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Power, Interdependence and Conflict: What IR theories tell us about China's rise¹

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This study examines the effects that economic interdependence (EI) has on political relations between China and its main trading partners. Five EI theories derived from the international relations literature are tested using data from King's 10 Million Dyad collection of political interaction along with economic data from the IMF and control variable data from Polity IV, COW CINC, among other sources.

Though a significant amount of literature addresses the effects trade has on conflict at the systemic level, few address it at the dyadic level and even fewer test the pacification of trade on non-Western states. This research examines economic, political, institutional, geographical and political relations data from 1990 to 2004 to test two neoliberal hypotheses that posit interdependence is associated with cooperative political relations between states. Furthermore, the research tests the neoliberal institutionalist hypothesis that joint-institutional membership helps to increase political cooperation. Two neorealist theories are tested. The first hypothesis states that the unequal distribution of trade benefits leads to a deterioration of political relations. The second states that relative power increases lead to a deterioration of political relations.

Findings generally support neorealist hypotheses. However, neoliberal contentions that relative power increases do not necessarily lead to conflict when international economic influences are taken into consideration are supported.

Key Words: interdependence, conflict, liberal peace, foreign direct investment, international trade, Chinese foreign policy

The rise of China is one of the most hotly debated topics in international relations today. IR scholars and policy makers alike have divergent views about the timeframe of a risen China 20 to 50; and the impact a risen China will have on world politics. On one hand, some scholars and policymakers argue that China's rise is likely to bring it into conflict with the West in general and the

¹ The author would like to thank the Center for Research and Sponsor Programs at MSU for financial support to make the immense data collection for this project possible, as well as the School of Public Affairs, MSU for release time to pursue this research.

United States in particular.² This is principally a result of significant relative power gains by a risen China that are likely to culminate in a clash with the US over influence in Asia. On the other hand, there are those that argue that conflict with the US is not inevitable for a rising China. Institutions, interdependence and gradual democratization can triangulate peace in the region.³ The goal of this research is to shed some light on Chinese foreign relations since 1990 to better understand which theoretical approach to the study of international relations best explains China's interstate behavior. Specifically, this paper will empirically test hypotheses extending from the relevant literature against political, economic and military data on China and its trading partners.

BRIEF LITERATURE REVIEW

Neorealism and Neoliberalism are the two dominant theoretical approaches to the study of international relations, each with different and varying prospects for China's rise. While not all scholars agree on all aspects of the approach within it, scholars within one particular approach generally share agreement on core assumptions, which tend to differ between the approaches. The core assumptions are questions about what the main actors are in international relations, what the characteristics of the nature of the international system are and what the "national" interest is and from what it is derived. Below I briefly review the literature with respect to the two approaches as they relate to research on China's rise.

Neorealism

Realism is the dominant approach in international relations scholarship.⁴ Early realist thinkers, such as Hans Morgenthau, argued that what drives state behavior is a function of human behavior.⁵ These human natured realists argued that the root of international conflict lay within man's innate lust for power common to all man, "the *animus dominandi*, the desire for power."⁶ For Morgenthau, political success rests on a state's ability to maintain, increase, or demonstrate its power over others.⁷ Therefore, power is a political end, not

² E.g. Huntington, Samuel, "Clash of Civilizations," *Foreign Affairs*, (Summer 1993) and Mearsheimer, John J. *Tragedy of Great Power Politics*, New York, NY: W.W. Norton, 2001

³ Russett, Bruce, and John Oneal. *Triangulating Peace: Democracy, Interdependence, and International Organizations*. New York, NY: W.W. Norton, 2001.

⁴ Wendt, Alexander. *Social Theory of International Politics*, Cambridge, UK: Cambridge University Press, 1999, pp. 47-48

⁵ For an excellent treatment of human natured realism, see Waltz, Kenneth. *Man, the State and War: a theoretical analysis*, NY, NY: Columbia University Press, 1959.

⁶ Morgenthau, Hans. *Scientific Man vs. Power Politics*, Chicago, IL: University of Chicago Press, 1974, pg. 14.

⁷ *Ibid*, pp. 192, 196.

a means, for states. Thus, as each great power vies for greater power, seeking the maintenance or overthrow of the status quo, the result is a balance of power.⁸ Thus, human natured realists have what is generally termed, a pessimistic view of international relations.

Neorealists generally accept many of the core assumptions of human natured realists, except the origin of what drives states to seek more power. For neorealists states are driven to increase power relations as a result of anarchy in the international system, and not, as human natured realists believe, because man is hard-wired to seek to dominate others, or at least avoid being dominated by others. It is in this way that anarchy takes the place of human nature, yet has similar effects on state behavior. However, for neorealists, power is not an end, but rather a means. It is a means to security for states, the ultimate goal.

Neorealism gained prominence by attacking failed liberal policies crafted after WWI on the grounds that these policies did not accurately assess state behavior. Realists argued that the policies were based on what states *ought* to do or *should* do, but not on how states *actually* behave and act in international politics.⁹ Among these failed policies was the belief in institutional constraints to state power. According to realists, institutions such as the League of Nations (along with less tangible institutions such as international laws, treaties, and norms), crafted after WWI to maintain peace in Europe, are prone to failure because there is no higher authority than states to compel them to fulfill their obligations within the institution.

For realists, states are the main actors in international relations and they use institutions to pursue their interests and bypass them once their interests are no longer reflected in the institution. The political philosopher, Niccolò Machiavelli, said as much when he said "a prudent ruler ought not to keep faith when by so doing it would be against his interests, and when the reasons which made him bind himself no longer exist." Modern realists maintain international institutions are a false promise, merely a reflection of the underlying distribution of power in the international system, based on the self-interested calculations of states and have no independent effect on state behavior.¹⁰ Realists come to this pessimistic view of international institutions as a result of the structure of the international system. Since there is no higher authority above state actors, states struggle to survive in an anarchic international environment. The state of anarchy creates an intense security competition

⁸ Morgenthau, Hans, *Politics Among Nations*, 7th ed. Boston, MA: McGraw Hill, 2005.

⁹ For a comprehensive overview of the development of realist thought see, Dougherty, James R. and Robert L. Pfaltzgraff, Jr., *Contending Theories of International Relations: A comprehensive survey*, 5th ed. NY, New York: Longman, 2001.

¹⁰ Mearsheimer, John J., "False Promise of International Institutions," *International Security*, Winter 1994/94, pg. 7.

among the actors where states can never fully be certain of other states' intentions. Therefore, states seek to close their security gap and maximize their chances of survival, principally through increasing power capabilities. However, increases in capabilities by one actor reduce the security of other actors and in turn, these states will seek to close their security gap by increasing their power capabilities; leading to what is referred to as a security dilemma.

For some realists, particularly neorealists, security competition in an anarchic environment drives states to be concerned not with what their capabilities are in and of themselves, but what their capabilities are relative to other states'. Kenneth Waltz describes this concern:

When faced with the possibility of cooperating for mutual gain, states that feel insecure must ask how the gain will be divided. They are compelled to ask not "Will both of us gain?" but "Who will gain more?" If an expected gain is to be divided, say, in the ratio of two to one, one state may use its disproportionate gain to implement a policy intended to damage or destroy the other. Even the prospect of large absolute gains for both parties does not elicit their cooperation so long as each fears how the other will use its increased capabilities.¹¹

Thus, cooperation under anarchy is difficult to achieve since states, even within institutional arrangements, seek gains equal to or greater than others for fear of other states gaining more than them. Greico suggests "the fundamental goal of states in any relationship is to prevent others from achieving advances in their relative capabilities."¹² Furthermore, the relative gains argument applies to economic considerations as well as security concerns. Economic might can be translated into military power, "so that in the long run, security and economics are inseparable."¹³ Powell argues that concerns about relative gains inhibit cooperation when the utility of military force is high but not when it is low.¹⁴

For neorealists, then, interstate commerce has the potential to create tensions between trading states. If one state gains more than the other, particularly over a long period of time, then this asymmetry becomes a source of insecurity for the other state. The state becoming relatively weaker can solve this imbalance through several mechanisms. It could try reducing consumption from the other state provided that imported goods are not

¹¹ Waltz, Kenneth, *Theory of International Politics*, Boston, MA: Addison-Wesley, 1979.

¹² Greico, Joseph M, "Anarchy and the Limits of cooperation: A Realist Critique of the Newest Liberal Institutionalism," *International Organization* 42 (August 1988): 485-507.

¹³ Snidal, Duncan, "Relative Gains and the Pattern of International Cooperation." In *Neorealism and Neoliberalism: The Contemporary Debate*, ed. David A Baldwin, New York, NY: Columbia University Press, 1993.

