

МИРОВАЯ ЭКОНОМИКА WORLD ECONOMY

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Teng Delux¹ US-CHINA RELATIONS IN ECONOMIC AND SECURITY ASPECTS

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Abstract

This study is intent to identify and assess the economic and security importance to US and China by examining the nature and intensity of competitions, especially the geostrategic objectives of US and China in Asia Pacific. Examining and analyzing level of competition between US and China through the Global Competitiveness Index and the Global Fire Power Index by developing matrix level of competition for comparison between countries.

Keywords: Global Competitiveness Index; Global Fire Power Index; economic and security importance; geostrategic; geopolitics and geo-economics

Тенг Делюкс ¹	АСПЕКТЫ ЭКОНОМИЧЕСКОЙ БЕЗОПАСНОСТИ
Ро Ваннак ²	В ОТНОШЕНИЯХ МЕЖДУ США И КИТАЕМ

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Аннотация

Исследование направлено на оценку степени важности экономического развития и безопасности для США и Китая путем изучения характера и интенсивности конкуренции, а также геостратегических целей США и Китая в Азиатско-Тихоокеанском регионе. Посредством матричного анализа межстрановой конкуренции, основанного на Глобальном индексе конкурентоспособности и Глобальном индексе военной мощи, произведен обзор и анализ уровня конкуренции между США и Китаем.

Ключевые слова: глобальный индекс конкурентоспособности; глобальный индекс военной мощи; экономическое развитие и безопасность; геостратегический; геополитика и геоэкономика



US-China relations is a topic of intense debate among IR's scholars because the more dangerous a system of one super power is a situation where the two great-powers are firmly stood in the same region [6]. Joseph Nye [19] wrote that some US policy makers suggested the containment policy of China before it became too strong. However, he rejected this approach and argued that US can engage and cooperate with China in international liberal institutions established by US after WWII. "From that position of strength, the Americans could afford to engage China economically and socially and see whether such forces would eventually transform China." Instead of using military containment policies to confirm that China is an enemy, the United States has continued its engagement policy while it has strengthened its alliance with Japan and South Korea in the triangular balance to ensure that if engagement failed to work, there was a firm fallback position. American experts and their Asian allies want to implement cooperative policy with China on the power of economic engagement or economic interdependence to change China from an authoritarian country to a free, liberal democracy. Yet, policy of engagement seems to be doomed. As Navarro [20] argued, "Not only does the authoritarian grip of the Chinese Communist Party seem to be tightening, but economic engagement is providing China with a supercharged economic engine to drive its military buildup". Navarro added that in contrast to Nixionian pragmatism stands Bill Clinton¹ preferred idealistic vision of engagement

¹ U.S. President Bill Clinton signs the <u>U.S.-China Relations</u>
Act of 2000 in October [27], granting Beijing permanent normal trade relations with the United States and paving the way for China to join the World Trade Organization in 2001. Between 1980 and 2004, U.S.-China trade rises from \$5 billion to

taming American power². Martin Jacques [12] also argued that the policy of engagement with China in the hope that China would become a modern western society is "guilty of underestimating what the rise of China represents".

George W. Bush's administration began to see Beijing as a "strategic peer competitor" in the early 2000s [23]. The Obama administration has decided on 'moving towards Asia' - a rebalancing of military assets as well as diplomatic attention. This policy "will create new points of stress and rising competition with China for influence in the region" [24]. Betts considered China a nation "most likely over time to disturb equilibrium in the region - and the world, and warned that 'given the high Chinese economic growth rates and Beijing's rising military spending the only recently overpowered Soviet threat was actually a "comparatively modest challenge" [2]. Betts noted "It is hardly inevitable that China will be a threat to American interests, but the United States is much more likely to go to war with China than it is with any other major power" [3]. In a new national security strategy report based on Trump's America First vision in which the US government defines China as a "revisionist

^{\$231} billion. In 2006, China surpasses Mexico as the United States' second-biggest trade partner, after Canada [25].

