

Not Quiet on the Eastern Front: The EU Could Help Defuse Escalation between the US and China

Josef Braml and Henning Riecke

Under President Donald Trump, the United States has become more confrontational in East Asia, pulling out of long-planned trade agreements and taking an increasingly aggressive stance toward China. The European Union could help defuse tensions, and deepen its own regional network in the process.

The US government under President Donald Trump may devote even more attention to the Asia-Pacific region than did its predecessor to both counter growing Chinese influence and maintain US military and economic leadership in this growing region. Trump may even attempt to use America's role as security guarantor to push for advantages in bilateral economic relationships with the country's allies.

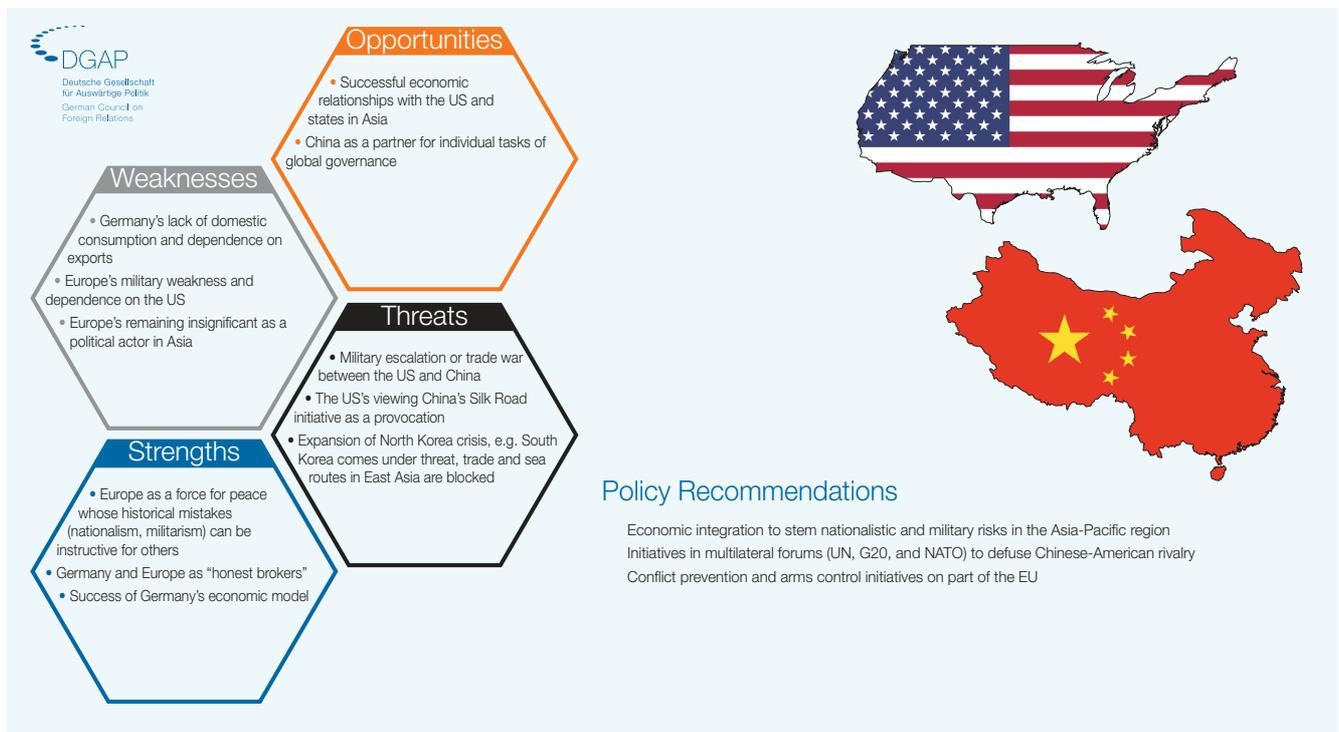
As a trading country with extensive economic links with both states and non-state actors in the Asia-Pacific region, Germany has a profound interest in avoiding any sort of military escalation or trade war. To protect German interests in secure trade and sea routes, the federal government should work through multilateral formats to help ease tensions between the US and China.

Rivalry between the US and China

There is a risk that the rivalry between the US and China for supremacy in the Asia-Pacific region will lead to military confrontation. Through its military deployments in the South China Sea and its construction of a series of artificial islands, China has been pushing its claims on territories, waters, and the resources underneath them, and developing the ability to project maritime power beyond its territory.

In the face of these threats, China's neighbors – allies and partners of the US – will expect support from Washington. The US, meanwhile, has thus far resisted restrictions to its freedom of movement in the Pacific, and regularly crosses contested waterways to demonstrate its rejection of China's claims. Although neither side has an interest in armed conflict, these symbolic clashes could escalate, whether that is the intent or not.

