

STRATEGIC AND ECONOMIC DIMENSIONS OF U.S CHINA RELATION

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Abstract

The present century witnessed the unprecedented growth of China. The history of China and U.S relations is dynamic. From the policy of estrangement, it has developed to mutually beneficial relations. So the rise of China is going to have primarily and great impacts on the U.S China relations. Form the current U.S -China relations, we can observe a strange relation. At military and strategy levels both compete for dominance. At the economic front, both observe a kind of cooperation and reliance. Philip J.Funigiello in his book "American-Soviet Trade in the Cold War (1988)" notes that there was tight control of trade with the Soviet Union. Not only the U.S, but the entire west was prohibited as it assumed that better interactions with East Europe and the Soviet Union will result in the proliferation of communism to the west. It also feared that these engagements will also result in the development of military capability of the communist bloc (Wexler 1989). But as we analyze the China-US economic relations especially the trade, we can witness an increasing reliance on both parts which was a feature that was absent at the times of cold war in the U.S - Soviet Union relations. But at the military and strategic level both are engaged in unpredictable rival relations. The United States was concerned about the changes in China.

Key Words: *Strategic Hedging, Wedging , Thucydides Trap, China, United States, South China Sea, Taiwan, OBOR, South China Sea.*

The U.S was an important actor that brought initial changes in China. It was Nixon through his historic visit to China in 1972 which brought China out of self-imposed isolation and led to massive investments in China from the U.S business community. Through this approach, the two aims were put forward by the U.S. First was to reduce the hatred of 100 million Chinese against Americans. Secondly, it was intended to remove the threat of a unified communist bloc. China was used as a counterbalance against USSR (Lai 2011). There are active discussions about China's rising economic and military power would lead to a confrontation between itself and the United States. Some arguments favour what is called the "Thucydides Trap," invoking Thucydides's well-known observation in *History of the Peloponnesian War* that "what made war inevitable was the growth of Athenian power and the fear which this caused in Sparta." This theme suggests that a rising challenger and a reigning hegemon may come into conflict as a result of power shifts and structural stresses (Leon 2017).

Strategic Dimensions

The strategic dimension is an important aspect of U.S China relations. The U.S and China maintain distrust at the strategic level. There are many reasons for this distrust. One of the important reason is that China feels that the U.S is disappointed by the rise of China. Along with this many regional powers, countries such as Brazil, India, Russia, South Africa etc are working in cooperation with each other as well as with China. They challenge western dominance as a development model. Chinese strong leadership with its recent success at economic level provides a model to developing countries. China also believes that America, the current hegemon does not want to alternate the present power structure. The rise of China may challenge the present structure which America dislikes at any cost. China believes that America also tries to internally weak the political structure of China by different sophisticated ways. Along with this China's increasing suspicion of arms sales to Taiwan as well as its criticism poses against interventions in Iran, Korean Peninsula, Syria on the ground that America intervenes here because of self-interests which affect Chinese interests (Lieberthal & Jisi, 2012). But America, on the other hand, maintains that it threatens the U.S positions at many different levels. It fears the PLA's dominance near the seas as the encroachment upon the right to free navigation in the international water bodies. At the economic level, America fears the Chinese dominance. There exists even alarming trade debt with China. Against its nature of political system America is suspicious. It believes that the authoritative regime in China is notorious for human rights violations. In another aspect especially the environment and providing of public goods, America wants that China must be equated to the developed country, not a developing country.

Among the strategic realm, defense spending is most often referred. It is the fact that official estimates record the U.S has largest defense spending. It accounts for 36.1% of all of the world's military budgets combined. China only has only 8.0 %. If the alliances of U.S such as NATO are also calculated it will jump to 56.5% of the world. If actually valued on a comparable basis, China's military expenditure might be somewhat close to that of the United States than the figures indicate since military salaries are much lower in China than in the United States. China now focuses on modernization of naval and air capabilities. China's military modernization efforts, together with its more assertive foreign policy have made the U.S follow new measures in the world especially in the Asia Pacific. Pivot to Asia and other similar policy measures must be seen in this instance (Leon 2017).

The Asia -Pacific has become an important playfield of strategic contentions between Washington and Beijing. Most of the Chinese policymakers believe that America is doing to contain China in the region. Most important area of strategic conflict between U.S and China is regarding the maritime security in East Asia (Lieberthal & Jisi, 2012). The PLA's modernization adds a new and complicating factor in the US strategic calculus, raising the stakes, for instance, in any potential Taiwan Strait crisis as the PLA develops

more options for the use of military force (Bergsten et al. 2009, p 199). Singapore, which sits astride the critically important Straits of Malacca, worries about China's growing power and badly wants to upgrade its already close ties with the United States. Toward that end, it built a deep-water pier at its new Changi Naval Base so that the US Navy could operate an aircraft carrier out of Singapore if the need arose. And the recent decision by Japan to allow the US Marines to remain on Okinawa was driven in part by Tokyo's concerns about China's growing assertiveness in the region and the related need to keep the American security umbrella firmly in place over Japan. Most of China's neighbours will eventually join an American-led balancing coalition designed to check China's rise, much the way Britain, France, Germany, Italy, Japan, and even China, joined forces with the United States to contain the Soviet Union during the Cold War (Mearsheimer 2010). Economic development in the Asia Pacific has resulted in increasing military expenditure in the Asia Pacific region which even surpassed the entire European spending. In the 2012 Shangri-La International Security Dialogue secretary of Defense Leon Panetta proposed four pillars to the rebalance in Asian security- partnerships, presence, power projection, and principles. In presence and power projection Panetta announced the plan for deploying of 60 percent of U.S naval forces to Pacific by 2020. According to Defense Secretary Ash Carter America is shifting its air and naval capabilities as well as regrouping its forces from the Middle East and Afghanistan to Pacific (Denmark 2012). The most suitable phenomenon that can be used to designate the relations between U.S and China is the strategic hedging found profoundly in the Asia Pacific region. U.S. and Chinese choice of hedging strategies is an expression of security dilemma that works in a globalized world characterized by deep economic interrelations and the need for multilateral security cooperation (Medeiros 2005).