² Navarro [20] stated that "Perhaps no American president has been more wrong about so much with such devastating economic consequences. In the wake of China's joining the World Trade Organization, Clinton's corporate backers would begin a massive offshoring exodus to China that would help lead to the closing of over seventy thousand American factories; the number of unemployed and underemployed workers would eventually swell to over twenty-five million; and America's massive trade deficit would swell to over \$300 billion annually, leaving America in debt to China to the tune of trillions of dollars."



country" and a "strategic competitor" seeking to erode US security and prosperity. US Indo-Pacific strategy is part of a policy to contain China that will also contribute to a bumpier Sino-US relations which entails increased cooperation between the US, Japan, Australia and India aimed at countering the ever-expanding clout that China is wielding in Asia [18].

Diplomatic Relations and Its Trends

1949. Sino-US relations have evolved from tense standoffs to a complex mix of intensifying diplomacy, growing international rivalry, and increasingly intertwined economies [25]. On January 1, 1979, ambassadorial-level diplomatic relations between US and PRC was established and realized normalization of Sino-US ties [17]. The cooperation between the two countries brings benefits to their economic development and security, bringing the fall down of USSR. After the collapse of USSR, US strategic thinkers have been considering PRC as a new threat to US interest. especially in Asia-pacific. In the changeable situation of the world today, relation between the two countries are intricate and complex, anti-China forces dishes out the "China threat theory", but PRC still insisted that as a "status quo" power, PRC will enjoy in economic cooperation with a peaceful rise and commitment to be a responsible great power in international political order. Xi Jinping convinced that "we Chinese love peace", we will never seek aggression and expansion and will never compromise on defending its sovereignty [21]. In the interest of peace, China will remain committed to peaceful development. No matter how much stronger it may become, China will never seek hegemony or expansion [22]. However what china's claim of being peaceful rise, but if we look at china's history after the civil war, it may be possible to analyze Chinese behavior after the Communist Party of China ruled in 1949, and that China would adopt a revisionist strategic approach. Through the occupation of Tibet's territory³, China's involvement in the Korean Peninsula⁴, the Vietnam War, the war with India, the war with the former Soviet Union⁵, the territorial claims at the East China Sea and South China Sea, especially Chinese jets interception of US surveillance plane are reflected China's proactive and assertive foreign policy as a revisionist state. When economic power drives China toward superpower position, China will have to show its full range of military and political muscles, even it wants or not [16].

³ Nine years after the People's Republic of China asserts control over Tibet, a widespread uprising occurs in Lhasa. Thousands die in the ensuing crackdown by PRC forces, and the Dalai Lama flees to India. The United States joins the United Nations in condemning Beijing for human rights abuses in Tibet, while the Central Intelligence Agency helps arm the Tibetan resistance beginning in the late 1950s [25].

⁴ In June 1950, Korean War Breaks Out. The Soviet-backed North Korean People's Army invades South Korea on June 25. The United Nations and the United States rush to South Korea's defense. China, in support of the communist North, retaliates when U.S., UN, and South Korean troops approach the Chinese border. As many as four million people die in the three-year conflict until the United Nations, China, and North Korea sign an armistice agreement in 1953.

⁵ Differences over security, ideology, and development models strain Sino-Soviet relations. China's radical industrialization policies, known as the Great Leap Forward, lead the Soviet Union to withdraw advisors in 1960. Disagreements culminate in border skirmishes in March 1969. Moscow replaces Washington as China's biggest threat, and the Sino-Soviet split contributes to Beijing's eventual rapprochement with the United States [25].