Tensions between the two countries regarding their respective relationships with North Korea could also lead to conflict. North Korea's nuclear and



Grafik: DGAP/ReinerQuirin, CC BY-NC-ND 4.0

missile program has become a serious threat to the US, and President Donald Trump has been trying to persuade Beijing to put more pressure on North Korea, offering in return to refrain from branding China a currency manipulator.

However, China will not endorse any measure that jeopardizes North Korea's stability: it fears absorbing more refugees, as well as a united pro-American Korean Peninsula. The US therefore partly blames China for the current standoff, and has threatened to carry out a preventive strike against North Korea's nuclear plants. A potential North Korean counter-attack could hit South Korea, Germany's economic partner, and block trade routes throughout East Asia.

Geopolitics and Geo-economics

In reinforcing the "rebalancing" strategy pursued by the Obama administration to curb China, President Trump has focused on military strength and urged its allies – including Japan, South Korea, and Australia – to spend more on defense. Not surprisingly, US companies are meant to benefit from exporting weapons to the allies in the region. This will mean a certain amount of American pressure on South Korea in response to the latter's decision to withdraw from a common missile defense strategy, which has benefitted China.

The US is making further trade and monetary demands on its allies in the region, such as opening their markets to American automobiles and agricultural goods and financing even more US government debt. However, as long as these allies cannot be certain that the US will defend them in the event of an emergency, and that the Trump government will comply with the economic agreements made by the Obama administration, they will likely not be willing to make such concessions.

There is a great deal of mistrust in the region: by unilaterally declaring the Transpacific Partnership (TPP) dead, President Trump left those allies in the Asia-Pacific region in the lurch, who had chosen to side with the US against China. If he also sets up trade barriers, China's neighbors could align themselves with China even further on economic and monetary issues. The regional Comprehensive Economic Partnership (RCEP) established by China against the US could offer a framework for such an arrangement.

The Dollar's Dominance in Danger

There are also signs of a shift in the area of monetary policy. China and Japan, the two main financiers of the

growing US sovereign debt, have been reducing their dollar investments for some time. China has already reached agreements on mutual recognition of currencies with Japan and South Korea. Eventually, the currency markets are likely to reflect the realities of international trade, which today means that a unipolar world with the dollar's dominance has to give way to a multipolar order with three centers of power: the dollar, the euro, and the Chinese yuan. This would mean a significant threat to the American credit-financed economic model, along with the country's ability to pay for its military obligations.

China is now leveraging its currency reserves, which it used to reinvest in the US, to shift its own economy more toward domestic consumption, while diversifying its exports with its Silk Road Initiative ("One Belt, One Road"). This will allow China to lessen its dependence from the US market and gain strategic influence in Europe. Accordingly, Washington perceives the Silk Road Initiative as an economic and political challenge to the US-led economic and political world order.

Donald Trump's "America first" policy, on the other hand, holds little appeal for US allies in Asia and Europe. On the contrary, international companies are interested in China's global infrastructure plans – Deutsche Bank, for example, is planning to work with the China Development Bank to finance €3 billion in Silk Road Initiative projects within the next five years. Global entrepreneurs need alternatives if trade barriers make their access to their most important export market – the US – more difficult.

Policy Recommendations

The danger President Trump poses with his "America first" policy only makes it more important that Germany and the EU build up their own trade relationships in the region. It is essential that trade and sea routes are not disrupted by military conflict. *Economic integration would create mutual dependencies and opportunities that could help curb nationalist and military tendencies.*

Europe could pursue a trade and investment partnership between Asia and the West running even deeper than the Transpacific Partnership (TPP). In doing so, Europe – and ideally the US – could forge a regional free trade agreement encompassing several Asian and Pacific countries, one that would also incorporate India and China. There are some indications of interest in such a project in Asia, especially as the potential participants work to keep the free trade project alive after the withdrawal of the US from TPP. With this diversification

strategy, Germany would also become less vulnerable to American protectionism.

Germany should work with its Asian partners to ensure that free trade and maritime routes are not only negotiated within a UN framework, but also in the G20, and potentially even in a special NATO-China council. It might speak for NATO's credibility that, so far, the Alliance has not been an active force in the region.

The EU could enhance its conflict prevention abilities, or act as a facilitator for arms controls or trust-building measures – through joint projects in the South China Sea, for example. In particular, the EU could also help to ease

tensions between the US and China, by working toward a diplomatic handling of the standoff with North Korea. By contributing to defusing the Sino-American rivalry, Germany and Europe could grow from their supposed weakness to strength, mediating in the arms race in Asia and countering American demands for greater defense spending – all premised on the assumption that security in the region can only be created through cooperation, not competition.

Josef Braml is Editor-in-Chief of the DGAP Yearbook.

Henning Riecke heads the DGAP's USA/Transatlantic Relations program.