

# Sino-US Economic and Geopolitical Competition under the American Rebalance to Asia strategy

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**Abstract:** Since entering 21 centuries, the Asian region has become the focus of international attention. The Trans-Pacific Partnership (TPP) and the "One Belt, One Road" (OBOR) strategy are major strategic initiatives launched by the United States and China in response to the American rebalance to Asia strategy. The economic and geopolitical competition between China and the United States in the Asia-Pacific region will continue and intensify for quite some time. What is important is that both sides should look at each other's differences with an open and tolerant mindset and seek a win-win situation through dialog and cooperation.

**Keywords:** Pivot/Rebalance to Asia, Sino-US relations, Economic competition, Geopolitics.

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## 1. Introduction

In the evolution of the global power structure, the Asian region has become the focus of international attention because of its economic vitality, population size and the importance of its geostrategic location. In recent years, the expression "Asia is changing" has frequently appeared in international public opinion, especially the strategic adjustment of the United States in the region, which is like opening a new net, and its complexity and depth have posed new challenges to the stability of the region and Sino-US economic and geopolitical competition. Since the Obama administration proposed a "return to the Asia-Pacific", the U.S. has increased its focus on Asia, aiming to balance China's growing influence in the region. From the perspective of the country's new global strategy, the United States hopes to reshape the new rules of global trade, and has put forward the Trans-Pacific Partnership (TPP). This free trade agreements lead by the US will be of a higher standard than the WTO, covering not only traditional products and services, but also including trade provisions on environmental protection, labor protection, government procurement, intellectual property rights, and investment. In addition to tit-for-tat exchanges in maritime disputes in the East Asian seas, the rebalance has also intensified the economic and geopolitical strategic competition between China and the US. It is no coincidence that China's "One Belt, One Road" is also a new national global strategy, which is a response to the American rebalance to Asia strategy. The economic and geopolitical competition between China and the United States in the Asia-Pacific region will continue and intensify for quite some time. The purpose of this paper is to analyze the changes in the strategic layout of the United States in Asia, the external environment faced by China, and how China can make responses under the American rebalance to Asia strategy.

## 2. The US-Trans-Pacific Partnership

As mentioned earlier, the TPP was the economic pillar of the Rebalance strategy. TPP was originally established in 2005 by the 4 APEC member countries: New Zealand, Singapore, Brunei and Chile. After Obama took office, the US

decided to support and back the TPP negotiations. During his visit to Tokyo in 2009, Obama officially announced that the US would join the TPP. He said that the US would once again play a leading role in Asia and actively participate in trade and investment cooperation in the region [1]. Since then, Washington had taken advantage of TPP's existing agreements to advance its own economic agendas and dominate the TPP negotiation process in all aspects. In 2016, the TPP, under the leadership of the US, was officially signed in New Zealand. It included 12 member countries – the US, Japan, Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, totally accounting about 1/3 of global trade and 40% of world GDP [1]. TPP was ambitious, it included not only traditional provisions such as goods trade and services trade, but also provisions that are rarely covered by most other Asia-Pacific free trade agreements such as intellectual property, labour rights, environmental protection and currency policy [1]. Therefore, TPP was a tool for the US to attempt to dominate the Asia-Pacific economic cooperation, which would help Washington to formulate a set of rules and institutional arrangements conducive to itself, it could also help deepen the economic ties between the US and major regional countries, thereby strengthening its economic and geostrategic interests in the Asia-Pacific.

Moreover, TPP was also a strategic tool for the US to contain China economically. With China's economic rise, Beijing was increasingly seeking leadership in the Asia-Pacific regional institutions and trade agreement initiatives including Regional Cooperative Economic Partnership (RCEP), the ASEAN-China Free Trade Agreement and the Cross-Strait Economic Cooperation Framework Agreement, which would undoubtedly worry the US and make it believe that without an arrangement to bolster economic connections between the US and regional countries, China would benefit more quickly from the dividends of economic growth in the Asia-Pacific and become an increasingly important trade and investment partner for most regional countries [2]. This prompted Washington to establish TPP, an Asia-Pacific economic agreement that centering on the US. As Obama said after the substantial breakthrough in the TPP negotiations and the basic agreement reached in 2015, the US cannot allow