Strategic Hedging in the Asia Pacific

The terminology of strategic hedging has come from finance. The term was used by I.R scholars to designate both smaller states and big powers strategic actions (Kuik, Idris & Md Nor 2012). Evelyn Goh comments that hedging strategy has been developed by smaller states in South-east Asia. He defines the strategy as “a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality” (Goh 2005, pp. Viii, 4). It is different from balancing. Balancing focuses on containment like policy which aims at aimed at encircling, limiting, and subduing the threat. While hedging is the form of indirect-balancing, soft-balancing, or political-balancing behaviour through which collaborative engagements with the targets is to make the desired behaviour. Hedging is not a middle position. It typically consists of two options returns maximizing and risk contingency measures. A group of opposite policy measures is used rather than a direct military confrontation as the target state cannot be a full-blown threat because of the partnerships and assistance of the target states in certain areas especially economic, functional or regional problems (Kuik, Idris & Md Nor, 2012). As policymakers and analysts in each nation remain intensely

disturbed about the other's real strategic intentions, the U.S. and Chinese leaders regularly maintain that they strive for a "cooperative, constructive, and candid" relationship. To hedge, the United States and China are following policies that, at one level stress engagement and integration mechanisms and, at the other level, emphasize balancing as in realist-style found in the form of external security cooperation with Asian states and national military modernization programs (Medeiros 2005). The United States which was the unipolar power has engaged in the hedge in the complexity of the rise of China in the Asia Pacific through well-coordinated strategic moves. ASEAN states have engaged in hedging along with the United States because of the uncertainty surrounding China's rise. But they are not ready for direct confrontation against a rising power and also because of anxiety about economic opportunities that can be gained from it. For some of the states such as the Philippines want a unipolar power that can protect its relative position in a volatile region. But all are not in the same position. Likewise, the United States wants the entire nation to hedge against Beijing directly (Kuik et al, 2012). The Asia-Pacific Stability Initiative (APSI) designed by Senator McCain is an important measure in this direction and should be regularly increased to levels similar to the \$4-5 billion annually devoted to the European Reassurance Initiative. Trump's commitment to more funding in APSI is signal to the allies of U.S in the region that it will take the look rising China (Tellis 2017).

America views a threat to the rise of China. It was begun not in these days. But it even extends to end of 20th century. The arms sales of China are significant in this regard. U.S. Arms Control and Disarmament Agency has published a data in 1988, according to this in the period 1982-1986 the 80% of Chinese arms delivery was to the Middle East. In which Iran and Iraq were the most important receivers. From 1980-87, 74% of China's arms agreements were with Iran and Iran. Together with this Egypt, Pakistan, and Thailand were other important arms receivers at the same point in time. Pakistan was a reliable customer at the same time. It was after that U.S replaced the position. The important motivations for the arms sales were firstly the desire for foreign exchange. It was also a way for finding the fund for its priority at that time, which is defence modernization. Thirdly it was important in maintaining good relations with new states. A well-cited example is the Saudi Arabia where it was a staunch opponent of communism altered its position due to the massive supply of arms and ammunition by China (Woon 1989). Thus the military level antagonism is not the recent origin. The middle east at this point in time was the influence zone of America. China knows this fact very well. China moved to the possibility of confrontation with the U.S in this region. This is continued in the present century through more sophisticated ways. The recent conflicts in the Asia Pacific region must be viewed in this background.

Chinese Position in the Asia Pacific

From the time of the Asian financial crisis in 1997 to the Beijing Olympics in 2008, Chinese foreign policy appeared increasingly benign and beneficial to its neighbours. But after it Beijing begun to behave

arrogantly. The Asia Pacific is important that it is predicted that it will compose of 35 % of the world economy in 2020 (Schumacher 2016). At the strategic level, Asia Pacific became important when the U.S announced especially during the second term of Obama administration, its policy for rebalancing in Asia. It has announced enhanced military relations with the small nations around this region including Singapore, Malaysia, Hong Kong and Vietnam (Kuo 2017). Beijing seeks first, a stable regional setting that would be enabling its economic development and political security; and second, a region that is more accepting and reflective of China's renewed power and status in international society. To achieve these aims China's main challenge will lie in how to sympathize sufficiently with the vulnerabilities as well as nervousness of the non-great power states so as to persuade and induce them fully to support China's power and position in the region and the world (Kuo 2016). Some of the important conflicts that remain at the forefront in Asia Pacific region which acts as a shadow war between U.S and China are the Taiwan issue, the Korean Scenario, and Disputes in East and South China Sea (Farley 2014). Since the Spy plane incident, there were frequent military incidents between the two. In 2009 US surveillance vessel USNS Impeccable was challenged by Chinese military and civilian ships which were operating within the China's 200 nautical mile EEZ (Exclusive Economic Zone) which highlighted China's sensitivity over its territorial waters. Beijing and Washington have different views regarding the sovereignty granted by EEZ which has further complicated the security situation in South China Sea (Lanteigne 2015, p 138). Analysts focusing on the prospects for inter-state war or peace in the Asia-Pacific invariably have pointed to the Korean Peninsula (KP), China/Taiwan (CT), and the South China Sea (SCS) conflicts as the potential "flashpoints" or "hot spots" of the region (Foot 2007).

Taiwan Issue

The PRC is against the United States having diplomatic relations with both the PRC and Taiwan because it would mean that the United States believed there were "two Chinas," and not just one China. It was one of the conflictual episodes in the history of U.S China relations from the initial stages. "The Shanghai Communiqué", which was produced during the visit of Nixon to China in 1972 normalized relations with China did not challenge the claim that there was one China but argued for a peaceful resolution of the issue. In 1982 a "joint communiqué" was signed by U.S and China which assured that the U.S will not sell any more weapons to Taiwan as before in 1979. Meanwhile, China tried to unify the states as "one country, two systems," a proposal that China claimed would give Taiwan plenty of freedom to maintain its own political, social, and economic systems. But this proposal was opposed by most of Taiwanese. The election in the state attracted the U.S and argued for the assent of people as important which was against its previous position which resulted in missile exercises around Taiwan by China. Against it, US dispatched two of its aircraft carrier battle group. Though there are relations between China with Taiwan it is not productive ("Taiwan And U.S.- China Relations," 2009). Taiwan is important as the Stephen Young of AIT(American

Institute in Taiwan) says "Taiwan is canary in the coal mine of China's rise." This means how China behaves to Taiwan is important which indicates its role as lead actor in the international level (Rigger 2011, p 193). Since the March 1996 Taiwan crisis, China has made a combined shift toward a strategy of constructing its military capabilities with an eye to restraining any U.S. intervention along its maritime rim that might ruin its core interests (Tellis 2017).

The Obama administration has played at the policy level which was oriented towards the U.S which means pro-Taiwan and not anti-China. Taiwan policy was to make Taiwan confident in its security, in control of its economic destiny, and treated with dignity and respect around the world. But as the Trump administration arrives there is considerable change in the Taiwan policy. It is to push Taiwan into the middle of magnifying U.S.-China rivalry which will harm Taiwan, erode American credibility and, ultimately, destabilize Asia. For China, if it weakens its stand it will make other powers also play the U.S policy against the mainland. It will also have domestic repercussions as it will weaken the support of ruling communist party (Medeiros 2018). China is suspicious that the U.S. seeks not only to control the region but to "Westernize" and "split" Chinese territory and undermine PRC (Romberg & McDevitt 2003). In June 2017 the Trump administration has notified Congress of a consignment of seven separate proposed defence sales for Taiwan, valued about \$1.42 billion. According to Taiwan's defence ministry the purchases, including advancement to existing systems, will boost air and sea combat capability and early warning defenses (Tritten & McIntyre 2017).

