Personal exchanges are also important. The number of students from China in the United States totaled around 70,000 in 2000. Their number passed 300,000 in 2014 and continues to grow.

Looking at the research partners of the United States, China leads all other nations in the fields of chemistry, material science, computers, mathematics, engineering, the environment, earth science and basic life science. Germany, South Korea, Britain and Canada are behind China in second and third places. Japan is not among the top three US research partners in any field. (These rankings are based on the number of papers written by US researchers with their counterparts in other countries from 2013 to 2015.)

Japan-US economic friction was severe in the 1980s and the early 1990s. A public opinion poll conducted by the Chicago Council on Global Affairs in 1986 produced the result that the "economic threats from Japan is a problem that is more serious for the United States than military threats from the Soviet Union." Books with provocative titles like *The Imminent U.S.-Japan War* appeared around that time. Discussions about threats from Japan became all the rage. Factors including a sudden rise in US trade

deficits, the fall of the United States to a net debtor nation, and trade deficits with Japan equaling half of total US trade deficits comprised the background of the frictions between the two countries.

Current US trade deficits are seven times larger than they were in those days. The country's trade deficits expanded from 109,300 million dollars in 1989 to 734,300 million dollars in 2016. Under these circumstances, President Trump rejected multilateral negotiations and began emphasizing bilateral negotiations in trade policies, saying that it is fair trade, not free trade, that is important.

The structure of US trade deficits has changed substantially compared with the days when Japan-US trade friction was at its peak. Deficits with China account for nearly half of all US trade deficits today. In the meantime, deficits with Japan, which used to account for half of the total of US trade deficits, have fallen to less than 10%. Moreover, the number of automobiles exported by Japan to the United States decreased from 3,430,000 units in 1986 to 1,730,000 units in 2016. In the meantime, the number of Japanese cars produced in the United States increased rapidly, from 420,000 units to 3,970,000 units. This means that two thirds of Japanese automobiles purchased by US citizens are those made in their own country. As a result of these changes, talk of threats from Japan has died out completely in the United States.

Of course, the prolonged slump of the Japanese economy lies in the background of such changes. However, interdependence between Japan and the United States, which is certainly growing, is also an important reality.

Discussions about threats from China have gathered strength in the United States. Books with sensational titles, such as *If the United States and China Take up Arms Against Each Other*, have appeared in the country. However, interdependence is growing steadily between the United States and China in the field of the economy. The relationship of interdependence is expanding between Japan and China as well.

Often discussed in recent years, the so-called G-Zero world is a leaderless world. Discussions about the G-Zero world are connected to discussions about what Professor Joseph Nye called the mismatch of capacity and intention as the hegemon. I think that we should now pay attention, and attach importance, to the actual situation of growing interdependence. The confirmation of the economic version of mutual assured destruction as a reality and reliable discussions of fields where cooperation and collaboration are possible or should be realized appear to be tasks that lie ahead of the

major powers.

There are people in Japan who advocate action against China along the lines of the containment policy in the Cold War era as a security measure. However, containment is really an anachronism in a period of deepening interdependence.

I would propose that Japan, the United States and China seek tripod relations in their trilateral relationships by finding fields for cooperation and collaboration, instead of the triangular situations of confrontation and tension, because three legs make a table extremely stable in all conditions.

Translated from an original article in Japanese written for Discuss Japan. [November 2017]

KOJIMA Akira

Member, Board of Trustees, and Adjunct Professor, National Graduate Institute for Policy Studies (GRIPS); Trustee, Chairman of the World Trade Center Tokyo

Born in 1942. Graduated from Waseda University and joined the Nihon keizai shimbun (Nikkei) newspaper. Served as Managing Director and Chief Editorialist of the Nikkei and Chairman of the Japan Center for Economic Research (JCER). He is presently a member of the Trilateral Commission; Vice-chairman for the Foundation Council, Japanese-German Center Berlin; Councilor of the Aspen Institute, Japan; and Chairman of the World Trade Center Tokyo. His publications include *A New Development Model for Japan: Selected Essays 2000–2008*, *Chosei no jidai* (An Era of Adjustment) and *Nihon no sentaku* (Japan's Choice). He earned the Vaughan-Ueda Prize in 1988 and the Japan Press Club Award in 1989.
