

# Security Leverage, Structural power and US Strategy in East Asia<sup>1</sup>

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**Abstract:** What is the utility of US military power when seeking to generate international economic arrangements conducive to its national interests? Developing the concepts of positive and negative structural power we argue that regional American primacy in East Asia has allowed it to leverage its military power into generating political-economic institutional outcomes that have reinforced its broader leadership role. The US may well continue its deep engagement or follow a path of retrenchment under President Trump. Both grand strategic options will impact on its capacity to leverage its positive and negative structural power and have implications for US hegemony and the region's political economy.

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In the post-war international system, the United States has followed a remarkably consistent grand strategy aimed at maintaining global military primacy whilst broadening and entrenching an American-centred international economic institutional order.<sup>2</sup> In practise, this has resulted in active US participation in nearly all areas of the globe with formal commitments to assist and protect nations stretching from its NATO responsibilities in Europe through clients in the Middle East and toward the US-Japan bilateral alliance in East Asia. The Trump administration, with its ambivalence towards long established military alliances, has given active voice to what in fact has been a long running foreign policy scepticism towards entangling and costly military relationships.<sup>3</sup> The 2008 financial crisis, perceived US strategic failure in Iraq and Afghanistan, as well as the rise of state and non-state actors such as Putin's Russia and the so-called Islamic State in the Middle East all potentially add to the costs of US action.<sup>4</sup>

Reflecting these concerns, there is currently a burgeoning debate on America's strategic posture, with most discussions on its grand strategy based on a quantitative conception of power as reflective of underlying stocks and flows of resources. Inferring capabilities from such quantitative appraisals of state power, particularly GDP and its derivatives, many scholars deploy a relational theory of power that measures it in terms of the capacity of actor A to compel actor B to do what they would not freely choose to do.<sup>5</sup> When read through this lens, in instances where the US fails to get its way on major international issues or key quantitative economic indicators of potential contender states begin to rise, US power is said to be in relative decline with a corresponding shift in US grand strategy necessitated by an

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<sup>2</sup> Stephen Brooks *et al*, "Don't Come Home, America: The Case Against Retrenchment" *International Security* 37:3 (2012/13) pp, 7-51; See also John Ikenberry, *Liberal Leviathan: The Origins, Crisis, and Transformation of the American World Order* (Princeton: Princeton University Press, 2011)

<sup>3</sup> Christopher Layne, *The Peace of Illusions: American Grand Strategy from 1940 to the Present* (Ithaca: Cornell University Press, 2006); More broadly, see William Appleman Williams, *The Tragedy of American Diplomacy* (New York: W. W. Norton & Company, 2011); On offshore balancing more generally see Robert A. Pape and James K. Feldman, *Cutting the Fuse: The Explosion of Global Suicide Terrorism and How to Stop It* (Chicago: University of Chicago Press, 2010); See also Christopher A. Preble, *The Power Problem: How American Military Dominance Makes Us Less Safe, Less Prosperous, and Less Free* (Cornell: Cornell University Press, 2009); John J. Mearsheimer, 'Middle East: Know the Limits of U.S. Power', *Newsweek*, November 2008. <http://www.thedailybeast.com/newsweek/2008/11/28/middle-east-know-the-limits-of-u-s-power.html>;

<sup>4</sup> Paul MacDonald and Joseph Parent, "Graceful Decline?: The Surprising Success of Great Power Retrenchment" *International Security* 35:4 (2011) p, 19

<sup>5</sup> Robert Dahl, *Who Governs?* (New Haven: Yale University Press, 1961)

increasingly constrained international system.<sup>6</sup> In some instances, power is disaggregated, such as Nye's now well-used 'soft/smart power' variant. However, even here it still operates within a relational conception, albeit with a cultural element that provides forms of legitimation that help boost a state's capacity to attract and compel.<sup>7</sup>

Whilst these approaches are important parts of the broader understanding of US grand strategy, there is now a nascent body of scholarship that draws on alternative structural conceptions of power more prevalent in the international political economy literature. Moving away from traditional conceptions of a hegemon as benign, these studies seek to theorise how hegemons can use positional advantages to maintain preponderance without resorting to coercion.<sup>8</sup> Building on these debates, we argue that structural power, whereby states seek to influence others indirectly by changing the international structures and institutions in which they operate, may usefully be broken down into two parts: "negative" and "positive" structural power. Negative structural power is deployed when a state or states seeks to influence others' behaviours by blocking the operation of existing international structures and institutions or blocking others' attempts to change current structures. Positive structural power occurs when a state (or states) attempts to create new international structures and institutions or amend existing structures and institutions.

We seek to answer a puzzle: in what ways have America's global security regimes allowed it to produce conducive outcomes in areas unrelated to security? In our formulation, we provide specific pathways through which military power can be seen to influence non-security matters, and process trace these mechanisms through specific case studies in East Asia. We argue that American negative and positive structural power has long been at play in East Asia and has formed an important component that has allowed it to leverage its security regimes into supporting its international economic preferences. Obviously, major

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<sup>6</sup> John Mearsheimer, "Say Goodbye to Taiwan" *The National Interest*, March-April, 2014.

<http://nationalinterest.org/article/say-goodbye-taiwan-9931>

<sup>7</sup> On smart power see Joseph S. Nye, *The Future of Power* (New York: Public Affairs, 2011); Joseph S. Nye, The Decline of America's Soft Power, *Foreign Affairs*, Vol. 83. No. 3(2004), pp. 16-20; For an extended critical discussion see Inderjeet Parmar and Michael Cox, editors, *Soft Power and US Foreign Policy: Theoretical, historical and contemporary perspectives* (New York: Routledge, 2010).

<sup>8</sup> Stephen Brooks & William Wohlforth, *America Abroad. The United States' Global Role In The 21st Century* (Oxford: Oxford University Press, 2016); Carla Norrlof, *America's Global Advantage: US Hegemony and International Cooperation* (Cambridge: Cambridge University Press, 2010); See also Doug Stokes,

strategic readjustment, for example President Trump terminating major security alliances, will likely impact on this leveraging capacity and thus its power to shape the region's political economy.

We begin by reviewing the key theoretical perspectives of those calling for US retrenchment, and investigate the manner in which contemporary debates over grand strategy often exclude the political-economic externalities of differing strategic postures. Structural power, we argue, allows a broader appreciation of the ways in which states get what they want and we use the case study of East Asia to explore some of our theoretical arguments.

### **US Grand Strategy and Strategic Retrenchment**

The 2008 financial crisis coupled with the US's 2011 pull-out from Iraq has contributed to the perception that US power is in relative decline.<sup>9</sup> A vocal section of prominent IR scholars argue that in today's world of rising great powers such as China, as well as perennial Congressional budget disputes, the US can no longer afford a grand strategy of global primacy or deep engagement.<sup>10</sup> Instead the US should scale back its military ambitions and extricate itself from its security guarantees with states in the world's hot spots. In moving from a posture of global primacy, retrenchment has been put forward as a viable alternative. This would involve the US pulling back from its global military posture to avoid direct

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<sup>9</sup> David Calleo, *Follies of Power: America's Unipolar Fantasy* (Cambridge: Cambridge University Press, 2009); Gideon Rachman, *Zero-Sum World: Power and Politics After the Crash* (London: Atlantic Books, 2010); Ian Clark, I. 'China and the United States: A succession of hegemonies', *International Affairs*. Vol. 87. No 1, pp.13–28; Steven Halper, *The Beijing Consensus* (New York: Basic Books, 2010); James F. Hoge, Jr. 'A global power shift in the making: Is the United States ready?' *Foreign Affairs*, (2004) 83(4): 2–7; Martin Jacques. *When China Rules the World* (London: Penguin, 2009); Gideon Rachman, "American Decline: This Time It's for Real," *Foreign Policy*, No. 184 (January/February 2011), pp. 59--65; Paul Kennedy, 'Rise and fall', *World Today*. 2010. 66(8/9): 6–9; Jeffrey Sachs, J. 'America has passed on the baton', *Financial Times*, 30 September, 2010; Simon Serfaty, 'Moving into a post-western world', *The Washington Quarterly* Vol. 43. No. 2 (2011), pp.7–23; Fareed Zakaria, *Post-American World* (New York: W.W Norton, 2008); Niall Ferguson, *Colossus: The Price of America's Empire* (New York: Penguin, 2004); Kishore Mahbubani, *The New Asian Hemisphere: The Irresistible Shift of Global Power to the East* (New York: PublicAffairs, 2008); Joseph S. Nye, *The Paradox of American Power: Why the World's Only Superpower Can't Go It Alone* (New York: Oxford University Press, 2002); Arvind Subramanian, "The Inevitable Superpower: Why China's Rise Is a Sure Thing," *Foreign Affairs*, Vol. 90, No. 5 (September/October 2011).

