U.S.-China Bilateral Relations from 1989 to 2010 as a Consequence of Economic Changes

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U.S.-China Bilateral Relations from 1989 to 2010
As a Consequence of Economic Changes

A thesis submitted in partial fulfillment of the requirement
for the degree of Bachelor of Arts in Government from
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By:

Jie Hou

Abstract: U.S.-China bilateral relations have changed drastically over the past twenty years. These two countries evolved from ideological enemies to trade partners to political rivals in the international area. The paper uses China’s economic rise in GDP as a way to explain how such changes occurred and what incidents changed the course of their relationship.

Accepted for ____________________________ Honors ____________________________

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Prof. David Dessler

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Prof. Hiroshi Kitamura
Chapter 1: Introduction

China and the United States operate on different spectrums of world politics. China has grown by leaps and bounds and managed to do so with a modern controversial communist government. On the other hand, the United States, a republic since its independence, has been the unchallenged leader of both world economics and politics. When these two countries interact, the results have had important implications for international politics. But, they have not always been moving toward a more collaborative international environment.

The United States did not initially recognize the People’s Republic of China as a country because it was a communist state. That early denial of China’s existence was the beginning of what grew into a rollercoaster ride of bilateral relations. In the past two decades, disputes between China and the United States have increased. Whether it is Taiwan, Iraq, Chinese currency manipulation, spy planes, or outsourcing jobs to China, the two countries were constantly at odds with each other. China has even threatened to sanction the U.S. and to drop support of certain international issues. The U.S. and China are two very different countries, both in culture and political ideology, yet they are dependent on each other. The Economist considers the relationship between China and the United States as the most important association between nations of the era.

For this thesis, we will examine how economic growth has led to China’s emerging international role in the twenty-first century and, specifically, China’s relationship with the United States. How have China’s economic rise and the recent December 2008 global recession affected bilateral relations with the United States? Does the U.S. react differently given the economic circumstances?

The rising tension in U.S.-China bilateral relations has important ramifications for the future of world politics. China has one of the richest histories in the world. Even modern China has been the arena for many significant international events. It has outlasted the European colonialists, ousted the invading Japanese, and outlived its Soviet neighbors. China’s later development and growth led to greater involvement in international affairs in the twenty-first century. This has made the United States both a
business partner and economic rival. The fundamental problem, however, is that both sides lack an understanding of how the other actually works.

This research will contribute to the field of international relations because it will explain the actions of both an aging superpower and a rising powerhouse. Not since the Cold War has the United States faced a rival with leverage when it comes to economic power. This makes for a thought-provoking analysis of how United States has dealt with China in the past and what this means for the future. As a result of this analysis, people will gain a better understanding of why U.S.-China relations are so complicated, sensitive, and worth learning about to solve current issues. Otherwise, rising tension could lead to an arms race, thereby creating yet a new international security dilemma.

Because this research reveals the connection between economic growth and rising tensions, it is in America’s best interest to engage China with caution and work with Europe to keep the international market competitive. The West should not panic to the point of causing an unnecessary confrontation with China. Instead of attempting a protectionist strategy, the United States should encourage China to take up its share of the burden of global leadership. As the world’s largest exporter, China’s own self-interest lies in a peaceful and robust trading system. In this globalized world, economies can dictate the progress of diplomacy. If the United States wants to avoid tensions with China, it must understand how China views the world and what its goals are for the future.

The theoretical framework for this thesis will be the realist school in international relations. Realism in international relations prioritizes national interest and security rather than ideals, social reconstruction or ethics. This so-called power politics focuses on the state as a single unit. China’s decision to increase state power through aggressive incentives to persuade companies to invest in China and to use revenue to increase military force may have created something of a global security dilemma. This thesis will also include constructivist viewpoints due to China’s strong historical background influences on policy implementation and U.S. insistence on maintaining the status quo. Although realism and constructivism are two different theories, they work together in explaining both national interest and
ideology. World politics cannot be explained simply with one theory and considering other factors is important to getting a complete picture of the current situation.

In terms of variables, the dependent variable in this case is the tension between China and the United States, both of which have different views on how nations should work together. The independent variables that most strongly correlate with the dependent variable are China’s self-serving and competitive foreign policy, its historical autocratic political background, its large demand for resources, and trade relations with the U.S. We will measure China’s GDP growth for the last two decades along with spending, investments, and policies that promote trade and interactions between countries. The goal is to correlate China’s economic growth to the rise in disputes between the United States and China.

The structure of this paper begins with a brief historical background of China, touching upon China’s evolution from the imperial dynasties to a communist state. We also will explore various cultural influences that explain how the modern Chinese state rationalizes decisions. In the next chapters, the interactions between China and the U.S. are split into three time periods. The first period notes interactions from 1989 to 2004 (the gradual increase in China’s GDP), the second focuses from 2004 to 2008 (from China’s spike in GDP to the financial crisis in 2008), and the third examines bilateral relations after the financial crisis. The paper will analyze quantitative data including China’s gross domestic product (GDP), resources, domestic and overseas investments, and how the recent stock market crash has affected China compared to the United States. The paper will conclude with a summary of the data found, how research could have been expanded, and predictions for the future of U.S.-China relations. The paper is structured to measure the relationship by meanings of “positive” and “negative” interactions. Positive interactions are incidents in which both countries benefit in a political, economic, or emotional way and those interactions accomplish mutual goals of the states. Negative interactions do not benefit either state. These negative events can include feelings of anger towards a country because of mistakes made or because of a policy that harms the other country.
Chapter 2: A Brief History on U.S.-China Relations and Economics

China, or the Middle Kingdom, has over five thousand years of history. China ruled the East Asian coast with a powerful central monarchy. It maintained self-sufficiency and influenced cultures around it, including Korea and Japan. Though China traded with the West, it felt as though the encroaching Western traders had nothing to offer such a superior country. However, the West thought the trade imbalance was not favorable. It changed its strategy from trading in gold to trading in highly addictive opium. China’s opium addiction lead to the country’s first of many downfalls. Coupled with an often corrupt government and lack of innovation stemming from ethnocentricity, China lost to the West in the Opium Wars. Defeat by the British decreased China’s power over its own lands. Since 1858, with the signing of the first of many concessions such as the Treaties of Tianjin, the Chinese people have struggled to gain back their autonomy.\(^1\) China, after realizing it was not going to receive independence after the First World War, started a new movement of westernizing its ideology and turning towards democracy, nationalism, and for some, Marxism.\(^2\)

The United States entered the political scene as China struggled to unify itself. The U.S. supported the more democratic Nationalist Party of China. Unfortunately, because the Nationalists exploited their power over the people, they fell out of favor with the majority of the Chinese population. The Communist Party, on the other hand, worked to gain the support of the peasant class, claiming that all people are equal under communism. Since China’s majority belonged to the peasant class, the Communist Party gained widespread support amongst the people. During World War II, the Nationalists and Communists worked together to push out their common enemy, the Japanese. When the war was over, the two sides became enemies once again. With dwindling support from the people, not even the Americans could help the Nationalists keep China.

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\(^1\) June Grasso et al., *Modernization and Revolution in China* (New York: M.E. Sharpe, Inc., 2004), 42, 83.

The Communists ousted the U.S. backed Nationalists during the civil war in the mid to late 1940s and Mao Zedong officially declared China as a communist state on October 1, 1949. The United States “lost” China to communism and refused to recognize China so long as it remained a communist state. This did not last long. After the Korean War (1950-1953), both countries agreed that bilateral relations would benefit one another. The PRC even replaced Taiwan as the official representation of China in the United Nations in 1971. After several meetings between ambassadors from 1954-1970 and President Richard Nixon’s visit to China in 1971, formal diplomatic relations were established in 1978. From this point forward, the United States and China have experienced various degrees of cooperation on important bilateral and international issues.

