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The prospects for a Great Power 'grand bargain' in East Asia

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The future shape and form of the East Asian regional order presents one of the most pressing concerns for Australian strategic policy planners and analysts, who have also contributed significantly to associated regional and international debates and policy initiatives.¹ Ultimately, strategic efforts are defined by their ultimate 'big picture' goals. From the broad perspective of cultivating regional order in East Asia, one key goal must be to forge a feasible and sustainable 'grand bargain' among its resident great powers.

For at least the last two-and-a-half decades, East Asia has been plagued by multiple uncertainties, especially regarding the economic and security implications of China's resurgence and the durability of US preponderance and leadership in the region. The latter is currently the greatest of these 'unknown unknowns' following Donald Trump's occupation of the White House in 2017. Moreover, these questions sit alongside other important enduring regional uncertainties, particularly Japan's 'abnormal' military condition, North Korea's nuclear capabilities and the divisions between the two Koreas and between Taiwan and the mainland. In recent years, key voices on both the Chinese and US sides especially have mooted notions

1 A slightly different version of this chapter was first published as Evelyn Goh, 'Is a "grand bargain" the way forward in North-East Asia?', *Global Asia*, Winter 2016, pp. 58–65.

of closer collaboration and joint great power management in response to these multiple uncertainties—for instance, the idea of Washington and Beijing acting as a ‘G2’ to tackle global problems, or President Xi Jinping’s concept of a ‘new model of major power relations’ with the United States. But the necessary foundation for any such strategic collaboration must be new fundamental mutual agreements between the United States, China and other major East Asian states. In this vein, a number of scholars and analysts have begun to discuss more seriously the prospects for negotiating ‘grand bargains’ of one type or another that might help to ease these uncertainties by creating the foundation for a stable new regional order. There are two notable examples.

First, in 2012, Hugh White published a subsequently much-debated book, *The China Choice*, calling for Washington to share power seriously with Beijing and suggesting that this should take the form of a new concert of powers involving the United States, China, Japan, India and possibly Indonesia. The book pays more attention to making the case for why this radical choice for accommodation is necessary than how it should be put into practice; however, in a small section, White lists seven ‘essential understandings’ that the two sides must agree upon. In essence, these would be the basis for a new grand bargain between them. The list focuses on mutual legitimacy: treating each other as equals, recognising each other’s domestic political systems, respecting each other’s national interests and right to develop armed forces sufficient to defend them, committing to resolve differences peacefully, agreeing on the norms of legitimate conduct, mutual willingness to counter attempts to dominate, and ensuring the ability to sell this to domestic audiences.² White does not provide more substantive explanations for what the power-sharing bargain between the United States and China might look like, but the one controversial condition he does mention is that a regional concert would have to include a more ‘normal’, independently militarised (and nuclear-armed) Japan.

The second example is Charles Glaser’s 2015 argument that the United States ought to adopt vis-à-vis rising China a ‘limited geopolitical accommodation to avoid conflict’.³ He specifically proposes that Washington should negotiate a ‘grand bargain’ that would trade the

2 Hugh White, *The China Choice: Why America Should Share Power*, Black Inc., Melbourne, 2012, pp. 137–41.

3 Charles L. Glaser, ‘A US–China grand bargain? The hard choice between military competition and accommodation’, *International Security* 39, no. 4, 2015, p. 49.

cessation of the US commitment to defend Taiwan in exchange for China's peaceful settlement on 'fair' terms of its territorial disputes in the East and South China Seas and Beijing's official acceptance of the US military security role in East Asia, including its alliances and forward deployment. He argues that such a grand bargain would not be neatly symmetrical, but could be acceptable if the two sides can agree to 'trade across multiple issues, making both sides better off, but not necessarily equally'.⁴

Apart from generating much polemical controversy, both of these examples help to advance the debate on US strategy towards contemporary China if only by forcing us to consider more seriously the terms under which a scenario of 'negotiated change' (as opposed to a war-torn power transition) might occur.⁵ In this sense, the debate these works aimed to fuel is about the content of a putative grand bargain between the United States and China.

