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衡量中美兩強競爭對亞太中小型國家的經濟衝擊

Evaluating the economic impacts of US-China competition on small  
and medium countries in the Asia-Pacific region

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## 摘要

在國際政治中的權力不對稱結構之下，我們常常會發現中小型國家長期以來在兩個或更多大國之間掙扎求生，並努力尋找自己定位的現象，而這種情況在亞太地區的國家中尤為明顯。隨著中國的崛起，中美之間的權力角逐日益激烈，因此，對於亞太地區的中小型國家來說，目前最重要的就是如何處理與美國和中國之間的關係。為了深入研究這個問題，我認為國家權力的大小會影響中小型國家對於中國和美國的戰略。針對這議題，亦參考有關中小國家戰略的現有理論，例如平衡、避險、扈從等策略。

在本文之中將會說明及驗證，國家權力越強，則該國選擇平衡策略的可能性越大，在經濟上對美國或中國的傾向波動性越小；另一方面，對於美國或中國經濟傾向波動較大的弱勢國家來說，因為在經濟上仰賴貿易或是受制於美國或中國的協助，在策略上較沒有選擇，這類國家最有可能選擇隨波逐流。中等權力因為介於兩者之間，因此在此區間的這類國家較可能展現各種不同的戰略選擇，因為他們對於美國或中國等大國方面擁有更高的自由度。

為了驗證這些假設，我構建了一個經濟指標 - 對美國和對中國的貿易依存度，用以量化這些中小型國家對中國和美國的戰略，來驗證這些國家選擇的策略是否符合我的假設。從我的分析結果可以看出，處於中等權力的國家在選擇與兩大國關係的策略表現上相對來說比較靈活自由。

**關鍵詞：**國家權力、中等權力、平衡、避險、扈從、亞太地區、貿易依存度

## Abstract

Under state power asymmetry in international politics, we can often find a phenomenon that small and medium countries have struggled between two or more great countries for a long time and strive to find their own position. This phenomenon nowadays can be clearly observed in the Asia-Pacific region.

With the rise of China, the competition of power between China and the United States is increasing. Therefore, for small and medium countries in the Asia-Pacific region, the most important thing recently is how to manage the relationship between the two major countries—the United States and China. To delve into this issue, I assume that state power will influence the strategy of small and medium countries between China and the United States. In other words, referring to the existing theories about small and medium countries' strategies, such as balancing, bandwagoning, hedging, and so on.

This thesis will show that the stronger the country's power, the more likely for that country to choose a balanced strategy, and the economic tendency toward the United States or China will be less volatile; On the other hand, for the weaker power country, which will show a greater volatility of economic tendency toward the United States or China, also, this kind of country will most likely to choose to follow the trend. Countries with medium power will show a variety of strategic choices because they have a higher degree of freedom in choosing sides of great powers like the United States or China.

To validate these assumptions, I construct an economic indicator — trade dependence toward the United States and China, in order to quantify these middle powers' strategies with China and the United States, and to examine whether the variable of strategies follows the pattern of

my expectations. My analysis shows that countries in the middle of the state's power showed great freedom in the selection of strategy toward relationship with the two great powers.