The paper’s analysis of U.S.-China relations begins in 1989. This time period from 1989 to 2010 was chosen because 1989 signified a changing Chinese political dynamic. By 1989, the dictatorship aspect in China’s government started to fade. With the death of Mao and the closing of Deng Xiaoping’s reform era, China began to move towards a more consensus type government where no one person had all of the authority. Before President Jiang Zemin, all of the actions of the Chinese government could be attributed to the dictator in power (either Mao or Deng). In contrast, Jiang Zemin was not as well known but he did fit the criteria for Deng as a successor. But, unlike Deng, Jiang had to win support since it was not simply handed to him. The same applied to Hu Jintao when he succeeded Jiang. The third generation of China’s leaders had to rely on consensus with other party members to push through policies. In the past two decades, consensus politics within the Chinese government has allowed for more credibility and appealed to U.S. political ideology.

The new generation of China’s leaders was mainly focused on fixing the flawed Chinese economic system. The potential for China’s economy lies both in its strategic geographic location and its

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3 Grasso, Modernization and Revolution in China, 139-142.
5 The Office of Electronic Information, “Background Note: China (10/09).”
6 The Office of Electronic Information, “Background Note: China (10/09).”
7 Grasso, Modernization and Revolution in China, 264.
resources. Asia has an abundance of natural resources that can be used for self-sufficiency and as leverage in trading with foreign countries. China’s natural resources include coal, iron ore, petroleum, natural gas, mercury, tin, tungsten, antimony, manganese, molybdenum, vanadium, magnetite, aluminum, lead, zinc, uranium, and the world’s largest hydropower potential. However, the most abundant resource China has is its people. With over a billion people, a lot of work can be accomplished in a short time period. To utilize all that it has, China has encouraged innovation, new technology, and infrastructure. It has drawn foreign investors who wanted to cut their costs.

For China to be a top world competitor, all Deng Xiaoping had to do was allow China’s economy to grow in a capitalist environment. Deng wanted to modernize agriculture, industry, science and technology. To do so, he motivated the nation through material incentives which contrasted with Mao’s ideological incentives for self-sufficiency. Within agriculture, Deng eliminated the communes and gave land back to farmers. Farmers then signed a ten to fifteen year contract with the government stating that they would provide a certain amount to the government but would also be able to sell the remaining surplus. Farmers also were allowed to have side occupations, which encouraged the development of entrepreneurs. People, for the first time, had money to spend on consumer products. Per capita GDP rose from $307.49 in 1989 to $3,266.51 in 2008.

In the industrial sector, the government set up special economic zones (SEZs) along the coast to encourage foreign companies to set up industries or establish joint-enterprises with Chinese firms. China offered cheap labor, land, and tax incentives. Cities like Shanghai and Shenzhen boomed because of the numerous western firms that entered the cities. According to China Daily, almost 480 of the Fortune 500

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9 Grasso, Modernization and Revolution in China, 241.
10 Grasso, Modernization and Revolution in China, 242.
11 Grasso, Modernization and Revolution in China, 248.
13 Grasso, Modernization and Revolution in China, 248.
hundred companies have invested in China in the past 30 years. With foreign investors coming in, China gained access to advanced foreign technology that continued to help the economy grow despite the social ramifications of Deng’s reforms.

Another important factor that brought China to the world stage was the impact of the Tiananmen Square Massacre in June 1989. As the government let in western innovation, western democratic ideology also leaked into China. China’s top officials feared the same kind of hysteria would break out at Tiananmen Square like it did during the 1960s Cultural Revolution. In an effort to stamp out dissent amongst the students, intellectuals, and workers, Deng Xiaoping ordered martial law over the protests at Tiananmen Square. This resulted in large amounts of international backlash. While the failures of Mao’s programs remained relatively unknown, China’s new globalization policies made this massacre visible to the entire world. Because of the incident, the U.S. government suspended military sales to Beijing and froze bilateral relations. Mending U.S.–Sino relations had to start all over again.

The Tiananmen Square Massacre signaled the rise of a new generation of leaders in China. Jiang Zemin and Hu Jintao had to worry not only about continuing to run a more liberal economic environment but also about international scrutiny of China’s information censorship and human rights violations. Furthermore, China’s economic success has made western countries uneasy but China’s leaders claim China’s rise was not a threat to the world, calling it a “peaceful rise” and later “peaceful development”.

Because economic interdependency brings countries together through trade and politics, China and the United States inevitability would be drawn to each other. The United States wanted the cheap labor and material that could be produced in China for a fraction of the cost it would take to make products domestically. China wanted access to the technological advances of U.S. built facilities on the

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15 Grasso, Modernization and Revolution in China, 259-262.
16 Grasso, Modernization and Revolution in China, 259-262.
17 Grasso, Modernization and Revolution in China, 262.
mainland. These factors (explained in depth in later chapters) prompted China and the U.S. to make government policies that were favorable to the development of trade.

Especially in the twenty-first century, U.S.-Sino trade relations rose dramatically. Between 1980 and 2004, trade rose from five billion to over two hundred one billion USD. In 2000, Congress granted Beijing permanent normal trade relations. China replaced the United States as Japan’s top trade partner and replaced Mexico as the United States’ second-biggest trade partner. As seen from the graph below, China’s influence in international trade increased dramatically from 1950 to 2000 alongside that of the U.S. Normalized relations proved to be beneficial for both countries.

![Percentage of World GDP (last 500 years)](image)
(The graph above shows China’s growing influence over trade from 1500 to 2000)

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20 Council on Foreign Relations, “U.S. Relations with China (1949-Present).”
21 Council on Foreign Relations, “U.S. Relations with China (1949-Present).”
22 Council on Foreign Relations, “U.S. Relations with China (1949-Present).”
Awareness of U.S. and Chinese interdependence increased in 2008 with the onset of the global financial crisis. By 2008, China had the third largest economy in the world and held $1.7 trillion in U.S. debt. Referring to the graph above, one can see how much China has grown in relations to other countries and regions. Referring to the chart below, one can see that as China’s influence has risen exponentially, the United States’ influence has declined since the world financial crisis.

All of China’s new found wealth comes with a price. Being a rising power means not only increased economic power but also increased responsibility in politics. Deputy Secretary of State Robert Zoellick gave a speech in September 2005 that recognized China as an emerging power but also called on China to involve itself in international affairs. Zoellick wanted China to draw nations like Sudan, North Korea, and Iran into the international system, since China has the potential to become a very influential mediator between democratic and non-democratic nations as shown in the Six-Party Talks held in Beijing in 2005. North Korea walked away from the negotiations, which focused on controlling Pyongyang’s nuclear ambitions and denuclearization, but returned to the table the following year and in 2008, thanks to

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23 Council on Foreign Relations, “U.S. Relations with China (1949-Present).”
26 Council on Foreign Relations, “U.S. Relations with China (1949-Present).”
efforts made by the Chinese. Though future G-20 talks have not shown the resulted desired by the U.S. and other countries, China during this G-20 has shown itself as a key played in international politics and gained credibility for its success in returning North Korea to the negotiation table.

Growth in China’s economy worries the United States. China announced an 18% budget increase in defense spending to more than $45 billion in 2007. Since 1990, increases in military expenditures have averaged about 15% a year. This would seem directly in opposition of the “peaceful rise” China’s leaders keep emphasizing. Former Vice President Dick Cheney said China’s military buildup is not consistent with its stated goal though, China’s budget pales in comparison to the U.S. defense budget of $481 billion. The U.S. also has 41.5% of global military spending while China comes in second with 5.8%. China spent about 2% of GDP while the U.S. spent 4% of GDP in 2007. Obviously, China’s military capacity is still nowhere near that of the United States, though China’s relative power in the Asian Pacific has increased dramatically in the past twenty years. An increase in relative power, however, could create a security dilemma if both the U.S. and China fail to communicate intentions with their actions.

In the next chapters, the interactions between China and the U.S. will be split into three sections based on significant changes in each country’s GDP. The first period will analyze interactions from 1989 to 2004, when there was a gradual increase in China’s GDP; the second period will focus from 2005 to 2008, when from China’s GDP spiked to the financial crisis in 2008; and the third period will examine bilateral relations after the financial crisis. When both countries are doing well, are there more investments and fewer criticisms? When one country does worse than the other, do political issues emerge? The goal of these chapters is to find the answers to these questions and to determine how both countries economic circumstances correlate with their bilateral relations.

