

IN-DEPTH ANALYSIS

United States - China relations: a complex balance between cooperation and confrontation

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ABSTRACT

China's rise is a real game-changer both economically and geopolitically, and represents both an opportunity and a challenge for the major global power, namely the United States. China's new economic and political weight fosters further cooperation with the US on a number of global issues, as well as increased collaboration within multilateral organisations. Given their sheer influence, both countries have global interests that make it difficult to find a solution for one without the consent of the other.

China's rise and expanding global interests have resulted in a drastic change in the global geopolitical order. Frustrations over the US's predominance, especially in Asia, have raised tensions between the two powers. Under the leadership of President Xi Jinping, China has adopted a more assertive approach towards multilateral organisations which it sees as controlled by and for Western powers, but also towards its direct neighbours. This approach represents a direct challenge to the world order established and sustained by the US and is therefore a potential reason for conflict.

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1 Introduction

China's economic and diplomatic openings have resulted in gigantic global changes

In 1961, Deng Xiaoping famously stated that 'it doesn't matter whether a cat is black or white, if it catches mice it is a good cat'. This new pragmatism was the foundation of Deng's 'Four Modernisations', intended to rejuvenate and open up China's economy by strengthening its agriculture, industry, national defence and technology. This economic opening was processed in parallel to a diplomatic opening with the US. In the context of the Cold War and of soaring tensions between the USSR and China, the US fully recognised the People's Republic of China and diplomatic relations were established on 1 January 1979.

China has re-emerged as great power and is now a key player

Within a thirty-year span, China has become 'one of a small number of countries that have significant national interests in every part of the world and that command the attention, whether willingly or grudgingly, of every other country and every international organization'¹. China has gone from being a poor and ostracised country to becoming an influential and increasingly developed great power. China's rise is mostly seen as a new historical development by Western populations, but is considered at home to mark end of the 'Century of Humiliation'. This period of foreign domination, from the first Opium War in 1839 to the Communist revolution in 1949, is seen by many Chinese as a shameful parenthesis in the history of their civilisation. It often bolsters a desire to restore China's international status and importance. More than just the re-emergence of a great power, China's rise appears to define the country as a potential contender for the status of superpower, offering an alternative to the preeminence of the US.

China's rise has led to a wide variety of global changes and necessary cooperation with the US

As China grew economically, its interests became more and more global and intertwined with those of a global power such as the US. This entanglement results in multiform ties between the US and China, and a complex balance between interdependence and diverging interests. The present study of this delicate balance will be divided into two parts.

Chinese and US interests can, however, diverge, and the result may be a global threat

Firstly, China's rise has led to a period of renewed and increasing collaboration with the US aimed at stabilising a world order enabling China's prosperous development. This cooperation has been fruitful on a number of global issues and has also been a great enabler for the global economy.

Secondly, the rise of China has also generated increased fears. This is the result of the differences existing between the US and China in terms of their respective economic and political models, as well as the relative disappointment expressed by US officials regarding China's political

¹ A.J. Nathan and A. Scobell, 'How China Sees America', *Foreign Affairs*, Vol. 91 Issue 5, September/October 2012

modernisation (to quote a recent commentator, 'China has failed to meet nearly all of our rosy expectations')². Americans are, for instance, increasingly worried by China's rise³, while most Chinese officials tend to see the US as 'two-faced [and as intending] to remain the global hegemon and prevent China from growing strong enough to challenge it'⁴. These mutual perceptions both fuel and are fuelled by tensions arising between the US and China in regard to diverging interests.

2 China and the US: necessary cooperation in an increasingly multipolar world

China's extraordinary growth in the last decades has had positive impacts for people around the world, but has also brought some new concerns.

China has made extraordinary strides in the last decades and the speed and scale of this transformation have resulted in remarkable economic growth and political influence. China's new economic approach instigated in the 1980s, focused on exports and on a unique market economy, turned out to be very beneficial for the country and for the rest of the world in terms of trade and international peace. In 2014 the IMF rated China as the first economic power in the world measured in purchasing power parity (PPP),⁵ producing 17 % of the world's GDP with the US following close behind with 16 %. Chinese per capita income rose annually at a rate of 8-10 %, and although China's GDP per capita is still lower than that of the US, a study drafted before the economic slowdown expected China to converge in less than two decades with the level of high-income countries thanks to its rapid growth and low fertility rate.⁶

Economic interdependence has led to stronger cooperation and has helped ease tensions

While US officials agree it is important to maintain a strong cooperative relationship with China, many remain concerned at the growing impact of China on their everyday life. They mainly worry about the safety and quality of the imported products, about China's often unfair trade practices and about the potential negative impact of Chinese investment and trade on American firms and jobs⁷.

Interdependence and growing economic ties between China and the US have therefore been welcomed as factors for cooperation and vectors for easing some of the existing tensions.

² M. Pillsbury, 'The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower', New York: Henry Holt, 2015.

³ Pew Research Center, [Americans' Concerns about China: Economics, Cyberattacks, Human Rights Top the List](#), 9 September 2015

⁴ A.J. Nathan and A. Scobell, op. cit.

⁵ International Monetary Fund, Data Base, World Economic Outlook, GDP, 2014.

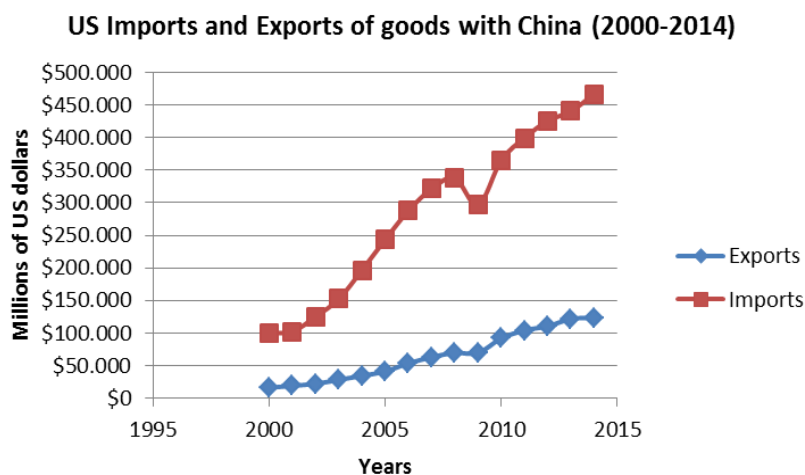
⁶ Kamrany, Nake M. and George Milanovic, "China's growing economic strength in the 21st century," Huffington Post, 17 November 2011,

⁷ Benjamin I. Page and Tao Xie. Foreword by Andrew J. Nathan. 'Living with the Dragon: How the American Public Views the Rise of China'

3 Economic interdependence: a factor for cooperation

China and the United States are today's two largest economies in the world - if we do not count the European Union as a whole -, and have multiple areas of economic interdependence. US imports from China nearly quintupled between 2000 and 2014, going from USD 100 billion to USD 467 billion, making the US China's largest export market⁸. In addition, China is the third largest export market for the US, accounting for USD 124 billion worth of goods in 2014.