¹⁴ Baldwin, *Neorealism and Neoliberalism: The Contemporary Debate* pg. 6.

strategically important. This is difficult to do because it results in increased prices for those same goods since they would be consumed from a less efficient market. The state could institute trade barriers to make imports from the other state more expensive, for which it can expect barriers to be raised on its exports to that state. This policy is certainly likely to initiate a trade war where each side begins retaliating against the other, perhaps with offsetting tariffs and non-tariff barriers. Additionally, this raises costs to the economy as a result of purchasing those goods from a less efficient provider. The state could attempt to reduce this imbalance through negotiation, either in bilateral or multilateral forums. However, the other state does not have much incentive to cooperate.¹⁵ Its preferred outcome is to continue to gain relative to the other state. Therefore if the imbalance is not restored at some point, the declining state is likely to solve this problem through the use of force, believing that it is stronger today than tomorrow relative to the growing state, and thus more likely today than tomorrow to be victorious in a military conflict against the other state.

Neoliberalism

Like realism, liberalism is a theoretical approach that contains several variants. Particularly relevant to understanding how China is likely to rise are three of these variants: institutional liberalism, political liberalism and economic liberalism. Neoliberalism, as these are often referred to, adopts some of the same assumptions as neorealism. Both approaches share the assumption that states are the main actors in international politics. However, neoliberals believe that other actors, such as institutions and non-governmental organizations, matter. Additionally, neoliberals agree with neorealists that the international system is anarchic. However, neoliberals diverge from their neorealist counterparts on the nature of the effects that anarchy has on states. Neoliberal scholars show support for the idea that the effects of anarchy on interstate behavior can be mitigated. Lastly, both approaches agree that relative gains matter, but neoliberals stress that where there are common interests, states seek to maximize their absolute gains.¹⁶

Institutional liberalism (also referred to as neoliberal institutionalism) rests on the tenet that international institutions and regimes can help mitigate the effects of anarchy in the international system. Anarchy leaves states, according to Hobbes, in a constant struggle of "every man against every man" because states are uncertain of other states' intentions and there is no "night

¹⁵ Arthur Stein shows this result as an equilibrium outcome that leaves one actor aggrieved. See Stein, Arthur, "Coordination and Collaboration: Regimes in an Anarchic World." In *Neoliberalism and Neorealism: The Contemporary Debate*, pg. 34.

¹⁶ Stein, Arthur, "Coordination and Collaboration: Regimes in an Anarchic World" *International Organization* 36 (Spring) 1982 pg. 318.

watchman"¹⁷ to come to their aid should trouble abound. Institutions, according to neoliberal institutionalists, can mitigate the effects of anarchy by increasing transparency about what the rules of acceptable behavior are for states and offer them an outlet to settle their grievances through dispute mechanisms, reducing, not eliminating, the need for states to resort to the use of force to solve their problems. Additionally, these institutions reduce uncertainty by creating and sharing information amongst the actors and provide confidence building measures thereby increasing the likelihood that states will cooperate on other issue areas. And lastly, the most successful of these institutions tend to take on a life of their own. Strong institutions can begin to change state interests and identity, creating a common identity among the actors. Therefore, neoliberal institutionalists show that international institutions have a pacifying effect on interstate behavior.

There are two strands of political liberalism, of which only one is relevant to an analysis of China's rise. The first and more widely accepted strand is sometimes referred to as the liberal democratic peace theory. Simply stated, this theory says that democracies don't fight other democracies. It does not connote that democracies do not fight non-democracies less frequently than non-democracies fight other non-democracies; rather, only that democracies refrain from fighting one another. This theory was made famous in Immanuel Kant's *Perpetual Peace*. The reasons for this peace are that in liberal democracies the citizens demand popular rights, i.e. freedom of expression, freedom to assemble and universal suffrage. They view liberal democratic regimes as more legitimate than other forms of government and thus "loath to impose a foreign regime on a democratic state by force. Thus, an inhibition on war missing from other international relationships is introduced when two democracies face each other."¹⁸

The liberal democratic peace theory does not apply well to the case of China since China is not a democracy. Therefore, it is not subject to the forces that create a sense of illegitimacy among the public when fighting another democracy that exists in republican forms of government. However, there is a second strand of political liberalism that is relevant to China's rise. This argument states that democracies fight less than authoritarian regimes. In democratic forms of government, the citizens have a greater influence on what their government does compared to an authoritarian government. Citizens are hesitant to support war since they pay the bloody cost of it. Because the citizens in a democratic society can hold their government accountable for war, they are less likely to go to war than compared to an authoritarian regime where there is no such governmental accountability to create this hesitation.

¹⁷ This language is borrowed from John J. Mearsheimer *Tragedy of Great Power Politics*

¹⁸ Mearsheimer, John J. "Why We Will Soon Miss the Cold War," *The Atlantic*, (August 1990), pp. 35-50.

Neorealists counter these liberal claims for two principal reasons. First, with respect to the last argument, it is not possible to sustain the claim that authoritarian regimes fight more often than democracies. According to Mearsheimer, "the historical evidence shows that democracies are every bit as likely to fight wars as are authoritarian states, though admittedly, thus far, not with other democracies."¹⁹ Secondly, a world full of democracies cannot bring about an end to war nor does it eliminate the effects anarchy has on the system. This is because there are no guarantees that a state will *always* remain a democracy. Therefore, states will continue to be concerned with relative gains to secure itself from possible attacks from other states, which may not be democratic in the future.

A clear example of the uncertainty for a future democracy is the Weimar Republic in Germany. The German government in the interwar period had a democratically-elected constitutional assembly where all citizens enjoyed the right to vote and basic human rights. Both the parliament and president were directly elected. Vote shares for the National Socialist party began to increase throughout the Great Depression, and in 1933 Hitler was appointed Chancellor by the elected president Von Hindenburg.²⁰ After the death of the president, the Nazi regime seized power and eliminated opposition groups. Democracy took a back seat to a new authoritarian regime of the "Third Reich." Under Hitler's orders, the German military machine would go on to conquer nearly two-thirds of continental Europe, including liberal-democratic France.

Economic liberalism (also referred to as interdependence theory) focuses on the economic interactions between states. This theory claims that economic interdependence reduces conflict primarily by increasing the costs of war. Interdependent economies must restructure and adjust to new trading patterns as well as rules and regulations when a disruption of trade between two interdependent economies occurs. The resulting increase in costs serves as an additional deterrent for a state to aggress against another state with which it is interdependent.²¹ A variant of this situation is the relative cost argument that Rosecrance put forth. As the benefits of trade increase, the relative gains from war decrease, changing the incentive structure of the state.²²

The theory of comparative advantage holds that nations should produce and export those goods and services of which they hold a comparative advantage and import those items that other nations can produce at lower

¹⁹ *ibid*

²⁰ Dalton, Russell J, "Politics of Germany," In *Comparative Politics Today: A World View* ed. Almond et al. 9th ed. White Plains, NY: Longman, 2009.

²¹ Polachek, Solomon W. "Conflict and Trade." *Journal of Conflict Resolution* 24, no. 1 (1980): 55-78.

²² Rosecrance, Richard. *The Rise of the Trading State*. New York, NY: Basic Books, 1986.

opportunity costs. States will choose what to manufacture based on their factors of production and will trade according to their comparative advantage to maximize the state's welfare. Therefore, a disruption of trade can lead to a direct reduction in the state's welfare.²³

The links between economic and political conflict have roots in the political writings of Montesquieu, Smith, Stuart-Mill and Marx among others. For economic liberals, trade policies motivated by self-interest may lead to peaceful relations among actors because states are motivated by trade benefits when conflict is restrained (which otherwise would bring about a loss of gains from decreased trade) and instead attempt to resolve issues in a more peaceful manner. More recently, there has been a plethora of empirical tests demonstrating the pacifying effects of international trade.²⁴ Work by Keohane and Nye shows that when states reach a level of complex interdependence there are multiple channels of contacts between the societies, there is no clear hierarchy of agenda issues between the states and the use of military force to solve an interstate dispute is not an option.²⁵ Furthermore, Rosecrance shows that as interdependence grows, states can more efficiently gain needed goods through trade rather than war; therefore, "states would rather trade than invade".²⁶ Conversely, barriers to trade stimulate conflict.²⁷

²³ For example, during the 1973-1974 oil crises, the cost of gasoline increased 44 percent over a 13-month period, while the New York Stock Exchange shares lost \$97 billion in six weeks. During 1974, the United States experienced its second largest economic contraction over the 39 years since 1970 to the present. The year prior, the United States experienced a 5.8 percent growth rate (Source: World Bank World Development Indicators). A more recent example shows the cost to the disruption of trade with China shortly after the Tiananmen Square incident. China's growth rate fell by 63 percent following sanctions by the US and other G8 countries. China's GDP grew by 11.3 percent in 1988 over the previous year and grew by 4.1 percent in 1989, representing a significant decline in the growth rate (source: World Bank World Development Indicators, adjusted to 2000 base).