To contextualise the debate about a possible new grand bargain for the analytical and policy challenges of strategic diplomacy in North-East Asia, I offer three entry points for discussion in what follows. First, I discuss the comparative advantages of adopting a grand bargain framework to understanding how a new regional order may be negotiated. Second, with the reminder that prior strategic bargains already exist in the wider Asia-Pacific region, I consider how these pre-existing bargains could interact with the proposals for a new grand bargain. Finally, I briefly review some recent key Chinese ideas about such bargains to highlight the obstacles and opportunities faced by strategic diplomats seeking to broker a new grand bargain in East Asia.

The 'grand bargain' approach

At its most basic, a grand bargain between two states may be understood in a contractual fashion: it consists of a bundle of agreements by which state X gives up something of significant strategic value to itself in exchange for state Y committing to something that is of equal or greater strategic value. The overall purpose would be to bring about more clarity and predictability vis-à-vis their goals and interactions.

4 Ibid., p. 79.

5 For an earlier analysis of negotiated change scenarios compared to power transition, see Evelyn Goh, 'The US-China relationship and Asia-Pacific security: Negotiating change', *Asian Security*, 1, no. 3, 2005, pp. 216-44.

A 'grand bargain' is based on the notion that coexistence among states (and especially major powers) is built upon reciprocal commitments, or fundamental political compromises, which allow some form of strategic exchange and interdependence to develop. Between great powers, grand bargains in their most advanced form must entail some form of negotiated constraints to their exercise of power. Grand bargains basically involve implicit or explicit agreement about the mutually acceptable terms on which peaceful relations can be conducted. These include understandings about recognition and status, mutual rights and responsibilities, mutual spheres of influence, terms of exchange and conditions of restraint. It is on this basis that scholars sometimes argue that the United States and China, or China and Japan, will need to negotiate a grand bargain between themselves and even with other key states in East Asia for regional security and stability to prevail.⁶

In general, the big advantage of a 'bargain' approach to understanding and influencing great power relations is its innate relationality: the reciprocal and transactional assumptions underpinning bargains obliges us to examine and try to reconcile the preferences, goals and tactics of each of the parties involved. This sits in contrast to the one-sided notions of containment or appeasement that often seem to dominate debates about how to respond to China's rise, for example. Thinking about bargains involves taking seriously what the other side wants and values. Moreover, a grand bargain approach helps us to grasp the complexity of international orders. On the one hand, it connotes linkage across issue areas (as Glaser suggests). But it also crucially entails a systemic perspective beyond bilateral relationships; for instance, a grand bargain lens should additionally allow us to probe the broader regional and historical contexts that clearly affect the attractiveness, viability and scope of any putative new US–China bargain.

6 See Evelyn Goh, 'Japan, China, and the Great Power bargain in East Asia', East Asia Institute Fellows Working Paper Series no. 32, November 2011, www.eai.or.kr/data/bbs/eng_report/2011103118375220.pdf (retrieved 29 January 2018). The key related approaches on institutional bargains, peace settlements and social compacts are respectively G. John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of International Order after Major Wars*, Princeton University Press, Princeton, 2001; Ian Clark, *The Post–Cold War Order: The Spoils of Peace*, Oxford University Press, Oxford, 2001; and Evelyn Goh, *The Struggle for Order: Hegemony, Hierarchy and Transition in Post–Cold War East Asia*, Oxford University Press, Oxford, 2013.

From such a starting point, we may identify at least two issues critical to the possibility of a grand bargain in contemporary East Asia: the effects of existing strategic bargains, and Chinese notions of the acceptable terms for a bargain with the United States. Both these issues affect how desirable proposals for grand bargains like White's and Glaser's might be from the points of view of China and crucial US allies in the region.