Christen [4] argued that "even US capabilities in economic, military and social terms are better than PRC, but PRC still can pose major challenges to US security interest. As Denny Roy [7] argued that "a stronger China is likely to undermine peace in the region. Economic development will make China more assertive and less cooperative with its neighbors; China's domestic characteristics make it comparatively likely to use force to achieve its political goals; and an economically powerful China may provoke a military buildup by Japan, plunging Asia into a new cold war." Whereas Huntington [9] described the US-China relations as "potentially most dangerous" rivalry because of the issues like trade, human rights, arms sales, the proliferation of weapons of mass destruction, Tibet, and Taiwan. The fundamental issue, however, is one of power reinforced by profound civilizational differences. The Chinese have made it clear that they see their era of subordination to and humiliation by other major powers coming to an end and that they expect to resume the hegemonic position that they had in East Asia until the mid-nineteenth century. The United States, on the other hand, has always opposed the domination of Western Europe or East Asia by any single power and in the last century fought and won two world wars and one Cold War to prevent that from happening. Whether conflict or accommodation will characterize US-China relations is thus central to the future of world peace."

Condoleeza Rice [5] also mentioned that China wants to challenge US dominent in Asia Pacific region in its favor⁶. Ikenberry [10] believed that East Asian region would become a bipolar system⁷ contested by the US and PRC rivalry and in response US would prefer con-

⁶ She states that: "China is still a potential threat to stability in the Asia-Pacific region. Its military power is currently no match for that of the United States. But that condition is not necessarily permanent. What we do know is that China is a great power with unresolved vital interests, particularly concerning Taiwan and the South China Sea. China resents the role of the United States in the Asia-Pacific region. This means that China is not a "status quo" power but one that would like to alter Asia's balance of power in its own favor. That alone makes it a strategic competitor, not the "strategic partner" the Clinton administration once called it" [5].

⁷ He stated that "Bipolarity will emerge in a process of Sino-American action and reaction leading to conflict and geopolitical balancing. A premise behind this possibility is that China's economic and military growth will increasingly thrust China into a role as regional rival, challenging American's hegemonic position in the region. An increasingly powerful China might be tempted to 'test the waters,' that is, probe the willingness of the United States to engage as Chinese officials spread their influence across the region. Tests could occur over Taiwan, the South China Sea, political instability in Indonesia, or perhaps the use of nuclear weapons by one party or the other. As China sought to challenge the legitimacy of a US-dominated regional system and propose its own alternative, it would seek the support of other states in the region" and "In turn, the United States would likely respond by shifting from engagement of China to more active confrontation and containment. Any combination of China's questionable human rights practices, its nuclear espionage, its transfer of chemical and nuclear technology to other states hostile to the United States, its refusal to recognise US-supported investment and intellectual property rights, and its old-style anti-American rhetoric could provide the impetus for a hard-line American response. In this scenario, the United States would seek to strengthen its bilateral alliances with Japan and South Korea and direct them far more explicitly at the Chinese target. China would counter by soliciting its own regional allies-perhaps even Russia and India"[10].



frontation and containment policies rather than engagement to maintain balance of power. However, China views US as a most serious threat to its security. As a revisionist state, China will challenge the preeminent US position in the region to alter the old world order with its "proactive" foreign policy [16] and with a Chinese world's views on socialism with Chinese characteristics [15]. Conversely, US considers China as peer-competitor to seriously challenge US's interests in the region.

Economic Aspects in US-China Relations

China in the last three decades has been being busy championing trade deal around the globe, building up some of the world biggest companies, taking over some international realestate markets, building up networks of energy powerhouse. China is the largest trading partner for more than 130 countries and the largest cargo trader for many years as well as being the largest exporter and second largest importer in the world [11]. China has push for global economic leadership in Launching the Asian Infrastructure and Investment Bank (AIIB), One Belt One Road Initiative (OBOR) and the proposed Free Trade Area of the Asia Pacific. China has opened 104 of its 160 services sectors to foreign investors according its membership to World Trade Organization (WTO) [1], when much of the world, especially US and Europe are not certain about the impact of economic globalization. For more than a century, the United States has been the world's biggest economy, accounting for over 24.7% of the world's gross domestic product (GDP) in 2016. Infographic from the Visual Capitalist [14] shows, US is the largest economy in the world on nominal basis where as China is largest on PPP basis. US is ahead of China by 7170 billion US Dollar in 2016. In September 2008,

China surpasses Japan to become the largest holder of US debt—or treasuries – at around \$600 billion [25].