<sup>10</sup> Stephen Brooks et al. "Don't Come Home, America: The Case against Retrenchment" *International Security* 37:3 (2012/13), pp7-51.

military interventions and instead rely on local allies and regional balances of power to prevail with the US only intervening if *vital* US national interests are threatened.<sup>11</sup>

Retrenchment advocates have tended to make a number of arguments. First, drawing upon neo-classical realist theory to understand how US primacy developed as the default American grand strategy in the post-war system, theorists have identified the importance of unit level variables, usually ideational, in the shaping of US grand strategy: ‘structural pressures may actually be relatively unimportant in explaining US strategic adjustment’.<sup>12</sup> How then can we relate the US’s default post-war grand strategy of primacy to ideology? US primacy has purportedly developed as part of an expansive ‘ideological crusade’ to reproduce the world in America’s image.<sup>13</sup> This ‘Open Door’ system meant states and economies around the world were forced open to US influence and ideology,<sup>14</sup> with US security ideationally linked to its capacity to reproduce forms of international stability and order that largely reflected the US *domestic* ideological political preference for free market democracy. That is, ‘the foreign policies of individual states are shaped by the ideas leaders hold about their own nation’s identity and place in world politics. More than most, America’s foreign policy is the product of such ideas, and U.S. foreign-policy elites have constructed their own myths of empire to justify the United States’ hegemonic role’.<sup>15</sup>

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<sup>11</sup> See for example, John J Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton & Co, 2002); Stephen Walt, *Taming American Power: The Global Response to US Primacy* (New York: W.W. Norton and Sons, 2005); Barry R. Posen, “Restraining Order,” *The American Interest*, Vol. 3, No. 3, (January-February 2008), pp. 94-97; Barry R. Posen, "The Case for Restraint," *The American Interest*, Vol. 3, No. 1, November-December 2007. <http://www.the-american-interest.com/article.cfm?piece=331>; Christopher A. Preble, *The Power Problem: How American Military Dominance Makes Us Less Safe, Less Prosperous, and Less Free* (Cornell: Cornell University Press, 2009); Robert A. Pape and James K. Feldman, *Cutting the Fuse: The Explosion of Global Suicide Terrorism and How to Stop It* (Chicago: University of Chicago Press, 2010); See also William C. Wohlforth et al, ‘Testing Balance-of-Power Theory in World History’ *European Journal of International Relations*, June 2007 vol. 13 no. 2, pp.155-185.

<sup>12</sup> Colin Dueck, ‘Ideas, American Grand Strategy and the War in Iraq’ in Jane Cramer & A Trevor Thrall (eds.) *Why Did the United States Invade Iraq?* (London: Routledge, 2011) p.68.

<sup>13</sup> Stephen M. Walt, ‘Offshore balancing: An idea whose time has come’, *Foreign Policy*, November 2, 2011. [http://walt.foreignpolicy.com/posts/2011/11/02/offshore\\_balancing\\_an\\_idea\\_whose\\_time\\_has\\_come](http://walt.foreignpolicy.com/posts/2011/11/02/offshore_balancing_an_idea_whose_time_has_come)

<sup>14</sup> Layne, *The Peace of Illusions*; Christopher Layne, ‘America’s Middle East Grand Strategy After Iraq: The Moment for Offshore Balancing’, *European Journal of International Relations* June 2007 vol. 13 no. 2 pp. 155-185. Christopher Layne, “From Preponderance to Offshore Balancing: America's Future. Grand Strategy,” *International Security*, Vol. 22 No. 1 (summer 1997), p.86–124.

<sup>15</sup> Christopher Layne, “Graceful Decline: The End of Pax Americana,” *American Conservative*, Vol. 9, No. 5 (May 2010), p. 33.

Given this ideological underpinning it enjoys the luxury of grand strategic choice. That is, systemic pressures are not forcing the US to be militarily preponderant, ideological choices are and as such it can choose an alternative grand strategy unencumbered by existential security threats: ‘two giant oceans and thousands of nuclear weapons today shield the United States. Moreover, it faces no serious threats in its own neighborhood, as it remains a regional hegemon in the Western Hemisphere [and] the United States faces no great-power rival of any real consequence’.<sup>16</sup> Strategically viable US retrenchment would thus extricate it from potential future great power war by avoiding the necessity of maintaining US global military credibility in honoring interstate security guarantees (such as the US guarantee with Taiwan vis-a-vis China), many of which are deemed to have ‘imposed the greatest burdens --- both economically and in terms of dangers --- on the alliance partner (the United States) whose security is least at risk.’<sup>17</sup> If retrenchment is ultimately about significantly downgrading the US’s need to police the world, the termination of defence agreements and form of security protection for the US would thus allow it to shift its burdens to states in the regions where these hegemonic rises will most likely occur with the US only stepping in if changes in the balance of power threatens broader US national security interests. As such, the US could divert expenditure away from the military and toward other, potentially more profitable, activities, such as greater infrastructure and education spending, or through stimulating the domestic economy via cuts in taxation.

As important as the up-front costs of primacy are, and as great the perceived financial benefits of retrenchment are deemed to be, these debates are often limited by the conceptions of power supporting them. Aside from these cost reduction/reallocation arguments, there is a limited literature on the potential effects this would have on America’s capacity to shape the contours of the global economy. Even sophisticated accounts often reduce calculations to ‘relative (i.e. dyadic) comparison[s] of monadic attributes such as economic size or shares of the world market’<sup>18</sup> as seen in recent works on US hegemony within the global economy. For

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<sup>16</sup> John J. Mearsheimer, ‘America Unhinged’, *The National Interest*, January 2, 2014. <http://nationalinterest.org/article/america-unhinged-9639?page=show> ; For a detailed examination of the utility of US retrenchment see Paul K. MacDonald and Joseph M. Parent, “Graceful Decline? The Surprising Success of Great Power Retrenchment,” *International Security*, Vol. 35, No.4, 2011.

<sup>17</sup> Layne, *The Peace of Illusions*, p.169.

<sup>18</sup> William Kindred Winecoff. 2015. “Structural Power and the Global Financial Crisis: A Network Analytical Approach.” *Business and Politics* 17(3), p6.

instance, whilst arguing against US decline and the US's positional advantages within the global economy, Norrlof's work draws upon a structural power based theory but mainly evaluates the easily quantifiable attributes of American power. For instance, in relation to military primacy, Norrlof argues that positional advantages in security may contribute to increased foreign inflows into US markets.<sup>19</sup> Whilst an interesting claim, this focus ignores other pathways through which American positional advantages confer benefits to the hegemon. For instance, whilst these flows are easy to analyse and quantify, they do not engage with more fundamental interactions between military and economic power which may be less statistically accessible, especially in the important area of influencing the development of international economic agreements, whether formal or informal.

Similarly, Drezner also confines his analysis to exploring these more empirically accessible elements of American military power, evaluating three commonly articulated pathways. The first he names *geo-economic* favoritism, which sees the US attracting greater levels of private capital because of its perceived safety as the world's hegemon. The second is *geopolitical* favoritism, which argues that security subordinates may transfer resources to subsidise the hegemon. Only then does the third argument deal with more structural elements of military primacy. This 'public goods' argument suggests that "states are most likely to enjoy public goods under a unipolar distribution of power, accelerating global economic growth and reducing security tensions"<sup>20</sup>, but stops short of analysing whether the provision of such public goods may actually constitute a form of structural power. Given this, it is therefore interesting to note that Drezner then suggests:

A decline in the hegemon's economic power undercuts many of unipolarity's posited benefits. Both the public goods and geopolitical favoritism arguments have some validity, but both rely on the hegemon's economic might as much as its military might for the causal pathways to function.<sup>21</sup>

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<sup>19</sup> Carla Norrlof, *America's Global Advantage: US Hegemony and International Cooperation*. Cambridge: Cambridge University Press, 2010. Chapter 6

<sup>20</sup> Daniel Drezner, "Military Primacy Doesn't Pay (Nearly As Much As You Think)" *International Security* 38:1 (2013) p. 58

<sup>21</sup> Drezner, "Military Primacy Doesn't Pay", 78

Intuitive as this may seem, such an analysis suggests that economic and military power are both functionally separable and that causation runs from economic might to military might. However, economic might itself is built upon specific sets of relationships and agreements that are in themselves emergent from specific security structures, and so cannot be so easily demarcated from security dynamics. As such, these analyses may miss the manner in which American security commitments help contribute to creating and shaping the international economic orders on which American prosperity relies.