Strategic bargains in the status quo ante

Strategic bargains form the sinews of international order, and while they are most likely to be struck at critical junctures such as following crises or wars, once struck they do not simply disappear but continue to evolve and might be renegotiated. As such, anything we may propose in the contemporary setting would in fact be a new grand bargain between the United States and China. It would not be created from scratch, because the status quo ante is already marked by a series of 'grand', regional, trilateral and bilateral bargains. This is a fundamentally important point—it shows that Washington and Beijing (and other East Asian states, for that matter) have been and are capable of striking bargains. But this understanding also presents constraints for any new proposed bargain because it will involve revising or renegotiating previous, disintegrating or continuing bargains between the United States and China, and between them and Taiwan as well as Japan.

The most important systemic context for a new bargain is the post–Cold War economic security grand bargain between China and the United States. The economic side of this bargain is crucial but undergoing a difficult transformation. In simple terms, the bargain is based on intensified interdependence underpinned by the US dollar as the world's reserve currency. Like other supporter states, China has gained access to the US market in exchange for its undervalued currency, which in turn supports massive US state spending. Essentially, this is a bargain that China and other key lenders and exporters keep accumulating US dollars while the United States keeps consuming foreign goods and services.⁷ As Michael Mastanduno argues, this grand systemic bargain has been fatally undermined by the global financial crisis, which will force

7 Michael Mastanduno, 'System maker and privilege taker: US power and the international political economy', *World Politics*, 60, no. 1, 2009, pp. 121–54; Steve Chan, *Looking for Balance: China, the United States and Power Balancing in East Asia*, Stanford University Press, Stanford, 2012.

the United States to eventually draw down domestic consumption and borrowing, and consequently also reduce its tolerance for China's export-led growth strategy. In parallel, since the crisis, China has redoubled its focus on developing its domestic consumer market, and tried to diversify its foreign reserves holdings away from overdependence on US dollars. Both these trends are reducing their mutual interdependence, and, as their 'special economic relationship' becomes less special, so too will their mutual strategic restraint be dampened and their security relationship further strained.⁸ Given this trend, China's incentives to strike a new asymmetrical bargain with the United States, like the one Glaser suggests, are unclear.

On the security side, any new US–China grand bargain would have to grapple with another central but disintegrating previous bargain. During the Cold War, the East Asian order was underpinned by the alliance between the United States and Japan in which Washington extended its security umbrella over Tokyo in exchange for Japan's disarmament, pacification and guaranteed alignment with the 'free world'. In effect, this bargain saw the United States stepping into the breach between Japan and China as an 'outside arbiter play[ing] a policing role'. By making Japanese defence dependent on itself, the United States extended a 'dual reassurance', simultaneously guaranteeing China and Japan their security against each other, obviating the need for them to engage in direct security competition.⁹ After 1995, the revitalisation of the US–Japan alliance based on Japan playing a more active regional and global military role seemed to undermine Washington's ring-holding ability between Japan and China. Beijing began to regard the US–Japan alliance less as a means to constrain than to facilitate Japan's remilitarisation, a view reinforced by the central role of the alliance in the more recent US 'rebalance' to Asia.¹⁰ There is also a growing view within China that the United States used the cover of the alliance to 'illicitly transfer' sovereignty over the Senkaku/Diaoyu Islands to Japan during the 1970s.¹¹

8 Michael Mastanduno, 'Order and change in world politics: The financial crisis and the breakdown of the US–China grand bargain', in *Power, Order and Change in World Politics*, ed. G. John Ikenberry, Cambridge University Press, Cambridge, 2014, pp. 162–91.

9 Thomas J. Christensen, 'China, the US–Japan alliance and the security dilemma in East Asia', *International Security*, 23, no. 4, 1999, p. 50; Hugh White, 'Why war in Asia remains thinkable', *Survival* 50, no. 6, 2008–09, pp. 85–104.

10 For a fuller explanation of this shift, and how Sino-Japanese normative tensions feature within it, see Goh, *Struggle for Order*, Chapter 5.

