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China

It is not an issue of integrating a European-style nation-state, but a full-fledged continental power. The DNA of both (America and China) could generate a growing adversarial relationship, much as Germany and Britain drifted from friendship to confrontation ... Neither Washington nor Beijing has much practice in cooperative relations with equals. Yet their leaders have no more important task than to implement the truths that neither country will ever be able to dominate the other, and that conflict between them would exhaust their societies and undermine the prospects for world peace.

—Henry Kissinger, speech to the International
Institute for Strategic Studies, Geneva,
September 2010¹

We are a resident power in Asia – not only a diplomatic or military power, but a resident economic power, and we are here to stay.

—Secretary of State Hillary Clinton, “Principles for Prosperity for the Asia-Pacific” speech in Hong Kong,
July 2011²

With the American economy hanging over Obama’s re-election, the signs are that many [of the Chinese] view his presidency as the inflection point in American decline.

—Michael Sheridan³

The days when the debt-ridden Uncle Sam could leisurely squander unlimited overseas borrowing appear to be numbered. To cure its addiction to debts, the United States has to re-establish the common sense principle that one should live within one’s means ... (China) has every right now to demand the United States to address its structural debt problems and ensure the safety of China’s dollar assets ...

—Xinhua statement (China’s official news agency),
August 2011⁴

Introduction

According to the prevailing conventional wisdom, if any one change in the international order has underpinned the arrival of a post-American world, it is the remarkable rise of the People's Republic of China (PRC). For the United States and the West more broadly, as Michael Schiffer and Gary Schmitt argue, the rise of China represents the "principal strategic fact of the 21st century."⁵ In economic terms, as a profligate America's banker and foremost creditor – possessing the largest foreign reserves in the world, with an estimated two-thirds of the \$3,200 billion denominated in US dollars in 2011 – American economic prospects relied heavily on China continuing to purchase US debt: a "red menace" quite different from that of the Cold War era but, potentially, of equally devastating long-term danger. In 2010, China overtook Germany to become the world's largest exporter, eclipsed the US to become the world's largest market for cars, and edged out the US as Brazil's largest trading partner. China now leads the world in consumption, from cement to eggs, while Chinese banks now rank among the largest in the world by market capitalization. If China were to use the same amount of oil per capita as America currently does, it would require more barrels per day than the world's total output combined.

In strategic terms, the Pentagon's Quadrennial Defense Review of 2006 concluded that China also had the greatest potential to compete militarily with the United States of any potential rival power. The 2008 US National Intelligence Council report, *Global Trends 2025: A Transformed World*, emphasized that China's growing role in the global economy – from purchasing two-thirds of Sudan's oil to transferring technology and military hardware to Zimbabwe and Nigeria – will propel it into direct competition with Washington, in other nations, particularly given its major foreign investments and intensive search for mineral and energy resources in Africa, Latin America and the Middle East.⁶ Under Leon Panetta, the Pentagon's annual assessment of Chinese military might, issued on August 24, 2011,⁷ concluded that China's sustained military modernization program was "paying visible dividends": "During 2010, China made strides towards fielding an operational anti-ship ballistic missile, continued work on its aircraft carrier program and finalized the prototype of its first stealth aircraft." The US remained "unclear" about how China would ultimately employ its growing military capabilities.⁸

As Schiffer (Deputy Assistant Secretary of State for East Asia in the Obama administration) and Schmitt contend, "managing" China's rise is largely out of US hands. While US policy may be reliably "pragmatic," the "right mix of engagement and hedging in practice is no easy thing" for Washington to judge.⁹ The dangers of misjudging that mix are formidable for the simple reason that, as Michael Mandelbaum notes, China "is the obvious candidate to disrupt

the twenty-first-century international order.”¹⁰ It is therefore not surprising that China, America’s most important bilateral relationship, has remained one of Washington’s most testy, complex and fragile, from the administration of George H.W. Bush to that of Barack Obama.

Cooperative, competitive and at times openly conflictual relations co-exist between the world’s most dominant power and its principal challenger, the world’s second-most powerful country. Even absent the historical legacies and ideological differences that still haunt US-China relations today, such a mix of cooperative and competitive market and military pressures could hardly be otherwise. Despite voices variously urging the US either to develop a strategic partnership with China or to recognize that strategic competition with the Chinese was inevitable, President Obama’s experience continued to demonstrate the impossibility of Washington adopting anything but a strategy of “modified hedging” towards Beijing. As several incidents demonstrated during Obama’s presidency, despite US efforts to engage Beijing constructively, there continues to exist a fundamental vacuum at the center of the United States’ relations with China: the absence of strategic trust. Although President Obama has repeatedly stated that the United States welcomes China’s rise, significant parts of the US government view China as a serious and growing threat to America’s national security, on dimensions that range from economics, finance and trade through intellectual property rights and cyber-war to the militarization of space. Moreover, the trust gap not only encompasses relations with its regional neighbors – India, Japan, Taiwan, South Korea, Vietnam and the Philippines – but also represents a major obstacle for China and its companies as they seek to enter more sensitive parts of the global economy.

Where the George W. Bush administration had aspired to China becoming, in the famous formulation of former US deputy secretary of state Robert Zoellick, a “responsible stakeholder” in the international order, the Obama administration’s initial platform of “strategic reassurance” in effect behaved as if that had already transpired. While zealously avoiding the terminology, Obama’s highly empathetic approach to Beijing implicitly suggested that a *de facto* G2 was emerging, with China being actively encouraged to assume a greater international leadership role and global responsibilities through the UN Security Council, World Trade Organization and other multilateral forums. Washington initially sought significantly to deepen cooperation with China in 2009 on multiple fronts: multilaterally through the G20, building on the initial invitation from Bush to attend the first meeting of the G20 in 2008; bilaterally through a revamped annual Strategic and Economic Dialogue; symbolically, via a presidential visit in November 2009 (making Obama the first US president to visit China during his first year of office, a testament to China’s paramount importance to America); through careful diplomacy, deferring the traditional meeting between the US president and Tibet’s Dalai Lama in the fall of that year; and examining revisions of Washington’s increasingly close relations

with India in order to accommodate Chinese concerns about a nascent American-Indian geo-political partnership unsubtly aimed at “containing” Beijing’s ascent in Asia.