This implies that researchers analysing economic interactions with military primacy may need to compliment their analyses with different sets of methodological tools. In this case, not only do we need to broaden the phenomena we intend to observe, but the nature of how specific variables come to interact with one another requires different causal stories. Ideally, in conventional understandings of power, we observe the direct and intentional deployment of some element of power in order to increase influence. Conversely, structural elements of power may not be directly or intentionally deployed, and so often prove more difficult to isolate. Conceptually, this had been related to ‘network analysis’, which analyzes the relationships between nodes within a network. To borrow an example from William Winecoff, “the attractiveness of Goldman Sachs as a counterparty may have something to do with its particular skill at investing, but also the fact that Goldman Sachs has strong relationships with many other financial actors: it is prominent in the financial system. So Goldman Sachs attracts new business in part because it previously has attracted business.”<sup>22</sup> That is, that some nodes in a system benefit merely from their position within a network, not because of specific power attributes alone.

While this form of analysis is not viable to apply to this particular study, the notion of hegemonic positional advantage is nevertheless important. The fact that dominant parties within a bilateral or multilateral relationship may be at an advantage by virtue of their position alone may negate the need to actively, or formally, coerce or entice another state into undertaking a specific action. It is this particular mechanism which we attempt to trace

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<sup>22</sup> William Kindred Winecoff. “Structural Power and the Global Financial Crisis” p, 8



throughout our case studies - do security subordinate states alter their international economic behaviour if it threatens to negatively affect security relationships?

### **Structural power within US grand strategy**

As we have seen, a number of the debates on US grand strategy either explicitly utilise relational concepts of power or employ implicit formulations of structural power to guide their analyses.<sup>23</sup> Norrlof's discussion of "positional and structural advantages"<sup>24</sup> is an example of this, in which she details how America's hegemonic stabilisation role generates a number of spin-offs for its domestic and international economic relations.<sup>25</sup> We go a step further than this, formulating an explicit structural power conceptualization of the manner by which American strategic preponderance aids in shaping non-security relationships, particularly international economic. More specifically, we demarcate between two given pathways of operation - negative and positive structural power - tracing both methods of operation through the subsequent case studies. We argue that in the context of world politics, social structures help delimit the capacity to act possessed by states in virtue of the enduring relations in which they participate. Social structures thus both constitute the capabilities of agents whilst also assigning them the capacity to act through the internal relations of structures themselves. Structural power is the capacity to shape structural relations, and in so doing help steer the interests and actions (including non-actions) of agents into outcomes that reinforce the actual or latent power of the steering party.<sup>26</sup>

Importantly, structural power does not necessarily require the agent to be conscious or deliberative in its attainment, and in this way it is distinct from the concept of foreign policy 'linkage'. Linkage, most popularly associated with US cold war management of the Soviet Union, attempts to induce what Kissinger called a 'network of incentives and penalties to

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<sup>23</sup> Michael Mastanduno (2009). System Maker and Privilege Taker. *World Politics*, 61, pp 121-154. doi:10.1017/S0043887109000057.

<sup>24</sup> Norrlof, *America's Global Advantage*, 6

<sup>25</sup> Norrlof, *America's Global Advantage*, Chapter 6

<sup>26</sup> Jeffrey C. Isaac, 'Beyond the Three Faces of Power: A Realist Critique,' *Polity*, Vol. 20, No. 1, (Autumn, 1987), p. 4-31; See also Simon Bromley, *American Power and the Prospects for International Order* (London: Polity Press, 2008); Jonathan Joseph, "Is Waltz a Realist?", *International Relations*, (2010). Vol. 24. No.4, pp. 478-493; Jonathan Joseph, *The Social in the Global : Social Theory, Governmentality and Global Politics* (Cambridge: Cambridge University Press, 2012); see also GUZZINI, Stefano (1993): Structural Power: The Limits of Neorealist Power Analysis. *International Organization* 47, Issue 3 (Summer), 443-478.

produce the most favourable outcome' in order to actively link security and non-security issues in diplomatic negotiations.<sup>27</sup> Art explores the manner in which "force influences politics"<sup>28</sup>, exploring the creation of the International Energy Agency and demonstrates a clear application of linkage politics, detailing how "Nixon tied the continued provision of American security to the Europeans and Japanese to their acceptance of a united consumers' energy front."<sup>29</sup> Linkage is thus a negotiating tactic that actively and *intentionally* seeks to link issue areas to maximise the chance of achieving the most amenable outcome to the actor in question. Differing from this, structural power,

can be effectively exercised by 'being there', without intending the creation or exploitation of privilege or the transfer of costs or risks from oneself to others ... In relations with others, it is much harder to think of power being exercised by one party over another unconsciously, without deliberate intent. But when you think of power in terms of power over structures, it is easier to understand that relations existing within those structures are affected, even though it may be inadvertently.<sup>30</sup>

As such, those states that possess the capacity to shape the broader structures within which other states interact thus possess both latent and actual structural power: 'structures allocate differential capacities, and typically differential advantages, to different positions'.<sup>31</sup> The power to shape international structures, and therefore the broad systemic contexts that other actors or states must work within thus confers a huge amount of 'command' capacity and necessarily presupposes differential power relations. For example, under bipolarity, the superpowers possessed huge reserves of structural capability and could set the broad contexts and actions or non-actions of subordinate states within their respective spheres of influence or broader hegemony.

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<sup>27</sup> Henry Kissinger, *Diplomacy* (London: Simon & Schuster, 1994), p.717.

<sup>28</sup> Robert Art, "American foreign policy and the fungibility of force" *Security Studies* 5:4 (1996) p,8

<sup>29</sup> Robert Art, "American foreign policy", p,35

<sup>30</sup> Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996) pp.26-27.

<sup>31</sup> Michael Barnett and Raymond Duvall, 'Power in International Politics', *International Organization* (2005), Vol.59. No. 1, p.53.

As we mention above, we would break down structural power into two parts: “negative” and “positive” structural power. We define negative structural power as the capacity on the part of a hegemonic state to influence others’ behaviours by blocking the operation of existing international structures, institutions or attempts by other states to change current structures. Positive structural power occurs when a state (or states) attempt to create new international structures and institutions or amend existing structures and institutions. Of course, these are not fixed categories and it is quite possible that structural power can do both at the same time: the positive creation of new institutions or structures that strengthens hegemonic leadership whilst also blocking other states. We are not only interested in the exercise of structural power but how what are commonly considered distinct parts of statecraft (economics and security) form part of broader basket of capabilities that a state may call upon. In the next section of the paper we show how US structural power in East Asia has waxed and waned, and how it has interacted and emerged from changes in economic power and strategic context. Capturing events during and after the Cold War, we explore and control for the influence of changes in polarity and relative economic power.

### **American positive and negative structural power in East Asia**

America’s sustained security presence in East Asia dates back to the end of the Second World War, where occupation forces remained in the region in response to the rapidly developing Cold War. As a CIA report at the time details, “Japan’s value to the Eastern or Western bloc rests on its industrial potential, its trained manpower, and its strategic location with respect to the Asiatic mainland”, in particular it was perceived that “The West would benefit from the fact that the industrial and military resources of the nation were retained in friendly hands”.<sup>32</sup> To achieve this, the United States committed military forces to the region, and Japan specifically, as a component of a broader quasi-constitutional order in which the economic and security interests of Japan would be sufficiently accounted for so as to cement their position within a US-centric international order.<sup>33</sup> Japan, in particular, was insistent that American security protection was to be the cornerstone of its economic reconstruction effort.

