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**The Correlation between International Trade and Economic Interdependence and the
Propensity to Engage in Conflict**

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By

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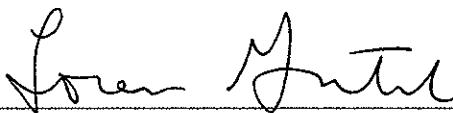
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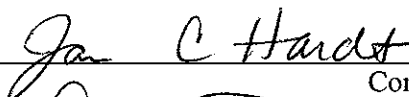
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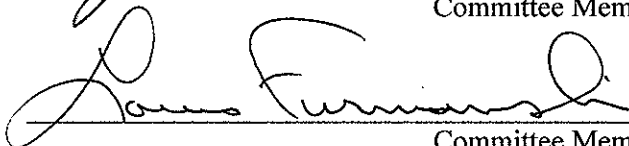
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Abstract

Unlike domestic politics, which is governed by laws and regulations, interstate politics takes place in an anarchic arena. There are few laws that govern relations among states which provide opportunities for strong states to dominate weaker ones and violate their sovereignty. However, lower costs of transportation and advances in technology have given rise to new modes of interstate interaction. Countries need each other to ensure their own security and economic stability. Therefore, they have developed new approaches to interstate relations that stress cooperation for mutual gain. This reality has obliged countries to resolve their differences by other means than wars and violence. Military conflict is likely to result in a loss of economic and political benefits. One of the most important international relations is the bilateral relationship between the two largest economies in the world, United States and China. Both countries are competing for power since the rise of China as a significant economic and political power in the world. Moreover, renewed attempts by China to dominate South East Asia are likely to threaten American interests in the region. Other political tensions are rising between the two countries. Given the magnitude of economic interdependence and the prospect of losing the benefits already gained through these bilateral relations, both countries are trying to resolve their political tensions by peaceful means of conflict resolution.

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The Correlation between International Trade and Economic Interdependence and the Propensity to Engage in Conflict

“The merchant has no country.”

—Thomas Jefferson, 1743-1826

“Commerce is the great civilizer; we exchange ideas when we exchange fabrics.”

—Robert G. Ingersoll, 1833-1899

Chapter One: Introduction

Trade and commercial exchange beyond borders has been taking place since the emergence of civilization. Merchants traveled thousands of miles to offer what their countries produced in exchange for money and what the host country produced. Later, the industrial revolution and technological advances imposed new realities. To secure their access to raw materials and markets for their products, countries developed new relationships with the wider world. Some western countries sought to dominate developing countries in order to secure outlets for their products, transport routes and raw materials. Further advances in technology and the emergence of supply chain exchanges provided the opportunity to developing countries to rise as significant players in the world economy. This development complicated relations among countries. Instead of approaching the world and using force to achieve maximum gain, nations required new approaches to foreign policy. Opening new channels of interstate political and economic cooperation resulted in more national benefits compared with the previous approach that was based solely on power. Such a development would likely motivate elites, even the self-interested ones, to rethink their view of the world as an arena of power struggle and a zero-sum game.

International interdependence is not new to our world. Nations have been trading with each other since the emergence of civilization itself. In his commentaries about the politics and the constitution of Athens, Aristotle examined the practices of export and import and affirmed that countries have been always dependent on each other economically (Aristotle, 1996).

Our world today is what William Greider described as “modern capitalism driven by the imperatives of global industrial revolution” (Greider, 1997). International trade and commerce have been long recognized as a vital aspect of international relations. From this arises the necessity of regulating this activity internationally. National governments’ control over commercial relations among them is limited to their own laws. In case a dispute arises, local courts do not have the authority to impose their regulations on the other party if it is another sovereign state. Therefore, the creation of international law would be indispensable (Miller & Cross, 2013). Embodying international trade and commerce in international law is itself an acknowledgement that trade and commerce are growing activities of international relations.

In the widest sense, international relations is about exchange that is mediated through different devices and institutions: treaties, international courts, international organizations, and a range of other bilateral and multilateral forums (Macmillan, 2007). Studying the relations between the world largest economies, United States and China, will provide a better understanding of the dynamics within which countries interact.

Since the mid 1970’s, the United States and China have been involved with each other in an increasingly dense web of trade and investment relations. Both countries are highly influential in the international political economy. Unfortunately, bilateral political relations

between the two are not as harmonious as their economic relations. The Sino-American political relationship is marked by competition for regional and global influence. Thus the central dilemma in this bilateral relationship: Will China and the United States persist in developing their economic relations despite political tensions or will the two countries allow their political differences to jeopardize these deep economic ties?

Economic relations affect internal and international politics. In turn, these relationships are subject to political decision-making. Additionally, the differences between the internal politics and systems of the countries play a key factor in how economic relations shape domestic and foreign policy. In the United States, politicians are elected in a democratic process. However, corporations contribute to their elections campaigns. Moreover, lobbying influences American politics and policymaking. Corporations enjoy substantial influence in the United States, and are likely to promote their own interests distinct from those of the nation. In an authoritarian country like China, where economic decision making is subject to more centralized control, similar tensions prevail. Policy choices that might be economically beneficial to the wider population might clash with the political interests of the Communist Party. Whether they are democratic or authoritarian, all countries face a basic tradeoff between the value of sovereign autonomy and the trade and investment benefits that flow from international economic integration. Arguments against free trade and participation in institutions like the World Trade Organization (WTO) reflect this concern with sovereignty. Moreover, decisions by private actors that lead to outsourcing jobs to where labor is cheaper or raw materials more abundant deprives local communities of their economic base.

Conflict among sovereign nations arises for different reasons. Struggles for supremacy, hegemony and balance of power are among the reasons of political disputes.

Other factors that contribute to the onset of conflict include the asymmetry of information about other nations' intentions, especially when these other nations are increasing their military power. Political disputes that lead to war can have significant consequences not only for the states involved, but for the entire world economy. Given the deep integration of the modern global economy, would the economic consequences of conflict act as a deterrent to war? Would countries bound by economic relations resort to alternative conflict resolution techniques in case a conflict arose between them? These questions are particularly pertinent for the Sino-American relationship. Given the recent ascent of China in international economic relations, both the fact and benefits of economic interdependence rest in increasing tension with the political disputes which China's very rise has occasioned.

Chapter Two: Theories of International Relations and Economic Interdependence

International relations unfold within an anarchic system that lacks centralized control. Interaction among states is rarely regulated. There are limited mechanisms to ensure justice and peace. In the absence of such control, international relations scholars attempted to explain state behavior in terms of the systematic imperatives imposed by anarchy. According to Kenneth Waltz, “any approach to international politics that is properly called systematic must at least try to infer some expectations about the outcomes of states’ behavior and interactions from a knowledge of system-level elements” (Waltz, 1979, p. 50). Theories of international relations are an indispensable aspect of political analysis. Each approach to foreign policy is guided by a “mental map of international system” (Slaughter, 1995) that corresponds to a theory of international relations. Scholars are divided between two major theoretical perspectives on international relations. The first is Realism, which postulates that states are egoistic and self-interested actors that view the world as an arena of constant conflict and competition for power and resources. The second perspective is Liberalism, which holds that, despite the presence of anarchy, states nonetheless have the potential to engage in cooperative relations for mutual benefit. This chapter focuses on how these theoretical traditions interpret the significance of international economic relations.

Essentially, any theory must specify the principle actors in the approach, the forces driving and motivating these actors towards certain actions and constraints imposed on these actors by the nature of the international system. The grouping of these theories is based upon analytical assumptions about the nature of the state and the explanatory power of causal factors; the distribution of power in the international system, international institutions, and national ideology and domestic political structures (Slaughter, 1995, p. 719).

Realism

The Realist approach has been dominant in international relations scholarship for a very long time. The main argument of realists is that the international system is anarchic and lacks central authority. Therefore, in their interactions, states behave as self-interested actors. They do not hesitate to use armed conflict against other states in order to achieve their goals, the most important of which is the quest for power. (Wolf, 2004). Life in such world is a constant conflict against others for both gain and protection. In Realism, crucial decision makers are presumed to be rational, unitary actors. Policy choices reflect the goals and priorities of the leadership. This policy approach also assumes that the primary foreign policy objectives are determined by the structure of the context within which countries interact. Alternately, realist theory implies that national leaders choose approaches to politics that maximizes their notion of national welfare or the interests of the supportive constituencies provided the policy goals to be pursued are determined (Mesquita & Lalman, 1992).

Whatever their theoretical variant, the realist view of the world is based on the nature of the international system, in particularly its anarchy, lack of centralized control mechanisms, and the constant competition over security and resources. Countries conduct their affairs under an ever-present shadow of violence. Since nothing prevents states from using force against each other, all states must prepare for that contingency or seek the protection of stronger states (Waltz, 1979). Foreign policy choices are judged ultimately according to how they enhance national security or strengthen the power position of one country relative to others. As Mesquita and Lalman put it, “goals are selected to advance power or security considerations and are constrained by the structural characteristics of the system” (Mesquita & Lalman, 1992, p. 11).

Realism assumes that rapidly growing states, regardless of their intentions, are a direct threat to their neighbors and the existing hegemony (Schweller & Pu, 2011). Moreover, as Thucydides argues, in cases whereby a state is experiencing rapid growth or seeks to be hegemony, it is likely to rise as a challenger to the current hegemony especially if the latter's power is declining. The existing hegemony is likely to strive to maintain its power. The results of such interactions will lead states to armed conflict. The motive of conflict arises when the new competition grow more powerful, more dissatisfied with the status quo, ambition and demand of prestige (Schweller & Pu, 2011; Gilpin, 1983).

International economic relations presume cooperation. Even self-interested actors cooperate with others to achieve selfish goals realizing that they are impossible to be achieved if the state acted alone. In fact, the reality of today's world imposes such cooperation on states (Axelrod, 1980). In discussing the possible outcomes of international relations without controlling hegemony, Robert Keohane argues that even self-interested nations- which pursue their sole objectives according to the realist theorists are interdependent to the extent that their objectives are met through collective action. He defined international cooperation as the "the process through which policies actually followed by governments come to be regarded as their partners as facilitating realization of their own objectives, as a result of policy coordination (Keohane, 1984).