But almost as rapidly as it was crafted, this policy of strategic reassurance effectively collapsed by early 2010. Several setbacks illustrated the seemingly intractable limits of American engagement with Beijing. Despite warnings and implicit threats from Washington, China was perceived to bluntly resist pressure to cease manipulating its currency, one cause of the major financial imbalances with the US. Obama’s historic visit to China was more tightly controlled by Beijing than prior presidential ones, ending with few tangible accomplishments and the palpable impression among China’s politburo that Obama was weak. China’s hard-line at the Copenhagen climate-change summit in December 2009 not only snubbed Obama in a remarkable act of diplomatic humiliation – the president having physically to muscle into a room where China’s premier was stitching-up a deal without the US – but also conspired to leave Washington with the lion’s share of the blame for the negotiations’ failure. In January 2010 Google declared its intention to withdraw from China amid allegations of cyber attacks from Chinese nationals. By early 2010 the Obama administration had concluded that the financial crisis and subsequent Great Recession had convinced Beijing of America’s accelerating decline and the cost-free option of greater assertiveness.

The administration thus shifted tack, effectively abandoning the very premise of the strategic engagement approach that underpinned Obama’s post-American foreign policy: that China had the same interest as America in addressing shared challenges to the global order. In January 2010 Clinton made a major speech defending Internet freedom. In February, Obama met the Dalai Lama. The US also agreed to imposing punitive tariffs on all Chinese car and light-truck tyre imports and to sell defensive weapons to Taiwan. Ironically, these less emollient approaches induced some shifts in Beijing, with President Hu Jintao attending the Washington nuclear security summit in April 2010 and the Chinese agreeing to the new round of UN sanctions on Iran in June 2010. But the bilateral relationship remained beset by mutual mistrust, suspicion of the other’s motives, and a competitive dynamic to assert long-term primacy in the Asia-Pacific region.

Tellingly, Obama’s speeches increasingly used the China card not to emphasize mutual respect and mutual interests, but instead as a call to arms to Americans to support his domestic agenda. Thomas Friedman and Michael Mandelbaum deployed one such reference as the title of their detailed 2011 prescription for reviving America:

It makes no sense for China to have better rail systems than us, and Singapore having better airports than us. And we just learned that China now has the fastest supercomputer on Earth – that used to be us.¹¹

In his 2011 State of the Union speech to Congress, the president explained:

Meanwhile, nations like China and India realized that with some changes of their own, they could compete in this new world. And so they started educating their children earlier and longer, with greater emphasis on math and science. They're investing in research and new technologies. Just recently, China became the home to the world's largest private solar research facility, and the world's fastest computer.¹²

During his address to a joint session of Congress on September 8, 2011, Obama once again invoked the China challenge to pressure lawmakers to support his American Jobs Act and a new stimulus package of \$447 billion:

Building a world-class transportation system is part of what made us an economic superpower. And now we're going to sit back and watch China build newer airports and faster railroads? At a time when millions of unemployed construction workers could build them right here in America?¹³

In short, just as the Obama administration's foreign and national security policies towards Pakistan, Iran, Israel, and the Arab Spring ebbed and flowed with no clear, consistent and at times credible design, so Washington's China policy remained mired in the competing interpretations of how best to simultaneously hedge and engage an increasingly influential but unbiddable great power competitor.

US China strategy for the 2010s: peaceful rise, post-ascent aggression or unpeaceful collapse?

The strategic dilemma posed by China's rise has prompted major divisions among foreign policy commentators as to how best the US should respond to its most serious competitor and greatest international challenge.¹⁴ As Peter Dombrowski puts it, "Two-plus decades into the most recent re-emergence of China on the world stage, the United States does not have a coherent policy for adjusting its regional and global strategies to accommodate a new great power."¹⁵ Vindicating Deng Xiaoping's famous declaration that "To get rich is glorious," by 2005 China had overtaken the US as the preferred destination for Foreign Direct Investment. By 2006, China and India together accounted for 47 percent of global economic growth. China surpassed the US as the largest automobile market (comprising some 14 million sales) and accounted for 46 percent of global coal consumption in 2009, with Beijing predicted to consume one-fifth of all global energy supplies by 2035.

Whether or not Gerard Lyons – chief economist of Standard Charter Bank – is correct to argue that the three most important words over the past decade have been "made in China" rather than "war on terror," there can be no doubt that the world's largest economy (the US) and its fastest-growing

one (China) appeared ever more tied together. With Beijing buying-up US debt with its accumulation of surplus dollars (approximately \$1.3 trillion by 2007), China kept US inflation down while providing another motor for the global economy. But that predicament raised the specter of the economic clout of China as a serious national security threat to the US. Periodic outbreaks of China-bashing in Congress – featuring charges of China as a currency manipulator, an illegal export subsidizer, a violator of rights to intellectual property and trade law, and maintaining a lopsided trade surplus with the US (\$233 billion in 2006) – echoed prior fears about the rise of Japan during the 1980s. For some, US power thus appeared to be in critical decline in South-east Asia, a region with three of the world's eleven largest economies (China, Japan and South Korea) and three of its four largest standing armies (China, North Korea, and South Korea). That perception fed into American fears that China was, variously, coming to join us, to get us or to buy us. Central to the question of US policy was whether Washington could, and should, seek to contain, to accommodate (or appease), or to “partner” China?

For some observers, the optimal response from the Obama administration was one centered on a sanguine, or even optimistic, outlook that viewed Beijing as a likely strategic partner for the US and a responsible stakeholder in a post-American, but not necessarily post-Western, international order. Given the material dynamism of China, accounting for some 30 percent of global economic production by 2008, and with security on the cheap from America's global role and an open US market for Chinese goods, Beijing had little obvious incentive to challenge the status quo. With the interdependence of the Chinese and American economies a brute fact of geo-economics and geo-politics, neither partner had an interest in initiating a cycle of mutually assured financial destruction. At the same time, the self-interest of the Chinese in regionalism rather than globalism tempered past rivalries. With an essentially benign set of neighbors in South Korea, Taiwan and Japan, a ruling communist party whose primary focus was inward looking, and an apparently clear allergy among the Beijing leadership to protracted international conflict, China represented a status quo power, not a revolutionary one. As Peter Trubowitz assessed the situation, “... Obama has geopolitical slack. The threat of terrorism remains, but today the United States does not face a geopolitical challenger, and the risk of a sudden shift in the distribution of international power is low.”¹⁶

Echoing such an assessment, one of the most prominent proponents of this interpretation, G. John Ikenberry, concluded that, “Today's Western order, in short, is hard to overturn and easy to join.”¹⁷ But “The United States ‘unipolar moment’ will inevitably end. If the defining struggle of the twenty-first century is between China and the US, China will have the advantage. If the defining struggle is between China and a revived Western system, the West will triumph.”¹⁸ Although China constituted both a military and an economic rival to the US (unlike both the USSR and Japan previously), history demonstrated that there

Table 7.1 China versus the US and the West (OECD)

	Projections of GDP, 2005–30 at Purchasing Power Parity (US dollars [trillions])				Projections of Defense Expenditures, 2003–30 in US dollars (billions)*		
	China	US	OECD		China	US	OECD
2005	9	12	34	2003	60	417	740
2010	14	17	44	2010	88	482	843
2015	21	22	55	2015	121	554	962
2020	30	28	73	2020	152	628	1089
2025	44	37	88	2025	190	711	1233
2030	63	49	105	2030	238	808	1398

Source: Ikenberry, OECD, Economist Intelligence Unit.