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<sup>32</sup> “Memorandum by the Central Intelligence Agency - National Intelligence Estimate: Feasibility of Japanese Rearmament in Association with the United States” *Foreign Relations of the United States, 1951. Asia and the Pacific (in two parts)* Volume 6:1. p, 993 - 995

<http://digicoll.library.wisc.edu/cgi-bin/FRUS/FRUS-idx?id=FRUS.FRUS1951v06p1>

<sup>33</sup> On this see, John Ikenberry, *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars* (Princeton: Princeton University Press, 2001)

<sup>34</sup> In short, the development of a regional economy amenable to US economic interests entailed the commitment of American military forces to be realised, relying on such preponderance to induce cooperation on American terms. The acknowledgement of this coercion has influenced the development of economic institutions and norms ever since. Specifically, on a number of occasions regional actors have deferred to American preferences in the apparent absence of direct coercion. In essence, as explored earlier, this is that power “can be effectively exercised by ‘being there’, without intending the creation or exploitation of privilege.”<sup>35</sup>

#### *U.S.- Japanese Economic Adjustment in the 1980s*

While America had put up with, if not encouraged, Japanese mercantilism for the few decades following the Second World War, when it became apparent that a resurgent, strongly competitive Japanese economy was threatening US economic well being it triggered a concerted effort by various arms of the U.S. government to rectify the perceived imbalance. Starting in the early 1980s the US pushed to open Japanese markets to American products and investments,<sup>36</sup> a process which included, rather famously, the ‘voluntary export restraints’ that Japan placed on car exports to the US in 1981. In the mid-80s, during the precipitous strengthening of the US dollar and the concomitant link this had with America's sharp current account deterioration, a two-pronged solution was worked out to correct these imbalances. Firstly, a number of bilateral negotiations were undertaken in order to open up access to Japanese markets, including the Market-Oriented-Sector Selective (MOSS) talks and the 1985 Yen-Dollar agreement. And secondly, in response to the perceived slow development of these talks, a concerted currency intervention by the G5 powers - Japan, Germany, the United Kingdom, France, and the United States - was implemented in order to attempt to bring down the value of the US dollar, with particular focus on the dollar/yen exchange rate.<sup>37</sup>

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<sup>34</sup> Shigeru Yoshida, *The Yoshida Memoirs: The Story of Japan in Crisis* (London: Heinemann, 1961) p,266-267

<sup>35</sup> Strange, *The Retreat of the State*, pp.26-27

<sup>36</sup> “Memorandum for the President - Japanese Trade Barriers” The United States Trade Representative, December 18, 1981.

<http://nsarchive.gwu.edu/NSAEBB/NSAEBB175/japan2-06.pdf>

<sup>37</sup> “Announcement of the Ministers of Finance and Central Bank Governors of France, Germany, Japan, the United Kingdom, and the United States (Plaza Accord) September 22, 1985” Finance Ministers’ Meetings, University of Toronto G8 Information Centre

<http://www.g8.utoronto.ca/finance/fm850922.htm>

Conventional wisdom would suggest that the economic motivations should seem a sufficient reason in themselves to resolve this dispute, especially Congressional threats of protectionist retaliation. However, a number of details surrounding the case, and now declassified documents, point to other confounding factors. In both instances, the entire episode was innately tied up within the broader confines of the interlocking political and security relationships shared between Japan and the United States. While this may have, as Norrlof argues, been in acknowledgement of how “weakening of the [American] economy, the fountain of the United States’ military might, would be dangerous for Western Europe and East Asia”<sup>38</sup> there also seems to have been a growing concern relating more directly to US security guarantees. For instance, we now know from archival evidence that the American’s were aware of the growing security undertones surrounding the dispute.

Indeed, a State Department memorandum dated July 26, 1985 entitled ‘Growing Entanglement of US-Japan Trade and Defense Issues’ declares that,

The increasing confluence of trade and defense issues in US-Japan relations highlights the inevitable broad impact of chronic trade friction between the world’s two largest economies. The US-Japan trade problem, if unchecked, will continue to place severe strains on overall bilateral relations and has potential serious consequences for Western security.<sup>39</sup>

The document demonstrates the State department's fear that Congressional (U.S) trade retaliation was becoming tied up with defence commitments. Extrapolating from this, it seems unlikely that the Japanese would not have had similar inclinations. Infact, while there had been defence related tensions before, relevant diplomatic documents do not mention anywhere near the level of tension mentioned here. Previous discussions over cost-sharing

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<sup>38</sup> Carla Norrlof, *America’s Global Advantage: US Hegemony and International Cooperation* (Cambridge: Cambridge University Press, 2010) p.186.

<sup>39</sup> National Security Archive, “Memorandum: Growing Entanglement of US-Japan Trade and Defense Issues, July 26, 1985” Document 7, National Security Archive Electronic Briefing Book No. 175, The National Security Archive.

<http://nsarchive.gwu.edu/NSAEBB/NSAEBB175/japan2-07.pdf>

and technology transfer, whilst exhibiting varying degrees of strain, didn't involve major threats of retaliation or fundamental rifts in the bilateral relationship.<sup>40</sup>

In the early eighties, for instance, Presidential memoranda make no mention of potential coercive action nor exceptional levels of aggrievement, rather they are often merely reiterations of preference,

“as we protect Japanese interests by our forces in the Indian Ocean, we believe it is in both our interests if Japan assumes a greater share of the burden.”<sup>41</sup>

However, when tensions rise later in the decade, particularly with respect to the large trade deficit, the perception of U.S. policymakers changes dramatically. Not only do they recall that the Japanese flirted with the idea to “replace the one-percent [defense spending] ceiling to give the executive branch a “weapon” to convince Congress and the American public of Japanese good faith.” But these documents also demonstrate their knowledge that the Japanese expressed “serious concern that the US will begin soon to step up defense pressure in concert with trade demands.”<sup>42</sup>

As we can see, it is only after the perception that defense commitments were likely to be tied up with calls for economic adjustment that an exceptional attempt to deal with American demands is made. This resonates strongly with our aforementioned notion of ‘negative’ structural power insofar as it was the fear and potential threat of America withdrawing or curtailing security guarantees that helped motivate change. As far as it is possible to tell, this occurred without the explicit coercion of American diplomats, albeit with overhanging fear that the United States had this potential leverage to bring to bear. In this case, the result was twofold. Accords signed at the Plaza hotel in 1985 saw the G5 undertake a concerted intervention in the international currency markets to bring down the value of the dollar, with

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<sup>40</sup> The following document provides an illustrative background to this beginning in the late 1970s: National Security Archive, “Memorandum of Conversation: The 11th SSC, 29 July - 2 August 1979” Document 2, National Security Archive Electronic Briefing Book No. 382, The National Security Archive.

<https://www.documentcloud.org/documents/370380-19790802a.html>

<sup>41</sup> National Security Archive, “Talking Points on Japanese Defense Efforts for Meeting with PM Suzuki, April 20, 1981” Document 5, National Security Archive Electronic Briefing Book No. 175

<http://nsarchive.gwu.edu/NSAEBB/NSAEBB175/japan2-05.pdf>

<sup>42</sup> National Security Archive, “Memorandum: Growing Entanglement of US-Japan Trade and Defense Issues”

the hope that this would then spur a correction in America's current account balance. Simultaneously, the MOSS talks began the arduous process of attempting to reconfigure sectors of Japan's economy to remove mercantilist non-tariff barriers (NTBs).

The rather dramatic nature of these actions marked a step change from previous attempts at the gradual opening of Japanese markets, pointing to a significant change in calculus on behalf of the Japanese. Resulting in an inflection in the dollar/yen exchange rate, but also contributing to reconfiguring and liberalising Japan's domestic economy. This dynamic underlines one of the key notions of structural power, that is that it "lies with those in a position to exercise control over (i.e. to threaten or to preserve) people's security, especially from violence."<sup>43</sup> It thus helps to illustrate that America's dominant position in the regional security system seems to have contributed to delivering a more preferential outcome than otherwise may have been the case. In this instance, through leveraging the capacity to block the operation of an existing international structure.

Yet this begs the question as to whether this form of security leveraging was confined to the Cold War, with strategic competition acting as the major incentivisation for Japanese acquiescence. That is, could the US exercise 'greater control over international economic adjustment struggles during the Cold War, when it was locked in a geopolitical struggle with a peer competitor, than after the Cold War, when it has enjoyed the status of sole superpower'?<sup>44</sup> If so, this may suggest that changes in systemic polarity and the winding down of geostrategic competition may render this form of structural power ineffectual, or at least modify its mode of operation. In the following section we therefore proceed to evaluate and trace our logic through a number of cases in the post-Cold War period.