²⁴ See, Polachek 1980; Domke, William. *War and the Changing Global System*. New Haven, CT: Yale University Press, 1988; Mansfield, Edward. *Power, Trade and War*. Princeton: Princeton University Press, 1994; Oneal, John R. and Bruce M. Russett "The Classical Liberals Were Right: Democracy, Interdependence, and Conflict, 1950-1985." *International Studies Quarterly* 41, no. 2 (1997): 267-295; Oneal, John R. and Bruce M. Russett "Assessing the Liberal Peace with Alternative Specifications: Trade Still Reduces Conflict." *Journal of Peace Research* 36, no. 4 (1999): 423-442; Russett and Oneal 2001; Gartzke, Erik, Quan Li and Charles Boehmer. "Investing in the Peace: Economic Interdependence and International Conflict." *International Organization* 55, no. 2, (2001): 391-438.

²⁵ Keohane, Robert O., and Joseph S. Nye. *Power and Interdependence: World Politics in Transition*. Boston, MA: Longman, 2001.

²⁶ Rosecrance, *The Rise of the Trading State*.

²⁷ Viner, Jacob. *International Economics*. Glencoe, IL: Free Press, 1951.

While trade interdependence may be a primary factor in creating a change in the incentive structure of conflict, it is not the lone factor. Financial interdependence is important to consider where there are flows of FDI and portfolio investment across state boundaries. These investments are intended to establish a permanent flow of income or supply in the host country and often lead to long lasting economic and political relations.²⁸ Furthermore, states manage aggregate supply and demand through fiscal and monetary policies. These policies produce externalities "that are transmitted to foreign economies through trade and exchange rates."²⁹ State-induced economic disruptions to the financial sector of a target economy can demonstrate an actor's resolve toward a particular outcome.³⁰ The withdrawing of funds (or selling off stocks and bonds) or withholding of foreign direct investment (or foreign aid) can produce costly effects on the target state's economy, potentially leading to runs on banks, devaluation of currency or inflation.³¹ Furthermore, a state may seize the foreign direct investments under its control should that state become the target of a military conflict with an adversary. This situation *creates restraint on the adversary from choosing the military option by once again increasing the costs associated with the impending conflict*. Lastly, conflict increases uncertainty and risk to any capital investment and reduces risk-adjusted rates of return.³² These *financial restructuring costs, immediate losses of investment and long-term effects of inflation and currency devaluation* add to the opportunity costs of war, which in turn lead to a reduction in hostility and the probability of war when, as noted, states have higher levels of financial interdependence.

Foreign investment comes in several forms, including portfolio and direct investment. Portfolio investments have increased across borders as regulatory measures have become more lax.³³ While portfolio investment has increased greatly over the last 20 years, FDI makes up a much larger proportion of

²⁸ Gilpin, Robert. (1975). *US Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment*. New York: Basic Books, Inc.

²⁹ Gartzke et al. "Investing in the Peace: Economic Interdependence and International Conflict."

³⁰ Blanchard, Jean-Marc F. and Norrin M. Ripsman, "Measuring Vulnerability Interdependence: A Geopolitical Approach." *Geopolitics* Vol. 1, No. 3 (Winter 1996), pp. 225-46.; Gartzke et al. 2001

³¹ Citing the massive withdrawal of funds by Britain and France from Germany during the Agadir crisis nearly leading to the solvency of the German currency, Gartzke et al. (2001) demonstrated the signaling effects that financial sensitivity provides to show a state's resolve reducing the need to resort to violent conflict to achieve a particular outcome (402-403).

³² Gartzke et al. "Investing in the Peace: Economic Interdependence and International Conflict."

³³ Thompson, Peter G. "Foreign Direct Investment and War: Economic Deterrence and Armed Conflict." Ph.D. diss., UCLA, 2003.

investment. Foreign direct investment is strategically important to interstate relations because FDI often cannot be easily removed from the host state. Once conflict breaks out, the recipient of the foreign direct investment may seize the assets from the belligerent and use them at its discretion. Therefore, states sharing the benefits of foreign direct investment are less likely to engage in conflict.

Economic liberalism is particularly relevant to explaining China's relations with its trading partners as China has "energetically cultivated a 'friendly neighborhood' policy, especially in the aftermath of the Tiananmen crackdown."³⁴ Currently, security for China rests in its ability to maintain domestic stability, which is best accomplished through economic growth and international trade.³⁵ However, neorealists counter the claims of economic liberals along general lines. Neorealists argue that economic liberalism suggests that states are primarily motivated by economic, not security concerns. While states are operating in both the international security and the international economic realm, neorealists contend it is the former, not that latter that dominates when the two systems are at odds.³⁶ This is because every state's top goal is survival; if it cannot survive, it cannot pursue any other goal. The second reason that the economic liberal argument is flawed, according to neorealists, is that it ignores the effects of anarchy on the system. When security is scarce, states are more concerned with relative gains than absolute gains. This makes cooperation difficult, unless the "pie can be finely sliced to reflect, and thus not disturb, the current balance of power."³⁷

Specifically, neorealists turn to two periods in European history where economic interdependence was high, but did not restrain conflict. In the run-up to the first Great War, European trade was at an all-time high relative to GDP. However, the trade in strategic goods created vulnerabilities among the states and led to eventual war. During the Cold War relative peace in Western Europe correlates with high levels of interdependence but was not caused by these commercial relations. Instead, neorealists argue, the common Soviet threat faced by Western Europe drove them away from relative gains calculations between one another to focus instead on relative gains calculations between the two principal blocks of the Cold War; NATO and the Warsaw Pact. So long as the pie continued to grow for NATO nations, relative concerns were not an issue among them. This is a result, so the argument

³⁴ Aggarwal, Vinod, and Min G. Koo. *Asia's New Institutional Architecture: Evolving Structures for Managing Trade, Financial, and Security Relations*, Verlag: Springer, 2008, pg. 133.

³⁵ Carpenter, William and David G. Wienczek, *Asian Security Handbook: Terrorism and the New Security Environment*, Armonk: M.E. Sharpe, 2004, p. 108.

³⁶ Mearsheimer, "Why We Will Soon Miss the Cold War," pp. 35-50.

³⁷ *Ibid.*

goes, of US hegemony in NATO mitigating the effects that anarchy has on these Western European democracies. The US provided protection from the Soviet threat and guaranteed that no Western European power would aggress against one another. Simply put, during the Cold War, the US acted the part of the night watchman for Western Europe.³⁸

PERSPECTIVES ON CHINA'S RISE

Some international relations scholars believe that with the end of the Cold War, Asia, and East-Asia specifically, is "ripe for rivalry," that is, there will be strong thrusts for competition in the early part of the 21st century.³⁹ Citing great cleavages in military and economic power between the states, fledgling democracies, weak international institutionalization and balance of power politics in the region, Friedberg concludes that a curtain of fog exists and creates much uncertainty for the prospect of peace in East Asia. Power balancing against China appears to be taking place. Through the 2007 Joint Statement on the U.S.-Japan Security Consultative Committee, both Japan and the United States sought to enhance security cooperation with both Australia and India. Similarly, in 2009 South Korea and Australia issued a joint-security statement. Indonesia, a founder of the non-aligned movement, that for long refused to align itself with any other country, recently signed an agreement with Australia to provide consultation in the event of challenges to their common security.⁴⁰ Though both parties denied that China was the reason for this agreement, Garver professes that the "context and time of the agreement, however, suggest that this indeed was the case." Additionally, following a Sino-Filipino clash over the Mischief Reef, Manila sought and got a memorandum of understanding from the British defense secretaries in January 1996, calling for joint military exercises, exchanges of information and cooperation in other security matters.⁴¹ For itself, China has solidified relations with Pakistan, Myanmar and Iran. China has invested US \$70 billion in Iranian oil fields and concluded agreements with Pakistan and Myanmar to finance and build ports guaranteeing safe passage for energy supplies to China and allowing access to Chinese submarines.⁴² Just as the U.S. and states in Asia strengthen their ties to balance against China, China has responded by securing its access to oil and encircling a rival, India.

³⁸ *Ibid.*

³⁹ Friedberg, Aaron, "Ripe for Rivalry: Prospects for Peace in a Multipolar Asia." *International Security* 18:5-33, (1993).