*Calculated as a constant percentage of GDP (2003 as the baseline), OECD/EIU.

exist different types of power transitions. In this regard, the contemporary international order itself is historically distinctive – and arguably unique – because the US-led order is far more liberal than it is imperial, being “dense with multilateral rules and institutions – global and regional, economic, political, and security-related.”¹⁹ When combined with the existence of nuclear weapons among the major powers, which effectively abolished war-driven change as a historical process, the incentive structure confronting China compelled Beijing increasingly to work within, rather than outside, the established Western order, through institutions such as the UN Security Council, the World Trade Organization, and the G20. Since the road to global power, in effect, runs through the Western order and its multilateral economic institutions, Ikenberry argued, the key thing for US leaders to appreciate is that although it may be possible for China to overtake the US alone, it is much less likely that China will ever manage to overtake the Western order (as Table 7.1 illustrates). On that basis, the possibility of a genuine strategic partnership is in fact only risked by alarmists on the American side: Republican defense hawks fearful of Chinese militarism and Democratic trade protectionists (echoed to some extent by Tea Party Republicans) hostile to the results of free trade and the “outsourcing” of American jobs.

In stark contrast to Ikenberry, several influential analysts take a more pessimistic view, seeing China as a strategic rival to the US. Viewing the South-east Asia region as one “primed for rivalry,” competition and conflict, perhaps leading to war, becomes increasingly likely. The model here is less

the peaceful transition of power from the United Kingdom to the US of the mid-twentieth century, but rather the challenge posed to the UK and France by a rising Germany during the late nineteenth century. Whereas optimists held the prospect of South-east Asia resembling the post-1945 liberal security community in Europe, pessimists instead speculated that Europe's 1914–45 bloody past could yet be South-east Asia's future.

For some writers, the primary catalyst here stemmed from the external motives informing Chinese expansionism. A number of realist scholars, for instance, contended that China is using, and will continue to use, its growing influence to reshape international rules and institutions to serve its particular interests, and other states will view it as a growing security threat – a familiar feature of power transition politics. The offensive realist theorist, John Mearsheimer, warned starkly that China's impressive economic growth would mean that over coming decades a “policy of engagement is doomed to fail,” and that China and the US are “destined to be adversaries.”²⁰ The US and China are likely to engage in an intense security competition with considerable potential for war. Policy-makers in Washington should therefore ensure that the US did everything it actively could to slow the PRC's rise – a prescription that ran directly into the dilemma that Washington cannot halt or even greatly slow down China's rise without seriously damaging its own economic well-being.

Nor were such warnings about the ascent of China confined to realists. In heralding the “return of history,” the influential neo-conservative commentator, Robert Kagan, argued that Chinese foreign policy thinkers envisage two worlds: either a Euro-Atlantic area pitted against Asia, or three contending forces based, respectively, on the dollar, the euro and the yuan. But whatever their differences, all Chinese foreign policy specialists consider “the trend toward Chinese regional hegemony unstoppable by any external force.” On that basis, South-east Asia is emphatically not a zone of great power competition. The Chinese 2006 Defense White Paper noted that “Never before has China been so closely bound up with the rest of the world as it is today” and hence China needs a modern, capable military – not just national interests but national pride are at stake. As Kagan argues:

This equation of military strength with international standing and respectability may be troubling to postmodern sensibilities ... Lying behind this global complaint about China's military program is the postmodern assumption that an increasingly rich and secure nation like China doesn't need to build up its military capacity or seek self-reliance in preserving access to resources and markets ... Chinese leaders don't believe any of this, and with reason.²¹

While the Chinese leadership deem it prudent not to claim interest in traditional forms of power, their actual policy is to accumulate more of it. Kagan concluded ominously that “If East Asia today resembles late-nineteenth century and early-twentieth century Europe, then Taiwan could be the Sarajevo of the Sino-American confrontation.”²²

For others, however, it is less the external ambitions of Beijing that raise the prospect of trouble ahead than the internal dynamics of China that appear worrisome. On this interpretation, the legacy of a tormented history across the centuries has meant that China remains caught between the Scylla of xenophobia and the Charybdis of hungering after modernization and innovation: “between global responsibilities and internal transitions.”²³ As Chinese Premier Wen Jiabao stressed in both public and private, China’s greatest challenges, along with the most serious threats to its stability, come from within rather outside. This view was echoed by Stefan Halper, who claimed in *The Beijing Consensus* that:

... two Chinas co-exist in the international system: the good neighbor and the rogue state ... this duality in China’s global posture cannot be gradually transformed by the will of Western engagement or the leverage of Western coercion. This is because China’s growing presence in the world at large is a function of the ruling party’s drive to maintain control at home – and its immovable, historical fear of chaos.²⁴

Susan Shirk similarly argues in *China: Fragile Superpower* that “It is China’s internal fragility, not its growing strength that presents the greatest danger.”²⁵ The danger is that China’s leadership employs a “wag the dog” strategy to mobilize domestic support by creating an international crisis, or responds with threats to a crisis that it cannot back down from fear of looking weak or “losing face.” Leadership competition at home reveals the two faces of Chinese foreign policy: the responsible one that seeks to act cautiously in order to preclude international balancing against China; and the emotive or impetuous one that seeks to appeal to various domestic constituencies – the Chinese public, military, and Communist Party – through belligerently demonstrating their nationalist credentials. As Shirk notes, “Historically, rising powers cause war not necessarily because they are innately belligerent, but because the reigning powers mishandle those who challenge the status quo in one way or another.”²⁶ For Washington, “Preventing war with a rising China is one of the most difficult foreign policy challenges our country faces.”²⁷

The historian Niall Ferguson also outlined four quite distinct future paths for China in his *Civilization: The West and the Rest*.²⁸ First, China could follow a path analogous to Japan. Second, it could witness extensive social unrest, with China only eighty-sixth in the world in per capita income, 150 million citizens living on \$1.50 a day or less (1 in 10 of the population), and 0.4 percent of Chinese households owning 70 percent of the nation’s wealth. When combined with high rates of pollution, an aging profile, and an acute gender imbalance, either revolution or radical nationalism could be the outcome. Third, a rising middle class could act as a break on imperialist adventurism. Fourth, Chinese missteps might antagonize its neighbors into forming an anti-Beijing balancing coalition led by a reinvigorated US.