27 Council on Foreign Relations, “U.S. Relations with China (1949-Present).”
28 Council on Foreign Relations, “U.S. Relations with China (1949-Present).”
29 Council on Foreign Relations, “U.S. Relations with China (1949-Present).”
Chapter 3: The Timeline

Part 1: China and the U.S. from 1989-2004

The first part of analyzing U.S.-Ch relations focuses on the years 1989 to 2004. This section was chosen because 1989 was the year that U.S.-China relations had to be reset given the worldwide attention to the Tiananmen Square Massacre. The timeline stops at 2004 because from 1989 to 2004, the United States and China both experienced a steady growth in GDP. When both countries were doing well, their interactions were mixed, as if a power struggle existed between the states. Following the Cold War, the United States emerged as a world leader. The U.S. involved itself with the politics of a lot of different countries, including China. China, cutting off its friendly ties with the former Soviet Union and adopting a capitalist market, also began to see improvements within its own economy. China was still a developing country, but it made its presence known to the rest of the world when controversies appeared.

Between 1989 and 2004, many incidents occurred showing how unstable U.S. and China bilateral relations actually were. In 1989, news of the Tiananmen Square Massacre was heard around the world, causing the U.S. to cut its ties with China. In 1995, Harry Wu, a Chinese-American, was captured by the Chinese government for his documentation of prisons. In 1999, the U.S. accidentally bombed the Chinese embassy in Belgrade, and in 2001 a U.S. spy plane collided with a Chinese fighter jet. In addition to these confrontations, Taiwan, Tibet, and human rights disputes also put constant strains on relations.

The year 1989 was an important year in the development of bilateral relations between the United States and China. Amidst Chinese capitalist ideas and the influx of foreign direct investment there was a very powerful central government that did not tolerate political dissent. As Communist leader Deng Xiaoping allowed foreigners to bring technology and goods into China, western ideology also managed to leak through as well. Intellectuals, once chastised by Mao’s regime, now saw their chance to speak out against communism and promote democracy.\(^\text{32}\) In the late 1980s the pro-democracy movement spread to

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students and workers. The protestors wanted the communist party and government to be more transparent. The majority of these protestors were university students who saw the benefits that foreigners received in China and demanded that Chinese people be treated the same way. Some held rallies and small protests in major cities like Shanghai but these were lacking in support and were easily defused by the government either by force or compromise.

In the following years, the government faced more and more economic and social problems. Inflation hit China in 1988 and regulations proved futile in controlling it. The pro-democracy movement gathered strength while Party unity weakened.

In April 1989, political leader and democracy-advocate Hu Yaobang passed away. His death sparked a series of protests at Tiananmen Square and throughout Beijing. Students waged hunger strikes and held peaceful demonstrations for weeks as the government tried to figure out what to do with thousands of protestors. Due to the presence of the international media, all of this was caught on camera for the whole world to watch. Deng saw the similarities between the Beijing protests and the horrors of Mao’s Cultural Revolution. What he saw as turmoil, the students saw as patriotism. On June 3, the crackdown on protestors began. Tanks rolled into Tiananmen Square, people were shot, and bodies were burned. No one knows how many people were killed, although estimates range from tens to several thousand. Dissidents captured were thrown into jail and given extended prison sentences. Surveillance of citizens increased and education requirements for students were changed to include countryside labor programs and communist ideology tests. In response to the massacre, the U.S. government suspended military sales to Beiji and froze relations.

Grasso, Modernization and Revolution in China, 254.
Grasso, Modernization and Revolution in China, 252.
Grasso, Modernization and Revolution in China, 253.
Grasso, Modernization and Revolution in China, 256.
Grasso, Modernization and Revolution in China, 256-258.
Grasso, Modernization and Revolution in China, 258-259.
Grasso, Modernization and Revolution in China, 258.
The Tiananmen Square Massacre was not the end of U.S.-China political stand-offs. In 1995, U.S.-China relations remained tense as an American-Chinese named Harry Wu was captured by Chinese officials. Harry Wu, a human rights activist, was given a nineteen year sentence by the Chinese government for documenting what he termed as “laogai” prisoner camps. In the 1990’s, he went undercover to China four times to document of how prisoners were treated in prison camps there. He wanted the whole world to see what China was doing behind closed doors. When he was caught in 1995, he was held by the government for sixty-six days and awaited his sentence. This incident was one of many that strained relations between China and the U.S. since the Tiananmen Square Massacre.

Fortunately, the Chinese government released Wu, deporting him the States. Then, President Clinton said the release provided a much-needed improvement in bilateral relations. Although there were still many issues to tackle, at least Wu would not be sent to prison in China as the U.S. had feared he would.

Harry Wu’s arrest exemplified the mixed relations China and the United States engaged in at the time. Wu was charged with espionage but was released into U.S. control within two months. The Chinese government took Wu’s actions seriously, but amending relations with the U.S. was more important to its long term goals of international inclusion. Even though relations were tense, both countries were willing to negotiate. By sending Wu back, China avoided a diplomatic crisis.

In 1999, yet another incident shook the already-rocky relationship between the U.S. and China. The North Atlantic Treaty Organization (NATO) accidentally bombed the Chinese embassy in Belgrade in its campaign against Serbian forces over Kosovo. President Bill Clinton and NATO command offered their apologies for the mistake but that did not stop thousands of protestors in China from condemning the U.S. for its actions. Several flaws in the targeting procedure had resulted in the accidental bombing of the

41 Harry Wu, “I was sentenced to life in a Chinese labour camp: This is my story,” The Independent (2009), http://www.independent.co.uk/news/world/asia/i-was-sentenced-to-life-in-a-chinese-labour-camp-this-is-my-story-1790465.html.
42 Wu, “I was sentenced to life in a Chinese labour camp: This is my story.”
43 Wu, “I was sentenced to life in a Chinese labour camp: This is my story.”
45 Spaeth et al., “Harry Wu: He’s Out.”
46 Council on Foreign Relations, “U.S. Relations with China (1949 - Present).”
embassy. NATO had wanted to target a supply headquarters but the exact location needed to be identified. In reference to the Director of Central Intelligence Agency (CIA) statement on the bombing on July 22, 1999, George Tenet stated:

First, the technique used to locate the intended target – the headquarters of the Yugoslav Federal Directorate for Supply and Procurement (FDSP) – was severely flawed. Second, none of the military or intelligence databases used to validate targets contained the correct location of the Chinese Embassy. Third, nowhere in the target review process was either of the first two mistakes detected.  

The maps used to target the location were from 1989, 1996 and 1997, and there were not any signs from satellite imaging to designate the building as an embassy. The attack proceeded even though some in the department believed that the FDSP was not located correctly. After the attack, four people were reported dead and another twenty injured. Angry protests about the bombing sprang up throughout China. Beijing did little to control the protests and in fact, then-Vice President Hu Jintao announced his support for the protests, which he considered a legal protest of NATO’s actions. China had already opposed the NATO campaign against Yugoslavia and interpreted this attack as an attack on Chinese sovereignty. The protests created a problem for U.S. in China. U.S. diplomatic buildings had to be closed for the safety of the people working inside.

Though the bombing was a blunder, China did not treat it as such. The government even allowed people to go into the streets to protest. But no matter how angry people were about the attack, China did not seek further reparations from the U.S. The Chinese government reasoned that additional aggravation of the situation would not benefit either nation.