China to set the trade rules in the Asia-Pacific and even the world [3]. Obama also thought that the US was being challenged by China, which implemented economic expansionism, and that if no measures can be taken to contain China, there may be the economic “de-liberalisation” of the Asia-Pacific and exclusion of Washington from the regional economic cooperation [1]. Hence one of the key points of the US-led TPP negotiations was that the political systems of member countries must respect Western universal values such as freedom, democracy, the rule of law and human rights, all of which were aimed at confronting China. In addition, the US also used TPP as a coercive mechanism to put pressure on Beijing by deliberately excluding China and including other major economies in the Asia-Pacific [4]. Washington believed that this would force Beijing to follow the US-led international rules. There was a successful precedent for this coercive mechanism: China was excluded from the World Trade Organisation (WTO) for years before officially joining in 2001 following a series of “WTO-plus” concessions [5]. Hence the US thought that the interaction between China and TPP would likely to be a reply of the WTO case, and once TPP was put in effect, Beijing would seek to join the US-led

system by changing its domestic and external behaviour. Furthermore, part of the reason for this judgement was the relatively low-key and restrained attitude towards the US during the Hu era. However, Washington underestimated the ambition of the new Chinese leader Xi. As mentioned before, Chinese analysts regarded the TPP as a serious challenge for China. Firstly, it could weaken the momentum of Asian economic cooperation in which Beijing was playing a crucial role, and could also undermine China’s position as the center of regional economy [6]. Secondly, the exclusion of China from this new arrangement for the Asia-Pacific economic cooperation by the US could undercut Beijing’s economic ties with the TPP member countries [6]. Thirdly, any US actions to undermine China’s centrality in the regional economy would also weaken its influence in the Asia-Pacific political and security affairs [6]. These analyses made Xi believe that TPP was an economic and strategic tool for the US to shape the Asia-Pacific and contain China. With the increasing overall national strength and international influence, the Chinese government under the leadership of Xi proposed and implemented a new diplomatic strategy to respond to Washington’s TPP and the Rebalance.

### 3. China – Westward strategy and “One Belt, One Road”



Figure 1. One Belt, One Road [7]

In October 2013, China held its first Peripheral Diplomacy Work Conference. Xi stressed that efforts should be made to make a difference in “periphery diplomacy” and ensure a favourable regional environment for the development of China. Attended by representatives from the party, central and local government, the army, the diplomatic corps and state-owned enterprises, this conference was an unprecedented milestone in China’s diplomatic history and marked a strategic shift in Beijing’s foreign policy from “keeping a low profile” to “striving for achievement” [8]. This conference can also be seen as Xi’s assessment of Washington’s TPP and the Rebalance, and two considerations related to the US were crucial for understanding the importance of this conference. Firstly, since the end of the Cold War, the major focus of China’s foreign policy has always been the relationship with the US [9]. This is understandable given Washington’s

dominant position in global politics and economy. But this conference showed that Beijing was lowering the priority of its US focus while also increasing the importance of periphery diplomacy in its overall diplomatic strategy. Although this did not mean that regional diplomacy has taken precedence over its US policy, it did reflect that China was reducing its obsession with Washington [9]. Secondly, America’s new Asia strategy may have unwittingly prompted Beijing to realise the importance of periphery diplomacy and hence resolve to adopt an active and positive policy towards regional countries. The discussions at this conference held that one of the key purposes of the US Rebalance, especially TPP, was to sow discord between China and its Asian neighbours so as to benefit the US [9]. A logical response for Beijing was to improve relations with regional neighbours to shatter the intentions of the US [9]. Therefore, as a result of

this conference, China proposed to invest more resources in periphery diplomacy and strengthen diplomatic, economic and security engagements with its neighbouring countries. To this end, Beijing decided to join hands with regional countries to build a community of shared interests, responsibilities and destiny [6]. China also particularly focused on reinforce relations with many so-called “fulcrum countries” including Kazakhstan, Pakistan, Indonesia, South Korea and Malaysia, which possess important geopolitical influence on China’s neighbourhood and could significantly shape its surrounding environment [6]. Chinese leaders firmly believed that with the implementation of the US Rebalance, it generated tremendous military and geopolitical pressure on Beijing’s eastern flank. At the same time, TPP, as a regional economic agreement excluding China, would put China at a geo-economically disadvantageous position in the Asia-Pacific. In the face of geopolitical and geo-economic challenges from Washington, Beijing decided to adopt a “westward strategy”, drawing on China’s wide geographical connections and economic cooperation potential with countries in Eurasia to promote economic ties between Beijing and countries in Southeast Asia, South Asia, West Asia, Central Asia and Eastern Europe [6]. Once implemented, this strategy would not only create more opportunities for the economic development of China, but also expand its strategic space in Eurasia to face the challenge of the US Rebalance especially TPP. It was within the framework of this grand westward plan that Beijing announced OBOR initiative.