Figure 1:
US imports and exports of goods with China (2000-2014)⁹



The US trade deficit with China has instigated strong concern among American policymakers and has pushed the government to call for an increase in US exports worldwide, especially to China¹⁰. Similarly, US investments in China are much higher than Chinese investments in the US. In only one year, between 2012 and 2013, the amount of foreign direct investment (FDI) invested by the US in China rose from USD5.4 billion to USD61 billion¹¹. China, on the other hand, only invested less than 10 % of its USD 1.1 trillion in foreign investments since 2005 in the US.¹² In terms of public debt, at the end of October 2015 China was the largest foreign holder of US debt, with USD 1.255 trillion in US Treasury Securities, or approximately 20 % of the US public debt held by foreign countries¹³.

The economies of the US and China are strongly interlinked through trade in goods, foreign direct investment and public debt.

⁸ United States Census Bureau <https://www.census.gov/en.html>

⁹ Ibid.

¹⁰ Russell Flannery, 'What Can be Done About the U.S. Trade Deficit with China', Forbes, August 2013

¹¹ US Department of State, 'Relations with China Factsheet', 21 January 2015

¹² Mike Coates, 'Chinese Investment in the U.S. Will Grow In 2016', Forbes, 10 December 2015

¹³ Department of the Treasury/ Federal Reserve Board, 'Major Foreign Holders of Treasury Securities', 19 January 2016

4 Economic cooperation: a vector to ease tensions

The US and China are strongly reliant on the good health of each other's economy.

Reliance has not prevented the appearance of tensions linked to some of China's policies that distort trade and investment.

The future Bilateral Investment Treaty could ease some of the tensions by introducing rules to avoid trade distortions.

The extent to which both economies are intertwined manifests the degree to which this can influence their relationship. Each is highly reliant on the other and neither cannot afford the other to fail. China accounts for nearly 12 % of world GDP¹⁴ and has a growing influence on the lives of people in the US and everywhere in the world. The increase in cheap imports from China has improved the standard of living of many Americans giving them access to a wider choice of goods, and has supported the creation of jobs in industries such as transportation, finance, retail and construction¹⁵. However, other industries, such as manufacturing, have been heavily affected by China's growing exports to the US: the proportion of Americans employed in manufacturing has fallen from 13 % at the end of the 1980s to 8.4 % in 2007¹⁶. Reliance is very much a two-way street: with its growing investments in the US, the sheer volume of its exports to the US, and the large amounts of US treasury bonds it owns, China is also strongly dependent on the good health of the US economy.

This marked mutual reliance and interdependence between the two countries has had a positive impact on both economies; however, it has not prevented the appearance of tensions. Many in the US believe China is unwilling to play by the market economy rules¹⁷. The Chinese government still operates policies that distort trade and investment flows. The main concerns are related to China's continual efforts to undervalue the yuan, its incomplete application of WTO rules, alleged cyberespionage on US firms, lack of protection of intellectual property rights, and discriminatory laws against foreign firms in China.

The Bilateral Investment Treaty (BIT) currently being negotiated between the US and China could help ease these tensions. The BIT would introduce legislation to eliminate discriminatory treatment in both the American and the Chinese business services market. US and Chinese firms would thus benefit from higher levels of protection when investing abroad. Agreement on this deal would demonstrate China's willingness to accept a greater foreign presence on its market and would provide a great opportunity for the US to reduce its trade deficit and for China to increase its investment in the US.¹⁸

¹⁴ Steven Barnett, 'China: Size Matters', IMF Direct, 26 March 2014,

¹⁵ D. Scissors, C. Espinoza, and Ambassador T. Miller, 'Trade Freedom: How Imports Support U.S Jobs', 12 September 2012

¹⁶ D.H. Autor, D. Dorn and G.H. Hanson, 'The China Syndrome: Local Labor Market Effects of Imports Competition in the United States', American Economic Review, 2013, 103(6): 2121-2168

¹⁷ Wayne M. Morrison, 'China-U.S. Trade Issues' December 15, 2015

¹⁸ Marney Cheek, 'Why A U.S - China Bilateral Investment Treaty Matters', Investment Policy Central

5 The Chinese slowdown and its effect on the US

The slowdown of the Chinese economy in the past months has affected every continent; however, the US has not been hit as hard as other countries that are more reliant on exports of natural resources to China.

China's economy grew at a rate of 6.9 % in 2015, according to official Chinese figures published in January 2016: this was the slowest rate recorded since 1990¹⁹. These figures have been contested by some, such as a London-based research institute which has estimated China's real GDP growth in the last quarter of 2015 at 4.5 % rather than the official figure of 6.8 %.²⁰ However, the same source found that the figures improved over 2015 and that the overall trend remains steady. Indeed, following the 2008-2009 financial crisis and its worldwide impact on export-led economies, the Chinese authorities decided to rebalance China's economy towards internal consumption and services, and to fund gigantic stimulus plans in order to sustain the economy through the global crisis. These stimuli, while not preventing economic slowdown in China altogether, stopped it from being brutal. This slowdown of Chinese economic growth has affected virtually every continent, and in particular countries that have been heavily exporting natural resources to China, such as South Africa or Brazil. Obstfeld, the chief economist of the International Monetary Fund, warned that China's economic slowdown could be one of the biggest threats to the global economy in 2016²¹. The effects of China's slowdown have not been felt as strongly in the US as in other countries. Indeed, although the biggest economic tie between the US and China is trade, exports account for only 13 % of US GDP while consumer spending accounts for two thirds of that same GDP²². Therefore, as may be seen from the graph below, if the Chinese economy stalled it would not affect the US as harshly as it would other countries having higher export rates with China.

¹⁹ Yuan Yang and Tom Mitchell, 'China adds G-20-sized economy every year', Financial Times, 19 January 2016

²⁰ Scott Cendrowski, 'China's Real GDP Growth Figure is Less Than 6.9%', Fortune, 19 January 2016

²¹ A. Swanson and K. Sieff, 'China's slowdown, financial mayhem cast long shadow across world', Washington Post, 11 January 2016

²² Matt Egan, 'China's economy is getting sick. Will it infect America?', CNN Money, 27 July 2015

Figure 2:
The impact of a China slowdown on GDP growth²³



This is not to say that the US is unaffected by the Chinese slowdown: in nominal terms, the US lost up to USD 12 billion over the first seven months of 2015 thanks to a 14.6 % reduction in Chinese imports²⁴.