⁴⁰ Garver, John, *Face-Off*, Seattle, WA: Washington University Press, 1997, p. 9.

⁴¹ Garver *Face-Off*, p. 10.

⁴² Moritsugu, Ken (2007). "India Rising." In *Global Issues*, CQ Researcher Washington, D.C.: Congressional Quarterly, p. 380 Katel, Peter and Alan Greenblatt, "Emerging China." In *Global Issues*, CQ Researcher Washington, D.C.: Congressional Quarterly, 2007, p. 394.

Contrary to Friedberg's contention, David Kang offers an alternative finding; that Asian nations are indeed bandwagoning with China, not balancing against it.⁴³ There are various causes for the onset of conflict between China and its neighbors, all political or strategic in nature, rather than economic. Citing a lack of arms races in the region's post-Cold War era, realism's pessimistic predictions of conflict in Asia have failed to materialize.

Despite extensive literature on the relationship between conflict and interdependence, there is very little that examines China specifically. Work by Fravel examines China's territorial concessions in terms of off-setting instability within the domestic political system.⁴⁴ He finds that China has made uneven territorial concessions, in spite of relative power increases, to reduce conflict on its borders and concentrate on stabilizing efforts internally to stave off domestic conflict. In his work on exploring Sino-Japanese relations, Buszynski finds that while economic interdependence between China and Japan does contribute to more cooperative political relations, alone, it is not sufficient to provide regional security due to the salient historical rivalry between the two East Asian powers.⁴⁵ Along similar grounds, Michael Yahuda agrees that economic interdependence is not sufficient to provide stability in Sino-Japanese relations due to strong anti-Japanese attitudes in China.⁴⁶ He suggests that without a continuous security dialogue and stronger social and political interactions, the full pacific benefits to economic interdependence will likely not be realized. Masterson finds that Chinese economic interdependence with its neighbors is associated with increases in political cooperation; however, relative power increases have a deteriorating effect on these relations as well. One glaring exception to this trend is Japan.⁴⁷ China's participation with Japan in multilateral institutions is a strong first step towards a continuous dialogue and frequent political interaction. Kai He suggests that, to this end, the "dragon's teeth" may be softened by deep economic integration in a region where institutional balancing and constrained competition are a feature of future Asian security.⁴⁸ He finds that after China's initial reluctance to join

⁴³ Kang, David C. "Getting Asia Wrong: The need for new analytical frameworks," *International Security*, Vol. 27, No. 4, 2003, p. 58.

⁴⁴ Taylor, Fravel, M. "Regime Insecurity and International Cooperation." *International Security* 30: (2005), 46-83.

⁴⁵ Buszynski, Leszek, "Sino-Japanese Relations: Interdependence, Rivalry and Regional Security," *Contemporary Southeast Asia*, Vol. 31, No. 1 (2009) p. 164.

⁴⁶ Yahuda, Michael, "The Limits of Economic Interdependence: Sino-Japanese Relations." In *New Directions in the Study of China's Foreign Policy* eds. A.I. Johnston & R.S. Ross, 2006, pp. 162-185.

⁴⁷ Masterson, James, "Analysing China's Economic Interdependence and Political Relations with its Neighbours," *China Information*, Vol. 26, No. 1, (2012), pp. 3-33.

⁴⁸ He, Kai, *Institutional Balancing in the Asia Pacific: Economic Interdependence and China's Rise*, New York, NY: Routledge, 2008, p. 15

multilateral institutions, upon its membership to the Asia-Pacific Economic Cooperation (APEC) group, China has become a member in a number of Asian institutions, setting institutional diplomacy as one of the cornerstones of its foreign policy.

From the brief survey of Chinese foreign relations, we see that there is no consensus about what China's rise will be like. Do neorealist or neoliberal theoretical perspectives best characterize Chinese foreign relations? This paper seeks to provide clarity to this question by testing various hypotheses drawn from the existing literature as they relate to China's rise.

HYPOTHESES

From the brief literature presented over neorealism and neoliberalism, several hypotheses can be drawn with respect to China's foreign relations with the world. Neoliberal arguments are particularly relevant to understanding China's rise since it has grown to be one of the top three largest economies in the world, largely reliant on foreign trade and investment to do this.

Hypothesis One (Trade-Interdependence Hypothesis): as China's trade interdependence increases with its trading partners its political relations improve.

China's reliance on international trade as a source of employment and revenue through the assembly of imported products for export has grown dramatically over the last two decades. In 1990 China's total trade represented 22 percent of its GDP and by 2006 it grew to 84%, far greater than other large continental powers.⁴⁹ According to the trade-interdependence hypothesis, we should expect to see high levels of interdependence associated with positive political relations for China and its trading partners. Neorealists, however, contend that increases in interdependence lead to increases in conflict.⁵⁰

Hypothesis Two (Financial-Interdependence Hypothesis): as China's financial-interdependence with the other states increases its political relations improve.

As noted above, recent research by Rosecrance and Thompson highlights the growing impact that foreign direct investment flows are creating.⁵¹ Rosecrance and Thompson show foreign direct investments have increased 800 percent since 1970, while trade levels have increased by half that. For China's part, in 2002, it surpassed the United States as the world leading

⁴⁹ Trade statistics from the *IMF Direction of Trade Statistics*.

⁵⁰ Waltz, *Theory of International Politics*.

⁵¹ Rosecrance and Thompson, 2003, p. 385

destination for foreign direct investment.⁵² FDI flows into China have increased from \$33 billion in 1994 to \$63 billion by 2006.⁵³

Hypothesis Three (Relative Gains Hypothesis): as trade asymmetries grow between China and its trading partners negative political relations are more likely.

In the anarchic international system where security is scarce and states must fend for themselves, neorealists expect that states are primarily concerned with relative gains. Therefore, as the gap between Chinese imports and exports increases for states, neorealism suggests this will lead to friction between the two. As the gap narrows or becomes virtually zero political relations are not likely to be effected by the trade symmetry.

Hypothesis Four (Institutionalist Hypothesis): as China participates in a greater number of international institutions with other states its political relations improve.

The benefits that participation in international institutions can provide states are discussed above. Traditionally, China kept an arm's length away from entanglements in institutions. However, since reforms to open up its economy China has seen these institutions in a different light. These institutions can be seen as a restraint on American hegemony in East Asia, rather than as constraints on Chinese policy. Therefore, China has worked assiduously to gain entrance into some of the region's and the world's most influential institutions. China has been a part of regional forums such as APEC, APT, and ARF since the 1990's and has developed closer ties with Central Asian states and Russia through the SCO founded in 1996. Furthermore, China gained admission into the WTO in 2001.

Hypothesis Five (Relative Power Hypothesis): as China's power increases relative to other states in the international system, states are more likely to experience negative political relations with China.

According to neorealists, states can never be certain of each others' intentions. Chinese military might is likely to become a source of tension with other states. The larger the power disparity, particularly among other great

⁵² Moore, Thomas G., "China's International Relations: The Economic Dimension." In *The International Relations of Northeast Asia*, ed. Samuel S. Kim. Lanham, Md: Rowman and Littlefield, 2004.

⁵³ FDI figures presented are drawn from *China Statistical Yearbook* (Beijing: China Statistical Publishing House, various years).

powers, the more likely there is to be negative political relations with these states. It was not until 1989 that China announced several large increases in the People's Liberation Army's (PLA) budget during peacetime. The PLA's budget had been kept relatively low in the 1980's as domestic economic development was the priority.⁵⁴ In the three years prior to 1989 China's military budget grew annually by an average of 4.4 percent. In the three years after and including 1989, China's military budget grew by an average of 14.8 percent per annum.⁵⁵ By 2006, China's military expenditure ranked among the largest in the world (behind that of the US), with some scholars estimating it at the \$400 billion range once adjusted for "the reality that a billion dollars can buy a lot more 'bang' in China than in the US."⁵⁶ Other more modest figures estimate Chinese military expenditures at around \$100-150 billion.⁵⁷

Military expenditures do not translate to an absolute advantage. Over time, however, China's military capabilities may have marginally increased relative to major players in East Asia. China has expanded its power projection capabilities within Asia and has improved its air and sea-lift abilities.⁵⁸ Despite these relative increases in capabilities, PLA modernization still has a long way to go. Estimates vary from 2020 to 2050 as to when China may "catch up" to the modernization of the US military, which is a main supplier to the South Korean and Japanese forces, with some scholars arguing that U.S. developments have actually outstretched Chinese efforts.⁵⁹

RESEARCH DESIGN

The five hypotheses listed above are tested using quantitative data from a variety of sources compiled into a single database. To test the hypotheses, I estimate the influence that economic interdependence (defined in terms of both trade and FDI), asymmetrical trade, international institutions and relative power capabilities have on political relations between China and other states. The unit of analysis is the dyad-year for pairs of states with whom China has trade relations. Overall, there are 153 states paired with China in the sample

⁵⁴ Goldstein, Avery, "Great Expectations," *International Security*, Vol. 22, No. 3, (2000), pp. 36-73.