It should be noted that the academic or intellectual predecessor of Beijing’s westward strategy was an article published in 2012 (about one year after the US announcement of the Rebalance) by a famous Chinese scholar Wang Jisi (as mentioned earlier, Dean of the School of International Studies at Peking University), in which he suggested that when the US was “looking east”, China should not limit its vision to maritime Asia but should instead also implement a strategic rebalance to “pivot to the west” [10]. This was not a call for China to abandon East Asia, but it was rather a call for Beijing to adopt a more balanced diplomatic strategy. Wang argued that the competition between China and the US in East Asia was increasingly becoming a “zero-sum” game [10]. When Beijing looked east, it would find itself surrounded by a wide military presence (especially maritime) of the US and also Washington’s robust allies such as Japan and South Korea [10]. By contrast, looking west would show a more open geostrategic landscape in Eurasia [10]. This influential article was widely regarded as the foundation of Xi’s OBOR initiative. It was clear that Wang’s idea of “pivot to the west” was largely influenced by the US Rebalance (TPP in particular). If Wang’s suggestion indeed shaped the Chinese government’s design of OBOR initiative (which was quite possible given Wang’s influence in Chinese academia and policy circles), then OBOR initiative should be seen as an unintended consequence of America’s new Asia strategy.

In any case, China launched OBOR with great fanfare. This initiative consists with Silk Road Economic Belt and 21st Century Maritime Silk Road (see Figure 1). During a visit to Kazakhstan in September 2013, Xi proposed building the Silk Road Economic Belt, a land-based Eurasian economic network linking China with countries in Asia, Europe, and the Middle East through high-speed rails, airports and cargo terminals [11]. A month later, in a visit to Indonesia, Xi advanced a parallel idea of building 21st Century Maritime Silk Road, a maritime economic network that connects China

with Southeast Asia, South Asia and Africa [11]. Compared with Wang’s article which only focused on Eurasian continent, Xi’s OBOR is much more ambitious by incorporating an extra maritime component. Both theatres of OBOR could help Beijing bypass Washington politically, economically and geographically. OBOR involves more than 60 countries with a total population of over 4 billion, these countries also account for about 1/3 of global GDP [12]. At the National Party’s Congress and National People’s Congress in November 2014, the Chinese leadership officially announced that OBOR would serve as China’s key foreign policy. It marked that this initiative has entered the stage of implementation [4]. Since then, Xi has been promoting OBOR through the Silk Road Fund and China-led Asian Infrastructure Investment Bank (AIIB). Xi clarified the relationship between the Silk Road Fund and AIIB at the Boao Forum for Asia in 2015: they are different but connected. The AIIB is to finance the infrastructure construction in countries along OBOR, while the Silk Road Fund is designed to fund specific projects that contribute to the construction of OBOR [4].

As analysed before, OBOR was seen strategically as China’s economic and geopolitical response to TPP and the Rebalance, but it also had other various components and considerations. Firstly, OBOR, traversing central China and connecting neighbouring countries, would drum up development fever in the underdeveloped regions in western China which have been left behind by Beijing’s eastward export-oriented strategy over the past more than 4 decades [12]. These regions are farthest from the coast and hence have encountered the greatest obstacles in competing with the eastern provinces [12]. They have also been negatively affected by political frictions between China and its neighbours to the west such as India and Central Asia [12]. All these factors have hindered the development of western China and part of OBOR’s purpose is to narrow this domestic gap. Secondly, another important consideration of OBOR is that the Chinese government sought to create overseas investment opportunities for Chinese companies (mainly state-owned enterprises, SOEs). The experience in overseas projects could help SOEs become more internationally competitive – which is significant because the profitability of SOEs in China is usually lower than that of the private sectors [13]. Thirdly, OBOR could also promote the further internalisation of Chinese economy by creating opportunities for China to develop the use of renminbi (RMB) in international markets [12]. This would increase Beijing’s experience in operating RMB as an international currency and represent a step towards the long-term goal of making it become an international reserve currency [12]. Therefore, from China’s point of view, OBOR can serve both geostrategic and development goals, which could be said as “killing two birds with one stone”.

In addition, China’s westward strategy also included deepening relations with Russia and Europe beyond the platform of OBOR to reduce its vulnerability in the face of the US Rebalance. For Russia, the destination of Xi’s first overseas visit after taking office was Moscow. Diplomatically, under his leadership, the comprehensive strategic partnership between China and Russia has entered a new development stage. Xi did not criticise Russia’s policy towards Ukraine and the annexation of Crimean in 2014, and joined Putin at the parade in Moscow to celebrate the 70th anniversary of World War II in 2015 while many Western leaders boycotted this