Growing economic ties between the US and China have led to an increasingly interdependent relationship between the two countries, with any major change in one having a direct impact on the other. Both countries have therefore recognised the importance of economic cooperation, but also of political cooperation. Indeed, since they are the two biggest economies in the world no global issue can be properly addressed without the involvement of both China and the US.

6 Common global responsibilities

China and the US not only cooperate economically, they also increasingly cooperate on global issues such as climate change.

China's attitude to world affairs has changed: it is now looking to be an important actor on the international scene.

Traditionally, China has not been very involved in addressing global issues such as climate change. Indeed, China was accused by the former US Deputy Secretary of State, Robert Zoellick, of not being a 'responsible stakeholder'²⁵.

Additionally, China has not usually been considered a global leader in world affairs. Its involvement has been very discreet and in the shadow of the US. It did not have enough political influence and needed the US for its path to modernisation²⁶. This changed during the 2008 crisis, when the US and many other western countries were heavily affected while China succeeded in maintaining a strong growth path²⁷. This increased China's confidence and leverage, helping to make it an important actor in world affairs, in

²³ 'The Impact of a China Slowdown', The Economist, 27 November 2014

²⁴ 'How China's economic slowdown could weigh on the rest of the world', The Guardian, 26 August 2015

²⁵ Yuan Yang Tom Mitchell, 'China adds G-20-sized economy every year', Financial Times, 19 January 2016

²⁶ Men Jing and Wei Shen, 'The EU, the US and China - Towards a New International Order?'

²⁷ V. Nadkarni and N.C. Noonan, 'Emerging Powers in a Comparative Perspective. The Political and Economic Rise of the BRIC Countries', Bloomsbury Academic, 2013

terms of both playing a key role in the resolution of global issues and exerting influence in multilateral organisations.

6.1 Cooperation on climate change

China and the US are the world's largest emitters of greenhouse gases, and therefore have a strong responsibility in solving the planet's environmental crisis

In the past China was unresponsive to critics about its intensely polluting industrialisation-led growth

Recently, however, the negative effects of climate change have become too important for China to ignore

In the US, despite congressional resistance, the Obama administration has introduced the Clean Power Plan

The US and China are the world's two largest emitters of greenhouse gases, and the resolution of the environmental crisis is inconceivable unless there is strong involvement of and cooperation between China and the US. Both countries have been reluctant to take major steps towards reducing gas emissions in case this allowed the other to acquire a bigger share of the world economy. The US and China have blocked past attempts to reach an agreement on climate change, but lately the negative effects of climate change have surpassed the benefits of ignoring it.

In China, the impact of rapid industrialisation on the environment has indeed become a crucial concern in recent years, as water depletion and air pollution have continued to rise to alarmingly high levels. Just recently, in December 2015, the government issued red alerts for severe pollution levels in Beijing, and was forced to temporarily close schools and production plants. For years China has taken only minimal steps towards reducing the damage, provoking strong reactions around the world. China was, for example, accused by the UK of 'wrecking' the Copenhagen deal in 2009²⁸. However, China's reluctance to play a bigger role in solving the world's environmental crisis has tarnished the country's image, worldwide but also at home, where the Chinese population is increasingly critical of the government's inertness.

Growing discontent at home, together with the realisation that China's transition to cleaner energy could also bring great economic growth potential, could account for the fact that the Chinese government has now started taking considerable steps towards reducing its carbon dioxide emissions and showing that this is now one of its priorities. Indeed, both the 18th meeting of the Central Committee of the Chinese Communist Party (CCP) and the 13th Five-Year Plan (2016-2020) included reference to shifting to a lower carbon-emitting model of development²⁹. China is now the world's biggest investor in renewable energies and has become its first producer and consumer of solar energy³⁰.

In the US, the Obama administration has faced strong congressional resistance to any kind of progress in the field of environmental policy. To circumvent this opposition, President Obama introduced the Clean Power Plan, bringing in new limits on power plant and vehicle emissions and new regulations to limit energy waste and expand clean energy use.

²⁸ Mark Lynas, 'How do I know China wrecked the Copenhagen deal? I was in the room', *The Guardian*, 22 December 2009

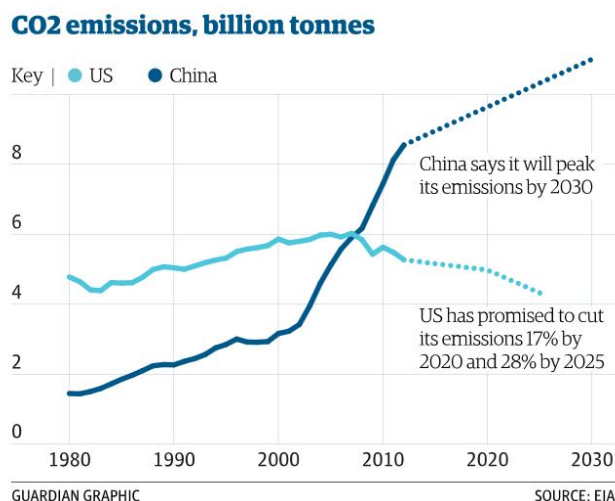
²⁹ Guest Blogger for Michael Levi, 'Yanzhong Huang: China's New Rhetoric at COP21', *Council on Foreign Relations*, 3 December 2015

³⁰ Ian Birrell, 'China's economic growth is a force for good', *The Telegraph*, 20 October 2015

China and the US have realised that both would benefit from addressing the issue of climate change together

Both China and the US have started realising the long-term economic benefits and strategic advantages of addressing the environmental crisis. In November 2014, the two countries issued a Joint Statement on Climate Change that would have been unthinkable in the past. China agreed to cap its gas emissions by 2030 or earlier if possible, and to increase its use of zero-emission resources to 20 %³¹. The US agreed to cut its emissions by 26 to 28 % by 2025 compared to its 2005 level.

Figure 3: Carbon dioxide emissions of China and the US, 1980-2030³²



The US and China have accepted to take on the leadership on climate change.

The commitment made in 2014 by the US and China showed that the two biggest economies in the world were ready to endorse the 'responsibility to lead the global effort against climate change' (Barack Obama)³³. The recent agreement reached at the UN climate summit in Paris in December 2015 is another demonstration of both countries' dramatic shift in attitudes. For the first time, the Chinese Head of State, instead of the Premier, attended the summit, and 195 countries signed the first-ever legally binding universal agreement on climate change. When the US and China show ambition, the rest of the world is ready to follow.