**Keywords : State power, middle power, balancing, bandwagoning, hedging, Asia-Pacific Region, trade dependence**



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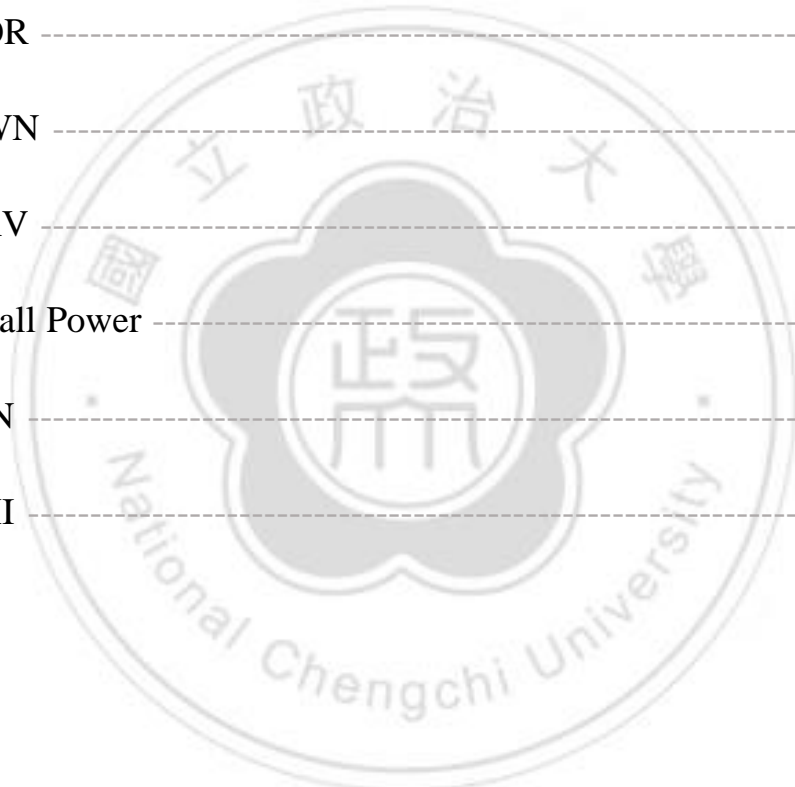
At last but not the least I am thankful to all my family, especially my father and mother, who have been always supporting and encouraging me throughout my life. I have no valuable words to express my gratitude, but my heart is still full of the favors received from every person.

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## Abbreviations

| <b>COUNTRY</b>                                | <b>ABB</b> |
|---|------------|
| <b>United States</b>                          | USA        |
| <b>China</b>                                  | CHN        |
| <b>Japan</b>                                  | JPN        |
| <b>India</b>                                  | IND        |
| <b>Russian Federation</b>                     | RUS        |
| <b>South Korea</b>                            | ROK        |
| <b>Indonesia (including Timor until 1999)</b> | INS        |
| <b>Pakistan</b>                               | PAK        |
| <b>North Korea</b>                            | PRK        |
| <b>Canada</b>                                 | CAN        |
| <b>Vietnam</b>                                | DRV        |
| <b>Taiwan</b>                                 | TAW        |
| <b>Australia</b>                              | AUL        |
| <b>Thailand</b>                               | THI        |
| <b>Philippines</b>                            | PHI        |
| <b>Burma</b>                                  | MYA        |
| <b>Malaysia</b>                               | MAL        |
| <b>Singapore</b>                              | SIN        |
| <b>Cambodia</b>                               | CAM        |
| <b>Laos</b>                                   | LAO        |



# Introduction

## 1.1 Background

With the rise of China and the current US-China trade war, under such a background, the shifting power and status between China and the United States in the Asia-Pacific region are currently the most concerned issues. The focus of this article is how middle power countries in the Asia-Pacific region changing their strategies among the China and the United States powers, by selecting 20 main focus middle power countries in the Asian pacific region. This article will focus on the economic dimension, using trade dependence of the middle power countries toward China and the United States as an indicator to see how these countries change their strategy between the United States and China. By using quantitative indicators (in this paper we use the CINC index to represent national power), we divide these countries into three groups - potential challengers, medium and small countries, and check if they have corresponding changes to the United States and China's economic strategy.

My observation on the results of this study is that for potential challengers, Japan, India, and Russia have increased their trade dependence on China compared to the United States. According to the model of the Japanese and Indian economies, they may be in the strategic triangle relationship between China and the United States, especially the changes in Japan are the largest in the three countries. In addition, Russia used a balancing strategy to take different actions, especially after the collapse of the Soviet Union in 1991 led to a sharp decline in state power.

For medium countries, based on these data, I have found that in the past two decades, they have indeed been closer to China in economic terms. Despite this, they still seem

to adopt a hedging strategy, maintain cautious contact with China and the United States, and avoid facing any situation where one needs to be chosen. However, I think that two countries in the middle group are particularly noteworthy, namely Australia and Canada. In the data, I found that their behavior is less consistent with the general model of the medium-sized countries analyzed in this paper. As for the small country, due to the rise of China and the strong link between China's economy and geopolitical influence, I expect these small countries to adopt a drifting strategy. And I think the data shows results similar to what I expected.

## 1.2 Purpose of research

There are some purposes of this thesis, I'd like to start with talking about the theory of **power asymmetry**. The basic argument of the theory of power asymmetry is that in any set of bilateral relations, the apparent difference in power between the two countries will lead to a mutual view of each other and a clear gap in the future development.

First, the less powerful party tends to pay too much attention to countries with greater power, and often over-reacts to over-recognize in order to preserve dignity and autonomy.