The first U.S.-China incident that the newly-elected Bush Administration had to deal with was the spy plane incident in 2001. On April 1, two Chinese fighter pilots were tailing a U.S. surveillance plane

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48 George Tenet, “DCI Statement on the Belgrade Chinese Embassy Bombing.”
49 George Tenet, “DCI Statement on the Belgrade Chinese Embassy Bombing.”
when one of them collided with it.\textsuperscript{54} The U.S. plane made an emergency landing on Hainan Island while the Chinese plane crashed into the South China Sea.\textsuperscript{55} While Chinese and U.S. reports vary, one of the planes made a sudden turn in the air. Chinese officials blamed the U.S. for the accident and vice-versa. China said the plane was in their airspace. U.S. military experts said that China was harassing the plane in international airspace.\textsuperscript{56} China told the U.S. it reserved the right to seize the plane and its crew, since the plane had landed without permission from the Chinese government.\textsuperscript{57} The U.S. demanded the release of the crew and plane immediately but China retained both. The crew ultimately was released on April 11 and the plane was returned in July.\textsuperscript{58}

U.S.-China relations with the new Bush Administration got off to a terrible start. The new administration during that year had changed its policy to focus on strengthening ties with China but this incident set everyone back a step.\textsuperscript{59} In War of Necessity War of Choice, author Richard Haas commented that China’s reaction strengthened the hand of those U.S. officials in the administration who saw a rising China as a growing competitor and wanted the U.S. to emphasize containment over engagement and integration.\textsuperscript{60} As mentioned before, cooperation would be the best policy for both. Unfortunately, China’s reaction this time was not favorable to bilateral relations. The spy plane incident also brought about questions regarding China’s policies: Why was China in international waters and why did it take so long for it to return the plane? Were the Chinese inspecting the plane for technological secrets? The Chinese government would not disclose what it had done with the plane. As with these other cases, U.S.-China confrontations in general have been tense. The two sides have different objectives and do not see eye-to-

\textsuperscript{54} Haas, War of Necessity War of Choice, 178-179.
\textsuperscript{57}“U.S. aircraft collides with Chinese fighter, forced to land,” CNN (2001).
\textsuperscript{59} Haas, War of Necessity War of Choice, 178-179.
\textsuperscript{60} Haas, War of Necessity War of Choice, 178-179.
eye when dealing with these types of situations. Disagreements also arise over issues that China considers to be domestic but also involve the United States.

Two territories that China would rather deal with as domestic issues are Taiwan and Tibet. United States involvement in these two territories has strained relations in the 20th and 21st centuries. In 1949, the Nationalist Party of China retreated to the island of Taiwan when defeated by the Communists.\(^{61}\) It took control of the island, established a government, and continued to claim that it was the legitimate government of China.\(^{62}\) The U.S. initially supported Taiwan and did not recognize the People’s Republic of China as a legitimate country. But, as relations warmed between China and the U.S., Taiwan lost its seat in the United Nations in 1971 and the U.S. declared that it would recognize the PRC as the legitimate China in 1978.\(^{63}\) In 1996, the P.R.C. conducted military exercises near Taiwan to intimidate the country after the former President of Taiwan made a private visit to the United States.\(^{64}\) The issue was resolved peacefully, but interactions between Taiwan and the U.S. were closely watched by China. China ultimately wants Taiwan to reunite with the mainland but for now, even though trade is going well between the two countries. The U.S. has had a long relationship with Taiwan and is bound by treaties to protect. The PRC does not approve of that relationship.

Tibet also has claimed independence from China. Tibet had been controlled by China on and off since the 18th century.\(^{65}\) Tibetans gave up their independence in 1951 when China invaded militarily and allowed the P.R.C. to control their foreign affairs and defense. Soon afterwards, however, rebellions began to arise. In 1959, with the help of the C.I.A. since the U.S. was still opposed to communist China at the time, the rebellions became a revolt, which lasted until 1971.\(^{66}\) Even after China reformed its

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\(^{61}\) Grasso, Modernization and Revolution in China, 141.

\(^{62}\) Grasso, Modernization and Revolution in China, 141.

\(^{63}\) The Office of Electronic Information, Bureau of Public Affairs, “Background Note: China (10/09),” U.S. State Department, http://www.state.gov/r/pa/ei/bgn/18902.htm.

\(^{64}\) The Office of Electronic Information, Bureau of Public Affairs, “Background Note: China (10/09).”


management of Tibet, the Tibetans were not satisfied and protested again in 1987, 1993, and 1995. The U.S. has criticized how China has incurred human rights violations with its violent suppression of these protestors, their religion, and way of life. However, nothing actually has been done to actually punish China for its actions against Tibet. In fact, the U.S. has overlooked these matters to a degree in order to maintain good relations with China.

Not all bilateral interactions have been negative because China has worked to improve its international image. In 1993, China released a political prisoner and continued this policy as it tried to bid for hosting the Olympics. In 2001, China entered the World Trade Organization and announced its support for the U.S.’s war on terror. In 2004, China announced its “peaceful rise” policy in light of international fears over China’s military capabilities.

In 1993, to try to improve its international image, China released Wei Jingsheng, a political prisoner since 1979. Unfortunately, after Beijing lost its bid to host the 2000 Olympic Games, the government imprisoned Wei once again. President Bill Clinton then met with President Jiang Zemin at a summit and launched a policy of “constructive engagement” with China. Four years later, Clinton secured the release of Wei and Tiananmen Square protester Wang Dan. Beijing deported both dissidents to the United States. This incident shows how even though the Clinton years were a tense period in relations, both countries were still willing to work together.

In 2001, China finally entered the World Trade Organization after thirteen years and many setbacks like the Belgrade bombings, protectionism in the U.S., and human rights violations in China. China agreed to lower tariffs and abolished market impediments that allowed foreign businessmen to import and export without government interference. By 2005, average tariff rates on key U.S.

68 http://www.hrw.org/campaigns/china-99/tibet-test0613.htm
69 Council on Foreign Relations, “U.S. Relations with China (1949 - Present).”
70 Council on Foreign Relations, “U.S. Relations with China (1949 - Present).”
71 Council on Foreign Relations, “U.S. Relations with China (1949 - Present).”
72 Council on Foreign Relations, “U.S. Relations with China (1949 - Present).”
74 The Office of Electronic Information, Bureau of Public Affairs, “Background Note: China (10/09).”
agricultural exports dropped from 31% to 14% and on industrial products from 25% to 9%.\(^75\) The agreement also allowed foreign providers of services like banking, insurance and telecommunications to open businesses in China.

China also played a large role in global counterterrorism efforts with the United States starting in 2001. Following the September 11, 2001 terrorist attacks in New York City and Washington, DC, China offered strong public support against terrorism and has remained an important partner in U.S. counterterrorism efforts.\(^76\) Shortly after 9-11, the United States and China commenced a counter-terrorism dialogue. Inspections under the Container Security Initiative (CSI) began at the major ports of Shenzhen, Shanghai, and Hong Kong.\(^77\) China also agreed to take part in the Department of Energy's Megaports Initiative to detect the flow of nuclear materials.\(^78\)

Lastly, in 2004, China announced its “peaceful rise” campaign as the West began to fear China’s military and economic potential. China claimed that it would never seek hegemony and was a peace-loving nation.\(^79\) The U.S. feared that China would rise to be an aggressor like Germany or Japan, but China has never mounted a direct challenge to the U.S. and instead has been trying to avoid future disputes. China refocused its international policy and signed treaties with other East Asian countries to promote trade and reduce territorial disputes.\(^80\) China even tried to avoid the provocative sounding phrase “peaceful rise.” President Hu went so far as to use the word “peace” or “peaceful” eleven times during a forum speech about China’s new economic status in April 2004 but not the word “rise”.\(^81\) China wanted to appear as non-threatening as possible as it advanced towards being one of the top economic powers in the world.

Given the examples above, we can see that China and the United States since 1989 have been on a rocky road towards progress. China faced controversies over human rights, territorial disputes, and the

\(^{75}\) The Office of Electronic Information, Bureau of Public Affairs, “Background Note: China (10/09).”
\(^{76}\) The Office of Electronic Information, Bureau of Public Affairs, “Background Note: China (10/09).”
\(^{77}\) The Office of Electronic Information, Bureau of Public Affairs, “Background Note: China (10/09).”
\(^{78}\) The Office of Electronic Information, Bureau of Public Affairs, “Background Note: China (10/09).”
\(^{80}\) The Economist, “Peaceful Rise.”
\(^{81}\) The Economist, “Peaceful Rise.”
complications of becoming a world trading partner. The U.S. dealt with accidental attacks on China and opposed its policies on dissent. But in the end, the U.S.’s main goal of opening up China remained intact. China’s best interests also involved cooperation and engagement. Both sides knew that disputes would only hinder the flow of trade, yet both nations still stood their ground in certain circumstances. China thought it needed to show the world it must be taken seriously as a legitimate and rising power. On the other hand, the U.S. wanted to maintain its place as a world leader with responsibility for other nations’ dilemmas.