China's anxiety about Taiwan was intensified when Tsai Ing-wen, was elected as the president of Taiwan at the onset of 2016. Beijing fears that she will create an incrementally and covertly independent Taiwan. Taiwan's recent election indicates that a majority of Taiwan citizens want to enjoy the economic benefits of a rational close relationship with the mainland, but worry losing autonomy if the affiliations become too strong. The verdict was negative for previous administration of Ma Ying-jeou because of drifting closer to the mainland. Taiwan sought to join the international stampede toward the new China-led AIIB (Brown & Scott 2015). The administration of Tsai Ing-wen balances among these forces by assuring to preserve the status quo (Paal 2017). According to outside observers, Beijing might also steal away some of Taiwan's diplomatic allies and further restrict its access to international organizations. The U.S in maintaining good relations with China has the broad national interest; in protecting Democracy of Taiwan has specific human rights interests. But it has no national interest in protecting Taiwan as a sovereign country, it will create enmity between China and U.S. Washington's policy incorporates economic integration with a hedge contrary to future uncertainty (Nye 2008).

Even though President Trump after his accession in the first stage promoted a pro-Taiwan approach and even declared to withdraw the one-China policy, later he went to withdraw the decision. Taiwan president Tsai Ing-wen made a phone call with the Trump in December 2016. Later President Trump changed his stand, which cited the limits of President Trump's provocative words and deeds created by the overall need for productive Sino-U.S. relations which needs not playing with China (Swaine 2017). The Chinese government made no direct criticism of President-elect Trump or his policies following the call. Moreover, China may freeze its trade relations with U.S and position on Korea. This has made Trump move back to the position of One China Policy, which he was against in the initial stages of his position as President (Medeiros 2018). Thus Trump is not in an independent position to change a stand on Taiwan, same situation for China also.

Korean Issue

A formal alliance between Beijing and Pyongyang was established in 1961. But it was later eroded in the 1980s due to the influence of west and strict adherence to traditional Marxism-Leninism. The state runs a totalitarian regime through Kim's son Kim Jong Il. He remained in power up to 2011 until his death. He was later followed by Kim Jong-un, son of Kim Jong Il. The state had collapsed during these stages with industrial output collapsed including great famine of 1996-9. China remains North Korea's only major financial backer and trade between the two sides reached US\$6.39 billion in 2014. Together with assistance from China at large scale buys North Korean metals, coal, and minerals. Since the 1990s North Korea strongly encouraged by China is engaged in the "Track II" dialogues as well as in ASEAN Regional Forum (ARF) for Asian security. (Lanteigne 2015, p 165-166). The Chinese government had not responded negatively to the Trump's accusation that Beijing is not applying enough pressure on North Korea. But some sources upheld the Chinese motives to promote peace and stability in the Peninsula and peaceful settlement of the Korean conflicts. Some of the observers in China are of argument that the point of the issue not lies in China but in the U.S –North Korea relations. It is the U.S administration to be constructive in handling this issue (Swaine 2017).

According to China Asian security must be managed by Asians alone. China promises its neighbours a policy of "non-interference" as an assurance of China's good intentions. If the strategy has to succeed it will undermine the position of U.S, preventing the dominance of the Eurasian landmass by any hegemonic power. If the U.S is not successful in protecting its allies in the region will ease China's capability to serve militarily in more remote global spaces where the United States has long sustained absolute dominance. What allies of U.S in the region want to hear is that the United States that it will defy both the threats of Chinese hegemony and the appeal of any U.S.-China condominium (Tellis 2017).

The current nuclear threat generated by North Korea must be looked back to 1990s. Pyongyang in 1993 announced that it will withdraw from Nuclear Non-Proliferation Treaty (NPT). Then U.S president Bill Clinton responded by entering into direct negotiations with Pyongyang which resulted in an agreed framework in 1994. It suspended nuclear programme in exchange for an agreement by the U.S that not to attack the DPRK. The Korean Peninsula Energy Development Organisation (KEDO), a multilateral regime would oversee energy-related aspects of the agreement. But according to North Korea, the U.S and its promises went not in a good way. The North Korean nuclear crisis began in October 2002 when the DPRK announced that in contrary to the Framework Agreement of 1994, they are developing a Uranium-enrichment programme for developing nuclear weapons. Bush designated DPRK as the axis of evil. DPRK also announced that it is also withdrawing from Nuclear Non-Proliferation Treaty. In the place of Washington, China organized multilateral negotiations to solve the problem. Beijing insisted on a negotiated settlement which included complete denuclearization of the peninsula and maintenance of regional peace and stability. Since the crisis, U.S was not willing to talk with the DPRK. First Nuclear test was conducted in 2006 which lead to the passing of resolution 1718 in which China sided with rest of nations and criticized DPRK. Even though an ally, China does not need a nuclear power at its doorstep. (Lanteigne 2015, p 166-168).

The U.S sanctions on DPRK were primarily aimed and responded at its nuclear project. Though cyber attacks also began to pose threat as found in 2014 breach of Sony's computer systems along with human rights violations, money laundering, and other activities. Even Chinese firms are also fined on this pretext like China's ZTE, for violating U.S. export controls with regard to North Korea and Iran. The U.S. Congress passed its first statute imposing sanctions on North Korea in 2016. President Trump in September 2017 enabled the Treasury Department to block from the U.S. financial system any foreign business or individual that facilitates trade with North Korea. Earlier President George W. Bush removed North Korea from the list as part of denuclearization negotiations with Pyongyang, but in November 2017 President Trump announced the inclusion of North Korea in the list (Albert 2018).

Chinese support for North Korea dates back to Korean War (1950-53). From that war onwards China offers political as well as economic support to the North Korean leaders. To an extent, the relation was strained in 2006 due to the DPRK's nuclear experiments leading to the support of UN resolution 1718. While considering the latest attitude of China which backed the resolution 2375 of September 2017, against DPRK but not ready for punitive measures. The resolution was even supported by China after the omission of crucial points such as an embargo on oil. This is evident that China is not wholeheartedly against the complete humiliation of North Korea. China had played the role of an organizer, mediator, a broker, a coordinator and a facilitator. DPRK relies on China for its existence. While China had no political influence

it has enormous material influence over DPRK. About 90 percent of North Korea's total trade, most importantly food and energy supplies is from China(Person 2017). It is also important that import from North Korea fell by 16.7 percent while exports to North Korea has shown rise by 20.9 percent. There is even report which says many North Korean businesses are working in China. Beijing also gives aid directly to Pyongyang, primarily in food and energy assistance. Other nations such as Japan, South Korea, and the United States have withdrawn their aid with the collapse of the Six-Party Talks in 2009. The 1961 Sino-North Korean Treaty of Friendship, Cooperation, and Mutual Assistance, which is for renewal in 2021, says China is compelled to intervene against unprovoked aggression ("Understanding The China-North Korea Relationship," 2018).Hence without the participation of China denuclearisation of North Korea will essentially fail. China also wants a strong North Korea without nuclear warhead because China's excessive material advantage over North Korea is a double-edged sword. If the lifeline is cut down in DPRK, it will lead to societal and state collapse. This will result in disturbances in the border pushing a large number of migrants and refugees to China (Person 2017).