6.2 Multilateral global governance

In the last five to ten years, and in particular since the 2008 financial crisis, China has played a more active role in multilateral organisations. In the past, China, as one of the five permanent members of the UN Security Council, often blocked resolutions or did not participate in the votes. From 1990 to 1996, China accounted for more than two thirds of abstentions and refused to be involved in peacekeeping missions, accusing other states of interfering in weaker states' affairs³⁴. Things have changed since, and China has now fully assumed its role as a global power. In 2015 China increased its

³¹ The White House, Fact Sheet: U.S - China Joint Announcement on Climate Change and Clean Energy Cooperation, 11 November 2015

³² L. Taylor and T. Branigan, 'US and China strike deal on carbon cuts in push for global climate change pact', The Guardian, 12 November 2014

³³ Ibid.

³⁴ 'Xi and the blue helmets', The Economist, 3 October 2015

China has also started being more active in multilateral institutions such as the UN and the G20

contributions to 5 % of UN revenue, and has pledged 3000 military and police personnel to UN peacekeeping missions. Even though China has often been reluctant to play a major role in international institutions that were created by the US and Western countries, involvement in multilateral organisations is now seen as a way to fight unipolarity and hegemony.

Although there has been much talk of a G2 (US-China) approach to world governance, China has marked a clear preference for multilateral governance, through for example the G20, whose combined membership accounts for 80-90 % of the world's GDP³⁵. In fact, 2016 marks the year of China's presidency of the G20, enabling the country to mark its increasing leadership role. 'We have seen China grasping every multilateral occasion to enhance its image and leadership role, be it regionally or globally. There is little reason for China not to fully exploit the G20 chairmanship', said Yun Sun, a senior associate with the East Asia Program at the Stimson Center in Washington³⁶.

7 The rise of China: a real threat to US' predominance?

Interdependence does not mean absence of tensions

China's rise has effectively led to a situation of interdependence with the US and of increased cooperation in regards to global issues such as climate change. China has now seemed to fully embrace its new status of rising global power, especially since Xi Jinping took office. It seems adamant to protect its interests and its security, which could lead to two types of tensions.

China is now more inclined to defend its national interests on the regional stage

First, China seems to have difficulties accepting the status quo in Asia and wants to review a regional order dominated by the US. Xi Jinping has stated that 'it is for the people of Asia to run the affairs of Asia, solve the problems of Asia, and uphold the security of Asia'³⁷. Second, this will on China's part to defend its security and interests could lead to a regional security dilemma in which the efforts of one party to ensure its security result in the reduction of the other party's security, thus generating potential conflicts.

8 China's economic rise: a confrontation of two economic models

China's economic rise leads to frictions with the US

China's economic rise has drastically altered the global and Asian economic balance, prompting a rather ambiguous response from the US. On the one hand, China's economic rise offers a positive opportunity for the US in terms of economic development and exports, as we have seen earlier. On the other hand, China appears more and more as a potential rival, often invoked domestically for political reasons in order to stir up fears or justify

³⁵ Dorothy G. Guerrero, 'China Rising. A New World Order or an Old Order Renewed?', TNI Working Papers, 2015

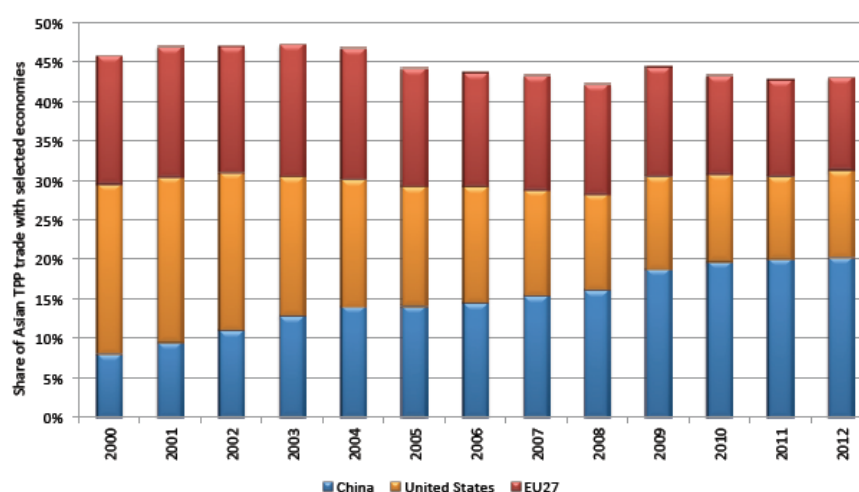
³⁶ Enda Curran, 'China Begins G-20 Leadership With Ideas to Reduce Dollar's Role', Bloomberg Business, 6 December 2015

³⁷ Political declaration made at the Fourth Conference on Interaction and Confidence Building Measures in Asia, May 2014

China's economic importance within Asia is soaring

protectionism. Indeed, 89 % of Americans see the US debt held by China and the impact of China on the US job market as a problem³⁸. This rivalry is not necessarily due to the fact that China could supposedly supplant the US as the world's first economic power, even though China has already economically replaced the US as the first trading partner of numerous Asian countries. The share of trade of Asian Trans-Pacific Partnership (TPP) countries with China has indeed more than doubled, from less than 8 % in 2000 to 17.5 % in 2012. Within the same timeframe, their share of trade with the US fell from 21 % to 10 %, a level equivalent to that of the EU with those countries³⁹. These opposite trends have prompted a renewed involvement by the US in the region. Some US conservative analysts have taken the view that China has become the global leader in geo-economics⁴⁰ and that the US has to reply by theorising a geo-economic policy of its own to contain China's growth.

Figure 4:
Share of Trade of Asian-TPP countries with selected economies, 2000-2012⁴¹



These tensions are also the reflection of two deeply different economic systems. Despite China's opening to basic free-market principles and to capitalism, heavy state interventionism remains prevalent under its model of 'socialism with Chinese characteristics'⁴². The US often sees such measures as contrary to its own economic principles and as unfair competition. At first, the US had seen China's opening as a slow evolution towards a liberal and democratic model. This view is now increasingly seen as wishful thinking by significant domestic groups, especially conservative ones⁴³.

Two of the most prominent examples of this current geo-economic rivalry

³⁸ Pew Research Center, op. cit.

³⁹ European Centre for International Political Economy, [Trans-Pacific Partnership: A challenge to Europe](#), Policy Briefs, No 9/2014, p. 3

⁴⁰ Defined as 'the use of economic instruments for geopolitical objectives' in Robert D. Blackwill, op. cit.

⁴¹ European Centre for International Political Economy, op. cit., p. 3

⁴² This is the official term used to describe the economic policies of the People's Republic, and as of now, the mixed policy in place that involves both private and public ownership in a relatively competitive market environment.