**Part 2: 2004 to the Early 2008**

From 2004 onward, China’s GDP spiked. Its annual growth, by this time, increased about 9% per year. By 2008, according to the purchasing power parity, China had the second largest economy in the world. China’s economic strategies proved to be an amazing success. It lent out land cheaply to foreign investors and produced materials for a fraction of the cost compared to competitors. It also joined the World Trade Organization to further expand international trade. This new focus on trade and economics affected the political relationship between China and the United States. From 2005 to early 2008, U.S.-China relations revolved around trade issues more than anything else. When they encountered other matters of international policy, U.S. and China were on the same side. China’s boom in economic growth along side of America’s own steady growth led to fewer confrontations.

China expanded its role as an international figure head as its government declared support for the U.S. after 9/11, hosted the Six Party Talks in 2005, hosted in the Summer 2008 Olympics, and reaffirmed the One-China policy. There are also key points of the trade issues between the U.S. and China. Though these two countries were dependent on one another for materials and income, it is very clear the U.S. depended on more China. As a result, U.S. tried to find ways to combat the imbalance of trade.

Since the 9/11 attacks, China has supported U.S. counterterrorism efforts. In fact, the anti-American feelings of the 1990s have decreased because China also lost its own citizens in the terrorist attacks. China and the United States share an interest in preventing terrorist activities, particularly those
of Islamic fundamentalists. China, as a neighbor state of Afghanistan, has long been affected by rising Islamic fundamentalism in the region. The U.S. established a Federal Bureau of Investigation office in Beijing and stationed officers in ports along Shanghai and Shenzhen. However, China’s struggle with its Xinjiang Province rebels was a source of disagreement since the U.S. considered them freedom fighters and felt China’s efforts were human rights violations. China’s close ties with Pakistan and desire to maintain friendly relations with its Middle Eastern neighbors has lead to gaps within U.S. - China policy towards terrorism. Though China has allowed the U.S. to station officials on the mainland, it has made no major changes in its foreign policy. China’s actions do show, however, that it is concerned with the growing global terrorist threat and willing to work with the United States on the issue.

Another example of China’s new leadership role in international politics was the 2005 round of the Six Party Talks. These talks involve China, United States, Russia, Japan, North and South Korea and the goal has been to end North Korea’s nuclear program through peaceful negotiations. The 2005 negotiations resulted in an agreement in September of that year in which North Korea declared that it would cease to become a nuclear state. In exchange, the other countries would provide it with food and energy assistance. China played a significant role in these talks, since, being North Korea’s ally and trading partner, it was able to convince the Kim regime to come to the negotiation table. This made China important in the eyes of Washington for its ability to help bring stability to the Asian-Pacific region. This marked a significant change in U.S.-China relations as each side worked together to tackle the common issue of international security.

In regards to China’s domestic issues, the U.S. stance towards Taiwan remained a challenge. In the July 9, 2007 China/Taiwan: Evolution of the “One China” Policy report of the Congressional

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84 Bin, “Why China Sides With U.S. in War on Terrorism.”
85 Scobell, “Chinese Foreign Policy and the War on Terror.”
87 Bajoria, “The Six-Party Talks on North Korea’s Nuclear Program.”
Research Service, the U.S. affirmed five main points about U.S. foreign policy towards the PRC and Taiwan. The United States did not explicitly state the sovereign status of Taiwan; it acknowledged the “One China” position on both sides of the Taiwan Strait. Taiwan’s status remains undetermined to this point. The U.S. has tried not to interfere with the PRC and Taiwan’s dispute over political matters, yet in 2007, it announced its intent to sell weapons to Taiwan, which once again stirred up the Chinese government.\textsuperscript{88} China urged the U.S. not do this but the U.S. Congress was unwilling corporate with Beijing.\textsuperscript{89} Situations like these could deter China from being more cooperative with the United States in the future. Fortunately, China during the twenty-first century has been more preoccupied with developing its new international image than engaging in debates about its domestic social issues.

Hosting the 2008 Summer Olympics was yet another big milestone for China. But, organizing the Olympics brought some of China’s problems to the international public. On March 10, 2008, the forty-ninth anniversary of Tibet’s take-over by China, demonstrations there turned violent.\textsuperscript{90} China’s government ordered a blackout of all communication in the region.\textsuperscript{91} The other countries’ protestors tried to prevent the Olympic torch from reaching its destination in China.\textsuperscript{92} The U.S. called on China to show restraint for the protestors in Tibet, but in the aftermath, many buildings were damaged and civilians killed.\textsuperscript{93} In April, Congress created the “Communist Chinese Olympic Accountability Act”, a bill prohibiting President Bush or any other federal government official from attending the Beijing Olympics.\textsuperscript{94} The bill did not pass but Tibet incident was a reminder of the tensions with the United States. Human rights will always be an issue between the two states. While China wanted the world to mind its own business about its domestic affairs, its new international status means that it will be closely scrutinized by the international community. These changing global conditions have also changed the way

\begin{footnotesize}
\begin{enumerate}
\item Reuters, “U.S. May Sell Weapons to Taiwan.”
\item Carassava, “Tibet Protest at Olympic Ceremony.”
\item Carassava, “Tibet Protest at Olympic Ceremony.”
\end{enumerate}
\end{footnotesize}
the U.S. and China handle economic policy. Although China and the U.S. are neither allies nor enemies, both benefit from bilateral trade but also are competitors for the same resources.

Trade deficits have caused a lot of strain on the U.S. economy. Its dependence on Chinese goods in recent years has affected the balance of trade and every month the balance increases, in favor of China. In 2006, the U.S. imported about five to seven times the number of goods it exported to China.\(^\text{95}\) Per the chart below on \textit{US Trade with China} in 2006, the total U.S. trade deficit into China was more than 232 billion U.S. dollars. From January to August 2007, the imbalance for U.S. exports already reached 163 billion U.S. dollars. The U.S. hasn’t been able to compete with cheap goods coming from China and many U.S. companies have had to lower prices, outsource labor, or go out of business.\(^\text{96}\) In 2006, U.S. Treasury Secretary Henry Paulson tried to start a new dialogue with China. He wanted China to revalue its currency against the dollar and raise Chinese export prices to encourage domestic spending.\(^\text{97}\) China responded favorably by raising their Yuan by 14\% and allowing U.S. industries into Chinese markets.\(^\text{98}\) The U.S. wanted to do more to improve the trade deficit but it is uncertain how much China will be willing to bend.

\textbf{US Trade with China: 2006}

\textit{NOTE:} All figures are in millions of U.S. dollars.

<table>
<thead>
<tr>
<th>Month</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2006</td>
<td>3,479.4</td>
<td>21,382.5</td>
<td>-17,903.1</td>
</tr>
<tr>
<td>February 2006</td>
<td>4,098.4</td>
<td>17,905.4</td>
<td>-13,807.0</td>
</tr>
<tr>
<td>March 2006</td>
<td>4,958.9</td>
<td>20,531.3</td>
<td>-15,572.4</td>
</tr>
<tr>
<td>April 2006</td>
<td>4,328.4</td>
<td>21,459.1</td>
<td>-17,130.7</td>
</tr>
<tr>
<td>May 2006</td>
<td>4,500.9</td>
<td>22,317.6</td>
<td>-17,816.7</td>
</tr>
<tr>
<td>June 2006</td>
<td>4,348.0</td>
<td>23,989.7</td>
<td>-19,641.7</td>
</tr>
<tr>
<td>July 2006</td>
<td>5,060.0</td>
<td>24,632.0</td>
<td>-19,572.0</td>
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</tbody>
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\(^{98}\) Amadeo, “U.S. Trade Deficit with China.”
<table>
<thead>
<tr>
<th>Month</th>
<th>Exports</th>
<th>Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2006</td>
<td>4,758.2</td>
<td>26,713.3</td>
<td>-21,955.2</td>
</tr>
<tr>
<td>September 2006</td>
<td>4,644.6</td>
<td>27,570.6</td>
<td>-22,926.0</td>
</tr>
<tr>
<td>October 2006</td>
<td>4,991.3</td>
<td>29,388.6</td>
<td>-24,397.3</td>
</tr>
<tr>
<td>November 2006</td>
<td>4,809.1</td>
<td>27,775.1</td>
<td>-22,966.0</td>
</tr>
<tr>
<td>December 2006</td>
<td>5,208.6</td>
<td>24,109.2</td>
<td>-18,900.6</td>
</tr>
<tr>
<td>TOTAL</td>
<td>55,185.7</td>
<td>287,774.4</td>
<td>-232,588.6</td>
</tr>
</tbody>
</table>

- ‘TOTAL’ may not add due to rounding.
- Table reflects only those months for which there was trade.
- SOURCE: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, D.C. 20233

U.S. – China trade problems have also affected the World Trade Organization’s trade policies toward China. The U.S. has made specific demands about what China can export. For example, as a product-specific safeguard, the U.S imposed a unilateral restriction on imports from China on conditions no other country has ever been required to accept as an entering member of the WTO.\(^9^9\) Surprisingly, China agreed both to this and to a unilateral restriction on the import of Chinese textiles and apparel from 2005 to 2008. China was the only member of the WTO with quota restrictions such as this.\(^1^0^0\) U.S. safeguards against China can only be taken so far; however, if the U.S. really wants to encourage international trade, it is in its best interest not to impose these types of safeguards.