event [11]. Militarily, Russia helped China share a lot of the maritime security pressure caused by the US Rebalance. The two countries conducted joint military exercises both in the SCS and ECS. Economically, after the Ukraine crisis, Moscow decided to position China as its top trading partner by exporting oil and gas to China and accepting Beijing's huge infrastructure investment [11]. In 2015, Xi and Putin jointly suggested that the Shanghai Cooperation Organisation (SCO) should be built as an important platform for both promoting China's OBOR initiative and Russia's aspiration for establishing Eurasian Economic Union to improve economic development of member states [14]. Although China was reluctant to recognise the role of the US in strengthening Sino-Russian relations, both Beijing and Moscow made it clear that they need each other's support on major international issues. China and Russia are regarded, in turns, by the US as its greatest national security threats, and the cooperation between the two countries would undoubtedly intensify Washington's concerns [11]. For Europe, in 2014, Xi paid a high-profile visit to the European Union (EU) headquarters in Brussels – this was the first formal visit by a Chinese head of state to Brussels in history. China actively used the “16+1” Forum, a new institutional mechanism established with East European countries (11 EU countries and 5 EU candidate countries) in 2011, to promote the implementation of OBOR in Europe. All of the intended transport links of OBOR could help facilitate trade between China and Europe. But Sino-EU relations has reached a higher strategic level – not only based on trade but also on advanced technology, military and food security [9]. Although it should not be imagined that Beijing could make Europe gradually more dependent upon China and less dependent upon the US through the westward strategy, China at least renewed its interest in Europe compared with the US [9]. Given the limited strategic resources of Washington due to the Rebalance (to Asia), the US would reduce its engagement with Europe than before. Hence it was logical for Beijing to respond to the US by filling this void to improve relations with Europe.

With the implementation of the US Rebalance, it reached TPP with several Asian countries (but not China) and the frictions between Beijing and Washington over disputes in the SCS and ECS was continuing, these potential flashpoints were unlikely to disappear in the short term. In this context, Beijing's westward strategy with the focus on OBOR had two critical strategic significances: First, it demonstrated China's concern to fiercely compete with the US through military and strategic economic policies; Second, it shifted some of Beijing's attention from East Asia (especially maritime) to the west to compete with Washington in a relatively indirect and more balanced way [12]. From the perspective of Chinese go, this is the strategy usually used by a player in a long game: to surround and occupy isolated or exposed pieces before gathering concentration to attack the main stronghold. Therefore, in the longer term, OBOR (if it is fully realised) may fundamentally transform the geography of global affairs and help China become a more globalised power that can rival the US. From the US point of view, OBOR obviously posed a great challenge to the success of its Rebalance strategy (TPP in particular), and may even threaten its traditional dominance in global economy and politics [15]. Hence Washington adopted a hostile attitude towards OBOR and even denounced this initiative as Beijing's neo-colonialism [1]. AIIB was a representative example. This China-led development bank

was established in October 2014 to finance transportation and infrastructure projects in developing regions of Asia, which is of great significance to Beijing's OBOR. The AIIB now has 109 member countries from all continents in 2023. Another implicit purpose of China leading the establishment of AIIB was to compete with the US-led Asian Development Bank for regional financial dominance in the Asia-Pacific [12]. Washington's official reason for opposing the AIIB was that it would not follow international norms such as human rights and environmental protection standards, but its real intention was to prevent Beijing from shaping the Asian economic order [7]. The US also fervently lobbied its allies and friend not to join the AIIB, but with little success – Britain, France, Germany and Australia joined the AIIB in spite of Washington's opposition. As OBOR attracts support from more countries and is incorporated into almost all major bilateral and regional agreements, this initiative is likely to endure as a key platform for Beijing in the Asia-Pacific [4]. Therefore, the competition for economic influence in Asia between China and the US triggered by TPP (under Washington's Rebalance strategy) and OBOR (under Beijing's westward strategy) would be a long-term key issue in Sino-US relations.

## 4. Summary

The Trans-Pacific Partnership (TPP) and the “One Belt, One Road”(OBOR) strategy are major strategic initiatives launched by the United States and China in response to the huge changes in the international political and economic landscape, and to a certain extent, they are also the manifestation of the great power game between the United States and China in order to create their own favorable space for development, with no lack of strategic considerations of mutual checks and balances between the two countries. Since Obama took office, the United States has made some progress in strengthening its regional engagement. However, in order to avoid disagreements over its “Rebalanceto Asia” strategy, the United States Government should continue to engage the region strategically and economically, while avoiding an unintended escalation of conflict in the face of continuing tensions between the United States and China. The coexistence of cooperation and competition in Sino-US relations is the norm in international relations. What is important is that both sides should look at each other's differences with an open and tolerant mindset and seek a win-win situation through dialog and cooperation. Only in this way can China and the United States play a greater role on the global stage and jointly promote world peace and prosperity.

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