The Chinese government has achieved this high growth through reliance on old drivers: credit and real estate. However, the government's unwillingness to allow the market to play a bigger role has resulted in deteriorating investment efficiency, meaning higher levels of debt are necessary to generate growth. Household consumption—an essential element of China's economic rebalancing—is growing but at a sluggish pace due to the slow rate of reform. China's high and rising debt levels pose a growing threat to the country's financial stability. China's total debt reached \$27.5 trillion, or 257 percent of GDP, at the end of 2016. The dramatic rise in China's debt burden can be attributed to the relentless expansion of credit the government has relied on to generate growth since the global financial crisis [26, P.2].

The US trade relationship with China remains extremely unbalanced, as evidenced by a substantial goods deficit, which totaled \$347 billion in 2016. The goods deficit decreased 5.5 percent year-on-year in 2016, driven by declining US imports from China, which dropped 4.3 percent to \$463 billion. US goods exports remained flat, declining 0.3 percent over 2015 levels to \$116 billion. China continues to dominate the United States' global deficit in trade in goods. In 2016 the United States' goods deficit with China was equal to 47 percent of its total deficit, down from 49 percent in 2015. In the first eight months of 2017, the goods deficit increased 6.2 percent to \$239.1 billion, with U.S. exports to China reaching \$80.2 billion, an increase of 15 percent year-on-year, while imports from China grew 8.3 percent year-on-year to \$319.3 billion. In 2016, the US services trade surplus with China reached a record high



of \$37 billion, driven almost entirely by an increase in Chinese tourism to the United States [26, P.2]. US attracted more than \$373 billion of global FDI flows in 2016, of which around \$27.6 billion, or 7.4 percent, came from China. From 2010 to 2016, Rhodium Group estimates annual Chinese investment in the US rose from \$4.6 billion to \$46.2 billion. There are potential economic benefits of investment: Chinese FDI can help US firms secure the capital necessary to grow their business and hire more workers, leading to an expansion of the U.S. tax base, improving productivity, and raising overall competitiveness⁸.

According to the Global competitiveness index [8], US is the second most competitive country on earth where China ranked on 27th place (See table 1). In Annex 1, we compare the 12 pillars of GCI between US and China by ranking and score then developed a matrix level of competition in table 2. As identified in the 12 pillars of the GCI, US is more competitive than China in all pillars besides market size and macro-economic context.

Security Aspects in US-China Relations

In terms of military spending per capita, China is still behind the United States. In terms of total military expenditures, China spends the second most worldwide with a total of approximately 216 billion US Dollar per year, where the US – 609 billion US Dollar. In the US consists of 1.43 million active military personnel, where in China - 2.33 million. In term of military expenditure in the percentage to the GDP, China spends about 2.1% of its annual GDP on military, and the United States spends 3.8%. The US has 133 military bases outside of its territory, and China has one base in Djibouti, Africa which is at the southern entrance to the red sea on the route to Suez Canal. More specifically, US has bases in multiple jurisdictions that surround China: South Korea, Kyrgyzstan, Japan, Singapore, Guam, Afghanistan, and Diego Garcia, a set of small islands in Indian Ocean. The US has 7315 nuclear warheads and 121 military satellites, where China has only 250 nuclear warheads and 24 military satellites [13]. According to the Global Fire Power Index 2017, US ranks the first place in military power ranking, where PRC stands in the third place (See table 3).

China was the third-largest arms exporter worldwide in aggregate terms during the 2012–2016 periods with \$8.8 billion in exports, following the United States with \$47.2 billion and Russia with \$33.2 billion. Comparing five-year periods, China's exports of major arms rose 74 percent from \$4.5 billion between 2007–2011 and 2012–2016 while US and Russian exports rose 21 and 4.7 percent, respectively, meaning China's share of global arms sales rose from 3.8 to 6.2 percent. During the past five years China has sold arms to 44 countries, with Pakistan (35 percent), Bangladesh (18 percent), and

⁸ In 2016, Rhodium Group estimates Chinese companies added approximately 50,000 US jobs, bringing the total number of US jobs provided by Chinese companies to 141,000. However, Chinese investment can also pose risks to the United States, with Chinese FDI targeting sectors of strategic importance to the United States. Given the state's controlling position in the Chinese economy and the opaque nature of its role in business activities, these investments raise concerns about the ability of US regulators to manage the risks of investment from state-influenced entities. Chinese investments, for example, raise concerns about the transfers of valuable US technologies to China. They can also make it more difficult for US firms to compete in international markets due to the anticompetitive practices of many Chinese firms [26].