11 Amy King, 'Where does Japan fit in China's "new type of great power relations"?', *Asian Forum*, 24 March 2014.

Using the lens of these disintegrating existing strategic bargains highlights the major unresolved sticking point of Japan's increasingly contested role in the regional order. While Glaser does take Japan into account, his main concern is whether ending the US defence commitment to Taiwan will negatively affect the credibility of the US alliance with Japan.¹² But the US–Japan alliance has already changed in character—and from China's point of view to the detriment of a previous bargain. Thus, any proposed new Sino–American bargain that takes the US–Japan alliance as a constant while asking both China and Japan to make concessions in their territorial disputes is unlikely to be acceptable. Many Chinese no doubt would prefer to continue to characterise Japan as a second-rate 'American lackey', but increasingly under President Xi Jinping's 'striving for achievement' strategy, these two allies are being differentiated, with the United States viewed as China's only strategic competitor and Japan as one of its key 'hostile countries'.¹³ Against this background, the assumption that Japan's 'normalisation' is an inevitable prerequisite for regional power-sharing is too casual. Arguably, there is now more than an unintentional security dilemma between China and Japan,¹⁴ and their growing conflicts of interest and nationalism are likely to create an insecurity spiral that will undermine the prospects for a US–China grand bargain that involves any compromise between China and Japan.

Pre-existing and evolving bargains also surround the issue of Taiwan that is central to Glaser's proposed strategy of territorial accommodation. On Taiwan, China and the United States achieved a limited bargain during the 1979 normalisation based on the principle of 'one China'. Beijing was accorded diplomatic recognition and authority over all China, and Washington recognised that Taiwan is part of China and relinquished the right to encourage Taiwanese independence (although not its right to sell arms to Taiwan). While they agreed on the peaceful means of resolving the problem, they disagreed on the necessity of reunification as the eventual outcome.¹⁵ Since then, China and the United States have each tried to negotiate alternative bargains with Taiwan, partly to stabilise

12 Glaser, 'A US–China grand bargain?', p. 77.

13 Yan Xuetong, 'From keeping a low profile to striving for achievement', *Chinese Journal of International Politics* 7, no. 2, 2014, p. 170.

14 Adam P. Liff and G. John Ikenberry, 'Racing toward tragedy? China's rise, military competition in the Asia Pacific, and the security dilemma', *International Security* 39, no. 2, 2014, pp. 52–91.

15 See Richard C. Bush, *At Cross Purposes: US–Taiwan Relations since 1942*, M.E. Sharpe, Armonk, 2004; Nancy Bernkopf Tucker, *Strait Talk: United States–Taiwan Relations and the Crisis with China*, Harvard University Press, Cambridge, MA, 2009.

the remaining ambiguities of the status quo ante. The rival models come across clearly in an illuminating exchange between a Chinese and an American scholar, Jia Qingguo and Alan Romberg.¹⁶ Beijing's offer is in the form of the 'one country, two systems' track of reunification, whereby Taiwan would trade independence for the preservation of its separate political system (exactly how is unspecified) and even control of its own armed forces.¹⁷ The current US bargain with Taiwan aims at preserving the status quo, exchanging the US defence commitment and arms sales for Taiwan's 'three nos' to war, unification or independence. Ceasing US defence for Taiwan as Glaser suggests will mean not only withdrawing the US bargain but also making the Chinese one unnecessary, thus changing the potential terms of reunification. Understanding this context is important because it suggests that while Taiwan is central to China's security and national identity, Beijing might not place as high a value on potential US accommodation on this issue as Glaser suggests. Within the Chinese discourse, there is grave doubt anyway about whether the 'Taiwan card' is really that powerful any more in the relationship with the United States, given that China thinks that time is on its side.¹⁸ Thus, while accommodation on Taiwan is essential, it is unlikely to be sufficient to make Glaser's grand bargain acceptable to the Chinese.¹⁹

16 Qingguo Jia and Alan D. Romberg, 'Taiwan and Tibet', in *Debating China: The US-China Relationship in Ten Conversations*, ed. Nina Hachigian, Oxford University Press, New York, 2014, pp. 176–97.