China follows the policy because of some requirements. It was the necessity of foreign and security policy. It promotes Beijing more actively embracing existing regional and global regimes of cooperation. President Bush even appealed for China's help for solving the problem in the peninsula in this background, which emphasizes an emerging superpower role in resolving the conflict. China has no system to monitor shipments. According to the Reuters, North Korea appeared to use a Chinese truck originally sold for hauling timber to transport and erect a ballistic missile that was successfully launched in July 2017. It is important that UN sanction exists for shipment of military hardware to North Korea. It was imported to North Korea on the pretext of civilian use (Pearson and Kim, 2017).

South China Sea Issue

The South China Sea is important in strategically as well as economically. The disputes over overlapping exclusive economic zones in the South China Sea have intensified in the last few decades. According to the U.S estimates \$5.3 trillion of Chinese trade passes through the South China Sea every year. Eleven billion barrels of oil and 190 trillion cubic feet of natural gas is in South China. It is predicted that 90 percent of fossil fuel exports from the Middle East would be projected to go Asia by 2025. The area is composed of several hundred small islands, rocks, and reefs, with the majority located in the Paracel and Spratly Island chains. The others are Pratas Islands, and two other grouped land features, the Macclesfield Bank and the Scarborough Shoal. Many of these islands are partially submerged land masses unsuitable for habitation and are little more than shipping hazards ("South China Sea - International - Analysis - U.S. Energy Information Administration (EIA)" 2013).

The fight over overlapping exclusive economic zones in the South China Sea has an equally complex chronology of events steeped in the turmoil of Southeast Asian history ("China's Maritime Disputes" 2018). The People's Republic of China (PRC) succeeded the ROC's legal rights internationally in 1949 but the matter of South China Sea is set unclear until this day. The Pratas islands are under the effective control of Taiwan. Taiwan, mainland China, and Vietnam have respective claims over the Paracel Islands in the northern part of the South China Sea. China, Vietnam, the Philippines, Malaysia, Taiwan, and Brunei all assert sovereignty claims to at least some portion of the Spratly Island chain. Each party in the dispute annex at least one islet or shoal in the South China Sea. The largest island in the Spratlys, Taiping Island (also known as Itu Aba), is under the effective control of Taiwan. Though the Indonesian part lies south-west of nine-dash line, it feels that Indonesia has been concerned that China's declaration of EEZs might precipitate conflict in the region (Lu 2018).

The policy China focuses here has undergone great changes as compared to past. The reform policies of the late 1970s and 80s were aimed at more interaction with international regimes and institutions. The most clear-cut feature of this strategy was to join the global economy: China accepted the leadership of the IMF and World Bank. China opened up its trade and accepted the liberalization principles of WTO. Its development was sometimes beneficial to others. China's reformist leaders also recognized the value of taking an accommodating stance toward its East Asian neighbourhood, of which the United States is a part. One stand was to reducing conflicts by which the modernization of the military can be delayed. Its military was not in match with Japan or America (Bush 2016). From the late 1980s, Beijing has come to see the United States not as a strategic partner but as the major impediment to its own strategic ambitions. It therefore focussed on reducing the American influence in Asia, to prevent Japan and the United States from creating a "contain China" front, to build up a military with force projection capability, and to expand its presence in the South China and East China Seas so that it controls the regions essential to sea-lanes (Bernstein & Ross, 1997). Thus began a program to build the capabilities to project power into the maritime domain and then use them to press its claims (Bush 2016).

As tensions in the South China Sea intensify, the stand taken by America is important. There is a continued flight of surveillance planes of America which China accuses of the expanded territorial sovereignty. Pentagon is concerned of sending warships into waters that the United States asserts is international and open to navigation. According to Hong Lei, the Foreign Ministry spokesman called American flights as, "very irresponsible and dangerous," were "likely to cause an accident." China maintains that foreign aircraft do not have the right to fly within its 200-mile exclusive economic zone without permission which is against U.S argument that it has right beyond a nation's 12 nautical miles (Cooper and Perlez 2015). American stand is based on United Nations Convention on the Law of Sea (UNCLOS). Important sea lanes for oil

shipments from the Middle East and container ships from Europe, and over which military and commercial aircraft routinely fly was subject to the United Nations Law of the Sea Treaty. While the Chinese argument is based on map inherited from the Nationalist period, which has territory very near to 40 or 50 miles from the coastline of states like Vietnam, Malaysia, Brunei and the Philippines. There were some conflicts with the neighbours on this issue. In 2012 it had skirmishes with the Philippines in which the fish boat of the same was chased by China's naval forces. Later the dispute was gone before the International Tribunal for the law of the sea. China built an oil rig in the area claimed by Vietnam allowing some quarrels where the reverberations led to domestic anti-China riots in Vietnam (Nye 2015). China got a retreat when the International Tribunal in the Hague delivered the verdict that China's nine-dash line claim to the South China Sea invalid because of Beijing's earlier ratification of the United Nations Convention on the Law of the Sea (UNCLOS). But China announced that it would not respect the verdict

The U.S is careful in its approach in this issue. It wants to support its allies in the region. But after China's active policy of dredging sand to fill in reefs and build islands in at least five locations, America decided to Change its stand. According to the U.S, UNCLOS grants foreign ships and planes free access beyond a 12-mile territorial limit, while China claims that military flights cannot cross its 200-mile economic zone without its permission. If this stand is maintained by China, it occupies almost all parts of the sea. American suspicion got strength when in a separate dispute between China and Japan over the Senkaku/Diaoyu Islands in the East China Sea. In 2013 Chinese government unilaterally declared an Air Defence Identification Zone without prior warning. The U.S. response was to fly two B-52 bombers through the unrecognized zone (Nye 2015). In the strategy of hedging against China in Asia America uses Japan as an important ally. From the Bush administration itself, the role of Japan as diplomatic, as well as military, recognized. America also supports constitutional reforms that allow Japan's military potential to expand and be more active in the region. U.S -Japanese military and technological cooperation are also growing. America also focuses on greater interaction with India with