On the other hand, for a large power country, when a large power country treats a small country, it tends to focus not only on individual countries, but on the status quo and evolution of the entire international arena, and to make strategic adjustments. Therefore, in the power asymmetry structure, I would think that the large power country is relatively less concerned with small and medium countries, so it can't or will not immediately understand and respond to each other's actions, due to the large power country will not put the small countries in the same position.

The situation of great power and the small and medium countries pulling and competing with each other in the structure of power asymmetry can be clearly seen in the Asia-Pacific region. That's the reason why the thesis is focus on analyzing middle power countries in Asia-Pacific region.

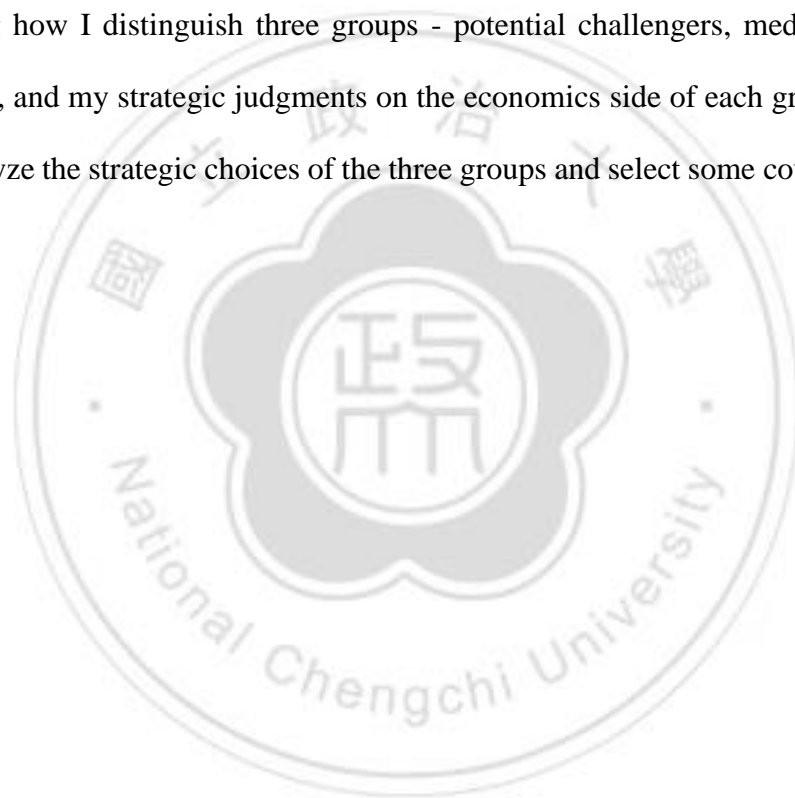
Secondly, the small and medium countries not simply face one great power but struggle for survival between two or more competing great powers. In the Asia-Pacific region, the United States used to be a dominant power, with the gradual rise of China, it has become the competition between the United States and China. This relationship also makes small and medium countries in the Asia-Pacific region need to struggle for survival between two or more competing great powers.

Thirdly, quantify the role small and medium countries (middle powers) play in US-China competition. Recently, we can find that there are a lot of articles discussing on middle power countries and US-China relationship, but there were really few articles use quantitative perspectives to analyze the impacts of US-China competition on small and medium countries.

Finally, through this opportunity I would like to dialogue with existing literatures as to middle-power countries and their behaviors. As mentioned above, there are a lot of literatures focus on the behavior of middle power countries, and one of the purposes of this thesis is trying to use data from economic and other indicators to quantify international relations theory.

### 1.3 Chapter Arrangement

In the following arrangements for the rest of this article. First, in the literature review and theories part, I will first discuss about related research reviews, and then I will elaborate on my theoretical point of view, why the power of the state will influence their strategy of engagement with the major powers in competition. Secondly, in the methodology part, I will introduce my data and measurement, that which countries, years and indicators are covered, then, I will discuss about my research design, including how I distinguish three groups - potential challengers, medium and small countries, and my strategic judgments on the economics side of each group. Third, we will analyze the strategic choices of the three groups and select some countries for case studies.