Burma (10 percent) as top recipients. China's customer base has also expanded across Africa, Asia, and South America, with its exports to countries in Africa rising 122 percent over the previous five-year period, and exports to for-

mer Soviet countries (Kazakhstan and Turkmenistan) for the first time in 2016. All recipients of China's arms exports to date have been low- and middle-income countries [26, p. 177].

Таблица 1

Глобальный индекс конкурентоспособности - GCI 2017-2018

Table 1

The Global Competitiveness Index – GCI 2017-2018 [8]

	Overall Index		Basic Requirements		Efficiency Enhancers		Innovation and Sophistication Factors	
Economy	Rank	Score	Rank	Score	Rank	Score	Rank	Score
US	2	5.85	25	5.54	1	6.01	2	5.8
PRC	27	5	31	5.32	28	4.88	29	4.33

Таблица 2

Матричный уровень конкуренции между США и КНР, GCI 2017-2018

Table 2

Matrix Level of Competition between US and PRC, GCI 2017-2018

	Low (20 ≤ I < 40)	Medium (40 ≤ I < 60)	High (60 ≤ I < 80)	Very High (80 ≤ I ≤ 100)		
US			Technological readiness, macro-economic context, product market efficiency	Institutions, infrastructure, health, education and skills, labor market functioning, financial market development, market size, business dynamism, innovative capacity		
PR C	Labor market func- tioning	Institutions, education and skills, product market efficiency, innovative capacity	Infrastructure, technologi- cal readiness, financial market development, busi- ness dynamism	Macro-economic context, health, market size		

Таблица 3

Глобальный индекс военной мощи - GFP 2017

Table 3

The Global Fire Power Index – GFP 20179

	GFP Rank	Total Popu- lation	Military Personnel	Aircraft Strength		Naval Assets	Aircraft Carriers
US	1	323,995,528	2,363,675	13,762	5,884	415	19
PRC	3	1,373,541,278	3,712,500	2,955	6,457	714	1

⁹ See: https://www.globalfirepower.com



Despite efforts by the Trump and Xi administrations to set a positive tone for the bilateral relationship in early 2017, US-China relations suffered from tensions over longstanding disagreements such as the South China Sea, Taiwan, and especially North Korea¹⁰. President Trump and President Xi held their first face-to-face meeting at a summit in April 2017 and established a new framework for bilateral security relations. The two sides agreed to initiate a new "US-China Comprehensive Dialogue." This features four "pillars" of dialogue on diplomatic and security, economic, law enforcement and cybersecurity, and social and cultural issues. This framework replaces the US-China Strategic and Economic Dialogue begun under the Obama Administration. According to US officials, the two sides additionally "had candid discussions on regional and maritime security" and "reaffirmed their commitment to a denuclearized Korean peninsula," without discussing specific arrangements. Although the US side affirmed it is prepared to take action on the Korean Peninsula without China, the Chinese side argued military actions should be stopped in exchange for North Korea halting its nuclear program. President Trump reportedly emphasized US support for international norms in the East and South China seas and opposition to militarization of disputed areas, and President Xi emphasized his desire for US participation in China's OBOR initiative and for US cooperation in returning Chinese fugitives to China [26, p. 179].