⁴³ See, for instance: Robert D. Blackwill, [Revising US Grand Strategy Toward China](#), Council on Foreign Relations, April 2015

can be found in the competing Free Trade Agreements that are being signed all over Asia, and in China's efforts to establish alternative economic and financial international institutions to counter the influence of the US.

9 The TPP as a geo-economic tool to limit China's regional influence?

The TPP is the economic backbone of the American 'pivot to Asia strategy', and, in times of friction vis-à-vis China's growing influence in Asia, it is important to note the absence of China from the negotiation process. The US has stressed on manifold occasions that China is in no way to be seen as the target of this deal. On the other hand, President Obama has insisted that the purpose of the TPP is to set new global standards, stating on 5 October 2015: 'We can't let countries like China write the rules of the global economy. We should write those rules.'⁴⁴

The TPP is more than an FTA: it is a geo-economic tool

The TPP is inter alia a direct response to the soaring economic dominance of China in Asia. As a study points out, 'although, of course, the TPP will not erase China's asymmetrical economic advantages with respect to the nations of Asia, it will be a vivid demonstration that the United States is determined to compete on the Asian economic playing field'⁴⁵.

The TPP is both a major challenge and an interesting opportunity for China. Entering the TPP is indeed still an option for Beijing. Japan's Prime Minister, Shinzo Abe, opened the door to a potential inclusion of China in the TPP when he said that 'it would have significant strategic meaning if China joined the system in the future'⁴⁶. However, given the conditions for membership it seems that China would not be able to join the TPP even if it undertook major reforms in the upcoming years.

Also, the external challenge is being addressed by a tight web of FTAs being negotiated in Asia. China has concluded special FTAs with Hong Kong, Macau and Taiwan to match its political position on 'Greater China'. FTAs with ASEAN countries (currently being reviewed and upgraded), and with Pakistan and Australia have already been signed and show China's will to deepen its regional trade and its relations with its neighbours. Ambitious FTA negotiations have also been launched with India, and more recently with Japan and South Korea (the CJK agreement). The Regional Comprehensive Economic Partnership (RCEP) is also a major component of China's web of Asian FTAs. Negotiations started in 2013 and brought together the 10 members of ASEAN, plus Australia, India, Japan, New Zealand, South Korea and China. This mega FTA would encompass 3.4 billion people and nearly 30 % of the world's trade. Seven parties to the RCEP negotiations are also members of the TPP, but the conclusion of the

China has an ambitious

⁴⁴ Financial Times, [US, Japan and 10 countries strike Pacific trade deal](#), (5 October 2015)

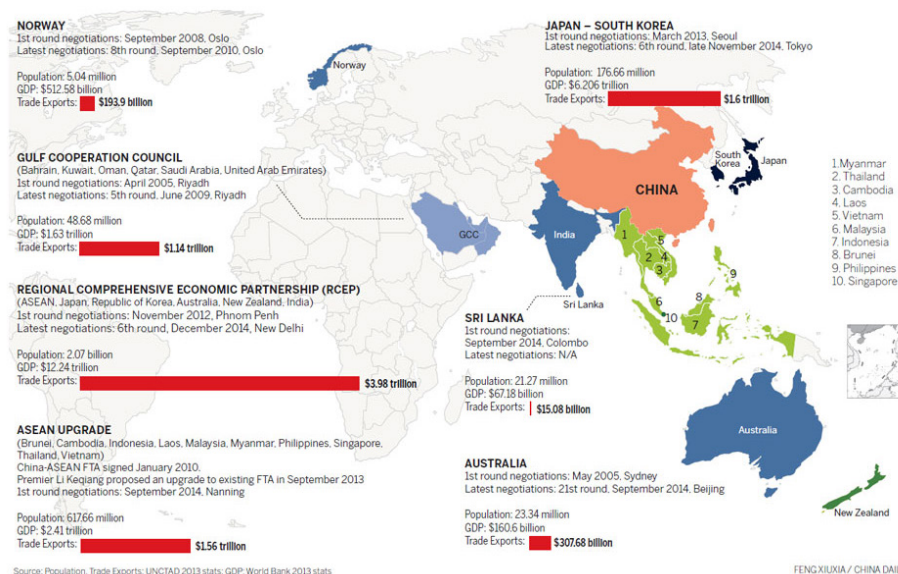
⁴⁵ D. Blackwill, op. cit, p. 23

⁴⁶ Reuters, [Japan's Abe says TPP would have strategic significance if China joined](#), 6 October 2015

trade policy and strives to balance out the TPP's effects

latter treaty pushes non-TPP countries to strike a deal of their own in order to limit the negative economic impact of the TPP. The RCEP also has a major geopolitical component, since it would allow China to deepen its regional ties through a major trade deal not including the US.

Figure 5:
China's FTA negotiations⁴⁷



Both the US and China strive to write the new trade norms in Asia

The outcomes of these negotiations remain uncertain, but they show that China is active with regard to trade policies and strives to deepen its economic ties with other Asian economies through alternative arrangements of its own. Asian economic integration appears to be a real power struggle between the US and China, in what seems to be a race to write the norms of Asian trade.

10 China and multilateral policy: a revisionist state?

China's multilateral policy is studied in reference to the world order established and backed by the US

Quite a few scholars have tried to categorise China's multilateral diplomacy. Since October 1971, when it acquired the China seat in the UN, the People's Republic of China has joined numerous international organisations. These are generally organisations that have been established and shaped by Western countries, more specifically the US. The main question facing scholars is therefore to determine whether China is a 'status-quo'⁴⁸ or a 'revisionist'⁴⁹ power - whether China is ready to play by the established rules or wants to shape the international order to meet its national

⁴⁷ China Daily, [China ASEAN set 2015 as goal for upgrading free trade agreement](#), November 2014

⁴⁸ 'A 'status-quo' orientation generally implies a basic satisfaction with the rules, distribution of power in regional and global terms, and hierarchy of prestige within the international order'. In X. Li, L. Qi and J. Wuthnow, 'Diverse Multilateralism: Four Strategies in China's Multilateral Diplomacy', *Journal of Chinese Political Sciences*, 20 July 2012

⁴⁹ 'A 'revisionist' orientation connotes a motivation to alter [distribution of power in regional and global terms, and hierarchy of prestige within the international order]'. In *Ibid.*

interests. Another interesting aspect is the level of assertiveness of China, its willingness to defend and even impose its views on certain subjects⁵⁰. One study emphasises that 'China's multilateralism is much more diverse and context-dependent than previous discussions have allowed'⁵¹. China has so far been involved in established multilateral settings without trying to shape or modify them. Also, its assertiveness has been variable depending on the subjects at issue, but opposition to US priorities, for instance, has always been expressed within the appropriate institutional processes of the multilateral organisations concerned.