\(^1^0^0\) Lardy, “U.S.-China Economic Relations: Implications for U.S. Policy.”
From 2004 to 2008, U.S. and China further developed their relationship as economic partners. China hit many high points along with its surge in GDP. It played a critical role in the Six-Party Talks, supported the U.S. in the War on Terror, and hosted the Summer Olympics. The U.S. reaffirmed its backing on the One China policy. The problems the U.S. and China faced were mostly due to trade and the U.S. deficit. China cooperated with the U.S. policies to protect the U.S. market and it even agreed to unprecedented safeguards on Chinese imports. But, China’s economic power was growing and soon the U.S. would not be able to dictate China’s trade policies so easily.

The tone of U.S. and China’s bilateral relationship changed as of September 2008 when the U.S. stock market crashed, the U.S. housing bubble burst and Lehman Brothers filed for bankruptcy. In the next section, we will discuss the impact of the U.S. and global financial crisis on U.S.-China relations from September 2008 to the present.

**Part 3: China and the U.S. from 2008 to Present**

Before late 2008, the United States never felt the need to focus on trade issues with China. Trade with China was going well and the U.S. government did not link trade with political matters such as human rights violations or environmental policy. China’s rise in economic power concerned the U.S. but as long as it economy was also steadily rising, there was no problem. Only after the U.S. economy experienced difficulties did issues with China surface.

The financial crisis hit the U.S. in September 2008. Banks loaned money to people who could not afford it allowed them to reap profits from the interest on those loans. In addition, the housing bubble burst. People had purchased homes they could not realistically afford and their mortgages were foreclosed. The banks knew that these people would most likely be unable to pay, but greed and the desire to overspend more money than acquired created the financial crisis. The stock market plummeted to rates

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not seen since the Great Depression of 1929. But, the crisis did not only affect the U.S.; the shock waves rippled through most parts of the world, especially in Europe and Russia. As a result, the U.S. began to complain about the structure of the Chinese economic and political system.

China, on the other hand, was scarcely affected by the global financial crisis. As seen below on the China GDP Growth Rate and United States GDP Growth Rate graphs, China continued to experience annual GDP growth even after 2008 and even made a leap of 10.7% in January 2010. The U.S. GDP, however, showed significant rates of decline in 2008 and 2009, with modest recovery in 2010.

According to Li Yang, director of the Finance Research Institute of the Chinese Academy of Social Sciences, China was cushioned from the blow of the financial crisis because China’s financial industry was still in the elementary stages and its capital markets were not completely open.\textsuperscript{102} China also had a high savings ratio that could stimulate demand during a recession.\textsuperscript{103} Zhang Xiaoqing, from the Economy Research Institute of the Chinese Academy of Social Sciences, stated that the financial crisis was more of a psychological threat than a financial one. As far as the bankruptcy of Lehman Brothers was concerned, China had little investment in the company, so the effect on its economy was minimal.\textsuperscript{104}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{China GDP Growth Rate}
\label{fig:china_gdp}
\end{figure}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{usa_gdp.png}
\caption{United States GDP Growth Rate}
\label{fig:usa_gdp}
\end{figure}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
Year & GDP Growth & Notes \\
\hline
2006 & 11.4% & \textsuperscript{102}
\hline
2007 & 13% & \textsuperscript{102}
\hline
2008 & 10.4% & \textsuperscript{102}
\hline
2009 & 6.8% & \textsuperscript{102}
\hline
2010 & 10.7% & \textsuperscript{102}
\hline
\end{tabular}
\caption{China GDP Growth Rate}
\end{table}

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|}
\hline
Year & GDP Growth & Notes \\
\hline
2006 & 10.6% & \textsuperscript{103}
\hline
2007 & 11.5% & \textsuperscript{103}
\hline
2008 & 10.1% & \textsuperscript{103}
\hline
2009 & 6.2% & \textsuperscript{103}
\hline
2010 & 9.1% & \textsuperscript{103}
\hline
\end{tabular}
\caption{United States GDP Growth Rate}
\end{table}

\textsuperscript{103} Fan, “Experts: China little affected by US financial crisis.”
\textsuperscript{104} Fan, “Experts: China little affected by US financial crisis.”
Rather than worry about the financial downturn, China went on an international shopping spree. In Nigeria, the government was in the process of renewing production licenses for some of its most abundant offshore oil fields.\(^{105}\) CNOOC, one of China’s largest oil companies, tried to secure no less than one-sixth of Nigeria’s production.\(^{106}\) China offered much more that its competitors but oil from Nigeria was not the only resource China sought. It wanted oil from the Congo, Brazil, and Kazakhstan, natural gas from Iran, and iron ore in Australia.\(^{107}\) Since 2000, China has spent about $115 billion on foreign acquisitions.\(^{108}\) These acquisitions no longer focus solely on natural resources. China has found much more than just U.S. Treasuries to invest in; buying stakes in foreign banks, utilities, and semiconductor companies has helped wean China from its export economy and is the next step toward China’s integration into the global economy.\(^{109}\)

China still has large investments in the U.S. and the U.S. also has a significant stake in the Chinese market. One cannot overlook the importance of the trade ties that still exist between the two countries. Although China seems to be doing well with its expansion into international markets, both the U.S. and China should be concerned about the changing trade policies brought on by the recession. Protectionism in the U.S. could severely affect China’s export based economy. As a response to lower

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\(^{105}\) Bill Powell, “It’s China’s world. (We just live in it),” *CNN Money* (2009), cnnmoney.com.

\(^{106}\) Powell, “It’s China’s world. (We just live in it).”

\(^{107}\) Powell, “It’s China’s world. (We just live in it).”

\(^{108}\) Powell, “It’s China’s world. (We just live in it).”

\(^{109}\) Powell, “It’s China’s world. (We just live in it).”
demand, China has focused on products for the domestic market. In the long run, this actually may hurt the U.S. more than it hurts China. China is still developing its domestic market so it has a lot of flexibility to adapt to consumers. The U.S. refused to buy cheaper Chinese goods, however, could freeze consumer spending and slow recovery from the economic downturn.

Because of financial hardships in the U.S., U.S. import policy has changed attitudes about bilateral trade. In 2009, President Obama announced that the U.S. would levy tariffs of up to 35% on tires from China. China responded by taking the first steps toward imposing tariffs on American exports of automotive product and poultry. The Chinese people, not the government, began to grow frustrated over the tariffs. Pervasive Chinese nationalism cannot be easily ignored by the Chinese government. Though China’s government is politically authoritarian, it cannot simply ignore the increasing dissatisfaction of Chinese consumers. By raising its own tariffs on U.S. goods, China has shown that it is willing to stand up to the U.S. and that U.S. trade may not be as essential to its economy as it once was.