Ironically, given the quite distinct analytic lenses on China, relatively little prescriptive difference exists among leading China scholars. At a basic

level, most concur that some form of increasing, if inexact, parity between the powers is developing, requiring an adaptation on both parties' sides. The difficulty, however, resides in delineating just how far and fast such co-evolution should occur. For some Chinese observers, emboldened by China's ascent and America's seeming political and economic disarray, the US appears – even, or perhaps especially, under Obama – congenitally indisposed to gracefully acknowledging and accepting a reduced power status, role and responsibilities. As one critic put it, the Obama “... administration's penchant for self-righteous universalism, often revealed in coded phrases such as ‘defending the global commons’,” demonstrates that “the United States remains preoccupied with defending its ‘second to none’ position (in President Barack Obama's words).”²⁹ For the US, equally, the “declared goals of American policy have not changed since 1989”:

The United States wants to steer China in what Americans regard as a beneficial direction, smoothing and hastening its integration into the existing international order both economically and politically, enmeshing it in international economic agreements, taking advantage of the fact that economic development has been China's overriding priority to nudge China in a more liberal direction politically. In the meantime it strengthens American alliances, reassures China's democratic neighbours, and creates sufficient American military, economic and political strength in East Asia to prevent China from achieving its regional ambitions. Contain and transform, or, in the more polite phrases of diplomacy, “hedge” and engage. Given its beliefs and its history, it is hard to imagine the United States pursuing any other kind of policy toward China.³⁰

Obama and China: from engagement to hedging

Upon assuming office, the Obama administration faced both positive and negative influences in renewing Washington's bilateral relations with Beijing. In terms of the former, Chinese leaders clearly perceived the US to be the key power with whom to do business over the medium term. While the European Union loomed as a trading partner of consequence – albeit mired in its own economic crisis – and while the US appeared stuck in relative decline, American economic, military, diplomatic and political weight meant that China's relationship with Washington would be the key global relationship for decades to come. That opportunity was nonetheless balanced, partially at least, by the historic tensions between the two states, the dangers inherent in great power transitions, and the historic unease felt towards Democratic rather than Republican administrations among China's leaders (stretching back to Mao).

Hillary Clinton's first high-profile visit to Beijing as Secretary of State, in March 2009, initially set a positive tone for the administration, stressing the importance of China for the region and the world, emphasizing China's role in the global economic recovery and, critically, framing the relationship

in broad terms rather than – as China had feared – on narrower questions of human rights, democracy and civil liberties. The administration's creation of an enhanced "Strategic and Economic Dialogue" to supersede the Bush administration's more narrowly focused Special Economic Dialogue set up in 2006 – the first meeting of which was convened in Washington in July 2009 – offered an institutional means to implement a broader and enhanced interchange, and was welcomed by Beijing in indicating that Washington was animated by more than a purely economic relationship. The positive initiatives were also consolidated when presidents Obama and Hu met at the London G20 in April 2009, reaching broad agreement on how to combat the global recession. Although both rejected the notion of a *de facto* G2, the meeting confirmed that the quality of the US-China relationship would be critical to the resolution of almost all global economic, political and environmental challenges.

The latter stages of 2009 and 2010–12, however, witnessed a more difficult pattern of relations emerge, with a discernible shift in the administration's approach, from seeking a path of "strategic reassurance" to a less ambitious language about "building strategic mutual trust."³¹ In part, this was unsurprising, given the mixture of cooperative and competitive relations inherent in the emerging relationship. With China having the most to lose from any fall in the value of the dollar, given its disproportionate dollar holdings, America's 2011 debt and default crisis proved an especially difficult moment for bilateral ties – China expressly calling on the US to implement substantial cuts in its "gigantic military expenditure and bloated social welfare costs" while warning that "a new, stable and secured global reserve currency may also be an option to avert a catastrophe caused by any single country."³² Partly, though, the more conflictual elements that punctuated the dynamic reflected and reinforced some of the deep structural problems facing both the US and China in adapting to the relative power shifts of the other. Although President Hu's state visit to the US in January 2011 represented the eighth face-to-face meeting between the Chinese and US presidents in just two years, three areas especially stood out as reliably problematic strains in the bilateral relationship: the recovery from the Great Recession; Chinese military developments; and the perennial issue of Taiwan.

Economic relations

Although China's remarkable economic growth has fueled its increasing political clout, the US economy continues to dwarf that of China. While the latter is now the second-largest economy in the world in terms of purchasing power parity, China's gross domestic product – measured in the same terms – was barely half that of the US in 2008. Commonly referred to as *fu guo going min*, or "rich country, poor people," Chinese per capita income was some

one-eighth of the US. The state and its branches may be rich and strong, but the average citizen remains relatively poor, often lacking access to rudimentary social services. But with the International Monetary Fund estimating that China would surpass the US as the world's largest economy by 2016, it was perhaps unsurprising that three-quarters of Americans (76 percent) in 2011 viewed China as more an economic than a military threat to the United States.³³

The US remains China's largest export market, a key source of technological expertise and the principal pillar of the global economic stability that Beijing prizes. As the July-August 2011 controversy over a potential US default on its debt obligations also demonstrated, China has a large financial stake in the US. The leading foreign owner of US dollars (estimated in 2010 as some 70 percent of its total foreign exchange reserves worth US\$2,000 billion) and the largest holder of US government debt, Beijing has a vital national interest in American economic solvency. Since, at the same time, the US relies heavily on credit from China to help finance persistent fiscal and current account deficits and to support the dollar – reliance that only deepened with the post-financial-crisis bank bail-outs and economic stimulus packages – the two nations' fates were inextricably linked together. While the US remains China's main national export market, fueling Chinese economic growth, cheap Chinese imports have facilitated US prosperity by enabling its economy (at least until 2008–09) to grow at a rapid pace without accompanying high inflation.

That linkage proved difficult for the Obama administration to leverage. At his confirmation hearings as US Treasury Secretary in February 2009, Timothy Geithner was quoted as accusing the Chinese of currency manipulation that underpinned China's lopsided surplus in bilateral trade (although the undervaluation of the renminbi contributed to this, the more influential factor was the glaring gulf between China's high savings rates, which generated persistent trade and current account surpluses and swelled its foreign exchange reserves, and the propensity of both spendthrift American government and households to favor debt-financed consumption, leading to large external deficits). During Obama's November 2009 visit to China, Beijing showed little flexibility in relation to the exchange rate of the yuan, the trade deficit or specific trade disputes with Washington.