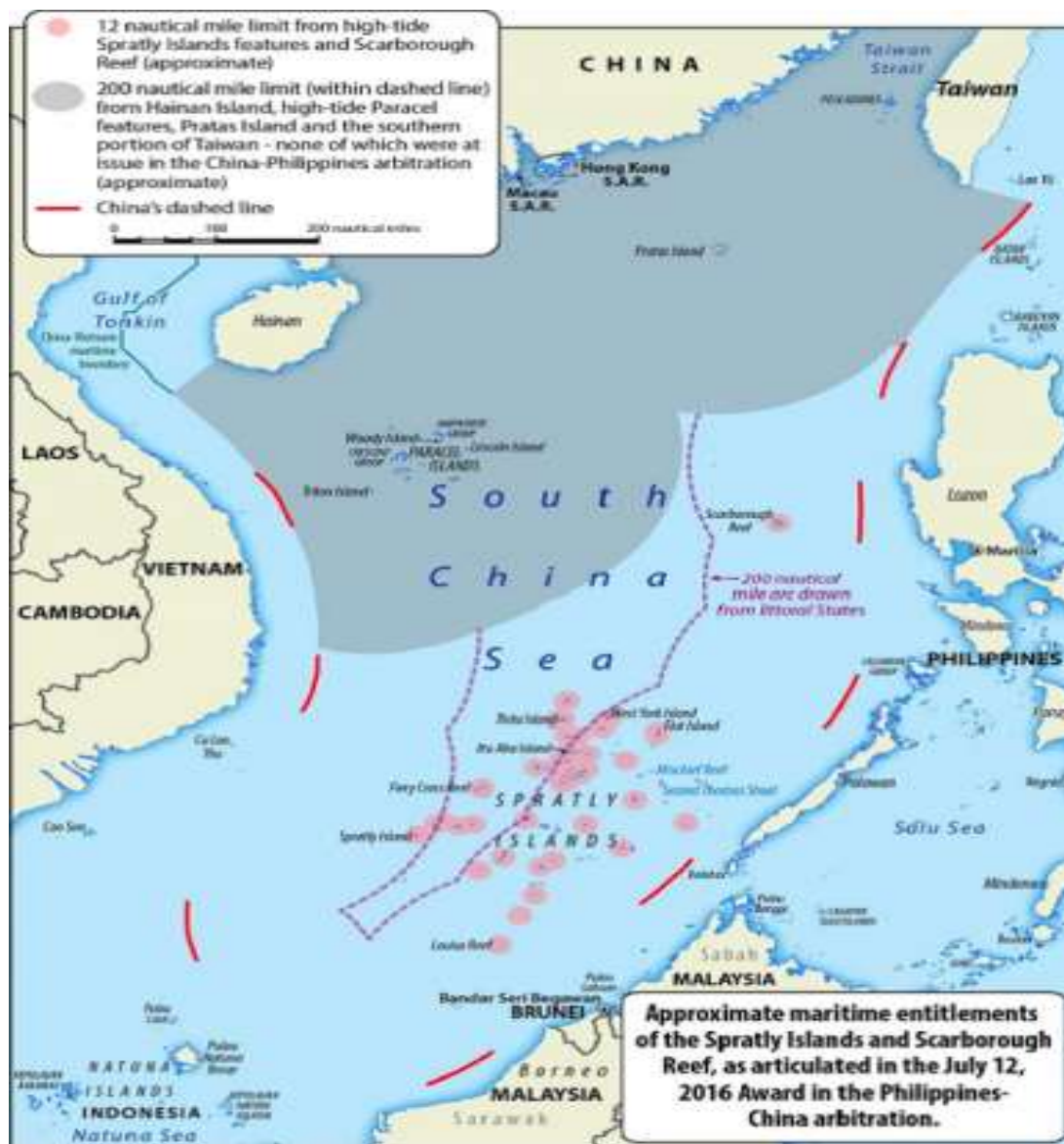


Figure 1. South China Sea Boundaries (from Almond, 2017)

multiple exercises. In 2004 the United States authorized Israel to sell to India the Phalcon airborne early-warning system (Medeiros 2005). But an important thing and irony, in this case, are that America does not ratify UNCLOS. By formally joining UNCLOS, the United States will be in a stronger position to support the ruling of the arbitral tribunal in the face of Chinese opposition as described in figure 1 depiction of boundaries within 12 nautical miles (Almond 2017).

Southeast Asian leaders were relieved from the passivity of Obama when he announced the policy of the pivot to Asia. U.S. military focus should shift from the Middle East and will engage in the South East Asia where its future economy lies (Ignatius 2015). U.S cannot maintain ASEAN as a united front against China. The Philippines and Vietnam have adopted firm positions towards China. Singapore is not a claimant state and is neutral. Malaysia and Brunei have generally ignored the increasing presence of Chinese. Malaysia recently took a firm position against China. Indonesia has publicly stated that there are no overlapping

claims with China. Cambodia has been sympathetic to Chinese. Thailand, Laos, and Myanmar regard ASEAN's efforts to shape a settlement of these conflicting claims as a distraction which undermines efforts to build shared interests between China and ASEAN, especially on economic cooperation and development issues. ASEAN unity on South China Sea issues is therefore fragile. This makes the burden of balancing China on the U.S itself (Desker 2015).

U.S Policy should focus not only on the South China issue but also focus on the broader aspects of south Asian interaction. While focusing on China the U.S must careful in preventing the militarization of the region. Though relying on the argument of deterrence, it should be mindful that China's South China Sea claim is also informed by a deep sense of vulnerability, especially to the military activities that the United States conducts in its vicinity (Liow 2016).

As China's operational reach has increased, it is directed at targeting U.S. forces before they get into the water bodies in China's maritime peripheries. The capabilities that China is advanced and expanding for this purpose include intermediate-range ballistic missiles with precision payloads capable of reaching targets as far as Guam, bombers, and strike-fighters with long-range cruise missiles, and new generation nuclear submarines armed with both advanced torpedoes and long-range cruise missiles. Until the rise of China as a military power, the United States could concentrate with no sweat on power projection because most of its rivals were unable to challenge the American dominance of the seas and the skies. China's renewed capability in open ocean submarine warfare, counter space operations, and sophisticated air defence and airborne strike warfare operations must look for alternative opportunities for excellence (Tellis 2017).

US-China Economic Relations

Even Though amidst of rivalry between America and China over the strategic fields, there exists an emerging cooperation between these two powers on the basis of mutually beneficial existence. As compared to cold war era, when the Soviet – American relations is analyzed, there was only a marginal economic exchange. While comparing the present scenario of U.S – China relations, there are growing economic linkages. The economic framing of relations will likely present ample opportunities for cooperation as Chinese investments in global development projects rise and U.S. interests become increasingly focused on trade(Jasper 2017). Globalisation and interdependence had made the have made the United States and China important increasingly to one another against the backdrop of anaemic economic growth elsewhere (Lampton 2003).

America is China's largest export destination. According to the U.S government official estimates China accounts for 16.9% of total trade. China accounts for only 16.9% of U.S exports, while 22.5% of imports came from China (U.S Census Bureau 2018). This indicates a considerable trade deficit for the U.S against

China. China accounts for about \$375 billion deficit of the United States, who has the largest trade deficit (Amadeo 2018). China's ownership of U.S. Treasury securities is also growing. According to the U.S. estimates China holds about \$ 1184.9 billion in December 2017 as compared to \$1058.4 billion in December 2016 (U.S Department of the Treasury 2018). China remains heavily dependent on sustained access to U.S. markets, investment, and technology and therefore it requires stable, if not harmonious, relations with the United States to ensure continued economic development and to increase China's comprehensive national power. Opposing relations will complicate China's regional ambitions by hampering economic and political interactions with U.S. friends and allies in Asia (Medeiros 2005).