Taking a closer look at today's international relations, and unlike the past patterns, it is conspicuous that most of the conduct is based on what is known as "Cost-Benefit". Countries generally are self-interested actors. In the past, this action would lead into political violence and struggles for dominance, in other words, war and armed conflict. With the complexity of today's world, including development in technology and trade in addition to strategic factors,

countries are looking after their interests in different ways. They realize that rushing into political conflict is likely to make their countries to bear costs which would likely be avoidable in case they did not go to the violent road. For instance, Chinese official made a strategically effective decision by being extremely discreet in terms of their opposition to the United States. Although there is evidence that China is in a race to dominate the Asian economy and the world economy in general, rarely do Chinese officials make comments which confirm such attempts or any political or economic opposition to the United States or openly state that China is in an economic longitude with the United States (Sutter, 2007) .

In fact, some countries go to war or an interstate dispute arises despite the national or international costs of avoiding it. Leaders at some point operate within a certain agenda that is not necessarily corresponding to national strategies. Moreover, the lack of information can play a part in conflict motivation. For instance, decision-makers may not accurately interpret the intention of other countries toward, theirs. They initiate conflict assuming the undesired approaches of the other countries towards theirs despite the fact that there are better outcomes and transaction cost reduction gained by peaceful and cooperative relations. Economic theorists agree with this explanation. They attributed the refusal of elites to liberate trade in spite of the feasibility and gains to their countries to self-interested decision makers pursuing political objectives (Hillman, 2009).

Liberalism

After the Cold War ended, the world witnessed new global economic changes. The new economic realities led to the “bankruptcy of socialism and the triumph of liberal market economies and new attitude towards international cooperation” (Karns & Mingst, 2010, p.

153). The nature of life in addition to the development in technology led to interstate economic interdependence. Therefore, new approaches to international relations emerged. The key assumptions of the realist approach to international relations, which is the anarchic international system, become less valid (Goldstein & Pevehouse, 2006). Although centralized control is still absent from the international scene, countries found mechanisms to regulate relations among them without resorting to violence and competition over power. Countries resorted to strategies that are likely to achieve mutual benefits in terms of politics and economies. The liberal scholarship explains this approach based on new realities of the world today.

Basically, liberal international relations theory focuses on the relations among liberal states. Liberal states are defined as states that enjoy some form of representative government, market economy based on property rights, judicial equality, constitutional protections of basic civil rights (Doyle, 1983). The most applicable aspect of the theory is its contention that liberal states are “far less likely to go to war with one another” or the concept of “democratic peace” (Russett, 1993; Slaughter, 1995). Unlike realism, which assumes that the world is an arena for maximizing gain and imposing power, or national self-interest, liberalism argues that only through peace and harmony is the world likely to prosper.

Liberalism touches every aspect of politics including the economy. Countries started liberalizing their national economies in terms of free markets, minimal government intervention and guarantee of individual rights and liberties. Economic liberalism is market and price mechanism driven. Market strategies and price mechanisms, according to the liberal economic theory, are the source of the most effective means for organizing domestic affairs and international relations (Gilpin, 1987).

Another proponent of liberal theory is Francis Fukuyama. He has been arguing that the realities of the world make it more feasible for countries to adopt liberal democratic approach given it resulted in more economic prosperity. Moreover, the science and technology revolution made it necessary for countries to consider import outside technology and export theirs. Both production and defense imposed such reality. Moreover, liberal democracy, according to Fukuyama, challenged fascism and communism (Fukuyama, 2006).

The relationship between liberalism and international trade and peace has been studied for nearly 200 years. Immanuel Kant was one of the pioneers in this field. He suggested that international trade and “federation of interdependent republics,” would be the premises of perpetual peace” (Kant, 1795; O’Neal & Bruce Russett, 1999). Based on Kant’s perspectives of perpetual peace and shared membership in international organization, O’Neal and Russett expanded their analysis of liberalism in the Cold War era and beyond confirmed this philosophy. The results of their analysis support the liberal notion of international relations. Their findings confirm the correlation between democracy, interdependence, international trade and the decline of militarized conflict. Moreover, O’Neal and Russett predicted that this correlation is likely to continue in later years (O’Neal & Russett, 1999). Liberal trade policies significantly contributed to international trade growth in the post-World War II era (Wolf, 2004, p. 112). From the 1950’s to the 1990’s, the volume of world’s merchandise exports rose by 1840% and export of manufactures rose by 3500% (Wolf, 2004). Both realists and liberals agree on the effectiveness of cooperation. While liberals and neoliberals welcome mutual opportunities for gain, realists see a policy alternative that produces better outcomes than mutual defection (Jervis, 1999).

Liberalists continue to argue that capitalist economics and trade relations among them tend to reduce conflict. They contend that the mutual gains of trade and the complex web of interdependence foster cooperative relations. In particular, conflict would be more costly to trading state. O'Neal and Russett further examined the correlation between trade and war. The results of their research confirmed that bilateral trade is likely to reduce the propensity of interstate conflicts for the following reasons (Russett & O'Neal, 2001):

Trade raises costs of conflict and also the benefits of conflict avoidance and conflict management. Trade causes greater economic well-being and, as a result, greater satisfaction with the status quo. Synergy between commerce and democracy because economically powerful groups are likely to have Political power and are more likely to benefit from the credible commitments that result from stable international commerce regimes.

However, the problem with this assumption, as the Marxists argued, is that capitalist economies tend to pursue aggressive economic foreign policy to compete and increase gains. Some economic policies are likely to lead to political tension among countries. Moreover, Marxists and nationalists argue that interdependence may lead to conflict because it causes insecurities among weak nations. Dependence, they argue, is asymmetric. Therefore, trade becomes a source of increase in political power of the rich, strong states over the weak ones (Gilpin, 1987).

Although China is not classified as a democracy, it adopted the liberal approach in the conduct of international relation. China's adoption of such approach resulted in many benefits including elevating its soft power. China liberated its economy, engaged in trade and manufacturing cooperation, political cooperation, foreign aid, foreign direct investment and peace advocate. Such activities enabled China to gain influence (Schweller & Pu, 2011).

Liberals constantly argue that engaging in a web of economic exchanges and trade will promote peace (Barbieri, 1996). This assumption is attractive because trade did gather states on the basis of cooperation and beneficial relations and helped build political friendships. For instance, since the establishment of European Union, conflict among European countries significantly declined. Moreover, in case a member- country suffers financial hardships, the other member countries plan to bail it out of the hardship.

Prisoners' Dilemma

Scholars of international relations have sought to understand interstate behavior using game theory. Most prominent approach is Axelrod's attempted to make sense of the way countries interact with each other by explaining states' behavior through a game which allows players to achieve mutual gains in case they cooperated with each other. However, there is a chance if one of the players defected, he is likely to achieve all gains and leave the others with a zero-sum loss (Axelrod, 1980). In addition to Axelrod, many politics and international relations scholars view prisoners' dilemma as a valid description of international relations especially in terms of international security because it captures significant dynamics of international politics (Jervis, 1999). Mesquita and Lalman, in their assessment of foreign policy choices and their implications, found that using game-theoretical approaches explain patterns of interstate interaction. Their findings are accompanied by statistical analysis and case history analysis with focus on the consequences of the domestic and the foreign policy choices. As a result to this research, they were able to explain international interaction through two competing theories.

Relations among countries are more complicated can be explained through the opportunities for mutual gains alone. Although theories have been in favor of cooperation and mutual gains, such realities did not prevent conflict from happening. Realists see that international conflict is unavoidable. Occasionally, mistrust and the lack of information creates the perception of that the other country is planning to exploit the other. Neoliberals have not denied the realities of international conflict. However, they attribute it to the failure in applying institutional cooperation that moves states to acquire mutual gain through securing agreements (Jervis, 1999). Moreover, Jervis argues that Neoliberals tend to explain the decision making of political leaders in strategic terms. When there is an opportunity for transactional cost reduction, there is a strong incentive for cooperation between countries. However, neoliberalism fell short in explaining incidents whereby the preferences of political decision-makers disregarded strategic outcomes of cooperation for several reasons including power and other interstate rivalries (Jervis, 1999).

Both liberals and realists regard the state as the main analytical focus. However, the dichotomy of these theories is that the realists focus on state power. The liberals, on the other hand, focus on state interests. Liberalist conceptualize threats to international order or to international cooperation according to conflict of state interests (Slaughter, 1995).

Maoz and Russett have stressed the linkage between economic growth and interdependence and the propensity for militarized conflict in developing the theory of Democratic Peace. Their research on democratic peace for the post World War II era sought to explain the decline in international conflict between democracies by normative and structural theories of peace (Maoz & Russett, 1993). The basic assumption of normative theory is that domestic political processes and political institutions of states shape their external politics.

The other assumption is that the anarchic nature of international relations imposes conflict domination by non-democratic countries. The political conduct of democratic countries is based on regulated political competition through peaceful means. This behavior reflects on their international conduct as well as their mechanism for dispute resolution; through compromise and negotiations without eliminating their opponents. Moreover, it is more likely for democracies to settle their disputes by resorting to third party mediated agreements (Maoz & Russett, 1993, p. 625). On the other hand, if a country faced a conflict that could not be solved by peaceful means or which endangered its survival, then it would likely to respond violently. The conflict behavior of non-democratic states is based on the idea of eliminating the other or zero-sum. The likelihood of dispute between them is more likely to escalate into war than conflict between democratic countries.

In addition to conflict resolution behavioral patterns, Maoz and Russett discovered three other causes of democratic peace that are closely connected to economic relations. The first cause of democratic peace is economic interest. Rich countries are reluctant to engage in militarized conflict with each other because they have far more to lose in wars. They base their assumption on the fact that rich countries are “engaged in heavy trading with one another” (Maoz & Russett, 1993, p. 626). Moreover, the democracies that emerged after World War II were economically developed and their economic structure has reduced their propensities towards political violence. The second factor is related to the first in terms of economics. The constant economic growth of countries after World War II decreases political violence over the fear of the loss of benefits associated with this growth. The third factor in post-World War II era is the direct or indirect alliance among democracies to the extent that

democracies are allied with one another; they refrain from fighting with one another (Maoz & Russett, 1993).

Referring to the post Soviet Union states and their economic dependence on Russia, European Union and both in some cases, Rawi Abdelal argues that the pattern of national identity motivates the pattern of economic cooperation. He defines nationalism as the “attempt to link idea of the nation to specific goals” (Abdelal, 2001, p. 1). He argues against the assumption of nationalism equals protectionism. In contrast, he argues that nationalism sometimes motivates economic cooperation to achieve the nation’s economic goals and political strategies.