⁵⁵ Author's calculations from figures in Drifte (2003, p. 42).

⁵⁶ Tkacik, John J. Jr. "A Chinese Military Superpower." In *Taking Sides: Clashing Views of World Politics*, ed. John T. Rourke, 2009.

⁵⁷ SIPRI and US Department of Defense estimates, respectively.

⁵⁸ Saunders, Phillip, "China's Role in Asia." In *International Relations of Asia*, eds. David Shambaugh and Michael Yahuda, Lanham, MA: Rowman and Littlefield, 2008.

⁵⁹ For an assessment of China's recent military modernization and review of its weapons systems, see Eland, Ivan, "Is Chinese Military Modernization a Threat to the United States?" Cato Policy Analysis No. 465, (2003).

frame from 1990-2004.⁶⁰ The sample size for the tests ranges from 278 to 687. The period 1990-2004 is examined because events data on China is limited. However, the beginning of the time frame is roughly a decade after China opened up at the Third Plenum of the Eleventh Central Committee in December of 1978. Since then, China has averaged between 9-12 percent annual GDP growth rates and has now risen to the second largest economy in the world.

Dependent Variable

The dependent variable for the study is mean political relations between China and other states in the international system. Data for political relations is derived from King and Lowe's *10 Million International Dyadic Events*.⁶¹ Dyadic political events are captured using automated content analysis of *Reuters Business Briefing* for actors throughout the world. This research uses events in which China is either a source or a target for the event with some other state actor. The event code listed in the King and Lowe database is then weighted according to the Goldstein ontology.⁶² The result is a scale between -10 and 8.3 for political actions where negative values represent varying degrees of political conflict and positive values represent varying degrees of political cooperation. Averages are calculated for each dyad-year to represent mean political relations between China and the other states in the sample.

Independent Variables

There are five independent variables of particular interest to this study. The first is economic interdependence. Early measurements of economic interdependence are drawn from international trade statistics. These empirical studies use international trade as the sole measurement of economic interdependence.⁶³ This measurement is used because interstate trade creates benefits to both states, otherwise the transaction would not occur. A state's objective through interstate trade is the improvement of national welfare and

⁶⁰ Three states were eliminated because they did not exist for a majority of the time; USSR, Yugoslavia, and Czechoslovakia. 50 other states were eliminated from the sample because they did not have sufficient dependent variable data.

⁶¹ Gary King and Will Lowe, 2003, "10 Million International Dyadic Events", <http://hdl.handle.net/1902.1/FYXLAWZRIA>
UNF:3:dSE0bsQK2o6xXlxeaDEhcg== Murray Research Archive [Distributor] V1 [Version]

⁶² King, Gary and Will Lowe, "Conflict Data with Performance as Good as Human Coders: A Rare Events Evaluation Design," *International Organizations*, 57 (Summer 2003), pp. 617-642.

⁶³ E.g. Bruce Russett, *International Regions and the International System* (Chicago, IL: Rand McNally, 1967); Polachek, "Conflict and Trade," 55-78; Rosecrance, *The Rise of the Trading State*; Domke, *War and the Changing Global System*.

the allocation of resources through internal development and trade. States begin to rely on these benefits as certain segments of society prosper from these gains. Moreover, states benefit from the increased production of its goods for export and from retailers that import goods the state cannot produce as efficiently as they would be able to otherwise. Faced with the prospect of losing trade with a partner should war breakout, states are less likely to choose the war option with these trading states since its opportunity costs are increased. Trading states recognize that they can do better through internal economic development sustained by a worldwide market for their goods and services than by attempting to conquer and assimilate large tracts of land.⁶⁴

While international trade is often used as a proxy for interdependence, there is no consensus in the literature as to how to conceptualize this variable.⁶⁵ Trade interdependence is measured primarily by two methods. It is measured relative to both a state's GDP (economy-trade interdependence) and its world trade (partner-trade interdependence). For efficiency, this research will rely on economy-trade interdependence.^{66 67}

As the unit of analysis for this research is a dyad-year, it is necessary to construct a truly dyadic measure of trade interdependence between pairs of states. The research adopts the operationalization for interdependence found in Oneal et al.⁶⁸ A partner dependence measure is calculated to construct this. Partner dependence is equal to dyadic trade divided by GDP. This is calculated for both China and its neighbor at time t . The partner dependence scores are summed and then divided by 1 plus the absolute value of the difference of the

⁶⁴ Rosecrance, *The Rise of the Trading State*.

⁶⁵ E.g. Ruth W. Arad and Seev Hirsch, "Peacemaking and Vested Interests: International Economic Transactions," *International Studies Quarterly* 25(1981):439-68; Polachek, "Conflict and Trade," 55-78; Domke, *War and the Changing Global System*; Mark J. Gasiorowski and Solomon Polachek, "Conflict and Interdependence: East-West Trade and Linkages in the Era of Détente," *Journal of Conflict Resolution* 26 (1982):709-729; Solomon W. Polachek and Judith A. McDonald, "Strategic Trade and the Incentive for Cooperation," in *Disarmament, Economic Conversion, and Management of Peace*, eds. Manas Chatterji and Linda Forcey (Praeger Publishers, NY, 1991): 273-284; Mansfield, *Power, Trade and War*; Oneal, et al., "The Liberal Peace," 11-28; Barbieri, "Economic Interdependence," 29-49; Barbieri, *Liberal Illusion*.

⁶⁶ Results for partner-trade interdependence shown not differences with results based on economy-trade interdependence.

⁶⁷ Trade data for this research comes from the IMF *Direction of Trade Statistics*. GDP data comes from World Bank *World Development Indicators*, adjusted to 2000 base for all states except N. Korea. North Korean estimates come from Bank of Korea.

⁶⁸ Oneal et al. "The Liberal Peace: Interdependence, Democracy and International Conflict, 1950-1985," *The Journal of Peace Research*, Vol. 33, No. 1, (1996) pp. 15-16.

two scores.⁶⁹ The i^{th} state's partner dependence value is the first term in the numerator and the j^{th} state's partner dependence value is the second term in the numerator.

Dyadic economy-trade interdependence is measured using the following formula in equation one:

$$I_{ij,t} = \frac{\frac{M_{ij,t} + X_{ij,t}}{GDP_{i,t}} + \frac{M_{ji,t} + X_{ji,t}}{GDP_{j,t}}}{1 + \left| \frac{M_{ij,t} + X_{ij,t}}{GDP_{i,t}} - \frac{M_{ji,t} + X_{ji,t}}{GDP_{j,t}} \right|}$$

where M_{ij} is the i^{th} state's imports from the j^{th} state and X_{ij} is i 's exports to j . GDP_i is i 's gross domestic product. Absolute value is used in the denominator so that the effect of any asymmetries within a dyad produces a consistent reducer effect regardless of the direction of the asymmetry. For instance, without the use of absolute value, if i 's dependence on j is less than j 's dependence on i then the denominator will have a multiplier effect on the numerator. If i 's dependence on j is greater than j 's dependence on i then the denominator will have a reducer effect on the numerator. Since the designation of which actor is i and which is j is arbitrary, a uniform direction is necessary for all dyads. Adopting the absolute value in the denominator will create a consistent reducer affect across all dyads.

A second variable of interest to this study is the asymmetry of trade. Asymmetry of trade is calculated as the amount a state is dependent on China as a trading partner and vice versa. Here I borrow Barbieri's operationalization for trade asymmetry.⁷⁰ Each state's dependence on the other as a source of international trade is calculated as dyadic trade over total trade. Then dyadic asymmetry between state i and j , during year t , is calculated as one minus the absolute value of the difference of these two dependence scores as described in equation two below:

$$Asymmetry_{ij,t} = 1 - \left| \frac{M_{ij,t} + X_{ij,t}}{WT_{i,t}} - \frac{M_{ji,t} + X_{ji,t}}{WT_{j,t}} \right|$$

⁶⁹ Oneal et al. "The Liberal Peace: Interdependence, Democracy and International Conflict, 1950-1985," do not use absolute value, but instead order the terms from high value to low value to avoid a negative difference in the denominator.