Since 2008, China's stance has changed to a more assertive and even sometimes circumventing approach based on setting up new and potentially competing institutions. China has indeed adopted a slightly revisionist approach on some subjects, which could lead to further tensions with the status-quo based approach of the US. From the rise of the G20 as the main economic forum to discuss global issues, to the creation of the New Development Bank with the BRICS, China seems to have pushed for alternative multilateral institutions.

This approach is also particularly highlighted by one of the biggest challenges faced yet by the Bretton Woods international order: the Asian Infrastructure Investment Bank (AIIB). This Chinese initiative - officially launched on 16 January 2016 - sets up an international development bank with an initial holding of USD 100 billion in capital drawn at 75 % from Asian countries. The Bank is supposed to invest in infrastructures all over Asia. China's initial goal was to facilitate investments in economic partners' infrastructures in order to improve its export capacities and tackle issues of overproduction. This explicit goal has apparently been abandoned since then⁵², due to an increased international presence among the Bank's stakeholders - especially with western European countries such as France, the UK and Germany joining the Bank. Given the fact of its overlapping with the Asian Development Bank, established in 1966 with Japan and the US as its pre-eminent stakeholders, the creation of the AIIB led to a number of tensions with the US. US officials indeed reacted quite strongly to the news of the UK joining the AIIB as a founder member⁵³. The US has seen the AIIB as a potential Chinese geo-economic tool created to reflect and legitimise China's own economic policy in Asia. Concerns over China's weight in the institution and its potential veto power were the main reasons prompting criticism and wariness from Washington⁵⁴. China seems to have taken these opinions into account and modified its initial claims to favour enhanced international support⁵⁵. China has indeed now scaled back its voting rights

Xi Jinping has introduced a more assertive and more circumventing multilateral approach

The AIIB is seen as a direct competitor to the Asian Development Bank, whose main stakeholders are the US and Japan

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² The Diplomat, [How the International Community Changed China's Asian Infrastructure Investment Bank](#), 31 July 2015

⁵³ Financial Times, [US attacks UK's 'constant accommodation' with China](#), 12 March 2015

⁵⁴ Ibid.

⁵⁵ The Diplomat, [How the International Community Changed China's Asian Infrastructure Investment Bank](#), 31 July 2015

to 26.06 %, maintaining a veto only over supermajority votes (relating to Bank's board, its president and other major policies). These changes impelled the US to declare a truce over the AIIB by welcoming China's new involvement in dealing with global issues⁵⁶, while still refusing to join this China-led institution.

China is involved in the post-war world order shaped and largely sustained by the US. However, growing frustration at its under-representation in these institutions is liable to push China to try to circumvent them by setting up alternative arrangements better suited to defend its national interests. China is not a revisionist state, but could become one in the future if the western powers fail to meet its will to play a greater role in the already-established institutions.

10.1 'Pivot to Asia': a new containment policy targeting China?

Despite official statements, China and the US have divergent interests in Asia

China and the US officially have a flourishing political relationship based on trust and mutual respect. In November 2014, President Obama said he wished to 'debunk the notion... that our pivot to Asia is about containing China'⁵⁷, while Chinese officials repeated several times that they had 'no intention to shut the US out of Asia'⁵⁸. The two countries, however, seem to have mutually incompatible political and military strategies in Asia that might set them on a collision course.

10.2 Two divergent views on the future Asian order

The South China Sea is seen as a part of China's sovereign territory

China wants to shape a new political and security order in Asia, by at least having a say equal to that of the US on regional matters⁵⁹. Pushed by domestic pressures, but also by the desire to reduce its vulnerability to any potential threats from the US, China has become less willing to accept a status quo that it believes is unjustly tailored to favour the Western powers. As Henry Kissinger explains, 'China's greatest strategic fear is that an outside power or powers will establish military deployments around China's periphery capable of encroaching on China's territory or meddling in its domestic institutions'⁶⁰ Given these fears, China has issued a policy document⁶¹ defining its military strategy for the years to come. Threats to its territorial claims in the East China and South China Seas are among the arguments emphasised to promote the creation of a naval power capable of rivalling with the US Navy. This control over a contested maritime area that is vital to international trade and to military projections has led to

⁵⁶ Financial Times, [White House declares truce with China over AIIB](#), 27 September 2015

⁵⁷ The White House, [Remarks by President Obama and President Xi Jinping in Joint Press Conference](#), 12 November 2014

⁵⁸ China Daily, [FM: China has no plan to drive US out of Asia](#), 5 August 2015

⁵⁹ The Diplomat, [Yes, the US Does Want to Contain China \(Sort Of\)](#), 8 August 2015

⁶⁰ Henry Kissinger, *The Future of US-Chinese Relations*, Foreign Affairs, Vol. 91, issue 2, March-April 2012

⁶¹ U.S. Naval Institute News, [Document: China's Military Strategy](#), 26 May 2015

increasing tensions with the US.

In a region stabilised and mostly rebuilt through American leadership after World War II, and today one of the main economic hubs of the world, the US obviously wants to maintain its pre-eminence through the status quo. One of the elements of this status quo is to enforce international laws on maritime territories and the high sea freedom of navigation and overflight. This doctrine is the founding principle of the US's naval strategy and stems from the vision of the American geopolitical theorist, Alfred Mahan (1840-1914). He indeed claimed that sea power and control of some maritime 'chokepoints' were the main reasons explaining the dominance of the British Empire⁶². He envisioned that the US was meant to become the new global empire and that its geographical situation was similar to that of Great Britain. He considered the US as an 'island' located far from the Eurasian continent where most of its global interests lay. Naval power and control would therefore fuel the US's global predominance. The new US maritime strategy as released on March 2015 was built on this theoretical ground. It takes account of the potential threats – including that from China, as specifically stressed in the paper- seen as liable to impede the ability of the US to manoeuvre freely all around the world⁶³. Rather than expressing fear of China as a global military threat, the US sees China as a potential regional threat to its naval power.

The US wants to maintain its naval hegemony for strategic and historical reasons

Despite this clash over diverging interests, the 'containment' theory appears to be an anachronism. The containment policy was used by the Truman administration at the time of the cold war to prevent further Soviet expansion and growth. This policy was operated on multiple fronts: political, military and economic. As we have demonstrated earlier, the US-China interdependency is such that it is not objectively possible to compare today's US policy towards China with past US policy towards the USSR. Rather than using the concept of 'containment', some analysts prefer the notion that the US wants to 'check' or 'channel' China's rise in order to assimilate it properly in the US-led world order⁶⁴. Even if a 'channelisation policy' appears to be less assertive than a 'containment policy', such checks would require pushing back against China's actions if they are deemed to threaten the US-backed global order. We can see a manifestation of this 'channelisation policy' in the East China and South China Seas, as also the struggles of the US to enforce it properly. These struggles have two dimensions: military, because of China's rising military capacities, and political, because of the will to avoid a potentially disastrous conflict between the US and China.