### *The East Asian Crisis*

An intriguing test bed for our argument occurred rather soon after the end of the Cold War, with a severe regional financial crisis which threatened the potential for radical institutional change. The East Asian financial crisis began in late 1997 following repeated speculative

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<sup>43</sup> Susan Strange, *States and Markets* 2nd Edition (London: Continuum, 1994) p, 26

<sup>44</sup> Mastanduno, Michael, "US power and the international political economy" in John Ikenberry et al eds. *International Relations Theory and the Consequences of Unipolarity* (Cambridge: Cambridge University Press, 2011) p, 176.

attacks on the Thai Baht, eventually forcing the Thai central bank to abandon its currency peg and float the currency and thereby dramatically reduce its value and destabilise the domestic financial system. In common with the rest of the 'Asian 5' - the Philippines, Malaysia, Korea, and Indonesia - Thailand had taken on large dollar-denominated debts in the run up to the crisis,<sup>45</sup> driven in a large part by the twin effects of capital account liberalisation and the perceived foreign exchange stability provided by their currency pegs. Consequently, after the Baht was floated in late 1997, and fearing similar dynamics in neighbouring economies, foreign investors refused to roll over short terms loans and moved to pull money out of the rest of the Asian 5. At the time Japan had the largest foreign exposure to these economies, sitting at \$97 billion in assets outstanding as of mid-1997, not to mention a broader interest in the recovery of some of its closest trading partners. Moreover, experiences of the Mexican bailout a few years earlier had revealed glaring holes in the IMF's procedural and quantitative capacity to resolve economic and financial distress in emerging economies.

The Mexican crisis was eventually, albeit messily, resolved largely because of America's close linkages with the Mexican economy, which prompted the US treasury department to move to utilize its Exchange Stabilization Fund (ESF) to top up the IMF's financial firepower. However, due to a large congressional backlash against this action, the ESF was subsequently restricted to act only with Congressional approval, in the process stripping the US governmental apparatus of vital institutional capacity necessary in responding to future international financial instability.<sup>46</sup> Given that this fact was accompanied by the absence of American bilateral loans in the Thai bailout, the Japanese came to doubt that the IMF had the proper capacity to act nor that the was US willing or able to stand in.<sup>47</sup> With Japanese exposure to the affected economies being as great as it was, the creation of a supplementary regional financial institution seemed like a logical step forward, and in many ways a rather uncontroversial one.

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<sup>45</sup> Steven Radlet and Jeffrey Sachs. "The Onset of the East Asian Financial Crisis" in Paul Krugman ed. *Currency Crises* (Chicago: University of Chicago Press, 2000) p, 113

<sup>46</sup>Randall Henning, "Preserve the Exchange Stabilization Fund" Policy Brief, Peterson Institute for International Economics, September 1999

<http://www.iie.com/publications/pb/print.cfm?ResearchId=95&doc=pub>

<sup>47</sup> For a seminal overview of the crisis response see Paul Blustein, *The Chastening: Inside the Crisis That Rocked the Global Financial System and Humbled the IMF* (New York: Public Affairs, 2001)



Japan's suggestion was to create an Asian Monetary Fund (AMF) to provide rapid liquidity support to the affected economies. In some ways conceptually similar to what in recent years the Europeans have constructed to provide liquidity support and economic restructuring to Eurozone members. For example, the European Stability Mechanism (ESM), which has a €500 billion lending capacity and is staffed and run exclusively by Europeans. However, the AMF proposal differed from this in a number of significant ways, most importantly in that "the original policy memo suggested that the AMF would not necessarily act in unison with the IMF".<sup>48</sup> Likewise, the architect of the proposal, Japan's vice minister of finance for international affairs, Eisuke Sakakibara, was known to be openly sceptical of American market ideology and vehemently opposed to the IMF's diagnosis of the crisis as emanating from the economic mismanagement of the countries concerned.<sup>49</sup> The ESM, on the other hand, is intended to complement the IMF, not circumvent it. Indeed, the treaty establishing the ESM declares that the "active participation of the IMF will be sought" and that "A euro area Member State requesting financial assistance from the ESM is expected to address, wherever possible, a similar request to the IMF".<sup>50</sup> With this being the case, the AMF proposal was considered a threat to the broader global financial system, as well as, more obviously, American economic preferences.<sup>51</sup>

To some extent, the proposal could also be seen to justify Mastanduno's thesis that the dissipation of geostrategic pressures would be likely to diminish America's capacity to shape global economic arrangements.<sup>52</sup> Yet, ultimately, the AMF proposal didn't take off, and there appears to have been a number of strategic concerns influencing the later objections of regional states. However, in this case the manner in which this occurred was substantially different from what was witnessed during the 1980s, as in this case Japan was largely unaffected by concerns regarding American security presences. In the wording of our own conceptual framework, it was not possible to incentivise Japan through denying it access to a specific institutional structure - that is, through 'negative structural power'. Rather it was

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<sup>48</sup> Phillip Lipsky, "Japan's Asian Monetary Fund Proposal" *Stanford Journal of East Asian Affairs* 3:1 (2003) p, 95

<sup>49</sup> *Ibid.*, 162-166

<sup>50</sup> "Treaty Establishing the European Stability Mechanism" Legal Documents, European Stability Mechanism, February 3rd, 2015.

<http://www.esm.europa.eu/about/legal-documents/index.htm>

<sup>51</sup> Timothy Geithner. *Stress Test: Reflections on Financial Crises* (London: Random House, 2014) p, 63

<sup>52</sup> Mastanduno "US power and the international political economy", 176.

possible to remind other regional states of the secure security environment that American power projection underpins - a positive incentivization. Indeed, it was other regional states - particularly China and the smaller ASEAN states - that were responsive to perceived concerns of American policymakers, especially the emphasis made of potential 'Japanese hegemony'.<sup>53</sup> In fact, then Under Secretary of the Treasury for International Affairs, Tim Geithner, recalled that this fear of hegemony resonated well with "Asian countries that still viewed the U.S. security presence as an important part of regional stability".<sup>54</sup> Reflecting the fact "that there is a significant coincidence of preferences between Southeast Asian states and the United States for retaining a forward U.S. military presence and U.S. economic and political engagement in the region."<sup>55</sup>

In this sense, American structural power can be seen to have 'positive' instantiations, insofar as it can point to the benefits of the status quo and use such pressure to motivate action in defense of current institutional systems. For example, in East Asia the presence of US forces is perceived by a number of actors as providing a broadly stable regional security system in which the majority of regional actors have a stake. In this way, America's presence conforms to East Asian anti-hegemonic preferences insofar as the projection of extra-regional power contributes to pacify conflicts between East Asian states, yet also helps to reinforce the values of 'non-interference', 'sovereignty', and 'independence' at the core of the ASEAN treaties.<sup>56</sup> With this being the case, whilst changes in polarity are certainly very important, we cannot capture the entire picture of relevant systemic pressures without accounting for these regional dynamics. More specifically, Japanese security is not the only objective of US military presences in East Asia. Rather stabilising, as far as possible, the *regional* security system, particularly as to protect the Western orientated states, has been the historic purpose of US military engagement in the region. Indeed, the original US-Japan security pact was drafted with the intention to "ensure a reasonable degree of security to Japan and at the same

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<sup>53</sup> Lipsky, "Japan's Asian Monetary Fund Proposal" p, 96

<sup>54</sup> Timothy Geithner, *Stress Test: Reflections on Financial Crises* (London: Random House, 2014) p, 63.

<sup>55</sup> Evelyn Goh, "Great Power and Hierarchical Order in Southeast Asia: Analyzing Regional Security Strategies" *International Security* 32:3 (2007/08) p, 152

<sup>56</sup> "Treaty of Amity and Cooperation in Southeast Asia, Indonesia, 24 February 1976" Association of Southeast Asian Nations.

<http://www.asean.org/news/item/treaty-of-amity-and-cooperation-in-southeast-asia-indonesia-24-february-1976-3>

time give some assurance to Japan's former enemies that they would not again be threatened by an aggressive Japan".<sup>57</sup>

American forces were therefore intended to provide reassurance to protect Japan from aggression but also to protect others from potential Japanese aggression; a form of dual deterrence. A version of this logic was seemingly pivotal to a number of East Asian states decisions to withdraw support for the AMF. In particular, as Yuen Foong Khong notes, this was heavily influenced by the fears of many smaller East Asian states, specifically those of ASEAN, that with the end of the Cold War "the United States would have strong incentives to withdraw militarily from East Asia".<sup>58</sup> As he continues on to argue, many Southeast Asian nations feared that American withdrawal would dramatically destabilise the region, with larger states, specifically Japan, moving to fill the power vacuum, likely prompting other regional actors into action.<sup>59</sup> Making sure that the United States was firmly committed to the region, and the Japanese were sufficiently constrained, has therefore been a priority since (and indeed before) the end of the Cold War.