Benefits for China

China's economy is a sort of "state capitalism" as different from the European model of "state champion". The economy is based on exporting finished manufactured goods to America, further integrating both economies. There is less growth in moving to a consumption-based economy. The transition to a consumption-based economy may reduce the ability of the ruling Communist Party to project power abroad while retaining it at home. China is strong in areas like heavy industry, light manufacturing, and cheap labor (Follett 2014).

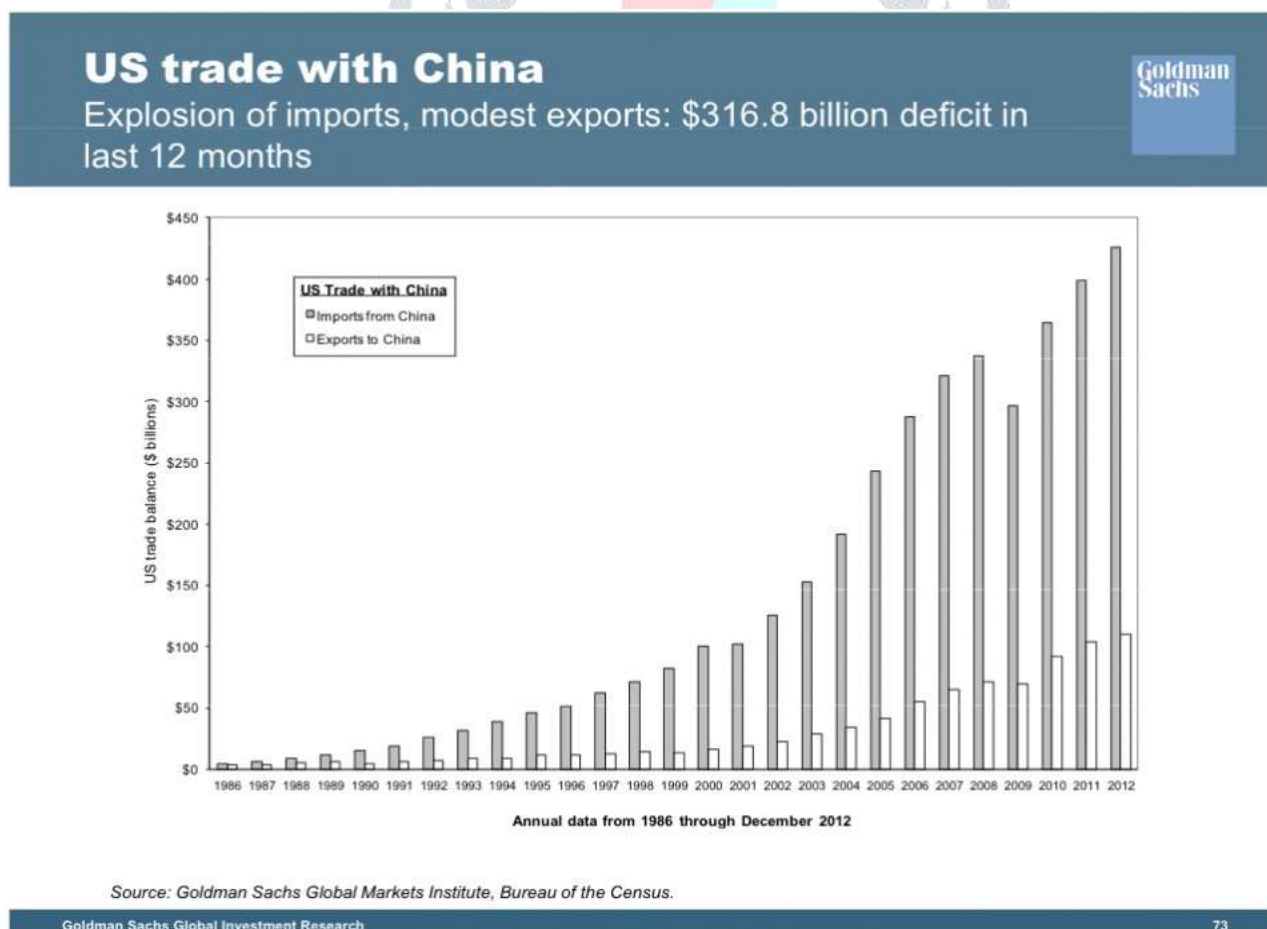


Figure.2 US trade with China (Ro 2013)

The diagram (Fig.2) by Goldman Sachs' Abby Joseph Cohen shows that country's economy is largely driven by imports, not on consumption (Ro 2013). Domestic employment generation is an important concern for Beijing. The combined effects of the dismemberment of the state-dominated economic system, WTO entry, population expansion and urbanization require the creation of millions of jobs over the next few years in the PRC. In this instance the increasing presence of U.S firms in China is a boon for them, to accommodate the growing skilled population (Lampton 2003).

American foreign direct investment (FDI) in China amounts to more than \$60 billion, up more than 21% since 2009. China's follows a strategy of "going out", where Chinese corporations seeking joint ventures with international firms. There are successful such deals with American firms. In 2004, Chinese firm Lenovo purchased personal computer division of IBM in America (Lanteigne 2016, p145). The US attaches great importance to the human rights. At the times of the violation of human rights,

America follows the policy of criticism and moving back from deals. China first gained MFN status in the US in 1980 and its annual renewal under Jackson-Vanik was routine until the Tiananmen Square incident of 1989. But later it removed the stand of linking human rights with commerce. America believes that US foreign policy objectives of democratization, development and economic reforms in China can be achieved through encouraging China's economic liberalization and integration into the world economy. China's increased financial power may stimulate its capability to confront American entreaties, but against extreme predictions, its creditor role has not been sufficient to compel the US to change its policies (Nye 2010)

Benefits for the U.S

According to the Rhodium Group, United States became the largest recipient of booming Chinese outbound FDI in 2016 with \$45.6 billion worth of completed acquisitions and greenfield investments (Gao & Thilo 2016). US services and advanced manufacturing sectors were targeted by more than 90% of Chinese FDI in 2016. Trade and investment with China support roughly 2.6 million jobs in the U.S (Hass 2018). America is strong in areas like food production, education, technology, and precision industrial manufacturing (Follett 2014).

The figure 3 analyses the export destination of America. Here China remains the third constituting around 7.8% of U.S exports (United States Census Bureau 2018). After the arrival of Donald Trump as the U.S president, there are more arguments in favour of increasing protectionism as well as criticizing China for looting the U.S. But it must be viewed with adequate pieces of evidence. There is an argument that the rise of China does not make the shrinking of the U.S in the global economy. According to IMF data, in 1992 where the U.S was in the helm as hegemon the U.S. economy accounted for 26 percent of global GDP in nominal terms. In 2017 the United States still accounts for 24.4 percent of global GDP. The difference is

caused by the rise of China from less than 1 percent in 1992 to nearly 15 percent of global GDP now. It is the share of Europe and Japan that declined which was balanced by China. The arguments of losing job opportunities are also not caused by China.