The main concern of trying to explain American and Chinese economic and political ties through prisoners’ dilemma is that China is benefitting more from mutual cooperation. As a result of China’s market reforms, openness to the world and cooperation with the United States, China is growing faster than the countries it is contributing with. It is achieving more gains than the United States as a result of interdependence with the United States. China is achieving asymmetric gains as a result of this cooperation. This is likely to concern realists. China might be using the gains from cooperation with the United States to fund their military.

Chapter Three: Literature Review

Many scholars and practitioners of international relations have recognized the significance of trade and commercial activities for state behavior. Moreover, they have appreciated the linkage between commercial relationships, economic cooperation, interdependence and the deterrence of military conflict. In examining the correlation between trade and the deterrence of war, Phil Arena noted the association between the increase in international trade activities and the emergence of new democracies which by definition are peaceful systems (Arena, 2013). The world today is highly interdependent. Countries have either opened their resources, financial and other economic issues or are rapidly moving in this direction. They realized that the welfare and prosperity of their citizens and economies are dependent on the openness of their economies to the world (Knox, Agnew, & McCarthy, 2008). Maoz and Russett demonstrated a linkage between the participation of societies in decision-making (democracy) and the decline of the propensity to engage in militarized dispute. However, in non-democracies, elites are more likely to base their international political conduct on their preferences (Maoz & Russett, 1993).

International economic relations presume cooperation. Even self-interested actors cooperate with others to achieve selfish goals realizing that they are impossible to be achieved if the state acted alone. In fact, the reality of today's world imposes such cooperation on states (Axelrod, 1980). In discussing the possible outcomes of international relations without controlling hegemony, Robert Keohane argues that even self-interested nations, which pursue their objectives in realist fashion, are interdependent to the extent that their objectives are met through collective action. He defined international cooperation as the "the process through which policies actually followed by governments come to be regarded as their partners as

facilitating realization of their own objectives, as a result of policy coordination” (Keohane, 1984).

Engaging in interstate trade, in addition to finance and foreign direct investment contributed to a decrease in the probability of military conflict (Kim, 2013). This argument is basically grounded in the theory of liberal peace, which states that the deeper the economic integration and interdependence, the less likely will states engage in military disputes. According to the opportunity cost argument, elites that see more potential for gain through trade are less prone to engage in violent actions against other countries fearing the loss of trade related benefits. Moreover, countries with “globalized: economies are more able to communicate intentions and information (Kim, 2013). Such communications diminish the insecurities and misperceptions that lead states to political and military conflict.

In the 18th and the 19th centuries, classical liberal analysts asserted a significant connection between international trade interdependence, shared membership in international organizations, and representative government. A modern analysis by O’Neil and Russett looking at the period 1870-1930 found that trade and symmetric interdependence have been a crucial factor of promoting peace (O’Neal & Russett, 1999). Moreover, the recognition of mutual benefits motivates countries to build peaceful and cooperative relationships. Trade and market relationships are far more efficient and beneficial than military conquest. The fear of losing welfare is one of the main factors in restraining conflict (Barbieri, 1996, p. 31; Rosecrance, 1986). Trade has political implications. As a consequence, it has contributed to building bonds among nations. While asymmetric economic interdependence and extreme interdependence may under some circumstances lead to interstate conflict (Barbieri, 1996), trading partners do not initiate conflict with each other (Polachek, 1980).

Globalization is giving rise to a borderless world. Thanks to economic liberalization, the dominance of Japan, Western Europe and the United States has been reduced by the emergence of new markets and rapidly industrializing countries. Hitherto underdeveloped countries such as India and Bangladesh in addition to the Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan) have been transformed from mere imitators of the western technologies to innovators themselves (Agtmael, 2010). As Agtmael points out, South Korean engineers helped U.S. steel companies to upgrade their outdated plants, machines and operations. Medications that are developed in Indian, Slovenian and other laboratories and plants are now used and consumed worldwide (Agtmael, 2010).

Private property is essential for a democratic society as well as for trade and commercial activities that are not strictly controlled by governments. Economic decisions should not be restricted by governments and tied directly to governments. If so, the loss of power and change of the ruling regime would jeopardize the livelihood of citizens. The centralized political control over the economy has the effect of making the acquisition of power the easiest way to wealth. This is likely to encourage social conflict for the sake of wealth and constant attempts by ambitious individuals to gain political authority. The way to peace is separating politics from the individual pursuit of economic welfare (Wolf, 2004). Leaving the economy and personal initiative to the population and regulating the relations among people and economy is conducive to internal peace and democracy.

Mansfield et. al. pointed at a gap in the literature of international relations with regards to the domestic political systems of nations that trade with each other. To adopt certain economic policies, domestic systems vary in their decision making mechanism. In democracies, decisions are made within an elected legislature, after which the policy should

be ratified and then implemented. Elected representatives have an electoral interest in maximizing the utilities of their constituencies. Moreover, there is room for lobbyists such as farmers or industry groups to influence economic decisions for their benefit. On the other hand, in autocracies, decision making is centralized and the chief executive monopolizes the authority to make economic policy. Their empirical analysis based on the period 1960-90 revealed the following results: “Holding constant various economic and political factors, democratic dyads tend to trade more freely than dyads composed of a democracy and an autocracy. Furthermore, no significant difference exists in the openness of commerce within autocratic pairs and within democratic pairs.” (Mansfield, Milner, & Rosendorff, 2000).

The world has always been economically interdependent. However, the reality of today’s world presents new degrees of this interdependence. Although the practice of globalization has been underway before and after World War I, it intensified after the end of World War II and through the Cold War. The size of the world after World War II shrank from “large” to “medium”. The world today has shrunk from “medium” to “small” (Friedman, 2000). Basically, the era of global economic relations started with the fall in transportation costs. The era of more economic interconnectedness, known as Globalization 2.0, started with the fall of telecommunication cost (Friedman, 2000). The speed and the low cost of telecommunication made it possible for businesses to make decisions with regards to production or other operations, communicate these decisions to production units anywhere in the world, almost free of cost, and then ship the resulting products to anywhere in the world. Now it is more efficient to take production operations to places either closer to or more abundant in raw materials or where labor costs are lower than those of the home country. Based on these realities, Globalization 2.0 is more attractive to investors and businessmen.

Most of the literature agrees that the golden age of international trade and international economic growth started with the industrial revolution in England. Ronald Findlay and Kevin H. O'Rourke argue that the industrial revolution was responsible for the expansion of commerce by opening up "huge economic asymmetries in the world economy, revolutionized internal transport, and helped to cement the geopolitical dominance of Europe over Africa and Asia" (Findlay & O'Rourke, 2007, p. 364). Moreover, they consider the industrial revolution as the key to the history and the practice of trade as we know it nowadays (Findlay & O'Rourke, 2007).

Singer bases his argument on the metaphor "a rising tide lifts all boats" (Singer, 2004). Singer argues that in addition to the changes in the world that have accentuated interdependence, the world has one atmosphere, one law, one community, and most importantly, one economy. He argues that trade, among other global issues such as climate change international justice and poverty, is a crucial sector of international relations. He calls for national leaders to act collectively and see beyond the self-interest of their nations. In other words, to act collectively based on the realities of our new world. Singer highlights the role of free trade in building prosperous global economy. He focuses on the World Trade Organization's role in facilitating and regulating free trade and providing a mechanism of trade related dispute resolution instead of states allowing disputes to escalate into political confrontation.

In their work in developing state-of the-art models for local economic development, John P. Blair and Michael C. Carroll argue that local development is nearly impossible without global influences (Blair & Carroll, 2009). In fact, they contend that seldom has there been an economic development scheme without at least one "off shore" operation. Moreover,

they argue that today's world is interdependent and prone to global integration. Blair and Carroll attribute this activity to global changes resulting from technological as well as political developments and argue that improvements in transportation and communication contributed to the solution of uneven economic opportunities. Unlike the past, capital, commodity and labor mobility have been increasing and becoming more flexible. Basically, the distinction between local and international economic development is becoming more blurred (Blair & Carroll, 2009, p. 156).

In developing their argument, Blair and Carroll center their discussion on three aspects of international economic interaction: Comparative Advantage, Resource Flow and Labor Migration. The main impetus to international trade is comparative advantage. Factors of production lack mobility. Therefore, countries should specialize in producing certain commodities, and in return, engage in importing needed commodities. The second aspect of economic international interaction is resource mobility. While patterns of comparative advantage have been built on the assumption that resources are not mobile, resource mobility according to Blair and Carroll is one of the characteristics of today's world with its reduced costs of information, capital, labor and even production. Finally, the ability of labor to migrate (traditionally that factor of production with the least mobility) is the last aspect of international economic interactions that are typical of a globalizing economy (Blair & Carroll, 2009).

National development resulting from more open and liberal commercial policies directly impacts the correlation between trade and war. Although countries involved in interstate trade are likely to lean towards peace to avoid the costs of war on the economy,

countries that do not benefit from such trade will not tend to be as pacific in their foreign policies (McDonald & Sweeney, 2007)

In the beginning of the 19th century, the global economy was “polycentric; economic power being shared between Asia, Europe and the Americans with China and India the largest economies” (Jacques, 2009, p. 29). This is despite the prevailing belief that the economy back then was mostly Eurocentric. Nevertheless, global trade evolved in the era between the years 1865-1965. The worldwide trade established between 1865 and 1914; this is when modern commerce and the basic foundation of active trading routes and facilities reached most of the world including colonial possessions (Thomas & Conkling, 1967). The 19th century was the “canonical” period of international trade. That era witnessed the largest increase in international trade. Between 1500 and 1800, international trade grew 1% annually. However, after the 1820’s, international trade grew around 3.5% a year. The later years of the 19th century witnessed the largest worldwide decline in trade barriers (Wolf, 2004, p. 109).

There is a direct link between free trade and investment and the prosperity of the masses of citizens. Basically, Wolf advocates the view that markets and commercial activities are the way to peaceful and democratic societies. In fact, he argues that the secret to advanced European societies is the regulatory competition among their rulers and not with the authoritarian regimes of the east. Moreover, he maintains that regulatory competition is still happening today and was the main reason behind the success and economic freedom of Europe, North American and Latin America in the 1980’s and 1990’s (Wolf, 2004).