The stock market crash coincided with the revival of old bilateral economic problems. The Chinese Yuan (RMB) has always been kept artificially low by the government. The favorable exchange rates encouraged U.S. business to move production into and allowed China to stay competitive as an export country, especially during a recession. The RMB was undervalued anywhere from 20% to 40% compared to the dollar and other currencies. In recent times, President Obama has even less leverage over China’s currency policy than President Bush. China, determined to keep its currency devalued, was puzzled about why the U.S. brought up the currency dispute yet again. China thought that it should be praised for keeping its currency stable in times of such turmoil. The U.S., on the contrary, thought the

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112 Bradsher, “China-U.S. Trade Dispute Has Broad Implications.”
113 Bradsher, “China-U.S. Trade Dispute Has Broad Implications.”
116 Landler, “Currency Dispute Likely to Further Fray U.S.-China Ties.”
artificial values were detrimental to competitive and fair international trade. Thus, old tensions arose as the U.S. struggled to find ways to deal with its recession. But, the U.S. complaints about currency manipulation do not only affect the U.S. China itself may also be in trouble.

China has also felt repercussions about its currency manipulation. The government is worried about inflation. In 2009, the Chinese economy grew by 8.7%. This growth was due to large amounts of domestic spending, private investments, and speculation. But this “hot money” was also fueling inflation. In April 2010, two months after the U.S. announced concern with an artificially devalued RMB, China announced that it would allow its currency to strengthen to fight inflation. Beijing believed boosting up the RMB’s purchasing power would help the Chinese population combat the financial crisis. Since foreign assets would become cheaper and company spending decisions would increase on a microeconomic level. Although the focus was mainly based on domestic economic issues, a stronger RMB would also relax some of the tension between the U.S. and China. However, devaluing the currency probably will not solve the American budget deficits, especially if it results in fewer purchases of U.S. Treasuries. The U.S. and China have a balancing act to play when it comes to the RMB. If the currency stays undervalued, the U.S. receives more money for its deficit but loses out to China’s exports in international trade. If the currency is strengthened, inflation in China slows down but could lead to less spending on the part of the government. Currency disputes between China and the U.S. will continue to have problems, whether or not China revalues its currency.

While calling for economic cooperation from China, the U.S. has complicated the process with its political agenda. The U.S. seriously angered China when Obama met with the Dalai Lama. The Chinese government firmly believes that Tibet is home to anti-China separatists under the leadership of the Dalai

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117 Wong and Mark Landler, “China Rejects U.S. Complaints on Its Currency.”
118 Wong and Mark Landler, “China Rejects U.S. Complaints on Its Currency.”
119 Wong and Mark Landler, “China Rejects U.S. Complaints on Its Currency.”
121 Powell, “It’s China’s world. (We just live in it).”
122 Powell, “It’s China’s world. (We just live in it).”
123 Bradsher, “China Seems Set to Loosen Hold on Its Currency.”
Lama and has urged the U.S. to stop “conniving” with the spiritual leader.\textsuperscript{124} Furthermore, Beijing blames that the U.S. meeting with the Dalai Lama contradicted U.S. policy that states Tibet is a part of China.\textsuperscript{125} A CNN poll revealed that most Americans think Tibet should be a separate state but recognize that good relations with China are far more important.\textsuperscript{126} China and the U.S. need each other, especially in tough economic times. The U.S. acknowledged China’s opposition to the Dalai Lama and Obama did not hold his meeting in the Oval Office, but tensions continue to remain high.\textsuperscript{127} There is always the risk that the Chinese government could retaliate by cutting political ties as it did earlier with France and Germany.\textsuperscript{128}

Another reason for tension was the U.S. sale of weapons to Taiwan in January 2010. All the weapons were for Taiwan’s defense communications network.\textsuperscript{129} China naturally was not pleased by this announcement. It has always intended to restore control of Taiwan and currently aims more than one thousand ballistic missiles at the island.\textsuperscript{130} In 2008, China already most military dialogue with the Bush Administration when it approved a $6.5 billion arms package for Taiwan.\textsuperscript{131}

Lastly, Chinese internet censorship created issues with Google and the U.S. government has criticized China’s internet freedom. China has built dams, high-speed rail lines and skyscrapers with abandon but when it comes to online information, China has come to a halt.\textsuperscript{132} China censors everything from its TV media and traditional print media to social networking sites and text messages.\textsuperscript{133} The internet has not been excluded from these restrictions. Beijing intends to guide public opinion and censorship

\textsuperscript{125} Chang et al., “Obama meets with Dalai Lama despite Chinese objections.”
\textsuperscript{126} Chang et al., “Obama meets with Dalai Lama despite Chinese objections.”
\textsuperscript{127} Chang et al., “Obama meets with Dalai Lama despite Chinese objections.”
\textsuperscript{128} Chang et al., “Obama meets with Dalai Lama despite Chinese objections.”
\textsuperscript{130} The Associated Press, “Sources: U.S. will sell weapons to Taiwan.”
\textsuperscript{131} The Associated Press, “Sources: U.S. will sell weapons to Taiwan.”
helps it do just that. Google Inc., like all foreign business that wanted to enter the massive Chinese market, was given a choice between giving in to Chinese censorship or leaving the market to its rivals.\textsuperscript{134} Google chose to leave. An example of Chinese internet censorship is that for “carrot”. The reason for this is that you cannot type the Chinese word “carrot” without encountering a blank screen.\textsuperscript{135} President Hu Jintao’s name has some of the same characters as the word for carrot. Google felt that the restrictions placed on it, along with technology leaks were simply too much of a burden to continue business with China. The effect for the Chinese market may not be seen for a while but if China continues to restrict access to information, it will hurt its links to the global economy.\textsuperscript{136} Also, without Google’s technology, the Chinese web space will stagnate, since Chinese internet companies do little research and simply copy from each other.\textsuperscript{137} Google has moved to Hong Kong, where access is less restricted.\textsuperscript{138} This is a short-term solution, but Google’s dilemma once again reminds people of the contentious relationship between a democratic and a communist state. Different ideologies can cause serious political problems with international companies. The U.S. wants to hold China to its international business standards, including unrestricted access to information, but China believes that unrestricted access is a threat to its government. Since the global financial crisis, China had become more assertive with U.S. companies. In China’s eyes, the once all-powerful United States has buckled under the weight of the crisis and is no longer untouchable. China wants to mimic what other countries, especially the U.S., do to improve their economies. It feels entitled to use regulations, standards, and buy-local policies, just as they do.\textsuperscript{139}

Additional evidence of this new assertiveness lies with China’s actions toward protectionism, climate change and Iran’s nuclear goals. Since the recession, China has been focusing on its domestic industries and looking to other places to invest its money. But, this assertiveness does not mean China will not work with the U.S. on international issues. Chinese Prime Minster Wen Jiabao was widely

\textsuperscript{134} Wines, “Stance by China to Limit Google Is Risk by Beijing.”
\textsuperscript{135} Wines, “China’s Censors Tackle and Trip Over the Internet.”
\textsuperscript{136} Wines, “Stance by China to Limit Google Is Risk by Beijing.”
\textsuperscript{137} Wines, “Stance by China to Limit Google Is Risk by Beijing.”
\textsuperscript{138} Wines, “Stance by China to Limit Google Is Risk by Beijing.”
accused of obduracy during the climate-summit in Copenhagen in December 2009. This arose, in part, because he said he missed one leaders’ meeting because he was not invited properly. But since then, China has restated its commitment to a 40% to 45% reduction in carbon emissions per unit of GDP by 2020. In April 2010, China Power Engineer Consulting Corporation (CPECC) signed with General Electric and the U.S. Trade and Development Agency on the “technology of cycle power generation with coal and carbon capture and storage technology”. This technology will reduce energy costs while also reducing carbon dioxide emissions, showing China still cares for its image and reputation as a global leader. As for Iran’s nuclear program, China was reluctant to jeopardize its oil interests in Iran over its nuclear program, despite concerns about this in the U.N. Security Council. In fact the International Crisis Group stated that China would still be likely to delay action if other U.N. members unanimously supported more sanctions. As before, China tried to water down the sanctions. In March 2010, China agreed formally to sit down and have a serious conversation about sanctions against Iran for failure to comply with international regulations on nuclear programs, though there is still uncertainty about how far China will carry these talks. China respects Iran’s right as a sovereign nation to have a nuclear program. As a new global leader, China will challenge any U.S. foreign policy that does not coincide with China’s own goals for economic expansion.