Some Chinese (and Russian) officials exacerbated tensions by periodically floating the idea of the dollar being replaced as the global currency with an alternative, but the unconvertibility of the renminbi precludes such a course thus far. Despite much speculation about the end of the dollar's status as the reserve currency, no credible challenger has arisen to seriously displace the supremacy of the greenback. Despite recent developments, the Chinese renminbi is far from being a currency that non-residents want to hold as a store of value. Nor is it entirely clear whether China has the ambition, expertise or nerve to become the issuer of the key reserve currency. With the euro in

deep difficulty amid sovereign debt crises and social and political unrest across Europe in 2010–11 – and a currency always intended for regional rather than international ambitions – there exists little incentive for the US to change the course of its dollar policy. That, in turn, presents a more serious problem for China and other dollar-holding nations than for the US, since the former are essentially stuck in the dollar-trap with limited scope for manoeuvre, aside from some minor diversification on the margins.

Although the US remains a huge military, diplomatic and economic presence in the Asia-Pacific, Washington cannot assert its interests as forthrightly as it once could. Obama's strategy relied on renewing US primacy in the region without antagonizing China, a difficult balancing act. Building on the Zoellick approach, economics and trade policy was "a priority of our foreign policy," according to Clinton in July 2011, with the US seeking to bind Asia in general – and China in particular – into a rules-based trading system: "We must reach agreement on the rules and principles that will anchor our economic relationships in the coming decades."³⁴

But three substantial problems limit the potential of such an approach to succeed.

First, the network of trade pacts that has developed in the Asia-Pacific – with over 100 bilateral trade deals concluded in the past decade – does not resemble the type of consistent, transparent rules-based system advocated by Washington. The ten-member Association of South East Asian Nations represents the most coherent trade bloc in the region, and ASEAN concluded an important free trade agreement with Beijing in January 2011, allowing Chinese companies preferential access to a 600 million-plus market. But Washington was not a party to this compact.

Second, under Obama, Washington's own approach to trade policy – and regional trade policy especially – was, as David Pilling termed it, "something of a shambles."³⁵ Substantial elements of the congressional Democratic Party, along with labor unions and others active in the party base, were heavily opposed to expanding free trade agreements that, they alleged, outsourced US jobs overseas. Although, under George W. Bush, the US had signed a free trade agreement with South Korea in 2007, it still remained for the US Senate to ratify in 2011 – despite President Obama calling for action on the measure in his 2011 State of the Union speech and repeating this in his address to a joint session of Congress on September 8, 2011. With the twenty-one-member Asia-Pacific Economic Cooperation Group (APEC), of which the US is a member, many years from concluding a free trade deal, the Obama administration instead invested political capital in promoting a Trans-Pacific Partnership agreement among a sub-group of nine APEC members, including Australia, Chile and Singapore. But a TPP – even with the unlikely participation of Japan – would remain a very limited anchor for a genuine regional compact. While the US remained at the margins of some of the key economic relationships

Table 7.2 China's rank as a trading partner for selected Latin American Countries, 2000 and 2008

Country	Exports		Imports	
	2000	2008	2000	2008
Argentina	6	2	4	3
Bolivia	12	10	8	6
Brazil	12	1	11	2
Chile	5	1	4	2
Colombia	35	4	15	2
Costa Rica	26	2	16	3
Ecuador	13	9	10	2
El Salvador	35	16	18	5
Guatemala	30	18	15	4
Honduras	35	11	18	7
Mexico	25	5	6	3
Nicaragua	19	14	18	4
Panama	22	4	17	4
Paraguay	11	9	4	1
Peru	4	2	13	2
Uruguay	5	8	6	3
Venezuela	37	3	18	3

Source: Economic Commission for Latin America and the Caribbean; International Institute for Strategic Affairs, *Strategic Survey 2011: The Annual Review of World Affairs* (Abingdon: Routledge, 2011), 161.

Note: Data for Honduras and Nicaragua are for 2007 rather than 2008.

in the region, China was an increasingly prominent player in America's "backyard" of Latin America (see Table 7.2).

Third, as with other elements of the Obama advocacy of strategic engagement, the abstract theory of shared interests ran against the practical realities of power politics. While Washington necessarily had to be engaged in the Asia-Pacific in order to advance its strategic goals, persuading China to abide by its vision of a rules-based trading order was a difficult task. Although the Obama administration continued, both privately and (less directly) in public, to cajole Beijing into altering what it deemed to be unfair trade practices – from the abuse of intellectual property through closed procurement policies to preferential treatment (including subsidies and cheap

funding) for state-owned enterprises – China’s ascent allowed it to mostly ignore such pressures. Given the state of the bilateral relationship, Washington possessed very few incentives or sanctions either to persuade or to coerce China into preventing practices it considered unfair. Moreover, while Obama’s marginalization of democracy and human rights was welcomed in Beijing, as Aaron Friedberg argues, showing softness on core values tends to reinforce Chinese views that the US is in terminal decline – potentially encouraging Beijing to miscalculate American resolve.³⁶

American and Chinese economic interests are now so closely connected that provocative measures on trade by either side would likely backfire quickly. Whether the effect of the Great Recession mitigates the dangers inherent in such close interdependence remains to be seen. Until the Great Crash of 2008, China – thanks to cheap labor costs – exported deflation to the rest of the world, financing the US current account deficit by recycling its own surplus into US Treasury bonds. Now, deleveraging in the US, with reduced consumption and higher savings rates in the face of the credit crisis, could reduce the current account deficit and result in weaker demand for imports from China (and elsewhere). But the paralysis of the American political system that was displayed during 2011 counts against serious reductions in the deficit and debt of the “US of AA+” over the medium term.

At the same time, China’s own problems are increasingly widely recognized. The nation’s growth over the past decade has been fueled by an ever-growing trade surplus that has reached unsustainable levels. The Chinese leadership must refocus its economy away from export-oriented manufacturing and towards domestic sources of demand, all the while managing the job losses and social unrest that such restructuring will generate (this in the context of an estimated 180,000 riots, strikes and protests annually). Beijing’s concerns about an American economic system once widely admired but now viewed with profound scepticism may yet see less willingness on the part of China to finance US debt. As the Obama administration discovered, the room for innovative policy-making – and for pressuring China to adjust its own economic approach – is strictly circumscribed. With China on course to overtake the US as the largest economy, global economic activity would nonetheless be more widely distributed than when, for example, the US accounted for more than half the world’s wealth during the late 1940s. The US, Europe and Japan would likely balance China’s growth and, as Malaysia’s Prime Minister, Dato’ Sri Mohd Najib bin Tun Abdul Razak, optimistically put it, “Our economies are so integrated and interdependent, and production processes are so dispersed across borders, that it no longer makes sense for global powers to go to war; they simply have too much to lose.”³⁷

To sceptics, the evolution of China’s military hardware, grand strategy and personnel suggested otherwise. Whatever the priority attached to economics in Obama’s foreign policy, more strategic themes were inextricably linked.