The end of World War II marked the beginning of fundamental changes in the global industrial economics. The industrial core regions entered a new stage of operations in terms of

“what they produced, how and where they produced it” (Knox, Agnew, & McCarthy, 2008, p. 148). This change came as a response to the inflexibility and the impracticality of the old production systems, and the consequences of protectionist policies. Moreover, the core economic regions faced new problems resulting from changes in consumer markets, external competition, and the increased costs of labor, unionized labor activities and government welfare provisions. These pressures caused core producers to take their operations to where they could avoid such pressures and insure cost efficient operations and output. The increased mobility of finances and business services allowed such transitions to take place (Knox, Agnew, & McCarthy, 2008).

The United States’ policies after World War II, especially towards Asia sought three goals: a balance of power that serves the interests of the United States, easy access to the region’s resources and the promotion of the outlook and ideologies of the United States (Sutter, 2007, p. 2).

Occurrences of wars and conflicts declined during the second half of the 20th century. The Cold War was the main political conflict. The United States and Soviet Union, the two major political powers, were engaging in a non-violent political conflict. The conflict almost escalated to international war on several occasions. The era of the Cold War witnessed the reduction of international conflicts as the international distribution of power became bipolar, with the establishment of NATO and the Warsaw Pact. American foreign policy had as its primary focus the rise of the Soviet Union as a dominant power in Europe and Asia (Sutter, 2007). In contrast to its hostility towards the Soviet Union, the United States and its allies sought after the end of World War II to encourage the emergence of an open international trade and monetary order through the establishment of a multilateral negotiating framework,

the General Agreement on Trade and Tariffs (later the WTO), and international financial institutions like the IMF and the World Bank.

At the end of the Cold War, the development of technology and the other world issues dominated international relations other than war. The year 1989 is considered by international relations theorists as the end of bipolarity and the decisive defeat of communism (Klotz, 1995). New patterns of international relations started to emerge. Moreover, most self-interested countries came to an understanding that cooperating with other nations would serve their states better than engaging in conflict. New persistent issues such as environmental pollution and international crimes call for more than one country to act to mitigate their damage. On the other hand, countries started to realize that their own survival depended on another part or the rest of the world. Therefore, countries have become more oriented towards peaceful, cooperative, and productive relations, and are not willing to risk the elimination of such bilateral and multilateral relations by going to war.

Despite the connection between trade and peace, international trade policies, if not carefully regulated by governments, can have adverse consequences. This possibility is becoming more and more apparent in the 21st century. The most prominent harm has been occurring in the United States, the largest economy in the world. The American policies concerning foreign trade have traditionally aimed at eliminating imports barriers such as tariffs and quotas. The issue is that the United States does not require reciprocity. The effects of such a foreign policy approach have caused the country to lose substantial agricultural, manufacturing and high-technology markets to foreign competition. In addition, America's trade balance has been in chronic deficit (Shenkar, 2006).

Economic globalization has become a fact of life in most countries and population. In fact, globalization has contributed to the decline in poverty rates in many countries in East Asia, the Pacific, Latin America and the Middle East. In 1981, 50% of the population of the world lived in poverty. By 2005, this number dropped to 26%. A quarter of the world, over 1.4 billion people were living on less than \$1.25 (Karns & Mingst, 2010). Wolf argues that what made this possible is the development in technology of communication and transportation in addition to the greater reliance on market forces (Wolf, 2004).

International institutions and organizations, in addition to providing a forum to discuss related issues and information gathering, provide mechanisms for dispute resolution. Such approach is likely to mitigate resorting to war as an attempt to resolve a certain issue. The World Trade Organization (WTO) is no exception. Trade is a main activity in international relations. However, the context within which international trade takes place is complex. Since the environment in international relations is an anarchic one with absence of central control and rule of law, collective action needs to be taken to avoid chaos. The expansion and the complexity of international trade led to the emergence of an international institution to ensure smooth processes of transaction beyond borders. WTO is an international organization run by member states, to facilitate, regulate and ensure smooth, harmless processes and transactions of trade around the world. WTO was established as one of the results of the Paraguay Round and as a successor to the GATT agreement in 1995. The WTO was given expanded responsibilities for international economic affairs, trade and commerce (Sampson, 2001).

In fact, the conflict resolution mechanism the WTO provides for enforcing sanctions and penalties on countries that dump their products or otherwise engage in unfair trade practices. According to Susan Esserman, the WTO, by demonstrating effectiveness in trade

dispute resolution, reinforces cooperative behavior by sending the message that combating unfair trade practices are effective and available to any member (Esserman, 1998).

Instead of resorting to military action to resolve trade and economic dispute, the new international trade regulating system provides a peaceful mechanism to resolve conflict. For instance, the grievance the United States had with China in terms of copyrights and intellectual property dispute was exclusively resolved within the institutional framework of the WTO. The offending party was punished through economic sanctions and the damaged party was compensated through a peaceful and diplomatic solution (Zhao, 2011). The institutional resources of the WTO also enable the peaceful resolution of disputes between the United States and India (Subramanian, 2013).

To better understand the consequences of trade for foreign policy, Flores-Macias and Kreps evaluate the trade and commercial relations among China, Africa and Latin America between 1992-2006. They discover a linkage between the magnitude of China's international trade and politics. In fact, these activities affect foreign relations with the United States since the United States and China compete in politics and economic power (Flores-Macias & Kreps, 2013). Moreover, their study shows that the bigger the magnitude of trade and commercial interstate relations, the more costly it is to interrupt these relations (Flores-Macias & Kreps, 2013). While military conflict is less likely between rivals in contemporary international relations, especially between the United States and China, non-militarized political disputes are still possible (Kinsella & Russett, 2002).

Fear or losing economic ties as a deterrent of interstate conflict is a common finding among many economic interdependence scholars. Interdependence is likely to produce venues

for conflict resolution. Although interdependence does not always deter military conflict and the opportunity costs do not deter minor interstate competitions, capital interdependence is a crucial deterrent of political and militarized dispute (Gartzke, Li, & Boehmer, 2001). Another study attempts to understand of the logic behind the notion that trade pacifies interstate tension confirms these findings. Studying the history of globalization since the 1970's showed that globalization did in fact increase the economic ties among countries. However, the propensity for military conflict declined only between bilateral interdependent countries and the effects did not spread beyond that (Martin, Mayer, & Thoenig, 2007). Economic relations have been a successful pacifier of tension especially in the case of the European Union and the case of Turkey joining the Union (Martin, Mayer, & Thoenig, 2007). Moreover, globalization, economic interdependence and rapid economic development have led countries to worry more about their prosperity than their survival (Measheimer, 2001).

Except for a few attempts, there is a gap in the literature linking bilateral relationship between the major powers of today's world, China and the United States, and the implications of international relations theories. Theories are attempts to comprehend the patterns of interstate interactions in an anarchic world. Most of the international relations literature dealt with either just the theory separately or just narrate history or current affairs. Linkage between theories and their empirical implications is rarely found in the literature.

Chapter Four: Sino-American Relations and Economic Interdependence

Since the beginning of the 21st century, the world has closely observed the Chinese-American international and economic relationships. Classifying the types of US-China interactions is very difficult. Both countries are neither enemies nor allies. The relationship is very complex and characterized by competition on the economic position in the world (Zhao, 2011). Zhao states that both countries are competing to “establish or minimize” a linkage across global issues to secure their bargaining positions. Chinese-American relations can be examined from three issue areas: currency, trade and investment. Zhao concludes that the Sino-American relations in currency, trade and investment and the linkage between them are essential for both countries (Zhao, 2011).

Relations between China and America, or China and the West started very early in history in the form of trading and missionary activities. In fact, these relations predated the American Revolution. Traders clustered in the south coast of China to buy silk, teas and porcelain accompanied by opium traders. Among those traders and missionaries were Americans. In the 19th century, the West forced its way into China which significantly harmed China as a state leading to the collapse of the last dynasty. However, the United States limited its demands to trade reciprocity and was more supportive of Chinese sovereignty. China was the United States’ ally against Japan, which had occupied part of China in World War II. By the end of the war, the United States slid from backing China to backing one faction, the Guomindang, against the Chinese Communists. (Macmillan, 2007).

When the Communists won the civil war in 1949, America’s approach began to change. In fact, the hostility became more obvious during the Korean War, which was the first

major armed conflict of the Cold War. In an official battle-ground, the Chinese soldiers and the American soldiers engaged in a formal military combat. After this, China's media and official institutions were extremely anti-American. In a tit-for-tat approach, the United States backed Taiwan politically and financially, and worked to keep China isolated in the international community (Macmillan, 2007).

In the 1960's and the 1970's, the main trade partner of the United States, in addition to Canada, was Japan. United States was the largest supplier of agriculture and industrial products. In return, Japan was the largest supplier of manufactured products (Wallis, 1988). However, this cooperation lost its appeal to the United States as a result of Japanese market protectionist policies (Wallis, 1988).

The United States relationship with China officially began to warm up when President Nixon visited China in 1972, and the United States began to acknowledge the significance of strengthening of diplomatic and economic relations with the region. In 1988, the Under Secretary for Economic Affairs and Agriculture Allen Wallis, in his address before the Asian Society in New York, highlighted the mutual benefits the United States and the Pacific countries are likely to enjoy from economic cooperation. He stated that the growth and the prosperity of the Asian countries would reflect positively on the United States (Wallis, 1988).

In fact, the growth of the Chinese economy and the rise of China in international relations had already begun with the reforms in 1978. Chinese leaders realized that heading towards a market-oriented economy instead of maintaining a centralized, command economy was the best strategy of reform. The first step towards this reform was eliminating the state's monopoly on trade and other economic activities including foreign trade and to open the

economy globally. Other strategies such as creating special economic zones and lifting bans on foreign direct investment (FDI), the devaluation of the currency, the Renminbi served the Chinese economy and growth very well (Aiguo, 2000). Overall, the new openness and deregulation of business and financial markets allowed global corporations to seek alternative sources of create wealth including transferring their production processes to lower cost countries (Ohmae, 1990).