The US does not want to 'contain' China: rather, it wants to 'channel' its rise

⁶² The Diplomat, [The Geopolitical Vision of Alfred Thayer Mahan](#), 30 December 2014

⁶³ Breaking Defense, [Winning The War Of Electrons: Inside The New Maritime Strategy](#), 13 March 2015

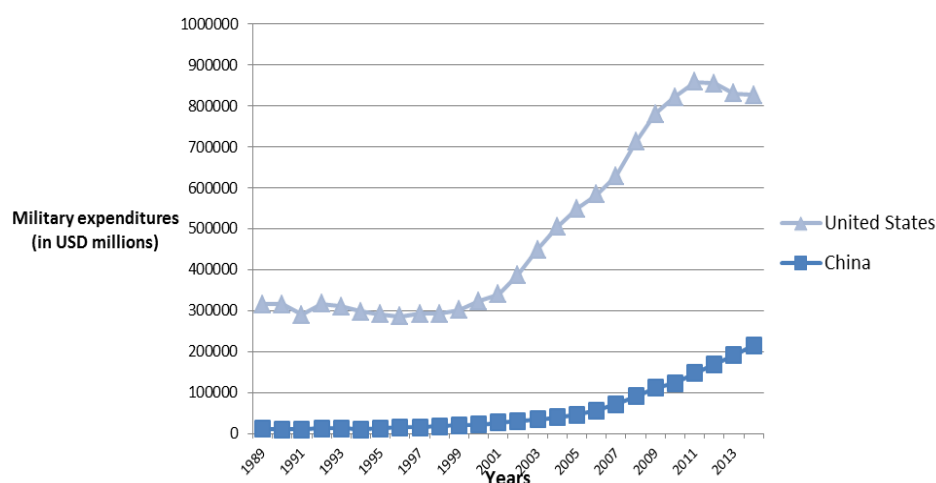
⁶⁴ The Diplomat, [Yes, the US Does Want to Contain China \(Sort Of\)](#), 8 August 2015

10.3 China as a rising regional military power

China is not a global military power

According to the US Defence Department, Beijing seeks to 'secure China's status as a great power and, ultimately, reacquire regional preeminence'⁶⁵. This regional preeminence has to be ensured through military capacities able to defy the US. However, China is not a global military power yet, at least nowhere near the US's status. Even if China has drastically increased the funding of its armed forces, the technological and logistical advantage accumulated by the US over decades of high spending on military capacities will still prove hard to overtake.

Figure 6:
China and the US - military expenditure since 1989⁶⁶



China is developing a short-range military force, capable of threatening the US in a regional conflict

Moreover, China seems at present to be focused on an 'active defence' doctrine⁶⁷. This doctrine emphasises the need to defend its territory in case of attack by promoting retaliatory capacities. The definition of what is Chinese territory has, however, been expanded since the first iteration of the doctrine in 1985, notably through the 9-dash line claim. The security dilemma is significant in this case. China sees its territory as subject to its own sovereignty, leading to shared fears among its neighbours - as we will see later on. China's strategy is to develop its military capacities so as to ensure the security of its claimed waters.

Consequently, China currently emphasises the development and modernisation of its short-range forces so as to fully focus its capacities on its neighbourhood. China has, for instance, established an important fleet of jet fighters and warships (in both cases making it second in strength to the US), but has not acquired many tankers capable of refuelling its fleets⁶⁸ in case of long-range conflict. This emphasis on coastal defence will

⁶⁵ Department of Defense of the United States of America, [Annual Report to Congress: Military and Security Development Involving the People's Republic of China 2015](#), 7 April 2015

⁶⁶ Graphic created from data available on the website of the [Stockholm International Peace Research Institute](#)

⁶⁷ Reuters, [Why China is far from ready to meet the U.S. on a global battlefield](#), 22 June 2015

⁶⁸ Ibid.

probably evolve in the future. In April 2010, Chinese Admiral Zhang Huachen, deputy commander of the East Sea Fleet, indeed underlined an evolution of the naval strategy 'from coastal defence to far sea defence'⁶⁹. This strategy envisions a three-stage evolution towards a global force by 2050⁷⁰.

Currently China is in no way a military superpower that could rival the US worldwide, still less threaten the US's territorial integrity. Nevertheless, along its coastline and in its direct neighbourhood, China has become a regional force to be reckoned with. China, despite an overall less technologically advanced, less trained and less well-equipped army, could potentially overcome this gap thanks to its geographical advantage in the South China Sea⁷¹. The US's sea power has consequently become relative in Asia, a region that is one of its core priorities and an increasingly strategic economic hub.

10.4 The American dilemma in the East China and South China Seas

This relative and localised weakness of US military capacities has begun to be increasingly tested by China's initiatives. Several times already, China has shown proof of its efforts to control the South China Sea by claiming land, creating artificial islands and building new military bases in the area⁷². The famous 9-dash line (in red in the map below) has been legitimised as indicating historical parts of Chinese territory and, therefore, one of China's non-negotiable core interests. Also, China sees this first island chain as a means to prevent any close 'encirclement strategy' by potential enemies. These claims are liable to generate multiple tensions and to endanger China's relations with its neighbours and, eventually, with the US. Chinese territorial claims indeed imply a direct collision with some of the closest allies of the US in the region, such as Japan, the Philippines and South Korea.

Tensions in the South China and East China Seas represent dilemmas for the US

⁶⁹ E. C. Economy, *The Game Changer*, Foreign Affairs, Vol. 89 Issue 6, Nov.-Dec. 2010

⁷⁰ 'First, to a navy that can cover the "first island chain", which includes islands from Japan through Taiwan to the Philippines; then, to a regional naval force with capabilities extending to Guam, Indonesia, and Australia; and finally, to a global force by 2050' (ibid).