⁷⁰ Barbieri, Katherine. *Liberal Illusion: Does Trade Promote Peace?* Ann Arbor, MI: University of Michigan Press, 2002.

where M_{ij} plus X_{ij} is i 's total trade with j . WT_i is i 's world trade. Absolute value is used so that the effect of any asymmetries within a dyad produces a consistent effect regardless of the direction of the asymmetry. The reason for this is theoretically driven. There is likely to be conflict when the asymmetry increases since one state is not dependent on the other. When both states are nearly equally dependent on one another, the theory holds, there is less likely to be conflict. This situation is reflected in values close to one, while asymmetrical relationships are found as the value approaches zero.

A third indicator of economic interdependence particularly relevant to China is financial interdependence. Financial interdependence is measured by examining inflows of FDI from each state into China.⁷¹

Specifically, financial interdependence is measured by:

$$F_{ij,t} = \frac{\frac{FDI_{ij,t}}{GDP_{i,t}} + \frac{FDI_{ji,t}}{GDP_{j,t}}}{1 + \left| \frac{FDI_{ij,t}}{GDP_{i,t}} - \frac{FDI_{ji,t}}{GDP_{j,t}} \right|}$$

where, during time t , FDI_{ij} is the level of inflow of foreign direct investment from country j to country i , China. GDP_i is i 's gross domestic product.⁷²

Admittedly, these are no perfect indicators of trade and financial interdependence since they say nothing about the qualitative aspects for the trade and investment. A state that imports vital raw materials for industrialization may have greater vulnerability than these measures may indicate. However, to the extent that international prices reflect the real values of goods traded, the trade-to-GDP ratio will accurately describe a state's dependence on its trading partner.⁷³

The fourth independent variable of interest is joint membership in international institutions. $JiInstitutions$ is measured by instances that China is in an international institution with another state for a given year. Data for joint membership in international institutions comes from COW International Governmental Organization dataset version 2.3.⁷⁴

And lastly, the fifth independent variable of importance to this study is relative power capabilities. This study operationalizes relative power by

⁷¹ FDI data used in this research comes from *China Statistical Yearbook* (Beijing: China Statistical Publishing House, various years).

⁷² Formula adapted from Thompson, "Foreign Direct Investment and War," 52.

⁷³ Oneal et al. "The Liberal Peace," pg. 16.

⁷⁴ Pevehouse, Jon C., Timothy Nordstrom, and Kevin Warnke. 2004. "The COW-2 International Organizations. Dataset Version 2.0," *Conflict Management and Peace Science* 21(2):101-119.

evaluating relative capabilities available to each state in a given dyad. The COW Composite Index of National Capabilities scores are used to measure each state's share of the interstate system's total military, industrial and demographic resources. *RELPOWER* is the log of the ratio of the stronger state's capability index to that of the weaker member in each dyad.

Control Variables

A number of important political, economic, military and geographic factors that may affect trade, institutional membership, relative power and political relations are controlled for in the study. Economic development is controlled for in this study by using per capita GDP from the *COW CINC* dataset to indicate levels of successful economies. States enjoying successful economies are less apt to fight for fear of disrupting current economic trends. Furthermore, regimes may have an incentive to distract attention from a declining economy.⁷⁵ The average GDP per capital growth is calculated for each state in the sample and China.

Empirical research showing that democracies refrain from war with one another is strong.⁷⁶ Since China is not a democracy, there would be no use in employing a joint-democratic indicator. Less observed are the pacific relations of democracies toward non-democracies. Some studies have found that the more libertarian a state is the less it experiences foreign violence.⁷⁷ As such, this study controls for the effects of a state's level of democracy on its interstate relations with China. This study uses the Institutional Democracy Index and the Autocracy Index from the *Polity IV*⁷⁸ dataset to create an ordinal variable, with range [-11,11], for overall level of democracy for each state in a dyad with China, and for each year to control for the effects democracy may have on interstate relations. The democracy and autocracy scores measure each government's openness to citizen participation, competitiveness to participation and recruitment and the degree of institutional checks available on the exercise of power within the state in a given year. Each state's autocracy score is

⁷⁵ Oneal et al. "The Liberal Peace," 11-28.

⁷⁶ See Bremer, Stuart A. "Dangerous Dyads: Conditions Affecting the Likelihood of Interstate War, 1816-1965," *The Journal of Conflict Resolution* 36, no. 2 (1992): 309-41; and Bremer, Stuart A. "Democracy and Militarized Interstate Conflict, 1816-1965," *International Interactions* 17, no. 3 (1993): 231-49.

⁷⁷ Rummel, R.J. "Libertarianism and International Violence," *Journal of Conflict Resolution* 27, no. 1(1983): 27.

⁷⁸ For an overview of this dataset see Ted Robert Gurr, Keith Jagers & Will H. Moore, *Polity IV* [Computer file], ICPSR version, (Boulder, CO: University of Colorado, 2007; Ann Arbor, MI: Interuniversity Consortium for Political and Social Research [distributor], 2007).

subtracted from its democracy score for an overall measurement of democracy.⁷⁹

Contiguity is controlled for by distinguishing between five different types of dyadic direct contiguity using the COW Direct Contiguity Data v. 3.1.⁸⁰ The ordinal variable takes on a value of one when the dyad is separated by a land or river border; two when the dyad is separated by 12 miles of water or less; a three when separated by 24 miles of water or less (but more than 12 miles), a four when separated by 150 miles of water or less (but more than 24 miles) and a five when separated by 400 miles of water or less (but more than 150 miles).⁸¹

A control variable called *peace years* is created to reflect the number of years a dyad has remained at peace with one another. The number of consecutive years a dyad maintains a positive value for mean political conflict should be positively related to cooperation according to the logic that the larger number of years a dyad is at peace the more likely it is to remain at peace.

Lastly, a variable measuring the partner state's military expenditure relative to its GDP averaged with China's relative military expenditure is created. High levels of military expenditure may indicate a hostile environment and increase the likelihood of conflict within the dyad. Data for military expenditure was obtained from the Stockholm International Peace Research Institute (SIPRI).

Independent variables are lagged one year so that levels in a given year are not affected by changes in political relations. Economic and military variables are logged to normalize the data. Additionally, continuous independent variables are standardized to eliminate problems associated with multicollinearity.

EMPIRICAL RESULTS

Nine OLS regressions were conducted to test the five hypotheses listed above. The first five models regress political relations against each of the five independent variables separately but include the five control variables along with a one-year lag of political relations.⁸² The next three models regress the

⁷⁹ Jagers, Keith and Ted Robert Gurr, "Tracking Democracy's Third Wave with Polity III Data," *Journal of Peace Research* 32, no. 4 (1995): 469-482.

⁸⁰ Correlates of War Project. *Direct Contiguity Data*, 1816-2006, Version 3.1.

⁸¹ Stinnett, Douglas M, and Jaroslav Tir, Philip Schafer, Paul F. Diehl, and Charles Gochman (2002). "The Correlates of War Project Direct Contiguity Data, Version 3." *Conflict Management and Peace Science* 19 (2):58-66.

⁸² The equations for the regression models are as follows:

Model one: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Trade-Interdependence_{China,t-1} + \beta_2 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_3 * Per\ Capita\ ME_{China,t-1} + \beta_4 * Democratic\ Index_{China,t-1} + \beta_5 * Contiguity_{China,t-1} + \beta_6 * Peace\ Years_{China,t-1} + \beta_7 * Political\ Relations_{China,t-1}$

three economic variables separately while controlling for the influence of joint institutional membership and relative military power along with the control variables. Last, the final model includes all independent and control variables.

All models are based on a two-tailed test where the significance threshold is $p \leq .05$. A two-tailed test is used because it is unclear from previous research the direction of the effect the various independent variables have on political relations. For instance, with regards to interdependence, neoliberals contend that higher levels improve political relations while neorealists contend that it increases political conflict. Adopting a high threshold for the confidence interval, $p \leq .05$, puts an additional burden on the researcher to show significant relationships between the independent variables and political relations compared to the not yet conventional, but often used threshold of $p \leq .10$.