By the late 1980's, United States realized that it was in its strategic interest to establish economic cooperative relations with the fast growing East Asia and establish a "Pacific Partnership". In Congressional testimony, Richard H. Solomon, Assistant Secretary for East Asian and Pacific Affairs, called for a Pacific partnership based on economic cooperation with the region. Solomon argued that in an era characterized by an "increasingly integrated global economy sparked by spectacular technological change", the United States should align itself with such developments. The era was marked by the bankruptcy and collapse of communism as an economic and political alternative in addition to a worldwide trend towards democracy and free enterprise. Thus, Solomon argued, it was consistent with U.S. interests and would confer benefits upon the nation as well as its allies and friends (Solomon, 1989). This new era was also marked by a shift in the global center of gravity. Traditionally, developing countries exported commodities and raw materials in return for manufactured products. In today's world, the growth of manufacturing operation has been taking place in the developing countries especially in South East Asia including China. In the 1980's, developing countries' share of world exports of manufactures was only 25%. By 1998, 80% of manufacturing exports came from these countries (Wolf, 2004, p. 112).

In political terms, the United States has been in a hegemonic position since the end of World War II, while China more recently has stood out as a rising power. China's impact on the world both economically and politically in this century will be similar if not greater than the Western impact during the second half of the 20th century (Jacques, 2009). Derek Scissors develops policy recommendations for the United States to compete with the growing Chinese economy. Scissors argues that the United States, instead of trying to counteract China's growing economic domination, should compete with China in other ways. The Chinese economy is very important to the world, particularly in view of the active role its policy makers took in leading the effort to reflate world economic activity after the crash of 2008-9. Limiting Chinese economic activity is likely to negatively impact the global economy as a whole. Instead, United States should refocus on its own comparative advantages, especially in high-end, high-technology markets as a way of preserving its economic dominance (Scissors, 2011).

Although the political relationship between the United States and China has experienced periodic frictions, both the political and economic connections between the two countries continue to grow, even in the face of mounting trade imbalances (Bongiorni, 2007). The world's economic interdependence and the rise of new industrial countries such as India and China can be attributed to more complicated and increasingly sophisticated supply chains (Friedman, 2005). Moreover, the convergence of technology is what allowed these countries to contribute to the global economy by offering new venues for manufacturing, supply chain and business services. According to Bruce Gilley, the rise of China is likely to reshuffle global power relationships and undermine the influence US and Canada on international relations (Gilley, 2011).

The Rise of China as an Economic and Political Power

Under the ruling of the Sung dynasty, China witnessed a massive economic growth and expansion. The growth in agriculture and silk made China attractive to merchants from all over the world. Moreover, the development in Chinese ports, vessels, and sailing skills impacted exports from China. Sung imposed tax over trade. In the 19th century, the West became aware of the economic potentials of China as a market and as a strategic economic partner. The West competed to control China. Soon the West realized that the best strategic approach was to integrate China into the world economy. In the late 19th century, China went through a westernization reform which aimed a “regenerating” the economy to catch up with the rising west. The attempt failed leaving the country buffeted by the forces of nationalism and socialism. Between 1926 and 1949, governments were beset by internal rivalries and foreign invasions. In the period between the end of World War II until the early 1970’s, China witnessed many political and economic changes. At first, China sought to develop economically on its own, and only later became a trade partner with the Soviet-East European bloc (Aiguo, 2000).

The rise of China as an economic power came as a result of the country’s domestic economic liberalization and its opening up to the rest of the world. Economic growth started when the United State decided to resume cooperation with China starting with Nixon’s visiting the early 1970’s. Although Sino-American relations have been a “win-win” situation, China has benefited more than the US (Khylo, 2012). In fact, China’s emergence and persistence as one of the most dynamic economies in the world since the 1970’s is attributed to its new and more open diplomatic and economic policies (Hsiao, 1977). Internal reforms in industry and agriculture in addition to the new friendship with the United States led to China’s

economic development and its emergence as a strategic trade power (Ferguson, Maier, Manela, & Sargent, 2010).

The beginning of the period of economic growth is partially attributed to the former Chinese president Deng Xiaoping, who introduced new market reforms in China, influenced by the economic successes of Hong Kong, South Korea and Taiwan (Wolf, 2004). Indications of remarkable improvements in the Chinese economy started to appear during Deng's time in office (Kennedy, 1987). China adopted new economic strategies and reforms. The first strategy was to encourage efficiency in order to achieve national goals smoothly and redirect resources. Then the elite reduced the size of the People's Liberation Army and shunted the resources spent on military towards improving agriculture and manufacturing. The elite managed to transform the Chinese economy into an export power house. In the early years of 1980's, and while the world's economies were experiencing depression, Chinese rural areas increased their income. In spite of some internal problems, China's drive towards industrialization resulted in remarkable output and income gains to the country. Such strategies encouraged the creation of small scale enterprises and enabled a great expansion in foreign trade (Kennedy, 1987, pp. 452-453).

With the collapse of the Soviet Union and the stagnation of Japan in the 1990's, China has emerged as a significant economy (Sutter, 2007). However, China rising as one of the largest economies of the world has not been popular until the last two decades. The United States dominated the global economy since the end of World War II. The only challenge to the American economic dominance was Japan (Jacques, 2009). The last decades of the 20th century witnessed a new competitor to the United States in terms of significance to the world economy and this competitor is China. There are many factors that have contributed to this

sudden and rapid rise of Chinese economy such as cheap labor and more efficient mass production. China is fundamental to the overall world economy because of its economic size and its effect upon the prices for raw materials and finished goods (Muriel, 2013).

Moreover, China has transformed the infrastructure of the South East Asian region. For instance, the Chinese government approved the construction of large dams on the Mekong river on its borders. The construction of these dams is crucial to control water resources and electricity generation. The dams would affect the water and electricity resources of Cambodia, Laos, Thailand and Vietnam. These countries' governments proposed to build about eleven dams on the lower Mekong River. These dams are likely to contribute to the overall electricity generation for Thailand and Vietnam. The project will be possible only if China provided the finances and credits. (Pohlner, 2013).

During the 1980's and the 1990's, China established Special Economic Zones (SEZs). The aim of these zones was to attract foreign capital (Zhao, 2011). The rise of China as a contributor to the global value chain emerged when China became one of the largest electronics and electrical equipment exporters between 1995 and 2009 (OECD/WTO, 2013). This emergence resulted from China's attempt to integrate into the overall Asian value chain.

The Magnitude of Sino-American Interdependence

In July, 1979, the United States and China signed a trade agreement that granted China most-favored-nation trading status. This agreement accelerated trade relations and economic integration between the two countries (Spero & Hart, 2010). Since then, the economies of both the United States and China have been growing rapidly.

Asia and specifically China drew the attention of the United States in terms of establishing long term relations for several reasons including its vast population, impressive rates of economic growth and the prospect of it becoming a major power in the future. The relations started in February 1972, when President Richard Nixon, and Chairman Mao, met in Beijing (Macmillan, 2007).

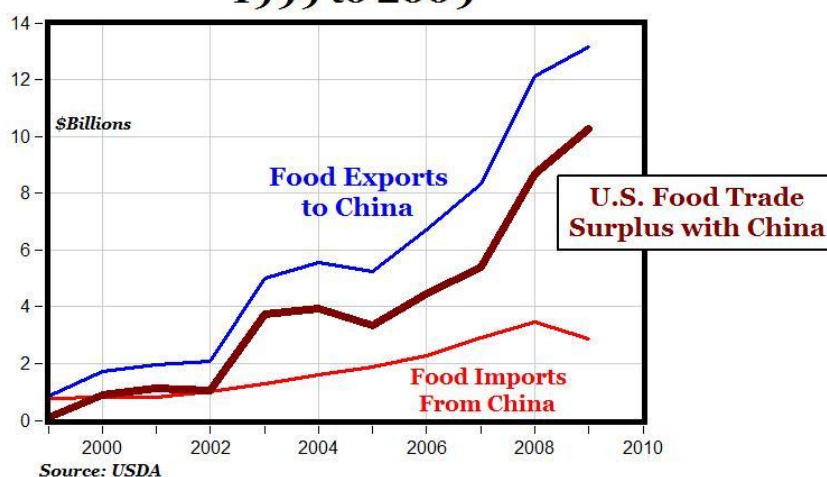
While the job losses in the United States that have resulted from Chinese competition are politically controversial, the benefits to American consumers from Chinese products have been substantial. In America, goods imported from other countries, especially poor ones, have provided a bargain to Americans and have kept down increases in the cost of living. Between the years 1998 – 2004, the prices of Chinese exports to the United States fell dramatically. Moreover, the American businesses saved between 10%- to 20% of operation costs when they moved their manufacturing to China (Fishman, 2005).

China and the United States are the largest oil consumers. China, since 1993 was an exporter of oil. Since the economic boom of China, the demand rose for oil and increased by 2.5 million barrel a day in consumption per day (Stern, 2005). Any increase in international tension is likely to harm China's economic growth. Clad argues that in order to resume and maintain China's economic activities, "whether for outward trade or imported energy and commodities", stable seas and surroundings are necessities (Clad, 2013).

According to the International Monetary Fund's statistics, trade volumes between China and the United States are among the largest in the world. For instance, in the year 2011 the size of the exports from China to the United States reached \$324,856 million. In 2012 these exports reached \$91,018 million. On the other hand, Chinese imports from the United States

in 2011 reached \$119,164 million and in 2012 reached \$32,315 million (IMF, 2012, p. 103). United States' exports to China in 2012 reached \$25,874 million. US imports from China reached \$108,631 million in 2012 (IMF, 2012, p. 418). All these numbers indicate that the largest imports and exports activities took place between United States and China from 2011 to 2013. Until May 2013, foreign trade in goods of the United States with China reached the following in million dollars: total exports: \$45,901.0, total imports: \$166,956.7 and the balance is: \$-121,055.7 (Census, 2013). The statistics illustrate the degree of interdependence between United States and China. The statistics show that US.-China imports and exports are the largest between them compared to the rest of the world. In fact, the numbers are not even close. Export and import activities between China and the United States are the highest. The goods exchanged between the two countries are not only commercial goods, but essentials such as food. The chart highlights the trade in food between the two countries from 1999 to 2009 (USA Dept. of Agriculture). The growth in this activity is prominent and halting food imports and exports is likely to harm the populations of both countries.