Issues with Iran, censorship, currency, and more have all been a part of the U.S.-China relationship since 1989. As with earlier economic changes in both economies, the financial crisis

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140 The Economist, “Defensive and assertive in its words, China for the time being has a bark that is worse than its bite,” The Economist (2010), economist.com.
141 The Economist, “Defensive and assertive in its words, China for the time being has a bark that is worse than its bite.”
142 The Economist, “Defensive and assertive in its words, China for the time being has a bark that is worse than its bite.”
144 The Economist, “Defensive and assertive in its words, China for the time being has a bark that is worse than its bite.”
145 The Economist, “Defensive and assertive in its words, China for the time being has a bark that is worse than its bite.”
correlates with rising political tensions since 2008. China and the U.S. have faced a multitude of political and economic issues. The stock market crash made the U.S. more aggressive towards China’s devalued currency, Taiwan, and censorship policies. China has also become more confident now that most Chinese look at the U.S. with less awe and admiration. Its global shopping spree from oil to banks has shown that it is diversifying its hold on the market. But, these new economic strategies put strain on bilateral relations. The U.S. wants a higher valued Yuan to keep the U.S. economy competitive and it is still concerned about China’s stance on world issues like climate change and nuclear states.

There always will be political ramifications for economic success and failure. It has become difficult for the U.S. to convince China to agree to its terms on trade issues. China, as sovereign country, can do what it wants more or less. Instead of confronting China on issues that it cannot change, the U.S. should pick its battles with China. China is willing to work with the U.S. with peace keeping efforts so the U.S should focus on that aspect of global politics. It should not try to push what it cannot control, like China’s currency or censorship. These domestic issues are of lesser significance to the U.S.’s overall goal of economic recovery and will eventually play themselves out.
Chapter 4: Conclusion

As the data in the above three sections show, economic progress has contributed to sometimes shaky bilateral relationship between the United States and China. Since 1989, American policy towards China has changed given the conditions both of its own economy and of China’s. As American power begins to dwindle and China’s began to grow exponentially, trade imbalances and exchange rates have become big issues for the U.S. Before 2008, the U.S. rarely brought up China’s human rights issues even though government censorship and curtailed minority rights were widespread. Even when human rights issues were criticized by the U.S. government, follow-up action was rare.

United States leverage over trade also has diminished over the years. The U.S. went from being a single player to having to depend on the support of other countries. Timothy Geithner, U.S. Treasury Secretary, said that it was China’s “choice” to change its currency; all the U.S. can do is provide China with reasons why it should.\(^{147}\) He also has been very cautious about his approach to China, not wanting to seem like he’s pushing China too hard towards currency revaluation.\(^{148}\) Economist Stephen Green at the Shanghai office of Standard Chartered said that Geithner would have to choose his words carefully and that the whole process was a delicate balancing act.\(^{149}\) Everything must go slow and steady; otherwise, China would not be willing even to hear complaints. U.S. policy towards China currently is like walking on eggshells. Everything is handled with caution because of America’s deep interdependence with China.

China’s economic rise also has created a lot of myths about its power. Surveys have shown that people think the U.S. is now at the mercy of China.\(^{150}\) According to the Pew Research Center, 44% of Americans believe that China is already the world’s top economic power.\(^{151}\) In reality, the relationship is based on their interdependence and China does not have as much power as people think it does. China’s vast holdings of U.S. Treasury bonds will not give it power over negotiations with Washington. Its


\(^{148}\) Bajaj et. al., “Geithner to Visit China, in Sign of Warming Relations.”

\(^{149}\) Bajaj et. al., “Geithner to Visit China, in Sign of Warming Relations.”


\(^{151}\) Kroeber, “Five Myths about China’s economy.”
holdings are more like deposits and like any depositor, China has little ability to tell the U.S. how to run its business.\textsuperscript{152} China could take its money elsewhere but its deposits are so large that the U.S. is the only country that can hold them.\textsuperscript{153} Also, China’s inflated currency is not just an issue for the U.S. but for China as well. China’s top economic policymakers have admitted that the RMB should rise but that kind of policy change will need more time to develop.\textsuperscript{154} Though China’s rapid growth has produced misconceptions about its abilities, its troubles and opportunities do affect the U.S. and other countries. Nonetheless, given its new share of economic power, the U.S. needs to alter its approach to Chinese policies.

Looking into the future, China and the United States both face new challenges with each other and the rest of the world. In the past two years, both China and the U.S. have changed their domestic policies and those policies could have international implications. For the U.S., the financial crisis was a major blow to both its economic power and mentality. The financial crisis questioned American economic stability and its ability to maintain its status as a great power. China’s eyes began to wonder away from investment in the U.S. to more promising sights elsewhere. China may not want to continue putting all its money into the U.S. because of the weakened dollar. It has even suggested that the dollar should be reevaluated as the currency of global exchange.\textsuperscript{155}

China has seen change in its own domestic sphere. Many have assumed that China’s economy has grown mainly because of its access to cheap labor.\textsuperscript{156} That may have been the case in the past but now, as China matures as a state, infrastructure and access to education allow people to obtain more productive jobs in cities.\textsuperscript{157} Also, the number of young entry level laborers (aged fifteen to twenty-four) is projected to decrease by one third in the next twelve years.\textsuperscript{158} Without an abundance of young workers, wages can

\textsuperscript{152} Kroeber, “Five Myths about China’s economy.”
\textsuperscript{153} Kroeber, “Five Myths about China’s economy.”
\textsuperscript{154} Kroeber, “Five Myths about China’s economy.”
\textsuperscript{156} Kroeber, “Five Myths about China’s economy.”
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\textsuperscript{158} Kroeber, “Five Myths about China’s economy.”
only go up. More surprisingly, China’s workers have begun to create unions. At Honda manufacturing plants around China, workers went on strike, demanding an increase in wages.159 The Chinese government allowed for these protests to continue since they are protesting a Japanese company. The workers won their wage increases after two days of protest.160 China’s decision to allow protests about low wages with Japanese car companies could set a new precedent. It may make people brave enough to address grievances with American or Chinese companies, too. The age of cheap labor in China may soon be gone and it will change both the way the U.S. sees China and how China handles this change.

The bilateral relationship between China and the United States has been strained by their differences over political priorities and the ever-changing global environment. Some issues that the U.S thinks of as international, China thinks as domestic and vice versa. China supporting the War on Terror and treating the people of Xinjiang as potential terrorists was not the intention of the U.S. The U.S. has obligations to protect Taiwan but China feels like those obligations may prevent Taiwan from becoming part of mainland China. Situations become tense and confusing when one country views an issue as domestic and another views it as international.

Taking into account the development of U.S. and China through these years of recessions, I believe these two countries will continue to grow apart. The U.S., to protect its own state interests and recover from the financial crisis, will continue to pursue more protectionist policies and encourage domestic spending. China, seeing the weakened U.S. economy, will continue to invest in other countries in Africa, the Middle East, and within its own Asian sphere. Their economic relationship will grow apart because their state goals are different. The U.S. wants to stabilize its economy and China wants to expand their own. If their economic relationship grows apart, it may also harm their political relationship since different interests mean the U.S. and China may be unwilling to work together on global issues in North Korea or the Middle East.

In addition, the U.S. and China are still not equals. China is still developing. It is more equal than it was twenty years ago but still not at the top politically or militarily. It could be defined as having the status of a “Portugal” or a “South Korea”. China’s international influence in the world is great but there is a lot that needs to be fixed internally within China before it can be recognized as a developed power. The censorship, lack of political rights, and inequalities between rural and urban areas will hinder China’s progress. Though those issues seem too large for China to tackle in the coming years, China has already surprised the world with how fast it grew within the past twenty years. Maybe in another twenty years, these social and political domestic issues will be resolved and China could call itself a fair rival to the United States.

If I were to improve upon this thesis, I would have included many more independent variables to measure along side of GDP. Political variables like treaties and negotiations between the two states over the span of twenty years would have helped enhance the analysis of mixed relations during the years prior to China’s sudden growth in 2004. Also, complex issues with Taiwan including U.S. agreements with Taiwan and China’s policy towards Taiwan, could have been explained in more detail given more time to research. This thesis could have been branched out into several different topics. However, given the limited time to complete the project, these topics were given an abbreviated explanation.