In this way, the projection of American military power does not only contribute to the attainment of favourable outcomes through the direct threatening of consequences or the promise of rewards, but also by influencing decisions through structuring the utility of certain outcomes. Whilst the Americans lobbied many nations throughout the East Asian crisis, the dynamics that led to the rejection of the AMF proposal had developed well before that. In short, some of the more salient factors at play did not, in themselves, necessitate the United States to attempt to directly influence the states in question. There is little evidence, for instance, to suggest that the American's made any direct threats to curtail defence commitments in order to attain specific outcomes. Invalidating any potential notions of diplomatic linkage politics. Going forward it is also obvious that these dynamics are

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<sup>57</sup> Fredrick Aandahl, editor, *Foreign Relations of the United States, 1951. Asia and the Pacific* Volume VI, Part 1. United States Department of State (Washington: U.S. Government Printing Office, 1951) p, 793

<http://digicoll.library.wisc.edu/cgi-bin/FRUS/FRUS-idx?id=FRUS.FRUS1951v06p1>

<sup>58</sup> Yuen Foong Khong, "Coping with Strategic Uncertainty: The Role of Institutions and Soft Balancing in Southeast Asia's Post-Cold War Strategy" in J.J. Suh *et al* *Rethinking Security in East Asia: Identity, Power, and Efficiency* (Stanford: Stanford University Press, 2004) p, 177

<sup>59</sup> *Ibid.*, 182

becoming increasingly entrenched in the East Asian political economy, with the region having experienced rapid growth in defence spending over the last decade.<sup>60</sup>

### **Contemporary Security Leveraging in East Asia**

The most recognisable driver for these increases are the numerous South China Sea territorial disputes. In particular, in the Parcel Islands to the North West and the Spratly Islands to the East. The Spratly Islands, for instance, face claims from Taiwan, China, Malaysia, the Philippines, Vietnam, and Brunei,<sup>61</sup> and have been at the centre of recent controversies surrounding China's construction of an airstrip on an artificially enhanced islet in the chain.<sup>62</sup> In addition to these larger two island chains, the Philippines has an ongoing dispute with China regarding a chain of reefs known as Scarborough Shoal, whereas Japan contests sovereignty over the Senkaku/Diaoyu Islands with China in the East China Sea. These disputes have long lineages, displaying the complex mixture of historical and legal claims that are typical of such disputes, worsened in this case by the fact that there have been significant mineral deposits discovered in contested regions. Yet despite the seriousness of the disputes in themselves, the underlying driver for recent hostility undoubtedly stems from the dramatic growth in Chinese power. That is, "political tensions and military competition unfolding in the contemporary Asia Pacific appear to be driven largely by action-reaction dynamics emblematic of a structurally driven security dilemma."<sup>63</sup> In this sense, and insofar as regional states remain fearful of China's intentions and China remains underdeveloped in its own structural power capacity, US security leverage will increase according to our theoretical model.

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<sup>60</sup> "SIPRI Military Expenditure Database 1988-2014, Sheet 2 - Regional Totals" Stockholm International Peace Research Institute, 2015.

[http://www.sipri.org/research/armaments/milex/milex\\_database](http://www.sipri.org/research/armaments/milex/milex_database)

<sup>61</sup> For an overview of disputants to these claims, the Council on Foreign Relations has an informative interactive guide, which can be found here:

[www.cfr.org/chinasea](http://www.cfr.org/chinasea)

<sup>62</sup>"China 'building runway in disputed South China Sea Island'" BBC News, April 17, 2015.

<http://www.bbc.co.uk/news/world-asia-32331964>

<sup>63</sup> Adam Liff and John Ikenberry, "Racing toward Tragedy?: China's Rise, Military Competition in the Asia Pacific, and the Security Dilemma" *International Security* 39:2 (2014) p, 58

Specifically, over the last decade, the Chinese defence budget has grown from \$40 billion in 2004 to \$216 billion in 2014; a 441% increase.<sup>64</sup> Whilst SIPRI's estimates sit at the higher end of the spectrum, there is unanimous agreement that official Chinese figures under report spending, although due to lack of accounting transparency it is hard to ascertain the exact extent.<sup>65</sup> Nonetheless, the speed and size of the increases have been considerable, with wholesale modernisation programmes seeing the quality and capability of Chinese armed forces expand significantly.<sup>66</sup> Unsurprisingly this increase in military power combined with nascent competition over these historic territorial claims has unnerved its neighbours, prompting many to expand defence budgets as well as renew strategic relationships. Whilst much has been made of increases in Japan's defence budget, with a record ¥4.98 trillion approved for 2015,<sup>67</sup> it is only marginally above the decade average of ¥4.8 trillion.<sup>68</sup> Rather, what seems to have spurred the widespread reporting regarding this increased budget request were the type of procurement requests included: stealth fighters, patrol aircraft, new naval vessels, and amphibious fighting vehicles.<sup>69</sup> Notably coinciding with the reinterpretation of clause 9 of the constitution to permit 'collective self-defense' of allies.<sup>70</sup>

The forces driving increases in security competition provided the rationale for the Obama administration's 'pivot to Asia' in 2011, later to be re-branded as the 'rebalance'. The plan involves a greater focus on the Asia Pacific region by engaging regional partners in economic and security matters, yet primarily involves a significant shift in the quantitative and qualitative forward deployment of US military forces to the region.<sup>71</sup> The 2012 US defence

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<sup>64</sup> "SIPRI Military Expenditure Database 1988-2014, Sheet 6 - Current USD" Stockholm International Peace Research Institute, 2015.

[http://www.sipri.org/research/armaments/milex/milex\\_database](http://www.sipri.org/research/armaments/milex/milex_database)

<sup>65</sup> "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2014" Department of Defense, United States of America, April 24, 2014. p.43

<sup>66</sup> Ibid., 27-41

<sup>67</sup> "Japan approves record 4.98 trillion yen defence budget" *BBC News*, January 14, 2015.

<http://www.bbc.co.uk/news/world-asia-30808685>

<sup>68</sup> "SIPRI Military Expenditure Database 1988-2014, Sheet 3 - Local Currency Financial Years" Stockholm International Peace Research Institute, 2015.

[http://www.sipri.org/research/armaments/milex/milex\\_database](http://www.sipri.org/research/armaments/milex/milex_database)

<sup>69</sup> "Defense Programs and Budget of Japan, Overview of FY2015 Budget" Japanese Ministry of Defense, 2015.

[http://www.mod.go.jp/e/d\\_budget/pdf/270414.pdf](http://www.mod.go.jp/e/d_budget/pdf/270414.pdf)

<sup>70</sup> "Japan cabinet approves landmark military change" *BBC News*, July 1, 2014.

<http://www.bbc.co.uk/news/world-asia-28086002>

<sup>71</sup> U.S. Chief of Naval Operations, *CNO's Navigation Plan: 2015-2019* (Washington, DC, August 20, 2014)

[http://www.navy.mil/cno/docs/140818\\_cno\\_navigation\\_plan.pdf](http://www.navy.mil/cno/docs/140818_cno_navigation_plan.pdf)

strategy document, ‘Sustaining U.S. Global Leadership: Priorities for 21<sup>st</sup> Century Defense’, spelled out the broader logic:

US economic and security interests are inextricably linked to developments in the arc extending from the Western Pacific and East Asia into the Indian Ocean region and South Asia, creating a mix of evolving challenges and opportunities. Accordingly while the US military will continue to contribute to good security globally, we will of necessity rebalance towards the Asia-Pacific region.<sup>72</sup>

As such, whilst many states in East Asia are economically powerful, and while regional forms of interdependence should not be downplayed, many of these states are also security-dependent on the US, primarily as a hedge against a rapidly rising China, with the US now committed to a build-up of its military capacity in the region. The synergy between US strategic and economic interests, as well as the leverage that US mediation capacity delivers is made explicit: the ‘maintenance of peace, stability, the free flow of commerce, and of U.S. influence in this dynamic region will depend in part on an underlying balance of military capability and presence.’<sup>73</sup>

Indeed, concerns over rising Chinese power have seen a wide range of recent advances in security cooperation with the United States. In particular, long established military exercises have been significantly expanded. Operation Balikatan, the annual U.S.-Philippines military exercise, doubled in size in 2015, expanding from 5,500 up to 11,500.<sup>74</sup> This followed on from the signing of the Enhanced Defense Cooperation Agreement in 2014 that has once again allowed the stationing of US troops on Philippine soil. These examples of enhanced defence cooperation have been repeated across the region with states like Australia and even

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<sup>72</sup> US Department of Defense (DoD), ‘Sustaining U.S. Global Leadership: Priorities for 21<sup>st</sup> Century Defense’, January 2012, p. 2; For more context see See also Patrick M. Cronin and Robert D. Kaplan, ‘Co-operation from Strength: US Strategy and the South China Sea’. *Center for a New American Security*. January 2012. [http://www.cnas.org/files/documents/publications/CNAS\\_CooperationFromStrength\\_Cronin\\_1.pdf](http://www.cnas.org/files/documents/publications/CNAS_CooperationFromStrength_Cronin_1.pdf) ;

<sup>73</sup> Department of Defense, *Sustaining US Global Leadership: Priorities for 21<sup>st</sup> Century Defense* (Washington: Department of Defense, 2012), p.2.