CHINA: Food Exports and Imports 1999 to 2009



U.S and Chinese investment in each other's economies is beneficial for both countries. In fact, this relationship is necessary for the sustainable growth for both economies. By investing in China, the United States is bringing new technologies and products. On the other hands, by matching production to the Chinese local goals and needs, American companies benefit from investing in China by gaining access to Chinese consumers. In addition to better tax policies, potential market, Chinese labor costs and supply are attractive factors for American companies to continue investing in China. The Chinese population in return, benefits from job creation (Zhao, 2011, p. 140).

US-Sino relations are shaped by a number of strategic issues. There has been a concurrent problem of issue priorities and the fragmented American demands since China joined the World Trade Organization. Instead of focusing on demands, the United States policy should focus on competing economically with the Chinese market in addition to financial openness and cooperation. On the other hand, China's problems are mostly internal. China is facing an aging work force, distortions in its financial system, state control that curbs innovation, and the debate between market reform and status quo (Cheng & Scissors, 2013).

Indeed, not only is the United States interdependent economically with China. In fact, recent concerns about Chinese credit conditions impacted the global market. On Thursday, June 20th, Chinese banks suffered some recent credit crunch. Chinese banks became reluctant to lend to external parties and to one another. The interest rates in Chinese interbank transactions rose to very high levels, with bearish consequences for global financial markets (Jolly, 2013).

The agricultural export and import between the United States and China is large and interconnected in terms of commodity abundance and market. For instance, the American exports of agriculture to China doubled in the years between 2002 -2004. This increase was caused by the Chinese demand for agricultural commodities especially cotton and wheat. The U.S exports to China grew to reach \$5.5 billion. By 2004, China reached 9% of US agriculture commodity market (Gale, 2005). In 2005, and as a result of the rapid growth in China, Chinese demand and consumption of concrete amounted to 40% of the overall world demand and 25% of steel. The average rate of China's growth is three times faster than the growth of the United States (Fishman, 2005).

This economic interdependence is likely to give China power over the United States and the world. In fact, in its report to Congress, the U.S.-China Economic and Security Review Commission warned that the Chinese government is using its power over international trade and economy to serve its foreign policy (Congress, 2012). Chinese policies reflect to some extent an attempt to control over the world economy. The commission believes that because the Chinese economy is centralized under state control and the enterprises and companies are state owned enterprises, the Chinese government is gaining control over the world economy.

Chapter Five: U.S- China Confrontations

The US- Chinese relationship has not always been smooth. Economic cooperation has been so productive for both countries. However, politics between the two sides have not been harmonious all along. US-China political relations have experienced tension in many occasions including the recent cyber-attack on US corporations, business and some government agencies. Although China claimed that the attack was not its responsibility, investigators traced it back to the People's Liberation Army (Landler & Sanger, 2013). The United States openly expressed concerns about some of China's activities that the US considered confrontational and might be harmful to the interests of the United States in the region of South East Asia. Some of these issues include challenges over the Japanese-controlled Senkaku Islands in the East China Sea, the recent Chinese military incursion into India, disputes over exclusive economic zones (EEZ)s and Beijing's territorial disputes in the South Asia Sea (Minnick, 2013).

Since 1972, the United States has acted as a security guarantor in East Asia. Its approach towards Asia is to convince the Asian countries that American primacy in the region is for their security and interests. However, recent Chinese strategic ambitions are likely to challenge this primacy. China seeks sovereign control over the South China Sea and East China Sea. In addition, it is developing its military capacity. Such moves are interpreted as an attempt by China to assume primacy in the region. Political analysts fear the clash of power between the United States and China in Asia to lead to a military conflict. Such conflict is likely to result in enormous political and economic losses (White, 2013).

Military Spending

China's increasing military spending became noticeable in the last two decades, since desert storm in 1991. Since then, China has focused on improving the capacities and the technology of the People's Liberation Army to be one of the world's strongest (Thompson, 2010). China is building an army that can be competitive in terms of technology and personnel compared to many of the world's largest and strongest armies such as the United States' armed forces. Although the United States has more soft power influence in world politics, China's rapidly growing economy and army challenges American influence. In the literature of international relations, increasing military spending sends one message to the rest of the world: the country is either getting ready to go to war or building a power to control. This message is interpreted by the United States the same way. However, the United States decided to pursue diplomacy to contain this escalating conflict. (Chang & Lyons, 2013).

As of 2012, the Chinese military continues to improve its regional force projection capabilities. A report to the Congress by US-China Economic and Security Review Committee confirmed the progress. The report states that the People's Liberation Army (PLA) is improving and training its most advanced weapon platform (Congress, 2012). The military activity assessment is as follows: China is reshaping its forces to more combat and fight oriented. Along its southern coast, China deployed DF-21D; Two-stage solid fuel missiles guided by satellite signals. This force is especially designed to drive the United States out of Asia. While the United States' military analysts and experts discount the danger of PLA attacking Washington, the PLA has the capacity to challenge the United States' military near the Chinese shores (Thompson, 2010). Moreover, there is a threat on the neighboring countries which are allies of the United States.

South China Sea

China continues to claim sovereignty over the South China Sea. China claimed sovereignty over all island and the rocks in the Paracels, Spratlys and Scarborough Reef. Moreover, it claimed sovereignty over the water in the region. China claimed that the U-shaped map they used to claim their sovereignty is a part of China's history; specifically the line was drawn in 1947. However the claim over the water is not clear (Duong, 2013). These claims are raising political tension with neighboring countries and the United States. The United States is working towards assuring free navigation. In fact it is an open area of direct US-Chinese military rivalry. China claims that it is free to establish an Exclusive Economic Zones within the compliance with Article 57 UN law of the sea (Duong, 2013).

Control over the South China Sea is crucial because of its strategic significance as import and export path with the Middle East and the Indian Ocean. It is a key passage for oil and gas shipments. Moreover it is a strategic basin for combating international sea piracy. According to the East Asia Forum, These territorial disputes about the South China Sea are leading to a serious political conflict in the area and dragging western allies such as the United States and Australia (Santikajaya, 2013). Another issue concerning China is the United States' naval strategy of strengthening its regional deployment and constantly advancing its political and economic relations with the coastal countries (Santikajaya, 2013). In addition to rivalries with the United States, China is involved in many territorial disputes with ASEAN member countries in the basin (Santikajaya, 2013)

China's increasing assertiveness in the region is seen as challenging US primacy in the Asian side of the Pacific (Thayer, 2013). For their part, Chinese political analysts agree that the

presence of the US forces in addition to US assertiveness on the freedom of navigation in the South China Sea is a strategy Washington is using to 'return to Asia' or to preserve US freedom to conduct military surveillance activities in China's economic zone (Mingjiang, 2012). Mingjiang argues that China understands that being confrontational about the issue will not serve to its advantage. In fact, China's confrontational standing is likely to harm its relations with the South Asian countries, its own domestic development and can be disadvantageous in terms of rivalry with USA. Moreover, a confrontational stance is likely to lead to further enhancing the US political and security actions and roles in the region (Mingjiang, 2012).

Consequently, both the United States and China are keeping open channels of military communication and cooperation through three established bilateral mechanisms: defense consultative talks, the Military Maritime Consultative Agreement (MMCA) and defense policy coordination talks (Thayer, 2013). The main issue here is China is seen as trying to lock and control the South Asia Sea including navigation. This is likely to affect the surrounding countries and challenges the United State policy of advocating free navigation. China is refusing arbitration although it is a member of the Law of the Sea Treaty. Both occurrences are likely to escalate into a political conflict against China (Cheng & Scissors, 2013) and raise the world's wrath for such conduct. China is basically seeking exclusive control over the South China Sea. It resists a multilateral approach to solve the dispute over the sea. To reach a solution that is more likely to serve Chinese interests, China has undertaken bilateral dialogues with each member of the ASEAN (Minnick, 2013).

Chinese Cyber Espionage on US Government Internet Sites

In 2009, Google discovered that through what is called “spear phishing”, Chinese hackers were able to penetrate its corporate network and access sensitive information. They stole a source code that powers Google’s search engine and were able to view business and government information (Nakashima, 2013). Reports confirmed that the Chinese government is behind the cyber-attack on American government sites. The attack is tracked to China. Chinese hackers were able to gain access to industrial secrets. Tracking these attacks led to the involvement of the Chinese People’s Liberation Army. The operations were carried out by their unit outside Shanghai (Sanger, 2013)

In normal cases, the United States is likely to react aggressively to such penetrations. However, since China is involved, the United States’ government is resorting to talks with the Chinese government to contain the crisis. This indicates that United States is trying every solution to avoid entering into a political conflict with China. To discuss this matter, President Barack Obama and the Chinese new president Xi Jinping and their top aides are scheduled to meet and solve this problem. The American administration did not counterattack on the basis of the illegality of counter-cyber-attack (Sanger, 2013) Prior to the first meeting of President Obama and the new Chinese president, President Obama received recommendations to contain the crisis by a private commission. The Commission on the Theft of American Intellectual Property pinpointed the severity of the intellectual property theft. Their first estimate is that many industrial innovation secrets have been stolen and used to benefit the Chinese industry and contributed to the loss of substantial amount of jobs. Moreover, the commission suggested a realistic measure to retaliate and impose penalties on the Chinese companies involved. This measure, the commission argues, may pressure Chinese companies

to refrain from such theft and the Chinese government to refrain from and punish who those are involved in intellectual property theft (Sanger, 2013).

The United States Administration discovered a linkage between the Cyber espionage and political economic motivation of the Chinese side (Cheng & Scissors, 2013). Official defense reports confirmed the occurrence and the severity of the attacks and its destructive impacts on American politics and economy. All reports confirmed that the biggest cyber espionage is carried out by Chinese parties and some of the activities are closely related to Chinese government entities. If not contained diplomatically, this attack is likely to escalate to a political conflict (Cheng & Scissors, 2013)

One of the mechanisms to contain such attacks, as Cheng and Scissors recommend, the United States would be imposing sanctions on the Chinese economic arena by ceasing deals with companies that violate American patents and copyrights in addition to ceasing activities with the attackers which is likely to deprive the Chinese government of a significant source of economic partnership (Cheng & Scissors, 2013).

Moreover, the United States should be aware of the high technology competitiveness with China. Reports became public confirming that Chinese scientists are involved in transferring technologies they acquired in the United States to China. This activity is considered a form of espionage by American government officials (Wong & Tatlow, 2013). Three Chinese scientists were charged by American prosecutors at the New York University School of Medicine. They were charged with taking bribes to share research findings with their other employers. The American prosecutors in this case have argued that the Chinese scientists in

the United States are secretly working with technology gathering institutions in both Shenzhen and Shanghai (Wong & Tatlow, 2013).