Chinese military developments: enter the dragon

Much as the economic ascent of China has altered the dynamics of trade relations and global economic governance, so its military modernization, expansion and occasional sabre-rattling has generated new concerns in Washington about regional stability in East Asia (and more widely afield), resource competition in the South China Sea, and the plight of the strait of Malacca (the corridor between Malaysia and Sumatra, through which one-quarter of the world's seaborne oil, two-thirds of its shipped gas, and half of world trade passes). Although the Chinese economy has been estimated to overtake that of the US by 2020 (among other speculative dates), some Sinologists have argued that China still falls far behind its superpower rival in terms of military might and readiness (China not having fought an actual war since it was defeated by Vietnam in 1979) – a situation that is unlikely to change for decades and should hence reassure US policy-makers of the benign nature of China's rise. But while Chinese officials consistently sought to portray military modernization as a natural outgrowth of the nation's economic rise and path of peaceful development, others were less convinced that China's military posture was the purely defensive matter that Beijing insisted upon, rather than the basis for a "force projection" capacity of substantial proportions.

Moreover, this was not merely a matter of Chinese modernization developments, since budgetary pressures on defense in the US threatened serious cuts in the Pentagon, with the Obama administration seeking defense reductions of \$487 billion over ten years (with possibly double that figure, after the congressional deficit-cutting "super-committee" failed to reach agreement, in November 2011 – thereby mandating automatic additional cuts of approximately £500 billion from January 2013). Major cuts would leave the smallest US Army, Marines and tactical Air Force since 1947. With the navy at its smallest fleet-size since 1915, and budgetary pressures to cut the stealth Joint Strike F-35 fighter – the key for the continued salience of aircraft carriers, the basis of the US strategic presence in the Western Pacific – the Pentagon's ability to meet multiple national security challenges threatened to rapidly erode and degrade America's global power.

As with its economic policy, the Obama administration's defense policy towards China was a constant work in progress. Under Bob Gates, the Pentagon experienced periodic tensions with Beijing. During 2009, occasional spats occurred between rival submarines in the South China Sea, in what the US claimed were international waters but China argued were within its territory. Throughout Obama's term as president, evidence emerged of increasingly aggressive cyber-attacks against US public and private entities (including the Pentagon), originating in China and prompting the administration to establish a special office to coordinate the US response to cyber-war. Washington repeatedly called for more transparency in China's

military modernization, to no effect. At one stage, US plans for arms sales to Taiwan resulted in a temporary suspension of military-to-military contacts. A number of incidents in the resource-rich South China Sea – which China claims in its entirety, rejecting partial claims by Vietnam, Brunei, Malaysia, the Philippines and Taiwan – involving China, Vietnam, the Philippines and India also excited concerns about China's growing maritime ambitions. When Gates visited China in January 2011, the authorities revealed the existence of a Chinese J-20 stealth fighter aircraft – a deliberate attempt to humiliate the Pentagon's boss – and shortly thereafter launched the maiden voyage of its first aircraft carrier, a refurbished Soviet-era vessel, the *Varyag*.

These specific tensions occurred against the broader backdrop of whether, and how, the US would seek to remain the key regional player in East Asia, given the ascent of China and the changing relationships with its neighbors that this appeared to imply. Led by Gates, the Obama administration consistently made clear its commitment to remaining an Asia-Pacific power, including the maintenance of a robust military presence in the region. Indeed, attempts to heighten and institutionalize military-to-military links with China were themselves emblematic of increasing US engagement with the region. Under Gates's leadership, Washington had deepened bilateral ties with India, Vietnam and South Korea, and expanded relations with Australia (including an agreement to place 2,500 Marines in the Northern Territories) and Singapore; in addition, Gates personally had attended the new ASEAN Defense Ministers Meeting Plus grouping. Moreover, despite tensions in the relationship, the rapid response of the US military to the earthquake and tsunami in Japan of March 2011 – involving 24,000 US personnel, 190 aircraft, and twenty-four ships working closely with Japan's Self-Defense Forces – testified to the continued US engagement in the region. In reply to a question from Singapore's Kishore Muahubani at the IISS Shangri-La Dialogue of 3-5 June 2011, Gates even ventured that, "I will bet you \$100 that five years from now, United States influence in this region is as strong if not stronger than it is today."³⁸

Against this, however, was the widespread acceptance of China's developing "anti-access/access denial" capabilities to potentially deny the US a presence in the Western Pacific, the build-up of Chinese missiles targeted at Taiwan and a variety of other activities – from targeting space stations with missiles to developing a blue-water navy with aircraft carriers and underground ports – that clearly suggested a forward-leaning and offensive approach that could not possibly be purely defensive in nature. The sensitivity of these issues became especially apparent when the Pentagon issued its annual report to Congress on Chinese military developments in 2011. Reviewing the previous year, the Department of Defense concluded that by 2020 China would be able to project maritime power well beyond its shores. China was planning to build "multiple" aircraft carriers, with its first indigenous carrier due to operate by 2015.

Despite some signs of improved US-China military relations and a positive Chinese contribution to counter-piracy, disaster relief and peacekeeping operations, Beijing's growing military capabilities – including anti-ship ballistic missiles, new submarines and warships, enhanced cyber-warfare technologies, and a planned road-mobile intercontinental ballistic missile – posed an increasing level of concern for the Asia-Pacific region, not least in the context of competing territorial disputes and resource claims in the South China Sea, with its untold quantities of crude oil and natural gas.³⁹ The official Chinese response, through the Xinhua state news agency, was to echo its earlier vehement condemnation of American “addiction” to debt, this time accusing Pentagon analysts of inventing an “utterly cock and bull story” based on “a wild guess and illogical reasoning” that massively exaggerated the threat posed by Chinese military expenditure.⁴⁰