⁷¹ Reuters, [Why China is far from ready to meet the U.S. on a global battlefield](#), 22 June 2015

⁷² For examples of construction projects in the South China Sea islands: Mira Rapp-Hooper (Asia Maritime Transparency Initiative), [Before and After: The South China Sea Transformed](#) (18 February 2015)

Figure 7:
Territorial and maritime claims in South-China Sea ⁷³



President Xi has launched a muscular and assertive general neighbourhood policy by seemingly putting aside the old saying of Deng Xiaoping - 'Hide brightness, cherish obscurity'. In November 2013, he declared an 'air defence identification zone'⁷⁴ over parts of the East China Sea, which spurred tensions with South Korea, Taiwan and Japan. The US responded by dispatching B-52 bombers to fly over this zone. In May 2014, the China National Petroleum Corporation established an oil rig in a disputed area, which caused a conflict with Vietnam with dozens of coastguard vessels being dispatched to the area. This event led to numerous violent anti-Chinese protests in Vietnam and the organised evacuation of Chinese workers in the country⁷⁵. Tensions with Vietnam seemed to ramp up again in January 2016, with Vietnamese accusations of a new oil rig being installed in disputed waters⁷⁶. All these tensions are being closely monitored by the US, which wishes to avoid a political or military escalation in the region. The US wants to manage its ties with China while still appearing fully supportive of its closest allies in the region.

These ambiguous postures, and the overall uncertainty over the US's willingness to intervene, have led to new regional security initiatives. Narendra Modi, India's Prime Minister, and Shinzo Abe, Japan's Prime Minister, have for instance strengthened the defence and security ties between their countries⁷⁷. On top of this, India -which has also several territorial conflicts with China- has been training naval personnel from Vietnam and Myanmar⁷⁸, while other claimants in the region have planned

China has launched an assertive policy to back up its territorial claims

Those claims have led to regional security and military rearrangements

⁷³ New York Times, [Territorial Disputes in the Waters Near China](#), 8 May 2014

⁷⁴ Financial Times, [An irresponsible game in the Pacific](#), 25 November 2013

⁷⁵ Reuters, [Chinese oil rig moved away from disputed waters off Vietnam](#), 16 July 2014

⁷⁶ New York Times, [Vietnam Objects to Chinese Oil Rig in Disputed Waters](#), 20 January 2016

⁷⁷ The Diplomat, [India-Japan Defense Ministers Agree To Expand Strategic Cooperation](#), 8 January 2014

⁷⁸ The Diplomat, [India's Strategic Vietnam Defense Relations](#), 11 November 2014

several joint defence exercises with a view to developing autonomous capacity to ensure their safety. A new dilemma therefore arises for the US. If it does not - or cannot - properly intervene to deter China from pushing forward its territorial claims, a regional arms race might begin. However, if the US decides to adopt a more assertive tone against China, this could also lead to potential devastating conflicts. This latter option was nevertheless the one preferred by US officials at the US-China meeting in September 2015.

Ahead of that meeting, Ashton Carter, the US Secretary of Defence, stated that 'turning an underwater rock into an airfield simply does not afford the rights of sovereignty'⁷⁹. At their joint press conference, President Obama indicated that 'the United States will continue to sail, fly and operate anywhere that international law allows'. Therefore, the US does not recognize the self-proclaimed sovereignty of China over the islands concerned. The question is whether the theoretical claims will be followed by concrete actions. It seems that the US decided to back up its statement by sending a guided-missile destroyer to the proclaimed Chinese waters and within 23 kilometres of the Subi Reef, a Chinese-occupied piece of territory in the Spratly Islands⁸⁰. Similarly, on 30 January 2016, the US sent another missile destroyer to the Paracel Islands chain without giving notice to China⁸¹. These incursions will be repeated in the future by the US, and China's response could be far from de-escalation⁸². China will most likely strengthen its military fortifications in the claimed territories, or even put pressure on other claimants (such as Taiwan, Vietnam or the Philippines) in order to test the US's commitment to help its allies. It remains to be seen whether this commitment by the US to ensure its own sea power and protect the interests of its military allies constitutes a long-term military engagement or is just a bluff.

Beijing has clear and focused goals in East Asia in terms of retrieving its regional preeminence while ensuring its sovereignty over claimed areas in the East China and South China Seas. It also seems to have the means to potentially reach that goal despite the overall military superiority of the US. Washington could soon struggle to effectively 'channel' China's ambitions in the region, which could prove to be a serious threat to its core interests.

The US has decided to enforce its freedom of navigation and overflight in contested territories

⁷⁹ Financial Times, [Confrontational mood beneath the pomp as Xi Jinping visits US](#), 21 September 2015

⁸⁰ Financial Times, [US to continue South China Sea naval operations](#), 3 November 2015

⁸¹ New York Times, [U.S. Challenges China's Claim of Islands With Maritime Operation](#), 30 January 2016

⁸² Financial Times, [US to continue South China Sea naval operations](#), 3 November 2015

11 Concluding remarks

US-China relations are of great significance for the entire world. The two countries' respective economic weight, global influence and military capacities make them key actors in the effective resolution of the different issues at stake. China's greater involvement in these issues, and its use of multilateral institutions to do so, are positive news for the stability and security of the world. On the other hand, tensions and potential conflicts arising from diverging interests between China and the US represent threats to the world order, and require improved mutual understanding and level-headed pragmatism. Officials and politicians from both countries could be tempted to paint China's rise as a zero-sum game for domestic political purposes. On such a basis, China and the US could not be equal great powers without each having to fight the other to become or remain so. This way of thinking could eventually result in a disastrous conflict or a Cold War- type stand-off.

The European Union could play a significant role in ensuring that this relationship remains beneficial for the world and in making sure that challenges surrounding China's rise are properly addressed. The US and the EU have the largest bilateral trade relationship in the world, while the EU has become China's biggest trade partner in terms of imported goods, and China is the EU's biggest source of imports as well⁸³. The three are the key entities of the global economy and are all highly interdependent. As a report has suggested, the EU can strengthen its role within this trilateral relation and try to defuse tensions, while making better use of multilateral mechanisms to foster trilateral links. However, it is certainly not possible for the EU to be heard on security issues in East Asia as long as it lacks a clear position and greater involvement in the region⁸⁴.

Also, the whole concept of a zero-sum game seems to be based on the perception that China will inevitably become a superpower, or even that it is already economically, geopolitically and militarily equal to the US. China has obvious factors in favour of such a destiny, but also faces immense challenges lying ahead. Its internal economic situation is marked by huge disparities between coastal, eastern and urbanised areas and inner, western and rural areas, in terms of income and unemployment rates. China will also have to tackle its skyrocketing rates of pollution. Similarly, China's shift of economic model toward one based on consumption and innovation has proved to be challenging. In terms of military technology and power projection, China is far from equal to the US. These challenges make China's development path uncertain, and that uncertainty is reinforced by the current economic slowdown. 'All revolutions are inherently unstable, and China's is no exception'.⁸⁵

⁸³ Source: European Commission

⁸⁴ B. Gill and A. Small, [Untapped Trilateralism: Common Economic and Security Interests of the European Union, the United States and China](#), 2012

⁸⁵ E. C. Economy, *The Game Changer*, Foreign Affairs, Vol. 89, Issue 6, Nov-Dec 2010