American policymakers, including lawmakers and cyber security experts have demanded a tougher response on the Chinese Cyber-attack (Wiser, 2013). They called on the United States government to impose sanctions against the Chinese government because of cyber espionage on US government related websites attributed to the Chinese government in addition to constant violations of American and global property rights.

Nevertheless, the United States barely reacted. Professional and political reports pointed to the severity of cyber-attack, espionage and the theft of sensitive political and scientific information and their impact on national security. The government of the United States has not taken any significant measures to contain the crisis. Moreover, there is no clear indicator on the progress and the continuation of the cyber-attacks. The Chinese government has not condemned these activities. In other words, the Chinese government has not denied the cyber-attacks on the United States government and national security.

The latest round of talks between China and the United States was concluded in early July, 2013. The dialogue focused on climate change and other minor issues and they barely achieved concrete results. The officials expressed frustration for the talks did not consider significant mutual issues such as cyber-attacks, strategies of business and economy and the disagreements about policy towards Iran and North Korea. Although the issue of military cooperation has been discussed, officials question the intentions of the Chinese military given the territorial expansion attempts in the South China Sea. The talks focused heavily on climate change, water and energy cooperation issue. They have not addressed human rights or

democracy issues (Gertz, 2013). The talks have not addressed conflicts concerning national security threats such as cyber-attacks and espionage and weapons proliferation. Apparently, the elites of both countries are avoiding frictions about crucial issues. It is not clear that their restraint is directly related to the magnitude of economic interdependence. Nevertheless, it is a great possibility.

Intellectual property

In addition to the espionage and cyber space issues, reports by the Commission on Theft of American Intellectual Property presented findings that 50-80% of intellectual property theft is attributed to China. The damages these activities resulted in are costing US businesses \$300 million and 2 million jobs annually (Wiser, 2013). Moreover, the cyber-attack reports indicate that Chinese hackers managed to gain access to the designs of a significant number of major US weapons systems (Wiser, 2013). Therefore, to combat such attacks, the United States called for punishing the Chinese companies and the Chinese state-owned enterprises that are dependent on the American market (Wiser, 2013). This step is likely to pressure the Chinese government to decrease its controversial activities and violations.

In 2011, the United States International Trade Commission published a report on the effects of Chinese intellectual property infringement and indigenous innovation policies on the American economy confirming the damages that the Chinese infringement caused to the American economy (USITS, 2011).

So far, the only response the United States has taken is rhetorical. There is no substantial action to at least mitigate the losses of the American companies as a result of

property right abuses by China. Moreover, one of the conditions China imposes on companies desiring to do business in its territory is technology transfer. China has been using this expertise and technology information for its own benefit (Shenkar, 2006). Not only is China openly engaging in intellectual property theft and infringement, but the world is surprisingly tolerant with regards to this violation. This is another demonstration of the Chinese leverage in international economic relations. China is using other's practices and know-how that it is either illegally obtained or granted by consent and making enormous revenues from them while the original intellectual property holder's countries and their economies are being harmed by China's behavior. Yet, the world is awfully quiet. Basically, they are interested in maintaining access to the Chinese large domestic markets. Interested countries are seeking to avoid engaging in conflict with China and lose that comparative advantage China offers.

China's Naval Forces

China has emerged as a political power and has started to compete with the other international powers such as the United States. This includes China's naval capabilities. Not only does China's army outnumber most of the world's military including the United States, its naval forces have grown to challenge the authority of the US navy in the Pacific (Fergusson, 2011). The United States, in 2011, announced its pivot to Asia and began to deploy its naval forces back to the Asian region of the Pacific (Sarith, 2013).

Another issue that has emerged is the appearance of information about China building naval forces capable of operating in deep water. The total number of personnel of this navy is calculated to reach 235,000 officers and sailors (Chang & Lyons, 2013). Moreover, in 2012, the Chinese navy commissioned its first aircraft carrier and building two more (Chang &

Lyons, 2013). One of the famous incidents is the 2001 midair collision between a US Navy EP-3 Aries reconnaissance plane and a Chinese Navy J-8 fighter jet. Moreover, in early 2009, Chinese maritime patrol and fishing vessels harassed two US Navy ocean survey ships, the Impeccable and Victorious, in China's exclusive economic zones (EEZ) (Minnick, 2013).

Taiwan

Among several issues the United States and China disagree about is Taiwan. This appears to be another sovereignty claim China is pursuing. China perceives Taiwan as part of the main land by virtue of history. However, the Taiwanese sentiment argues otherwise. The separation of Taiwan from the Chinese mainland took place upon China's surrender to Japan in the war. China surrendered the island as a part of the Japanese empire. China tried to regain Taiwan back after the war was over. However, the civil war in China and the action of the people of Taiwan prevented the Chinese ruling over Taiwan (Macmillan, 2007). Shortly after taking office, President of Taiwan, Ma Ying-jeou declared a "diplomatic truce" with China which improved relations with the main land (Roberge & Lee, 2009)

In addition to South Korea, Taiwan is a close ally of the United States in Asia. Moreover, Taiwan is a significant trade partner of the United States. In spite of some concerns, Taiwan is a significant US supplier of meat. Trade relations between Taiwan and the United States have been regulated under the Trade and Investment Framework Agreement (USCC, 2012). On the other hand, the United States is the primary source of Taiwan's weapons supply. In light of the One China Principle, that is the main reason of friction between the United States and China (Roberge & Lee, 2009). Moreover, China concentrates its military presence around the island. China deployed ballistic missiles along the Taiwan

Strait. Taiwanese strategic security is guaranteed by the United States. In a protest, China decided cut military ties with the United States. Then it resumed these ties in 2009. Despite the political tension, economic ties significantly increased between China and Taiwan. Since Ma was inaugurated as president of Taiwan in 2008, the renegade province has adopted a new approach in relations with mainland China. Both China and Taiwan established links for shipping, air transport, and postal link in addition to tourism activities and financial ties. Taiwan and China are in their way to sign an economic cooperation agreement (Saunders & Kastner, 2009). The increase in diplomatic ties, especially in terms of economic cooperation and interdependence, mitigated the probability of a military conflict between them that would have dragged the United States as an ally and security guarantor for Taiwan (Saunders & Kastner, 2009).

The implications of realism and liberalism are prominent in this situation. A state is concerned about the increase in armament of another sovereign state. The first state is questioning the intention of the second and continuous military existence of major powers fearing threats to their interest in the region. However, liberalism, represented by economic cooperation, exchange, institutions and agreements, worked as an effective pacifier against a possible conflict that might have led to a major war.

Human rights

The United States has expressed great reservations about China's approach to human rights. The issue started with Tiananmen Square incident in 1989. After this event, relations between China and United States were disrupted and the United States condemned this event

harshly. The United States suspended significant official exchanges. It stopped a weapons export to China in addition to imposing economic sanctions on China (Zhao, 2011, p. 142).

The case of child labor in China has also been an issue of conflict between China and United States. The International Labor Organization, the United Nations and most of the international community condemn child labor and inhumane work environments in addition to providing guidelines for work safety. China, on the other hand, practices the very minimum amount of these guidelines defying international laws and policies. China's concern is to produce as much as it can to export and make a profit at the expense of the welfare of the workers. The United States openly condemns such practices. Human rights violations became a significant area of the political conflict between China and the U.S. Moreover, China's human rights violations would likely raise the possibility of humanitarian intervention and sovereignty. Although the definition of sovereignty is the ability to protect the citizenry from harm and abuse, the practical meaning of sovereignty is contested in international relations, and this debate has not reached international consensus and has not been a justification for international intervention.

American and other international companies and industries benefit from China's labor policies and its sweatshop conditions. The reason these companies took their production to China is for them not to worry about labor protections and rights issues their own countries oppose. Low labor cost can be very attractive. However, the world is concerned about the circumstances under which labor in China takes place.

North Korea

North Korea has been one of the prominent issues between the President of United States, Obama and the Chinese president, Xi Jinping, in their meeting in California in early June, 2013 (Calmes & Myers, 2013). The issue of North Korea is one of the main areas of dispute between the largest world economic and political powers. China has not made any public statement concerning North Korea's testing of nuclear missiles. This absence is interpreted differently in the western world. Moreover, China, after almost suspending all contacts with North Korea, is calling on North Korean officials to arrange ministerial level meetings in six years (Calmes & Myers, 2013). The presidents of both United States and China agreed in their meeting to cooperate in terms of their policies towards North Korea. The two presidents agreed on pressuring North Korea to halt its nuclear programs and refused to accept North Korea as a nuclear country.

In addition to the above, China is attempting to repeat its past as an imperial China, a step that may be controversial to other countries because it could threaten their sovereignty or the sovereignty of their allies. Moreover, it confirms the Chinese nationalist view of the surrounding states as subordinate to the Middle Kingdom. Sovereignty disputes over Okinawa and the Ryukyu Islands, while pushing Malaysia, the Philippines and India on territorial issues is likely to reflect the perception of China's attempt to repeat the past. In particular, China's claim over Okinawa is likely to raise a political challenge or dispute between China and the United States because the latter has military bases on Okinawa. A Chinese claim of sovereignty over Okinawa is likely to threaten the American military existence in South East Asia and the protection of the American interests in the region (Cheng, 2013).

Moreover, China's international politics are seen as contradictory across many of the recent world issues. For instance, China's stand towards Syria opposes Western sentiments by standing beside Bashar al-Assad- Syrian government. China also opposes imposing further sanctions on Iran, and cooperates with suspicious political leaders such as Zimbabwe's Robert Mugabe and Sudan's Omar al-Basheer (Cheng, 2013). These policies challenge the Western approach to international politics. Such views are considered a direct challenge to the western communities. Therefore, these issues have the potential to spill over into wars and political conflict.

In addition to the tolerant policy China is pursuing with North Korea, both are open about their ambition to increase their nuclear arsenals. The geopolitics of these two countries would likely to raise concerns of neighboring countries such as Japan and South Korea, which are allies of the United States (Zarate, 2013). Although the United States is openly condemning the North Korean and Iranian nuclear policies, reports about condemning Chinese nuclear policies are almost non-existent. The United States and China are not enemies, or in other words, hostility between both countries is undeclared or there has never been one. However, the United States' stand upon such policy is widely known. This raises the question of whether China enjoys American concessions.