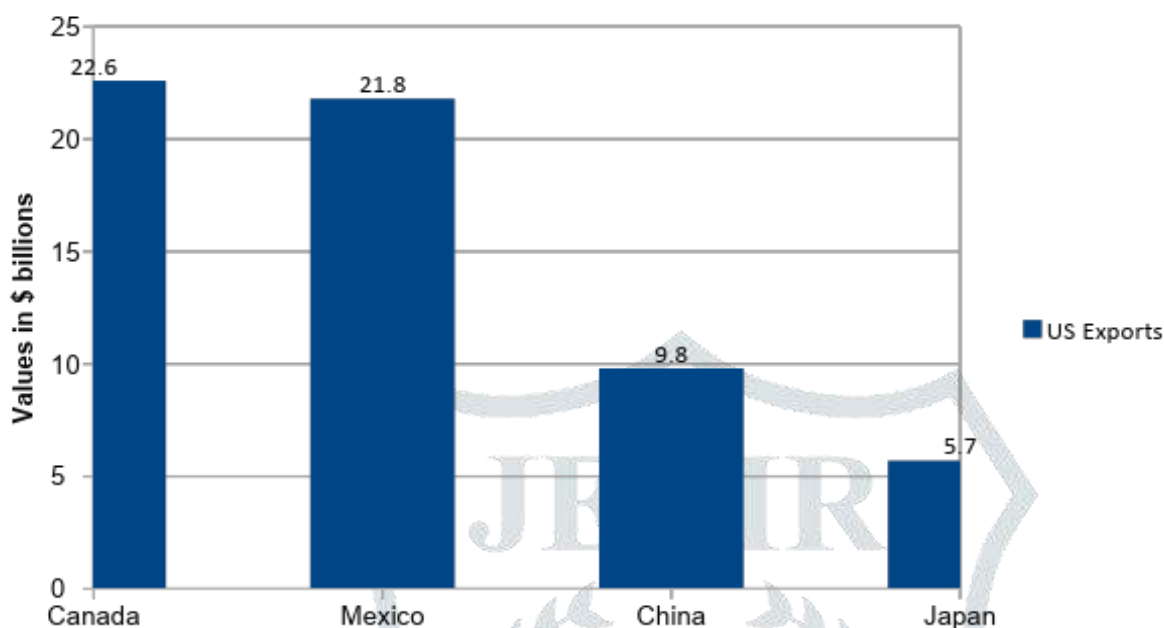


Fig 3. Top four US Export Markets 2018 (Unit \$ billion)

Source: United States Census Bureau (2018), "Top Trading Partners"

The Ball State University in its research found that 85 percent of job losses have been attributable to increases in automation. If the trade protectionism is promulgated it will harm the American economy (Hass 2018).

Mutually Beneficial

While referring to the flourishing Sino American economic relations the important role played by Bilateral Strategic Economic Dialogue (SED) must be referred. The macroeconomic policy coordination between China and US in the midst of the deepening global financial crisis, in the form of Strategic Economic Dialogue, has boosted the confidence of the two countries (Gao and Hanemann, 2016). China-US trade fits to be explained in the principle of comparative advantage (Yong 2010).

Strategic and Economic Dialogue (S&ED) the precursor of U.S.-China Strategic Economic Dialogue (SED) was started in 2006. President George W Bush and Hu Jintao designed it to create a dialogue between high level American and Chinese officials over potential areas of economic cooperation. It is annually held. There is separate strategic and economic dialogue from the time of Presidents Obama and Hu. (Lanteigne 2016, p145). It has created a new habit of cooperation between respective political leaders that match the

growing importance of the U.S.-China relationship. Though there is criticism against this instrument there are remarkable achievements. SED delivered break-through agreements in bilateral air services that have more than doubled non-stop routes between China and U.S. An emission trading regime to which China's market has the commitment to address air pollution is another progress. It has strengthened cooperation on intellectual property rights protection and support for policies that are designed to shift China's economy to a pattern of sustainable growth. Ten Year Energy and Environmental Cooperation Framework (TYF) is another contribution of SED in 2007-08. It has created a bilateral cooperation on climate change issues which led to globally important results delivered in Paris in 2015 (Kuo 2016).

Most of China's foreign policy centres on attempts to acquire new energy resources, particularly oil. In the following years, China will focus on self-sufficiency by the expansion of its hydropower capacity and coal plants. America is witnessed by the revolution caused by the discovery of Shale gas which will culminate in the export of the same to China. Oil is renewable and OPEC is not in a situation to meet China's requirements. In the case of China's oil demand is increasing day by day. Now it imports about 56 percent of the oil. The Green River Formation, world largest untapped oil reserve is now controlled by America. China does not have many other domestic energy options with the exception of coal, which causes high health and environmental hazards. Though it has untapped Shale reserves, it is expensive as compared to that of U.S. South China Sea is another option. But the risk will be higher. As compared to others America suits an option. In the energy sector, America will ultimately move to an energy and fuel exporter and China will be importing American resources. This will further enhance their economies and enable strong economic ties (Follett 2014). the US-China Trade Agreement of May 2017 has envisaged reducing regulation on U.S. exports of liquefied natural gas to China (Meltzer 2017).

Withdrawal from the TPP announced by Donald Trump in one way is beneficial to the Chinese to a great extent. There is no U.S. trade and investment agenda for Asia that compares to the ambition of OBOR. The U.S has recognized the importance of OBOR through the US-China Trade Agreement of May 2017 is an important economic and diplomatic win for China (Meltzer 2017).

The information technology industry is the major area in which growing Sino-American interdependence is made manifest. American ICT products increasingly are being manufactured in China. In the year 2000, China became the world's third-largest producer of hard products of ICT. China is one of the top six countries of origin of foreign-born scientists and engineers occupied in the United States (Lampton 2003). While argues against unfair practices in the trade by China it is actually benefiting the U.S especially the trade deficit. China subsidizes various exports to the rest of the world in a number of ways. If the Chinese

are blocked to export such subsidized products it will result in the replacement of production to other low expensive countries such as Vietnam which will not create good jobs in America (Summers 2017).

The inexpensive Chinese goods have benefited the American markets. At the same time, China got to benefit from America having a stable consumer base even amidst the global financial crisis of 2008-09 (Lanteigne 2016, p144). There are also measures in order to reduce the distrust in trade especially the trade deficit. The recent announcement of Goldman Sachs Group and China Investment Corporation (“CIC”) to establish the China-US Industrial Cooperation Partnership, L.P. (“Cooperation Fund”) is an example. This is a \$5 billion target to invest in American companies in the manufacturing, industrial, consumer and healthcare industries, among others, that have or can develop a material business connection to China. This is envisaged to enhance commercial linkages and promote market access for US firms in China and will seek to improve the balance of the US-China trade relationship. This will create new opportunities for American companies to export innovative and competitive products to China with an aim of benefiting both the American and Chinese economies (Goldman Sachs 2017).