All nine models are statistically significant, meaning that the model is a better predictor of the dependent variable than the mean values ($F \leq .001$). The

Model two: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Financial-Interdependence_{China,t-1} + \beta_2 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_3 * Per\ Capita\ ME_{China,t-1} + \beta_4 * Democratic\ Index_{China,t-1} + \beta_5 * Contiguity_{China,t-1} + \beta_6 * Peace\ Years_{China,t-1} + \beta_7 * Political\ Relations_{China,t-1}$

Model three: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Trade-Symmetry_{China,t-1} + \beta_2 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_3 * Per\ Capita\ ME_{China,t-1} + \beta_4 * Democratic\ Index_{China,t-1} + \beta_5 * Contiguity_{China,t-1} + \beta_6 * Peace\ Years_{China,t-1} + \beta_7 * Political\ Relations_{China,t-1}$

Model four: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Joint\ Institutions_{China,t-1} + \beta_2 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_3 * Per\ Capita\ ME_{China,t-1} + \beta_4 * Democratic\ Index_{China,t-1} + \beta_5 * Contiguity_{China,t-1} + \beta_6 * Peace\ Years_{China,t-1} + \beta_7 * Political\ Relations_{China,t-1}$

Model five: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Relative\ Power_{China,t-1} + \beta_2 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_3 * Per\ Capita\ ME_{China,t-1} + \beta_4 * Democratic\ Index_{China,t-1} + \beta_5 * Contiguity_{China,t-1} + \beta_6 * Peace\ Years_{China,t-1} + \beta_7 * Political\ Relations_{China,t-1}$

Model six: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Trade-Interdependence_{China,t-1} + \beta_2 * Joint\ Institutions_{China,t-1} + \beta_3 * Relative\ Power_{China,t-1} + \beta_4 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_5 * Per\ Capita\ ME_{China,t-1} + \beta_6 * Democratic\ Index_{China,t-1} + \beta_7 * Contiguity_{China,t-1} + \beta_8 * Peace\ Years_{China,t-1} + \beta_9 * Political\ Relations_{China,t-1}$

Model seven: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Financial-Interdependence_{China,t-1} + \beta_2 * Joint\ Institutions_{China,t-1} + \beta_3 * Relative\ Power_{China,t-1} + \beta_4 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_5 * Per\ Capita\ ME_{China,t-1} + \beta_6 * Democratic\ Index_{China,t-1} + \beta_7 * Contiguity_{China,t-1} + \beta_8 * Peace\ Years_{China,t-1} + \beta_9 * Political\ Relations_{China,t-1}$

Model eight: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Trade-Symmetry_{China,t-1} + \beta_2 * Joint\ Institutions_{China,t-1} + \beta_3 * Relative\ Power_{China,t-1} + \beta_4 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_5 * Per\ Capita\ ME_{China,t-1} + \beta_6 * Democratic\ Index_{China,t-1} + \beta_7 * Contiguity_{China,t-1} + \beta_8 * Peace\ Years_{China,t-1} + \beta_9 * Political\ Relations_{China,t-1}$

Model nine: $Political\ Relations_{China,t} = \alpha_0 + \beta_1 * Trade-Interdependence_{China,t-1} + \beta_2 * Financial-Interdependence_{China,t-1} + \beta_3 * Trade-Symmetry_{China,t-1} + \beta_4 * Joint\ Institutions_{China,t-1} + \beta_5 * Relative\ Power_{China,t-1} + \beta_6 * Per\ Capita\ GDP\ Growth_{China,t-1} + \beta_7 * Per\ Capita\ ME_{China,t-1} + \beta_8 * Democratic\ Index_{China,t-1} + \beta_9 * Contiguity_{China,t-1} + \beta_{10} * Peace\ Years_{China,t-1} + \beta_{11} * Political\ Relations_{China,t-1}$

adjusted R^2 values for the models range between .089 and .323. These are generally considered low values. However, it is not the scope of this research to explain China's political relations *per se*, but rather to understand if certain factors influence China's political relations. Therefore, it is not necessary that the models have high explanatory power.

Table 1. Independent Variable Influences on Chinese Political Relations

Variable	Model 1 Trade- Interdependence	Model 2 Financial- Interdependence	Model 3 Trade-Symmetry	Model 4 Joint Institutionalism	Model 5 Relative Power
Trade-Interdependence	-.154 (.039)***	-	-	-	-
Financial-Interdependence	-	-.209 (.039)***	-	-	-
Trade-Symmetry	-	-	.193 (.034)***	-	-
Joint Institutionalism	-	-	-	-.095 (.058)	-
Relative Power	-	-	-	-	-.639 (.141)***
Per Capita GDP Growth	.072 (.043)	.077 (.049)	.061 (.042)	-.010 (.046)	.040 (.040)
Mean Per Capita ME	-.007 (.044)	-.068 (.054)	.013 (.044)	-.014 (.046)	-.048 (.043)
Democratic Index	-.111 (.038)**	-.067 (.047)	-.125 (.037)***	-.050 (.050)	-.132 (.037)***
Contiguity	-.021 (.030)	-.043 (.034)	-.021 (.030)	-.002 (.032)	-.018 (.030)
Peace Years	.276 (.036)***	.246 (.037)***	.239 (.034)***	.380 (.050)***	.198 (.034)***
Lag Political Relations	-.019 (.039)	-.076 (.054)	-.025 (.038)	-.004 (.042)	-.011 (.038)
Constant	.039 (.035)	-.035 (.043)	.017 (.034)	.122 (.045)**	-.130 (.047)**
N	681	390	686	566	687
Adjusted R ²	.089	.139	.109	.104	.094

(Note: Standard errors are in parentheses. ** $p \leq .05$; *** $p \leq .01$; **** $p \leq .001$ two tailed test.)

Testing Hypothesis One

Model 1, shown in Table 1 above, measures the influence that trade-interdependence has on political relations between China and its trading partners while simultaneously controlling for various economic, political, military and geographical factors, along with the previous year's level of political relations.

From Model 1, we see that trade-interdependence is significantly related ($p \leq .001$) to China's political relations, but not in the expected neoliberal direction. The coefficient for trade-interdependence is -.154, indicating that increases in trade-interdependence decrease political relations between China and its trading partners. Additionally, the trade-interdependence hypothesis can be assessed in Models 6 and 9, found in Table 2, shown on the next page. Model 6 measures the influence that trade-interdependence has on China's political relations while also controlling for joint membership in international institutions and relative power. Here again, the coefficient is significant and negative (-.132, $p \leq .01$). Furthermore, in Model 9, the full model, the influence of trade-interdependence is measured while controlling for all other factors in

the study. In this model, trade-interdependence is not found to be significantly related to China's political relations.

In all, trade-interdependence is not found to significantly improve political relations between China and its neighbors. In fact, the opposite was found; trade-interdependence is related to deteriorations in political relations. The neoliberal hypothesis is not supported, while neorealist claims are.

Testing Hypothesis Two

Model 2, in Table 1, shows the influence of financial-interdependence on China's political relations. While financial-interdependence is shown to significantly relate to Chinese political relations, it does so counter to the neoliberal claim. Rather than being related to improvements of Chinese political relations, higher levels of financial-interdependence are associated with a deterioration of political relations. The coefficient for financial-interdependence is $-.209$ ($p \leq .001$), indicating that increases in financial-interdependence are related to decreases in political relations. Additionally, Models 7 and 9, found in Table 2, also measure the influence of financial-interdependence. Model 7 shows the influence of financial-interdependence while controlling for joint institutional membership and relative power. Here again, financial interdependence is found to be significantly related to decreases in political relations. The coefficient for financial-interdependence is $-.158$ ($p \leq .001$). Lastly, in Model 9 where the influence of financial-interdependence is measured controlling for all other factors in the study, financial interdependence is not found to be significantly related to China's political relations.

Support for the neoliberal hypothesis that increases in financial-interdependence are associated with improved political relations is not found. Rather, similar to trade-interdependence, financial-interdependence appears to be associated with a deterioration of political relations.

Table 2. Independent and Control Variable Influences on

Chinese Political Relations

Variable	Model 6 Trade- Interdependence	Model 7 Financial- Interdependence	Model 8 Trade-Symmetry	Model 9 Full Model
Trade-Interdependence	-.132 (.042)**	-	-	.020 (.086)
Financial-Interdependence	-	-.158 (.041)***	-	-.090 (.048)
Trade-Symmetry	-	-	.217 (.044)***	.345 (.059)***
Joint Institutionalism	-.177 (.064)**	-.244 (.079)**	-.181 (.062)**	-.161 (.075)*
Relative Power	-.585 (.176)***	-.526 (.247)*	-.263 (.192)	1.084 (.339)**
Per Capita GDP Growth	-.001 (.050)	-.120 (.065)	.011 (.049)	-.074 (.061)
Mean Per Capita ME	-.005 (.047)	-.087 (.063)	.025 (.047)	.048 (.062)
Democratic Index	-.016 (.051)	.043 (.064)	-.016 (.049)	.000 (.062)
Contiguity	-.040 (.033)	-.088 (.038)*	-.031 (.032)	-.065 (.037)
Peace Years	.432 (.051)***	.364 (.051)***	.401 (.048)***	.377 (.048)***
Lag Political Relations	-.018 (.041)	.000 (.061)	-.025 (.040)	-.033 (.057)
Constant	.023 (.055)	.040 (.078)	.076 (.056)	.395 (.093)***
N	560	278	565	278
Adjusted R ²	.142	.219	.163	.323

(Note: Standard errors are in parentheses. * $p \leq .05$; ** $p \leq .01$; *** $p \leq .001$ two tailed test.)