Such strategic ambiguity on defense was not mitigated by Beijing's assisting Washington in other areas of geo-political concern to the US. Although, admittedly, China acquiesced in the 2010 round of new sanctions on Iran, not wishing to unnecessarily antagonize an America for which this was a top priority, this was in large part for fear of looking isolated in the face of UN Security Council agreement among the permanent powers (facilitated by Russian cooperation). Moreover, it came at the practical cost – along with Russian insistence – on weakening the package of measures implemented. At least as significant for the East Asian region, China's lack of effective pressure on North Korea, in relation to Pyongyang's nuclear and missile-development programs, its sale of these technologies to other countries, and its conventional and cyber weapons attacks on South Korea offered another example of a rather meagre return on Obama's investment in strategic engagement. With the development of long-range missiles, especially, North Korea was morphing from a regional gadfly whose provocations could lead to unpredictable, but containable, escalation on the peninsula into a direct threat to the United States. While Washington remained committed to the notion that the 2005 agreement on denuclearization reached at the Six-Party talks must be implemented, it remained determined to break the past pattern of providing concessions to persuade Pyongyang to join negotiations only to see it renege on past promises. Although Gates publicly affirmed that the Obama administration had “no interest in regime change” or in destabilizing North Korea, he was also adamant that the administration was “tired of buying the same horse twice.”⁴¹

But while China worked behind the scenes to restart the Six-Party negotiations, it did not agree with the need for an improvement in North-South relations as a prerequisite to these recommencing. China steadfastly refused to condemn North Korea for its various provocations towards South Korea. For example, the UN Security Council issued a presidential statement condemning the sinking of the South Korean ship, the *Cheonan*, in July 2010,

but without assigning blame to the perpetrator, North Korea (thanks to Chinese and Russian opposition). When the North bombed the South Korean island of Yeonpyeong, in November 2010, China avoided blaming either side and instead called for “maximum restraint,” while Washington, Moscow and Tokyo all issued immediate condemnations of the North.

One final element also complicated the strategic calculus in the Asia-Pacific; namely, China’s increasingly blatant employment of water as a political weapon. At the hub of Asia, China provides the source of cross-border river flows to the largest number of countries in the world, including Russia, India and the Indochina peninsula. But, in water disputes with almost all of its neighbors, not only does China steadfastly reject the concept of a water-sharing arrangement – as one of only three countries to vote against the 1997 UN convention on rules governing the shared resourcing of international watercourses – but it is also acquiring substantial leverage over neighboring states’ behavior through its construction of major dams in disputed or insurgent territories (such as Kashmir and Burma) and on international rivers (such as the Mekong, Brahmaputra and Amur). With water becoming an increasingly scarce resource and an important cause of competition and conflict in Asia, as Brahma Chellaney notes, “That the country controlling the headwaters of major Asian rivers is also a rising superpower, with a muscular confidence increasingly on open display, only compounds the need for international pressure on Beijing to halt its appropriation of shared waters and accept some form of institutionalised cooperation.”⁴²

The 1982 UN Convention on the Law of the Sea, to which China is a party, provides an obvious basis for an agreement in the case of the South China Sea. But progress thus far has been stymied by China’s insatiable quest for resources and its unwillingness to submit its extensive claims to arbitration by third parties. Once more, despite the obvious benefits that Beijing would gain from a stable system of accepted rules and norms, there appeared little sign that Washington’s desire to establish a rules-based order was one that China was eager to join. Indeed, Hillary Clinton’s well-intentioned offer during 2010 to mediate between the several disputatious parties, in the context of an insistence that the South China Sea was of strategic importance to the US as well, served only to antagonize Beijing even further.⁴³ Despite the overlapping claims of Malaysia, Vietnam and others, in 2010 China planted a flag at the deepest part of the South China Sea to mark its “undisputed sovereignty” over the territory. In 2011, Beijing sent warships there to patrol the waters. The implications for regional peace, and further escalation, are potentially disturbing in the extreme.

Taiwan

The third flashpoint in US-China relations is a more familiar one than the evolving economic and military challenges posed by Beijing: a leaf-shaped

island some hundred miles off the coast of south-eastern China, over which it continues to claim sovereignty. As Richard Bush and Michael O'Hanlon remark, "War between China and Taiwan is a distinct possibility. Such a war could easily drag in the United States, pitting the world's only superpower against its main rising power and thus leading to the first serious conflict in history between nuclear weapons states."⁴⁴

Alongside fear of US capacities stemming from the Gulf War of 1991, the growth of China's military power from the 1990s was initially driven by a desire to protect its particular interests in Taiwan, before this became more about fielding a military commensurate with its great power status during the 2000s. Amidst its carefully calibrated diplomacy stressing its "peaceful rise" and "harmonious world" vision, Taiwan has proven the one issue where China has repeatedly made clear its willingness to go to war. As Michael Mandelbaum notes:

Taiwan has a particular resonance among Chinese because, having been seized by Japan in 1895 and protected from the mainland by the United States after 1950, it symbolizes the long decades of Chinese submission to the will of foreigners. By all accounts, the commitment to the eventual "reunification" of the island and the mainland pervades every stratum of Chinese society. Taiwan is one issue over which China does seem prepared to challenge the status quo in East Asia by force.⁴⁵

The Obama administration largely maintained the long-term American position on strengthening its strategic position with Taiwan. While professing its willingness to defend its ally, Washington also pursued the logic of a using economic and military aid to support internal reform and a liberalizing economic order, encouraging Taipei to develop its multiplying economic ties with China on the basis that closer economic integration would provide additional incentives to both parties to avoid armed conflict in the Taiwan Strait.

Unfortunately, two problems undermined such logic. One was that an increasingly self-confident China concentrated ever greater military forces at the Taiwan Strait, about which the Chinese leadership remains neuralgic. The Obama administration's decision to sell Taiwan a weapons package worth \$6.4 billion prompted a ten-month freeze in China-US military-to-military exchanges in 2011. When the administration announced another arms package in September 2011, it was careful to minimize the damage to relations with Beijing, offering to refurbish F-16 jets sold to Taiwan in 1992 but not to sell more sophisticated F-35s to the island. Such actions dismayed Taipei as yielding to Chinese pressure. Even so, the People's Daily – the Chinese Communist Party's organ – responded by decrying the Taiwan Relations Act requiring Washington to help the island defend itself as a "cancer."⁴⁶

The second problem was that the Obama administration's pursuit of strategic engagement, combined with its downplaying of democracy promotion and a

values-oriented agenda, failed to reverse Taiwan's uneasy slide into relative international isolation. As Gary Schmitt observed, "Making Taipei more confident about its place in the world is a necessary step in preventing it from taking sudden initiatives to reassert itself in the face of what it sees as affronts to its existing sovereignty."⁴⁷ But it remained the case that US Secretaries of State and Defense avoided visiting Taiwan while the visits of senior Taiwanese officials to the US remain tightly circumscribed. The strategic ambiguity of the US over Taiwan and the "one China" policy appears not only increasingly anachronistic, but also untenable, as the costs – and, increasingly, the very feasibility – of US military intervention in the Taiwan Straits in the mould of Bill Clinton's 1996 dispatch of two US aircraft carriers becomes ever more diminished.