Apparently, China also defies global trade principles. Despite the fact that China joined the World Trade Organization in 2001, its mercantilism is still in effect (Bloomberg, 2012). Chinese bureaucrats are still seeking national gains at the expense of international trade. They are using delay to shield temporary trade advantages. Moreover, China is manipulating its currency by holding down the exchange rates of the Yuan. Such steps made China's exports very cheap which significantly harms production in other countries (Bloomberg, 2012).

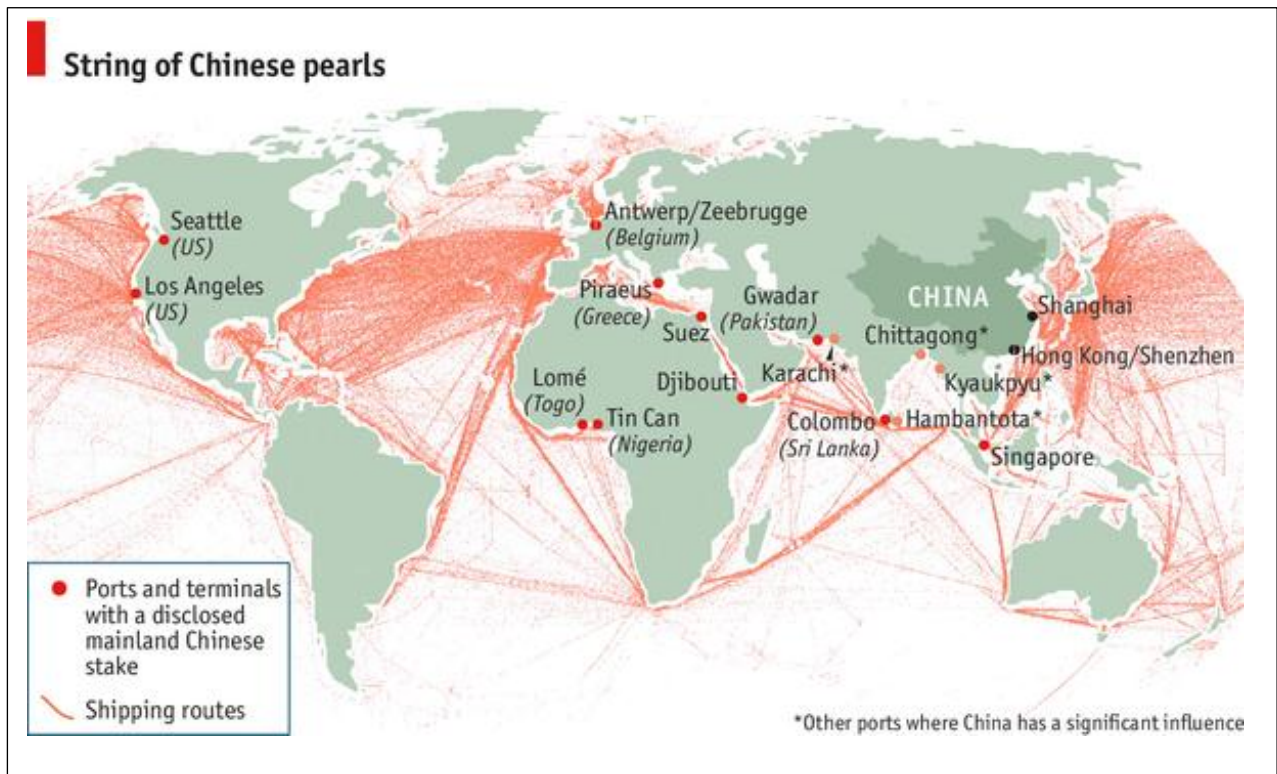
China's mercantilist trade strategy is against the principles and the practices sponsored by the WTO and contradicts the principle of global trade openness. It is a clear harm to other nations. Moreover, it is a clear area of conflict between the United States and China. This step hurts United States trade alliance given the continuously growing trade activities between China and the United States. Yet, the United States has not reacted to or condemned these Chinese economic policies.

Since the end of the Cold War, the Chinese political elite and its foreign policies towards the United States opposed any increase of United States' hegemony in the world in Asia. However, they dealt with this discreetly. China accommodates U.S. hegemony on the one hand, and secretly contests this hegemony on the other (Schweller & Pu, 2011). China has sought a more diplomatic approach in dealing with the United States for dispute resolution and more cooperative policies. The reason behind this approach is based on cost – benefit analysis. Primarily, China is aware of its weaknesses vis-à-vis American strength. The United States' influence in Asia is significant in terms of a security guarantor and a vital economic partner and this influence secures U.S. elite in the region. This fact, in addition to the Asian sentiment towards China's ambitions, stands in the way of Chinese dominance in the region. Moreover, Chinese economy is dependent on "processing trade". The main source of the economy is foreign investment. The main consumers of Chinese exports are United States and Europe (Sutter, 2007). Therefore, adopting a defiant political approach towards Asia, United States and Europe is likely to damage China's economic and political position in the world.

Despite the strong nationalism and expansionist intentions represented by pressure on Taiwan, Japanese territory and, South and East China Sea, China is reluctant to deploy military actions. Given the analysis above, China has more to lose from allowing its regional disputes

from descending into armed conflict. However, the decline of the factors mentioned earlier may provide China with more bargaining power in world politics. This is likely to enable China to impose its agenda given its economic and military abilities.

Above all, the most persistent and prominent challenge the United States faces against China's economic development is maintaining economic global competitiveness. The rapid growth of China's economy is elevating China's position in the global economy. So far, the Chinese economy is the second in the world economy after the United States. According to a recent evaluation of *The Economist*, China's economic position in the world places it as the largest exporter and the second largest importer (*Economist*, 2013). One new issue concerns India's fears of the Chinese military and its political hidden agenda. China is establishing a "shipping hub" 200 miles from India's southern coast. Chinese companies contributed to building more of 50% of the world ports especially in developing countries including Tanzania, Greece, Djibouti and Singapore. 41% of ships built in 2012 were made in China (*Economist*, 2013). The map below shows the ports Chinese companies either built or contributed in addition to China's shipping routes.



Source: The Economist 2013.

The escalation of disputes between United States and China is spilling over to Southeast Asia countries. For instance, most ASEAN members are seeking economic partnerships with the United States and using following strategies that seek to draw the Americans in to counterbalance China’s growing influence (Sarith, 2013).

Chapter Six: Conclusion

Clearly, our world is more interdependent than it has been in the past. Policies such as isolationism and protectionism or any policy that hinders the free flow of goods, capital and manpower would first and foremost, impact national economies. Moreover, in shaping their foreign policies, and in addition to plotting international relations policies, countries should consider their economic foreign policy as an indivisible part of their foreign policies. Foreign policies in trade are likely to take many forms such as opening their markets to international trade, in addition to enabling and facilitating foreign investment and engaging in export and import activities. For more efficient flow of goods, capital and human resources, countries may engage in free trade agreements.

On the other hand, engaging in political conflict is more costly than resorting to other forums for solving this conflict. Political conflict between two countries that led to war would represent to those countries military burdens from personnel, weapons and advanced military technology. The other significant cost is the termination of economic relations between the two countries. If the war started a century ago this would not have been a big issue. In today's world, this would lead to a substantial economic loss for both countries. If the countries were neighbors, they will seek alternative sources of supply. Therefore, they would have to bear new costs of transportation and routing for these supplies. Disrupting relations among allies is highly possible. The result is a substantial economic loss of supplies and markets.

For instance, when Iraq decided to invade Kuwait in August 1990, Iraq lost economic relations with most of Kuwait's allies including the United States. Oil exports to US allies were disrupted, causing substantial losses to the Iraqi economy, which is highly dependent on

revenues from oil. In addition, Iraq created political enemies and lost international ties significant to its economy and political stability. Building new relations and seeking alternative suppliers and markets would be significantly costly for the conflicting countries. These points should be taken into consideration before the countries decide to engage in armed conflict.

The significance of political and economic harmonious relations between China and the United States is recognized by the elites of both countries in their meeting in California early June 2013 President Obama and the newly elected Chinese president Xi Pingjin (Calmes & Myers, 2013). Both presidents agreed to overcome their economic, political and diplomatic differences instead of dwelling upon “old crises” (Calmes & Myers, 2013). The reasons behind this agreement are known by both countries because both presidents acknowledge the significance of avoiding conflicts and emphasizing cooperation for the benefit of both countries. Dwelling on the differences is likely to disrupt the flow of economic activities of both countries.

United States and China’s international relations could serve as a model for peaceful international relations. Although the two countries have been experiencing political frictions and power competition both in an military and economic sense, they are reluctant to engage in an armed conflict. The relationship between the United States and China experiences bumps in the road and direct challenges threatened the stability of this relationship and the political stability not only for US and China, but for the entire world. The United States has been concerned about the Chinese military and China’s growing control over the world’s economy. Moreover, Chinese intelligence is blamed for the recent cyber-attack on an American government related website. On the other hand, China is in a constant economic race with the

United States and the world as whole. It is working constantly to control the South Asian Sea and end the American presence in Asia, a step that is likely to threaten the American interests in the region.

However, neither country is willing to engage in a war. The reason is known for both countries and the entire world. Although China and United States experience mutual tensions, both are economically interdependent. Neither country would benefit from engaging in political conflict that risk jeopardizing the economic activities between them given the magnitude of their bilateral economic interdependence. This experience can be a new approach to international relations; economic exchange as a tool for peace and conflict resolution.

The theories of international relations explain the patterns of Chinese-American relations. America is a hegemon. Its approach to the world was near to the realist theory, maximizing gains, and containing any other rising political power. However, the realities of the world, the complexity of economic and commercial activities and economic interdependence led the United States to rethink its political practices. It has been pursuing a more liberal approach based on cooperation, economic exchange and openness to the world. Even when there have been signs of rising new political power, China, and the constant political conflict, territorial disputes and other tensions, being realist at this point is not feasible for both countries. The magnitude of economic interdependence between China and the United States imposes new ways of dealing with each other instead of the realist. There are scholars who challenge theories of economic interdependence as a contributor to peace or at least as a factor that decreases the likelihood of wars. However the evidence for such a

reality is prominent in today's world given the complexity of the economic interdependence and advanced technology.

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