<sup>74</sup> Matthew Bragg, “31st Iteration of Balikatan Kicks Off” PACOM News, U.S. Pacific Command, April 20, 2015, <http://www.pacom.mil/Media/News/tabid/5693/Article/585545/31st-iteration-of-balikatan-kicks-off.aspx> ; Isis Ramirez, “U.S., Philippine Forces Begin Bilateral Balikatan Exercise” DoD News, U.S. Department of Defense, May 6, 2014, <http://www.defense.gov/news/newsarticle.aspx?id=122191>

Singapore permitting the stationing of American military personnel and hardware within their sovereign territory<sup>75</sup>, underscoring the manner in which rising Chinese power is coming to reshape the region's security dynamics. In terms of structural power, this should likely provide avenues for the United States to increase its institutional and economic influence. Not only does it provide increased, positive incentivization for states to operate within US-centered networks, but it is also likely to deepen their reliance on US security guarantees. Thus, much like we saw throughout the Cold War, fear of US disengagement may result in non-security concessions. Given this, and in keeping with our case selection criteria, can the 2008 financial crisis and its aftermath tell us anything about how this has affected US leveraging capacity?

### *The Global Financial Crisis and its Aftermath*

Emanating from the global financial system's core, the financial crisis that began in 2008 had significant effects on the functioning of global financial markets. In addition to Collateralized Debt Obligations (CDOs) and similar derivatives infecting foreign banks balance sheets, dollar funding markets had also all but seized up. With international finance largely conducted in US dollars,<sup>76</sup> this exposed foreign banks to severe liquidity problems as they were unable to refinance their dollar positions, a dilemma worsened by the fact that banks not domiciled in the United States lack direct access to Federal Reserve liquidity facilities. In this situation, states wishing to avoid financial collapse are normally forced to turn to international financial institutions, or bi-lateral agreements with partner states, to attempt to secure appropriate funding.

Following the rejection of the AMF, the ASEAN+3 worked to develop alternative financial mechanisms to help alleviate financial distress, resulting in the creation of the Chiang Mai Initiative (CMI) in 2000. The CMI was essentially an aggregation of bilateral currency swap

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<sup>75</sup> "Joint Statement of the U.S.-Republic of Singapore Meeting at Shangri-La" New Release No.453-12, U.S. Department of Defense, June 2, 2012. <http://www.defense.gov/releases/release.aspx?releaseid=15337> ; Terri Moon Cronk, "Hagel Lauds U.S.-Australia Force Posture Agreement" DoD News, U.S. Department of Defense, August 13, 2014. <http://www.defense.gov/news/newsarticle.aspx?id=122910> ; Tyrone Marshall, "Pentagon's Top Policy Official Praises U.S.-Australia Alliance" DoD News, U.S. Department of Defense, January 21, 2015. <http://www.defense.gov/news/newsarticle.aspx?id=128005>

<sup>76</sup> "Table 5A: Currency breakdown of reporting banks' international positions – External positions vis-à-vis all sectors", Bank for International Settlements, Locational banking statistics, January 20, 2015. [https://www.bis.org/statistics/r\\_qa1503\\_hanx5a.pdf](https://www.bis.org/statistics/r_qa1503_hanx5a.pdf)

agreements with hints of multilateralism, although stopping far short of any real pooling mechanism. It intended to provide funds to help counteract currency speculation as well as provide liquidity support to nations in broader financial distress, albeit in instances of smaller disruptions, with the total financial resources of the CMI sitting at only \$80 billion before the crisis struck in 2008.<sup>77</sup> Whilst East Asia was not widely exposed to disruptions in the US housing market, economies with internationalised financial systems were susceptible to dollar funding shortages, marking Japan, South Korea, and Singapore out as potential risks. However, despite the severity of the crisis, the CMI was left untapped. Rather, instead, these states turned once again to the United States for liquidity support. In this case, the US federal reserve established a wide range of dollar swap lines with other central banks which offered *unlimited* dollar liquidity throughout the crisis,<sup>78</sup> also providing foreign bank subsidiaries domiciled in the United States unlimited access to its discount window. Federal reserve data shows that of the \$3.3 trillion of extra liquidity supplied to the US domestic economy throughout the crisis, over half went to foreign banks.<sup>79</sup> Because of this, the CMI was neither needed nor had the capacity to provide sufficient resources to any of the states in question even if required.

In this sense, the crisis was resolved without substantial revisions to the institutional architecture of the global economy, foregoing the need for broader hegemonic tools to be brought to bear to help shape potential readjustment struggles. More revealing were the regional dynamics leading up to and after the crisis, particularly the forms of institutional development witnessed post-2008. The three most important developments, in terms of size and progress, are the Chiang Mai Initiative Multilateralization (CMIM), the Trans-Pacific Partnership (TPP), and the Asian Infrastructure Investment Bank (AIIB). All three exhibit features in keeping with East Asian fears of the ‘hegemony’ of large regional states, a preference for regional inter-governmental networks that keep power vested in the nation

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<sup>77</sup> “The Joint Ministerial Statement of the 10th ASEAN+3 Finance Ministers’ Meeting (5 May 2007, Kyoto)” Ministry of Finance Japan.

[http://www.mof.go.jp/english/international\\_policy/convention/asean\\_plus\\_3/20070505.htm](http://www.mof.go.jp/english/international_policy/convention/asean_plus_3/20070505.htm)

<sup>78</sup> “Central Bank Liquidity Swap Lines” Regulatory Reform, Board of Governors of the Federal Reserve System, January 12, 2010.

[http://www.federalreserve.gov/newsevents/reform\\_swaplines.htm](http://www.federalreserve.gov/newsevents/reform_swaplines.htm)

<sup>79</sup> Broz, Lawrence. “The Federal Reserve as Global Lender of Last Resort, 2007-2010” Paper presented at the International Political Economy Society (IPES), University of Virginia, November 9-10, 2012.

[http://ucrpolicaleconomy.ucr.edu/wp-content/uploads/2013/09/Broz\\_Fed.pdf](http://ucrpolicaleconomy.ucr.edu/wp-content/uploads/2013/09/Broz_Fed.pdf)



states rather than supranational bodies, and a broader effort to tie the United States deeper into the region's security order.

The CMIM, established in 2009, updates the aforementioned CMI to be “a single contractual agreement for the purpose of providing financial support in United States Dollars through currency swap transactions.”<sup>80</sup> It offers precautionary and crisis resolution facilities, with programmes disbursing over 30% of any given quota linked to an IMF programme.<sup>81</sup> At present, total resources stand at \$240 billion, although swap amounts are adjusted for size, with Japan and China only allowed to call on half of their financial contribution.<sup>82</sup> This peculiar situation, compounded by a liberal use of the word multilateral (the disbursement process is still bilateral),<sup>83</sup> is very revealing. Not only is the institution enmeshed in broader global governance networks, but its largest states are only entitled to draw on half of their quota, using their financial resources to subsidise smaller states in the arrangement.

Recently, however, a more interesting institutional development has occurred in the region in the form of the Asian Infrastructure Investment Bank (AIIB). From the details that have been released, the proposed investment bank is open to membership from around the globe, and will seek to fill infrastructure funding gaps that have been repeatedly identified over the last decade, aiming to establish a \$100 billion pool of capital to help achieve this goal.<sup>84</sup> Indeed, the Asian Development Bank (ADB) has published numerous reports over the last few years, outlining the need for about \$800 billion of annual investment in infrastructure in the Asia-Pacific region from 2010 through 2020,<sup>85</sup> as well as identifying significant deficiencies

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<sup>80</sup> “Chiang Mai Initiative Multilateralization” Banco Sentral ng Philipinas, March, 2015.

<http://www.bsp.gov.ph/downloads/publications/faqs/cmim.pdf>

<sup>81</sup> Ibid.,

<sup>82</sup> “The Joint Statement of the 15<sup>th</sup> ASEAN+3 Finance Ministers and Central Bank Governors’ - Meeting 3 May 2012, Manila, the Philippines” May 3, 2012.

[http://www.mof.go.jp/english/international\\_policy/convention/asean\\_plus\\_3/20120503.pdf](http://www.mof.go.jp/english/international_policy/convention/asean_plus_3/20120503.pdf)

<sup>83</sup> “Chiang Mai Initiative Multilateralization” Banco Sentral ng Philipinas, March, 2015.