Testing Hypothesis Three

Model 3, in Table 1, shows the influence of trade-symmetry on political relations. The neorealist contention is that as the size of trade asymmetries increase, political relations deteriorate. Values of one indicate perfect symmetry and values of zero indicate perfect dependence of one state on the other. Therefore, neorealists would predict this variable to be directly proportional to political relations. The coefficient for trade-symmetry is $.193$ ($p \leq .001$). This indicates that as trade relationships go from being symmetrical to asymmetrical, political relations deteriorate between China and its trade partners.

Models 8 and 9, found in Table 2, also assess the influence that trade-symmetry has on China's political relations. In Model 8 the influence of trade-symmetry is measured while simultaneously controlling for joint institutionalism and relative power. Trade-symmetry is found to be significantly related to improved political relations. The coefficient for trade-symmetry is $.217$ ($p \leq .001$). Additionally, in Model 9, where all factors are considered, trade-symmetry is again found to significantly relate to improved political relations. The coefficient is $.345$ ($p \leq .001$).

All three models for measuring the influence of trade-symmetry on China's political relations indicate that as trading relations become more symmetrical, political relations improve. Conversely, as trading relations become asymmetrical, political relations deteriorate. The direction of this

relationship is consistent in all three models and is significant ($p \leq .001$). Neorealist predictions about the relationship between trade symmetry and political relations are supported.

Testing Hypothesis Four

Neoliberals contend that as joint-membership in international institutions increases between states, political relations improve. Neorealists contend that international institutions are used for political ends and do not improve interstate relations consistently. Model 4, in Table 1, tests the influence that joint membership in international institutions has on political relations. In this model, joint institutional membership is not found to be significantly related to China's political relations. The influence of institutions is also measured in models 6 through 9, in Table 2. In all four of these models joint institutional membership is found to be both statistically significant and associated with a decrease in political relations. The coefficients range from $-.244$ to $-.161$ and are all significant at the $p \leq .05$ level. Contrary to the neoliberal hypothesis, joint membership in international institutions is related to a deterioration of Chinese political relations.

Testing Hypothesis Five

Model 5, in Table 1, tests for the influence that relative power has on Chinese political relations, while considering the influences of the five control factors. Increases in relative power are associated with a deterioration of political relations. The coefficient for relative power is $-.639$ and is significant at the $p \leq .001$ level. The influence of relative power on Chinese political relations is also assessed in models 6 through 9, found in Table 2. The results here are mixed. In Models 6 and 7, relative power is inversely related to political relations and is found to be significant at the $p \leq .05$ level. The coefficient for relative power in these models is $-.585$ and $-.526$ respectively. Increases in relative power by China relate to decreases in political relations. In Model 8, where the effects of trade-symmetry are considered, relative power is not found to be significant. Lastly, in model 9 where all factors are simultaneously considered, relative power is positively related directly proportional to political relations. Increases in relative power by one state in the dyad appear to be related to increases in political relations. The coefficient for relative power in model 9 is 1.084 ($p \leq .01$ level).

While in 3 of the models increases in relative power are significantly related to declining political relations, in the full model, Model 9, it is associated with improved Chinese interstate relations. Since states must confront the realities associated with trade- and financial-interdependencies and trade asymmetries simultaneously with considerations of relative power and institutional membership, Model 9 best captures dyadic relations. There is a "feeding the beast" feeling among states when trade is asymmetrical and

relative power is increasing for the less dependent state. Model 9 shows that relative power considerations do not have to have a deleterious effect on political relations so long as trade remains fairly symmetrical, when the influences of trade- and financial-interdependence are considered. However, this relationship is not found in Model 8, when the influences of those two variables are not considered, though relative power does not reach statistical significance in this model.

Several other interesting findings are worth noting. First, peace years is found to be significant in all models ($p \leq .001$ level) and points in a consistent positive direction. Positive political relations between China and its trading partners tend to lead to further positive relations. However, the converse is not necessarily true. Lag political relations are not found to be significant in any model. The influence that democracy has on China's political relations with these states is measured in all models. However, only in models 1, 3 and 5 where the influences of trade-interdependence, trade-symmetry and relative power are separately considered is it found to be significant. In these models, higher levels of democracy are associated with a worsening of political relations with China.

In considering all five hypotheses, neorealism best describes China's interstate political relations. When assessing trade- and financial-interdependence, both are associated with a decline in China's interstate political relations. When assessing relative gains, large disparities in trade are associated with a worsening of China's interstate political relations. Additionally, joint membership in international institutions is not found to have any significant positive influence on China's political relations, while relative power increases are generally associated with a deterioration of political relations.⁸³ Furthermore, where joint institutional membership is found to be significant, it is associated with decreases in political relations.

POLICY IMPLICATIONS

The findings from this research have several policy implications for China's rise. Trade- and financial-interdependence with China does not necessarily lead to a deterioration of political relations so long as trade flows remain relatively symmetrical (Model 9). As trade flows become imbalanced, a worsening of political relations is likely to result (Models 3, 8 & 9). This issue is an important concern for Sino-American relations. The US currently runs a trade deficit with China on the order of \$315 billion per annum. This is nearly five times larger the deficit the US has with Japan, the country with whom it runs its second largest deficit. These findings imply that for political relations

⁸³ This was the case in three of the five models it was considered in. It is found to have a significant positive relationship with political relations in only one model.

to improve between the two countries there should be constructive steps between the two states to reduce the trade imbalance.

Relative power gains by China⁸⁴ are associated with a deterioration of political relations with its trading partners. Models 5-7 indicate this. However, when all international economic factors are simultaneously considered, relative power increases have the opposite effect on political relations. This supports the neoliberal contention that relative power concerns are not always the paramount concern among states. International economic factors can mitigate the effects of relative power gains by not only reducing it, but actually changing it from a negative effect on political relations to a positive effect. This is important to note as China continues its military modernization efforts. So long as trade imbalances can be minimized, Chinese relative power increases are not likely to lead to a deterioration in political relations.

As the Chinese continue to develop its blue water naval capabilities to project power far from its shores, and improve anti-ship missile technology, the US should seek economic policies that begin to reduce the trade deficit. Reducing the trade deficit requires either increased consumption of American goods by the Chinese or decreased consumption of Chinese goods by Americans. Current efforts by US Treasury officials to negotiate a strengthening of Chinese currency have not been overtly successful. However, the Chinese government has strengthened the RMB by nearly 25% since 2005. Despite this increase in the value of the RMB, US consumption of Chinese goods continues to outpace US exports to China. However, a clear consequence to American demands of a strengthening of Chinese RMB is a reduction or stoppage of Chinese purchases of US treasury notes. China is currently the largest creditor nation to the US. Such slow down or stoppage would mean that it will become more expensive for the US to borrow money, and thus, will cause an increase in interest rates. This however, would only go to aid in reducing the trade deficit since, as a result of credit becoming more expensive, Americans would purchase less goods, much of which would come from China.

Last, all things equal, positive political relations with China, once fostered can help sustain continuous positive relations in the long-term. Interestingly, institutionalization does not seem to be the driver of cooperation for China. In fact, the opposite results have been found. Institutional membership with China is related to a decrease in political relations.

⁸⁴ Though the variable is operationalized as a ratio of capabilities of the larger power to that of the smaller one, China was the larger power in all cases except five; US 1991-1995.

CONCLUSION

This research set out to test five hypotheses drawn from neoliberal and neorealist approaches to the study of international relations and applied to the case of China. The empirical findings generally do not support neoliberal claims that economic interdependence leads to cooperation among states. Nor do the findings support the neoliberal institutionalist claims that international institutions increase cooperation. When it comes to China's political relations, these factors may actually reduce political cooperation.

Neorealist claims that economic interdependence increases tensions among states are supported by the empirical results. For both trade- and financial-interdependence a negative relationship with political relations was found. Furthermore, neorealist claims centering around relative gains concerns are supported in these empirical findings. As trade relations become imbalanced, China's political relations generally worsen, all things equal.

There exists a bridge between the neorealist and neoliberal perspective. In all the models where significant, except for Model 9, relative power increases are associated with a deterioration of political relations. However, in Model 9, when international economic factors are simultaneously controlled for, relative power increases are related to improvements in interstate relations. This suggests that neoliberal claims which state that international economic activity can change state priorities so that power gains are not the dominant priority for states to consider are correct. Relative power has a positive influence on interstate relations when controlling for major international economic activity.

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