Since the summit, China's Foreign Ministry spokesperson has referred to "the consensus achieved" there, later criticizing a US arms sale to Taiwan and US sanctions on North Korea

that target a Chinese bank as going against this "consensus," but US officials have not referred to this supposed "consensus." The United States and China held the first "pillar" dialogue, the US-China Diplomatic and Security Dialogue, in Washington, DC, in June 2017. Statements from the US side following the meeting noted discussion on areas of agreement such as the need to achieve a denuclearized North Korea, as well as frank exchanges on China's responsibility to exert greater pressure on North Korea, China's actions in the South China Sea, and China's human rights record. Statements by China also cited a "constructive and fruitful" dialogue, but stressed the need for US respect of China's political systems, development path, sovereignty, and territorial integrity; its opposition to U.S. missile defense deployments in South Korea; and its desire for strengthened exchanges and cooperation in counterterrorism [26, P. 179].

Strategically, the Trump administration's NSS [18] identifies the security of the US homeland, particularly against terrorist threats and weapons of mass destruction, as a priority; recognize that promoting economic prosperity¹¹ is core to sustained US global leadership; highlight the value of preserving an open and liberal

¹⁰ China has refrained from imposing overly punitive sanctions on North Korea for fear of causing a collapse that would result in refugees flooding the economically vulnerable north-east.

Michael Green, senior vice-president for Asia at Center for Strategic and International Studies, said the US' withdrawal from the Trans Pacific Partnership (TPP) trade pact has harmed the US' credibility in the region. It has also reduced Washington's diplomatic toolkit to "zero-sum unilateral measures" such as the trade actions or military instruments. "It weakens US' hand in managing China in a peaceful way," "It also weaken allies and partners' confidence in US leadership and emboldens China's expectations." But on the upside, he believes there are several ongoing factors that can reinforce cooperation between the two countries. One is the leadership of Chinese president Xi Jinping, which retained "strong elements of Dengism" and a preference to avoid direct confrontation with the US [28].



international order that has often times benefited the US; and underscore the importance of preserving core American principles and values. Professor Jin Canrong, a Chinese government adviser, warned US-China Relations are headed towards trouble, as the latest National Security Strategy Report in which the US government defines China as a "revisionist country" and a "strategic competitor", as well as several "very provocative suggestions" on Taiwan made in the US Congress [28]. US-China relations should be embedded in a larger set of stable US political, security, and economic ties. It will require a greater commitment to the region, of strategic thinking, time, resources, and energy. Pyongyang's nuclear weapons program could tilt US-China relations towards either increased collaboration or further confrontation.

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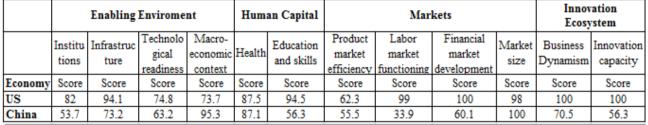


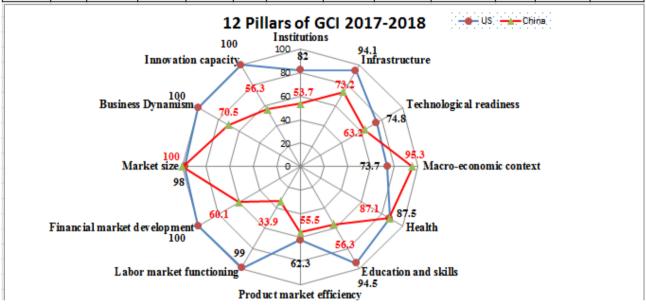
Приложение

12 столпов конкурентоспособности по индексу GCI, сравнение между США и Китаем

The 12 pillars of GCI¹² Comparison between US and China

A	nı	nex





¹² Improving the determinants of competitiveness, as identified in the 12 pillars, requires the coordinated action of the state, the business community, and civil society. All societal actors need to be engaged to make progress on all factors of competitiveness in parallel, which is necessary to achieve long-lasting results. The GCI points to three main challenges that are relevant for economic progress, public-private collaboration, and policy action: first, financial vulnerabilities pose a threat to competitiveness and to economies' ability to finance innovation and technological adoption; second, emerging economies are becoming better at innovation but more can be done to spread the benefits; third, labor market flexibility and worker protection are needed for competitiveness and shared prosperity in the Fourth Industrial Revolution [8].