<http://www.bsp.gov.ph/downloads/publications/faqs/cmim.pdf>

<sup>84</sup> “Frequently Asked Questions” The Asian Infrastructure Investment Bank (AIIB)

<http://www.aiibank.org/html/pagefaq/Faq-Preface.html>

<sup>85</sup> Biswa Nath Bhattacharyay, “Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020” ADBI Working Paper Series No. 248, Asian Development Bank Institute, September 2010.

<http://www.adbi.org/files/2010.08.09.wp248.infrastructure.demand.asia.pacific.pdf>

in the capacity of regional states to raise the required capital to finance such projects.<sup>86</sup> Whilst in itself the AIIB is no major threat to the existent institutional order in East Asia, it is nevertheless indicative of broader Chinese ambition. For instance, the share allocation dictates that China will contribute 30% of the capital and hold roughly the same percentage in voting power. Given that many votes have a ‘three-fourths’ rule this implies effective veto power.<sup>87</sup> At the same time, while it is also obvious that the AIIB is largely the result of China’s ambitions to play a broader role in global economic affairs, the level of ‘threat’ is not synonymous with that which may have been afforded by the AMF. The AIIB gives regional states *more* options, whereas the AMF was likely to take them away. This also reflects the fact that both regional organisations (such as ADB) and global institutions (like the World Bank) have been slow to make changes in voting power commensurate with East Asia’s economic growth, with China’s voting rights remaining only a fraction higher than Canada’s at the ADB.<sup>88</sup>

As Injoo Sohn observes, the AIIB could therefore be described as a ‘hedging’ strategy which seeks to “explore both global and regional options lest it limit the range of strategic options available...creating non-confrontational means ways [sic] to resist the pressure of the status quo powers”.<sup>89</sup> Seen in this light, these institutions are not overt attempts to recast the regional order, rather they appear to serve a somewhat *anti*-hegemonic role, a characteristic that seems to define East Asian regionalism more generally. At the same time however it was also obvious that American interests were nonetheless sidelined. Their many attempts at dissuading allies fell on deaf ears, and (as we state above) were generally seen as misguided.<sup>90</sup> Nonetheless, it provides an interesting examination of structural power dynamics insofar as it alludes to some specific limitations to leveraging military force for influencing

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<sup>86</sup> “Connecting South Asia and Southeast Asia: interim report” (Tokyo: Asian Development Bank Institute, 2013)

<http://www.adbi.org/files/2013.05.05.book.connecting.south.asia.southeast.asia.interim.report.pdf>

<sup>87</sup> “Articles of Agreement” Asian Infrastructure Bank, June 29, 2015.

<http://www.aiibank.org/uploadfile/2015/0629/20150629094900288.pdf>

<sup>88</sup> “Members, Capital Stock, and Voting Power (as of 31 December 2014)” Annual Report 2014, Asian Development Bank.

<http://www.adb.org/sites/default/files/institutional-document/158032/oi-appendix1.pdf>

<sup>89</sup> Injoo Sohn, “AIIB: A plank in China’s hedging strategy” Brookings East Asia Commentary, Brookings, May 2015.

<http://www.brookings.edu/research/opinions/2015/05/11-china-asian-infrastructure-investment-bank-sohn>

<sup>90</sup> FT View, “America’s flawed strategy towards AIIB” *The Financial Times*, May 20, 2015.

<https://www.ft.com/content/ef600b8-fee0-11e4-84b2-00144feabdc0>

international economic agreements. In this case, that the United States was not capable (nor likely willing) to use forms of negative structural power to constrain allied actions. Equally, they were also unable to point to the benefits of status quo to motivate them insofar as most actors actually saw the AIIB as *reinforcing* the current international economic system. More pointedly, this illustrates the more subtle aspects associated with American structural power. Primarily, that as long as US forces remain committed to the region, and so prevent attempts at *regional* hegemony, it is very difficult for any given state to launch institutions that fundamentally undermine the pre-existing economic and security order in the first place.

Linked to this, recent increases in security competition between East Asian states we have seen an increased drive to tie the United States into the economic order as a part of its wider security engagement in the region. For instance, much of the rhetoric surrounding the TPP reflected as much of a strategic rationale as it did an economic one. Japanese Prime Minister, Shinzo Abe, specifically emphasised this connection when he delivered what was to be the first address by a Japanese Prime Minister to a joint meeting of Congress in April of 2015. In particular, he noted that Japanese entry into Trans-Pacific Partnership (TPP) negotiations “goes far beyond just economic benefits. It is also about our security. Long-term, its strategic value is awesome. We should never forget that.”<sup>91</sup> The US turn to Asia thus provides stability for the global economy, and as Hillary Clinton, former US Secretary of State argued, the Asian and European economies are the “linchpins of the global economy and international relations” in an “economically interdependent” world dependent on American power projection capacity as the “strategic turn to the region fits logically into our overall global effort to secure and sustain America's global leadership.”<sup>92</sup> Such processes would indicate that a deepening of East Asia’s security fractures may work to accommodate American ambitions for continued regional leadership - that is, offering positive incentives for engagement with American economic and security arrangements. Now, whilst President Trump has decided to upend TPP, this underlying security dynamic nonetheless provides leverage if he is willing to use it. In fact, one could speculate that this is exactly the dynamic

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<sup>91</sup> “‘Toward an Alliance of Hope’ - Address to a Joint Meeting of the U.S. Congress by Prime Minister Shinzo Abe, Wednesday, April 29, 2015” Speeches and Statements by the Prime Minister, Prime Minister of Japan and His Cabinet, April, 2015.

[http://japan.kantei.go.jp/97\\_abe/statement/201504/uscongress.html](http://japan.kantei.go.jp/97_abe/statement/201504/uscongress.html)

<sup>92</sup> Hillary Clinton, ‘America's Pacific Century’, *Foreign Policy*, November 2011, [http://www.foreignpolicy.com/articles/2011/10/11/americas\\_pacific\\_century?page=full](http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century?page=full)

that he is intending to manipulate in order to push through more ‘American friendly’ bilateral deals with regional states.

Because the favourable development of the global economy, including resolution in systemic disequilibrium, have relied heavily on the projection of US economic *and* military power America’s security presence affords it influence to create and enforce favourable economic conditions for the growth of the US economy. Because of this, developments in the region’s economic architecture are intimately related with its security system, implying that a drawdown in America’s security presence may have unpredictable effects for its institutional influence. Despite this, and regardless of force posture alterations under President Trump, it is nonetheless clear that American power projection is intimately related to the ordering of non-security issues. With its security guarantees and defensive posture in the East Asian region providing a number of outlets through which to influence bilateral and multilateral relationships.

## **Conclusion**

The extent to which one views contemporary grand strategies as unaffordable or undesirable is inherently linked to the manner in which we conceive that competing strategies are deemed to confer benefits in relation to both physical security and economic prosperity. In this way, whilst the quantitative indicators supporting this conception of power are important for understanding many aspects of international relations, there are limitations to their explanatory power that impact on our ability to understand and interpret the utility of certain grand strategies. For instance, our analysis of U.S.-Japanese economic diplomacy in the 1980s, particularly in the earlier part of the decade, illustrates that even when the United States has been considered to have been in significant relative decline its latent structural power enabled it to successfully negotiate economic adjustment struggles. More recently, we can also see that whilst the rapid growth in the size of many East Asian economies has begun to shrink the relative gap in economic power between the United States and East Asia, aspects of its structural power are actually becoming reinforced by strategic developments in the region. Indeed, as we have noted, the negotiation of the now defunct TPP owes much to such rationales.

Because of this, if we broaden our theoretical understanding of power relations to take account of structural power dynamics, and so America's capacity to leverage security preponderance in one area to help produce conducive outcomes in others, different evaluations of the utility of military power and subsequent viable grand strategies emerge. In particular, our demarcation between positive and negative structural power permits the process tracing of structural power through different cases and scenarios, shedding light upon the interactions between military force and non-security issue areas. While our study has been limited to the East Asian case study, this conception of power - and its theoretical and empirical application to other regions of the globe - would therefore allow a fuller and more robust assessment of the often close interrelationship between international security and political economy. Schools of analysis that need a closer dialogue in the aftermath of the financial crisis of 2008, particularly the potential implications of US relative economic decline for the continued viability of the liberal international order. We have attempted to broaden theoretical understandings of power and how these may, often unconsciously, impact on how we assess America's grand strategic options in a rapidly changing world.