Conclusion: the limits of strategic engagement with China

The relative decline and rise of America and China, respectively, can sometimes be viewed as a return to the US-Soviet pattern of bipolar competition of the Cold War. But the transition to a post-American world that China's rise denotes is not directly analogous to the Cold War. Rather, the growing influence of Beijing, and Asia more generally, signifies nothing less than the creeping end of 500 years of Western global predominance. Although no other country, China included, can yet replace the US as the center of the global financial system, the downgrading of its triple-A credit status in the fall of 2011 – once a core assumption, not a variable, of the system – is likely over time to erode the standing of the global public goods it supplies, from the dollar as the world's reserve currency to its financial markets as the best destination for other countries to deposit savings. This in turn will weaken America's effectiveness as the global anchor, accelerating an unsteady migration to a more multi-polar order. For Chinese communists to lecture the US on sound fiscal policy represented – to put it mildly – a telling indicator of the depths of America's contemporary fiscal disorder.

Whether the Chinese are genuinely committed to a "peaceful rise" or instead seek some kind of global "hegemony with Chinese characteristics" cannot reliably be ventured. Although one American strategist conceded that, in his interactions with Chinese officials, "the Chinese are very happy to see the world divided up between them and the US,"⁴⁸ it is important to emphasize that there exists not one single view in China but a plurality – some holding to a view that hegemony is the only way to secure China's future, others happy with the idea of a G2 dominating the global order, and still others viewing Beijing's global aspirations as the road to Chinese ruin.⁴⁹ Whether, equally, as some suggest, the US-China relationship conceals or obscures the real conflict in international politics – a clash of ideas between the "western" and the market authoritarian

models – and whether a clash of Orientalist and Occidental civilizations is more likely than a crash on the part of one or other protagonist remains to be seen. Fear of China is palpable from India through Japan and the Philippines to Vietnam, and has partly pushed these nations into closer relations with the US. But, thus far, whatever the more opaque aspects of their statecraft, neither party seems to have yet made a colossal misreading of the other's strategic calculus (unlike the case of Anglo-German misunderstanding prior to the First World War). What does appear to be the case is that there exists, for Washington, no serious alternative to a strategy of “modified hedging” – absent a decisive or abrupt shift in China's strategic approach – since neither engagement nor containment can adequately address the duality of the PRC's “strategic personality.” As one account persuasively put it:

It will take time to reach the point where no major international question can be resolved without China, but that will be the aim. While avoiding confrontations, even over Taiwan, she will be a prickly and wilful power. As her strength and influence grow she will promote them with increasing finesse but also determination, by means short of war. And however much we might disapprove, with the sinews of the Chinese economy reaching into all major countries, what will we do to stop her? When American presidential candidates threatened to impose tariffs on Chinese imports if she refused to revalue her currency Beijing's response was to hint that she might off-load US dollars and bonds in retaliation. The lesson – never try to blackmail your communist banker – is an example of the uncharted waters the world is in where China is concerned.⁵⁰

US-China relations under Barack Obama therefore continued a broad pattern set since at least 1989; one where the benefits of strategic engagement to the US were matched – and, arguably, exceeded – by its costs. While Washington and Beijing may “objectively” share certain interests in common, neither party shares the same priorities, values or long-term geo-political calculus. Sino-US relations remain in a state of uneasy accommodation, with Beijing viewing Washington as – at best – “neither friend nor enemy.” As Andrew Nathan notes:

It is no wonder that Chinese statecraft aims to establish the cultural relativity of human rights and to pose talk of human rights as the enemy of friendship. After all, the failure to respect human rights is a glaring weakness of Chinese power both at home and abroad, whereas promoting human rights has been among the United States' most successful manoeuvres on the *wei qi* board of world politics ... Emphasizing the principled centrality of the human rights idea to American ideology and keeping the issue active in bilateral relations even though it cannot be solved would seem to be – along with exercising the United States' strengths in other fields – a good way to set the boundaries within which a rising Chinese power can operate without threatening US interests.⁵¹

Selective cooperation is possible where some convergence can be created, but increased cooperation in some areas co-exists with a basic competitive dynamic and instances of increased competition and outright conflict in others.

Most obviously, Washington's attempts to remain a regional powerhouse in the Asia-Pacific region confront China's ascendant power. Although the leadership in Beijing fears its internal problems and the constant need for foreign trade to sustain a growing economy, the leverage possessed by the US to craft a rules-based trading order and to convince China to join that order is minimal. Moreover, while Washington fails to set its own economic house on a sound and sustainable course, Beijing's concerns about the safety of its assets raises major questions about the medium-term willingness of lenders to fund the US public debt. The military modernization that China's remarkable economic growth since 1978 has funded likewise raises fears in Washington of an inevitable conflict, while China's failure to exert pressure on North Korea to return to the Six-Party talks reflects its concern about state collapse, a secondary issue for Washington to its nuclear arsenal, long-range missile capacities and complicity in proliferation.

As Richard Haass, President of the Council on Foreign Relations, noted of the Obama administration, "If your goal is to reorient or refocus or rebalance US policy, the Administration's commitment to so doing is at the moment more rhetorical than actual."⁵² Despite his quest to forge renewed relationships under the mantle of a post-American foreign policy, Barack Obama's policy towards Asia-Pacific has been "fundamentally similar" to that of George W. Bush inasmuch as it is intended to consolidate US strategic primacy in the Asia-Pacific, to maintain a robust presence to hedge Chinese military power and reassure Japan, Taiwan, South Korea, Australia and India while at the same time seeking greater cooperation on global concerns – especially in global economic management.⁵³ While the term has a somewhat hackneyed ring to it, little alternative presented itself to Washington to encouraging China to become a responsible stakeholder in world affairs. Some of the explanation for the lack of innovation under Obama can be laid at the door of the continuing focus of US energy on the Middle East, partly out of choice (the wars in Afghanistan and Iraq) and partly because of the unexpected impact of the Arab Spring. But US-China relations also continue to exhibit deep structural features that limit their straightforward renewal or improvement. Increasing mutual dependence and economic integration co-exist with serious ideological differences, a substantial trust deficit, and military budgets headed in contrasting directions. That effectively mandates a continued US policy of modified hedging to encourage China to be a strategic partner and to develop a shared strategy to that end, but also to respond – if necessary – in a timely and judicious manner to an increasingly pro-active China that challenges US influence not only in the Asia-Pacific, but also in key parts of the wider world.