17 Ibid., p. 181. On this 'paradigm of persuasion' adopted by the Ma Administration after 2008, see Richard C. Bush, *Uncharted Strait: The Future of China-Taiwan Relations*, Brookings Institution Press, Washington, DC, 2013.

18 Pan Fei, 'Zhongmei zai yatai diqu de zhanlue hudong yu Obama zhengfu de duitai zhengce' [Sino-American strategic interaction in the Asia Pacific and the Obama Administration's Taiwan policy], *Taihai Yanjiu* [Taiwan Straits Studies], February 2015, pp. 76–84; Robert Sutter, *Taiwan's Future: Narrowing Straits*, National Bureau of Asian Research Analysis, May 2011.

19 There is of course a deeper problem here in the tendency to objectify actors and political entities in the region to the extent that would support assumptions that issues, territories and peoples may be horse-traded in a fungible manner. This problem is echoed in other suggestions—for example, that the United States might cut a bargain with China by 'foreswearing any intervention in a Sino-Japanese conflict over the [Senkaku] islands in return for Chinese commitments to work on a legally binding code of conduct for the South China Sea dispute, or increased efforts to get North Korea to reduce or even eradicate its nuclear arsenal' (William Choong, 'The ties that divide: History, honour and territory in Sino-Japanese relations', Adelphi 445, International Institute for Strategic Studies, London, 2014).

Regional and Chinese ideas about strategic bargains

Within China, a debate is growing slowly but steadily in the transition away from Deng Xiaoping's *taoguang yanghui* policy of biding time to develop comprehensive national power towards questions of what kind of great power China should be and whether China ought to support or challenge the existing order. But this is still a gradual awakening, and, without more coherence in narrowing down the parameters of this struggle for identity, power-sharing with the United States cannot be an option seriously favoured by opinion leaders against the backdrop of growing popular nationalism within China. Other countries in East Asia, meanwhile, either sustain national security identities that feed upon the assurance of continued US primacy, ground their national security strategies upon at least some degree of US–China rivalry, or seek to retain some strategic autonomy by forestalling great power domination. For all three reasons, any new bargain premised upon a potential US–China condominium is distasteful. Looking beyond North-East Asia, in South-East Asia, it is hard to imagine effusive support for the concert of great powers White suggests, which would by definition exclude the majority of these small states. This was already evident in the Association of Southeast Asian Nation's (ASEAN) successful attempts to undermine an earlier Australian initiative to construct a major power-centred Asia-Pacific Community. Once again, picking out Indonesia as a subregional power only elicits alarm and resistance from this collection of states, which have expended so much political and institutional effort to create for ASEAN a 'driving seat' in regionalism precisely to avoid great power dominance that would undermine their autonomy.

Returning to North-East Asia, the ideational, domestic political and strategic complexities that many scholars so vividly underscore on the US side are replicated on China's part. First (and perhaps helpfully for anyone inclined to propose new bargains), the idea of strategic bargains comes naturally to many Chinese foreign policy interlocutors and their counterparts. For example, both China and Japan see the recent intensification of their territorial dispute in the East China Sea as resulting from the other side reneging on their 1972 normalisation agreement to set aside the dispute: the Chinese perceive Tokyo to have reneged on it in 2012 when the Noda Government bought the Senkaku Islands, while the Japanese see Beijing as having reneged earlier in the 2000s by significantly

increasing paramilitary and military operations in the area and allowing more aggressive forms of confrontation on the ground. In the South China Sea too, the Chinese see then Secretary of State Hillary Clinton's 2010 diplomatic intervention in publicly criticising Chinese assertiveness as reneging on US professions of neutrality, while many Americans viewed reports of Chinese pronouncements about the area as a 'core interest' as evidence of an expanding Chinese sphere of claimed influence reneging on professions of 'peaceful rise'.