Organisations and institutions also play a large role in maintaining stable economic relations between US and China. First among this is the WTO(World Trade Organisation). Moreover, by accession to WTO, the economic and trade relations are guided by multilateral rules rather than unilateralism. China's WTO membership has made US abide by the rules of unconditionally granting MFN status to China while there were large-scale protests against it in domestic politics. WTO has constrained the domestic behavior of China as well as the US. It brought stability to the trading relations. Though some disputes exist among the intellectual property protection there is some cordial approach from both sides. Interest groups represented by International Intellectual Property Alliance are a classic example of state and market forces to collaborate in promoting business interest in the age of globalization (Yong 2010). In this case, interdependence has caused a "balance of financial terror" akin to the Cold War, when the US and the Soviet Union never used their potential to destroy each other in a nuclear exchange.

Criticism of Interdependence

There the criticism against the trade policies as well as relations in the economic realm followed by US and China in their respective countries. One of the criticisms in the US is regarding the complex interdependence of economy. The United States is concerned that China is using market openness to attract the U.S. companies and technologies in ways that Beijing could strategically profit from them at a time of crisis. The House Intelligence Committee Report of 2012 states that activities of Huawei and ZTE must be viewed with suspicion and be banned from mergers, acquisitions, and takeovers in the United States or from supplying vital components to the U.S. telecommunications infrastructure(Wright 2013). Another important

aspect is the rising debt which has created concerns among the American policy circle. They argue that Public debt of US must not be concentrated too much on Japan or China. There will be a currency crisis when the Japan or China may plan to decrease their massive holdings of U.S. dollars. The U.S. Treasury Secretary Lawrence Summers designated the mutual damage that would occur to the U.S. and Chinese economies also to the global financial institutions as the balance of financial terror. A number of bills have been put before the Congress aiming at Sino- US trade and labels as "currency manipulator". But none of them had China (Dorn 2008). Moreover, restrictions remain in many areas of investments which limits the U.S investment in China (Dollar 2015).

China's currency persuasive power has raised some concerns in the U.S. Beijing's exchange rate policies are complex. In 2005 Beijing agreed to reform its currency policy. Since then the yuan was appreciating even though there was a tightening of Chinese currency regulations after 2008 in order to protect its economy from the chaos of financial crisis. By 2015 differences began to evolve between major financial actors over the correct value of yuan. But IMF corrected it earlier argument and made explicit that yuan is raising its value against the U.S dollar. Sino American contrasting views on monetary policy was visible during the arguments and discussions on the topic of internationalization of the yuan (Lanteigne 2016, p 144). America's political parties rarely agree on a matter. But in the case of currency manipulation, they unite and show anger against China. Democrats and Republicans consider a legislation to prevent this crisis (Frankel 2015).

Another episode in the disputes between China and U.S is regarding the trade policies followed by Beijing. The U.S has disagreements over products such as textiles, electronics, and solar panels. China's follows a strategy of "going out", where Chinese corporations seeking joint ventures with international firms have faced American protectionism. An example in this regard is CNOOC, a Chinese oil firm in 2005 attempted to purchase the American energy company. But it was cancelled due to protests from American policymakers. Future deals between American and Chinese firms are affected by the political concerns (Lanteigne 2016, p 145).

Another important issue is regarding the potential competition for energy between Beijing and Washington. China represents growing demand for oil and other energy sources. It prompted them to seek new opportunities in the Middle East, Central Asia, and Africa. There are also some skirmishes at the diplomatic level at this stage. Beijing has engagements with the states which the U.S designates as rogue states such as Iran. Beijing has even criticized the United States for what it regards as its "militarized" approach to Africa. There is also military presence as part of its investments in the region. Yet the only permanent U.S. military base on the continent is Camp Lemonnier in Djibouti, a country that also hosts French and Japanese facilities. The new Chinese facility in Djibouti is a highly significant step away from the country's

traditional approach to the continent, which has focused on diplomacy and trade much more than security (Gawthorpe 2016). To an extent the discovery of shale gas had decreased the rate of conflicts (Lanteigne 2016, p 145).

Chinese has complaints regarding the U.S economic policies. There is trade deficit and the U.S is not an attractive destination to receive import because Chinese firms at initial stage look for natural resources. America, in this case, is poor. It also seeks for a less politicized environment in which to invest (Dollar 2015). Another argument by the Chinese is regarding the American policy formulations. Chinese investors face uncertainty and political deal risk in the United States in the aftermath of the Presidential election. The views of President Trump were confronted with that of China. China is also facing the period of heavy capital outflows and results downward pressure on the Chinese currency. \$379 billion in the first three quarters of 2016 was marked as net outflow under the non reserve financial account. The recent changes in US monetary policy will put additional pressure on China's balance of payments (Gao and Hanemann, 2016).

The growing tensions between US and China in the economic realm are manifested in the WTO disputes. China has recently become a prominent actor in WTO dispute settlement. From mid-2003 to early 2007, China became a proactive third-party actor. From February 2007 China changed its third-party participation on a selective basis. After this, China lodged the first complaint against the United States. China was party to 50% of all DSB cases filed in 2009. But as compared to other developing countries it has only a few disputes (Liao 2011). Most of the cases come under IPR- TRIPS. This led to another episode in the trade relations. China proclaimed its commitment to protecting copyrights, patents, and trade secrets by signing the US-China Bilateral Trade Agreement of 1979. Even though there are many legislations after that piracy dominates. Its production, distribution, and exports have continued. It generated the loss to American entrepreneurs by manufacturing it in China and exporting it to a third country (Noland 1996).

Thus, the U.S.–China relationship is best understood as one of interdependent competition (Wright 2013). China's rise in the last three decades has benefited greatly from the US-dominated international system. China at this time has made its transition from a revolutionary system to the constructive player. China's development relies heavily on the opening of U.S market and the stable development of the global economy. China in these days adopted the strategy of full engagement and differentiated strategies. China actively participates in international regimes, but more aggressively it works with other countries to create new regional mechanisms, especially in Asia including the 10+3 cooperation, the China -ASEAN FTA and the Shanghai Cooperation Organization. China ushers for the reformations in global institutions such as WTO,

IMF, and the World Bank argues for an extension of assistance for developing countries (Gao and Hanemann, 2016).

Conclusion

As concludes the policies of 'absolute gains' and relative gains continue to maintain in the China-US trade relations which Will continue to lead the long-term process of cooperation, integration, friction and conflict. It is the relations with the US that makes China prosperous in the economic realm. China cold restructures its own process of policy-making process by stimulating the US measures. The prosperity of U.S is the prosperity of China. But China through its recent policies is not to contain them rather likes to hedge with them to make them acceptable to Washington. Strategic and economics cannot be separated. Both are two sides of a single coin. China and U.S know this but they follow the policies which are not in confrontation with each other as what happened during the time of Cold War. The factors of exploitation and invasion do not explain the success of the U.S economy. The stability in both countries is a necessity for economic growth. The US is an important factor responsible for China's push to the global economy. From this, it can be identified that behind fierce confrontation, there are common interests. This fierce competition leads to the new round of confrontation and conflicts. The US wants to check the Chinese rise through strategy but in the economic realm, it limits it. But as US hedges against China, at the same time, China also replies in the same way.

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