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Rising Powers: Is There a Relationship between Political and Economic Integration?

Economic integration in Asia has progressed further and enjoys broader support than political integration. Whether economic integration requires political integration in order to survive, and the nature of the relationship between interdependence and conflict, remain open questions. That is the case in general as well as in the particular case of key contemporary rising powers: China and India. These questions will play an important role in understanding the prospects for conflict or cooperation in Asia. This Policy Commentary will outline the general debate on these questions and apply it to China and to India.

The Interdependence Debate

The main argument linking economic integration and peace is as follows. Increasing trade and international investment facilitates economic efficiency by allowing for economies of scale, and for countries to take advantage of the benefits of specialization and exchange. Once international economic links are established, governments do not want to interrupt them and suffer an economic loss. They consequently pursue stable and peaceful relations with their trading partners.

The counterargument is that economic integration can increase the likelihood of conflict in two principal ways. First, integration can lead to trade disputes. For example, trade imbalances can lead to complaints by the country that is experiencing a trade deficit. Inflows of foreign investment can lead to concerns about excessive influence by foreigners. Second, economic integration can create a disproportionate vulnerability for one of the trading partners. For example, if two trading partners have economies of different sizes, the larger country might have many trading partners while the smaller one trades predominantly with the larger country. The larger country could then exercise leverage over the smaller country by threatening to sever the economic ties between them. The smaller country may not be able to credibly make the same threat.

International political integration can refer to countries ceding some of their sovereign powers to international (regional or global) institutions. The case for political integration is twofold. First its proponents argue that political integration can address some of the problems of economic integration described above. The claim is that trade disputes can be resolved via a supernational dispute resolution mechanism. For example, the World Trade Organization includes such a dispute resolution mechanism. Meanwhile, a supernational institution can also transfer funds from the region's more developed countries to its less-developed ones to reduce concerns about international income inequality. European Union's structural funds are an example of such a redistributive mechanism. Second, the proponents of international political integration argue that, in addition to facilitating stability by resolving economic disputes, it also leads to peace directly. The claim is that countries that integrate politically are unlike-

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"THE STRIKING SUCCESS OF THE REFORMS [IN CHINA AND IN INDIA] IN STIMULATING SUSTAINED HIGH RATES OF ECONOMIC GROWTH HAS PROVIDED A POWERFUL EXAMPLE THAT ADVOCATES OF INTERNATIONAL INTEGRATION CAN CITE… MEANWHILE, ATTITUDES TOWARD INTERNATIONAL POLITICAL INTEGRATION IN CHINA AND IN INDIA REMAIN DIVIDED."

ly to fight a war with one another.

The critics of political integration stress the consequent loss of autonomy. The loss of autonomy is problematic for two reasons in particular. First, the opponents of integration argue that decisions are best made at the local level by actors who are well informed about local conditions. As the size of the political unit increases, this local knowledge is increasingly likely to be lost. Second, the loss of autonomy can lead to concerns in smaller countries about takeover by larger countries. The fear is that integration inexorably leads to assimilation and/or incorporation into a larger country. A related concern is that integration leads to a loss of sovereignty and allows international actors to interfere in domestic political issues.

The Cases of China and India

In China and in India, international economic integration and the opening of the domestic economy to the world enjoy a broad range of support. Economic reforms began in the late 1970s in China and in the early 1990s in India. The reforms in China and in India included moves in the direction of more openness toward trade and international investment. The striking success of the reforms in stimulating sustained high rates of economic growth has provided a powerful example that advocates of international integration can cite. This has had two important consequences. First, it has led to policy choices that further develop international economic integration. China and India have recently signed a number of free trade agreements. Most notably, both countries have signed a free trade deal with ASEAN. Second, the idea that economic integration is desirable is embraced by some of the actors whom according to the conventional wisdom we would expect to oppose integration. For example, nationalists and the proponents of realpolitik tend to desire that their country become more influential internationally. If economic integration leads to economic growth, and economic growth is the key to international prominence, then international economic integration is a means to attaining nationalists' and realists' goals.

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Meanwhile, attitudes toward international political integration in China and in India remain divided. Skepticism is much more pronounced than in the economic realm. On one hand, both countries embrace some degree of political integration. For example, China is included in the ASEAN + 3 and has helped found international organizations such as the Shanghai Cooperation Organization. India seeks a larger role at the United Nations and provides a significant fraction of U.N. peacekeepers. On the other hand, in both countries protecting sovereignty is near the top of the political agenda. Both countries have concerns about potential or actual secessionist movements than might attract international support. Some of China's policymakers and intellectuals regard participation in international integration and initiatives as a misuse of scarce resources or even as a Western trap. In India, policy makers frequently stress the need to maintain strategic autonomy.

The preferences of key actors in China and India highlight the relevance of the question of whether Asia can have economic integration without political integration. The ongoing debt crisis in Europe illustrates concerns in this regard. The European Union has integrated the monetary policies of those of its members that have adopted a single currency, the Euro. These countries no longer have monetary policy flexibility. In other words, their national governments can no longer devalue their currency in order to encourage exports in response to economic downturns. Meanwhile, European countries have not integrated their fiscal policies: taxation and government expenditures. This can lead to international tension if some members of a monetary union engage in more deficit spending than others, as has been the case in Europe in practice. Meanwhile, integrating fiscal policies may be seen as leading to an unacceptable loss of national autonomy.

Asia does not have a common currency, but international economic integration does generate tension there as well. For example, there are complaints in India about rising trade deficits relative to China. Embracing international economic integration has helped facilitate economic development in China and in India, and that is likely to continue to encourage other countries in the region to pursue a similar path. In order to secure gains from international economic exchanges, we need a better understanding of their political underpinnings. The importance of these issues for the future of the region is likely to continue to increase.

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