Second, there is a Chinese discourse considering what a strategic bargain with the United States might look like, particularly since talk of a 'G2' and since President Xi Jinping introduced his notion of 'a new model of major power relations'. In a fairly typical liberal vein, Wu Xinbo argues that 'it is time for China and the United States to try to reach an understanding on the evolving regional architecture through candid dialogue', one encompassing 'more equal relations between the two sides of the Pacific'.²⁰ The theme of a more equal exchange is echoed in a recent Shanghai Academy of Social Sciences project on US–China relations, which states that China would support a 'positive leadership role' for the United States if the latter would also support a 'more positive and vigorous role in East Asia' that 'leaves more room for maneuver for China in terms of claiming territorial rights and military development'. Specifically, the United States needs to 'recognise China's sovereignty claims within its historical rights', 'avoid getting involved in the territorial disputes between China and its neighbors', and 'should never interfere militarily in the disputes and crises between China and its neighbors'.²¹

At least one Chinese scholar, Shi Yinhong, has explicitly discussed what a more equal bargain between China and the United States would look like at a broader grand strategic level. His proposition is for a 'peaceful "final settlement"' based on 'selective preponderance' in complementary realms.²² The United States would accept China's leading position in Asia based on its superior economic size, trade volume and regional

20 Wu Xinbo and Michael Green, 'Regional security roles and challenges' in Hachigian, *Debating China*, p. 202.

21 Institute of International Relations, Shanghai Academy of Social Sciences, 'Zhongmei xinxing daguo guanxi jianshe: Zhanlue renshi yu lujing xuanze' [New type of great power relations between the US and China: Understanding strategy and future choices], *Guoji Guanxi Yanjiu* [Journal of International Relations], no. 6, 2014, pp. 18–19.

22 Yinhong Shi, 'The United States, East Asia and Chinese "triumphalism"', in *China's Rise and Regional Integration in East Asia*, ed. Yong Wook Lee and Key-young San, Routledge, Abingdon, 2014, p. 48.

influence; mutual deterrence based on China having military parity and even marginal superiority in China's offshore areas (with Taiwan's eastern shore being the 'prudent' line); peaceful reunification of Taiwan with the mainland; and China 'maintaining strategic space in a substantial but still narrow span of the western Pacific'. In return, China would accept US overall military superiority globally and in the central and western Pacific, and preponderant US influence in other world regions.

Conclusion

Strategic thinking needs to start from a consideration of the desired ends of policy. In terms of order in East Asia, one indispensable goal must be some *modus vivendi* among the major powers. As this brief overview suggests, there are some significant hurdles to be negotiated if we look slightly further down the line in considering how attractive current US-oriented propositions of a new grand bargain might be to the Chinese audience. At the same time, these proposals would have to contend with the continuing attempts at renegotiating and contesting a number of bargains underpinning key bilateral relationships and regional order in East Asia. Any form of negotiated change in the US–China bilateral relationship will necessitate significant reversals to both US and Chinese mindsets and ambitions. The same huge challenge faces attempts to consider deep-seated change in the China–Japan relationship.

The bottom line is that a grand bargain is possible in East Asia—but it will entail sea changes in attitudes and expectations on every side. History suggests that groups of states find it very difficult to undertake transformational changes like this without the radical impetus (or shock) of systemic war. But such exercises in strategic thinking can help, at least by creating opportunities to stimulate what often seems to be the unthinkable vis-à-vis each other in Washington and Beijing, and between Beijing and Tokyo: non-military cooperative modes of security behaviour and non-zero-sum strategic interactions with each other. Generating a plethora of ideas and encouraging constructive debate about these issues is essential because, ultimately, a stable regional order will depend upon these major powers' ability to reach basic strategic *modus vivendi* with each other.

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