# Literature Review and Theories

## 2.1 Theories

Several important theories theoretical arguments have been developed regarding the relationship between great power and middle power countries. Wu, Yu-Shan (2017) discusses the strategies adopted by small and medium countries from the theory of the **balance-of-power (BOP)** paradigm. The concept that balancing refers to that when facing a rising power, balance-of-power (BOP) paradigm predicts a balancing strategy that is either internal, such as building up military preparedness, or external, which means forming an alliance. On the other hand, Wu also argues that for the weaker states' strategy, **bandwagoning** is one important tool. Bandwagoning is a kind of behaviors that middle powers either choose to conform the great power or just don't challenge the core values of the great / rising power.

One another strategy for weaker states is **hedging**, which means that the relationship between states usually involves interests and conflicts; thus, it's possible that the strategy of cooperation and balancing behavior is selected at the same time. For one thing, this can avoid radical conflicts that cause damage to national interests, for another thing it also balances against the potential security threat from rivals.

In the discussion of the situation in which a lesser power being placed between two great powers, **strategic triangle theory** has been an important theory. The strategic triangle theory aims to analyze trilateral relations, and it classified it into four ideal types of strategic triangle, which is *ménage à trois* (three amities), marriage (two enmities and one amity), romantic triangle (two amities and one enmity), and unit veto (three enmities). In *ménage à trois*, three players are "friends" of each other. In marriage, there are two "partners" and one "outcast." In a romantic triangle, it consists of two "wings" and one "pivot". In the unit veto, all players are

"foes"(enemies) of each other. In summary, there are four ideal types of strategic triangles (ménage\_à\_trois, marriage, romantic triangle, unit veto) and six characters (friend, partner, outcast, wing, pivot, foe) in this model, therefore, we can use the strategic triangle model to start analyzing any triangular situation, trying to define the situation and role between multiple countries (Wu 2017).

When facing the competition from great power, I believe state power is an important factor that will influence the strategic choice of the middle power, and I have a couple of reasons why. First of all, the strategy chosen by a country in relation to a great power country depends on how much resources or power the country has. That is, a country with strong economic and military power will be less likely to rely on trade, foreign investment and external military alliances with great power. For example, in the group of potential challengers, Russia does not need China's military assistance; In the 1980s, Japan did not have to seek more trade opportunities or investment with the United States; India could ignore the pressure from China or the United States and independently implement its own policy.

On the contrary, the degree of freedom of weak countries in the international political economy will decline. Under the massive economy pressure of China, Cambodia and Laos inevitably rely on China. In recent years, China has made large-scale investments in weak countries (such as Cambodia and Laos). However, there are some middle power countries between the two. Although the strength is not good enough to resist the pressure of the great powers, there is a certain degree of freedom of strategic choice when interacting with the great powers. Therefore, I think that in the group of middle power, we should be able to see more changes in the strategies chosen by these countries.

Before moving into the discussions for the US-China competition, we should first understand the unique tributary system in China, which is a hierarchical political order system appeared in the history of East Asian international relations. As setting the core in Chinese Empire, China and other states surrounding China formed a complicated multiple or bilateral network. Even in modern times, the Chinese government still has such ambitions, which can be seen from the Belt and Road (B&R) and Made in China 2025.

## 2.2 Index

First of all, we should define which group of countries are great power and which group of countries are small and medium power countries. Beckley (2018) mentioned a series of ways to measure power. In general, most scholars measure power in terms of resources, especially wealth and military assets. The concept is that countries with more wealth and more military assets at their disposal tend to reach their goals more often than countries with fewer of these resources. Beckley (2018) also emphasized the concept of gross indicators and net indicators, and the pros and cons of each.

For **gross indicators**, we often use indicators such as **gross domestic product (GDP)**; military spending; or the **Composite Indicator of National Capability (CINC)**, it is an index widely used in international relations to measure national capability, which combines data on military spending, troops, population, urban population, iron and steel production and energy consumption. Although this indicator is somewhat outdated in the contemporary era, I think it needs to be updated or adjusted, and critics will think that this indicator exaggerates the wealth and military capabilities of those poor, populous countries, because this index only count on the resources of the country without deducting the costs, such as the cost on the social security such as police, protect and serve the people. Still, we can view gross indicators as a rough but

reliable one. Gross indicators systematically overstate the power of populous countries, because they count the benefits of having a big population, but not the costs.

For **net indicator**, one of the main basic idea of Beckley (2018) is that he believes that the concept of a net indicator is similar to creating a balance sheet for each country. We can divide the data into assets and liabilities and record them on two sides. The concept of net resources is calculated by subtracting the latter (liabilities) from the former (assets). So how to make a world ranking for national power? He proposed the concept of measurement, a great power country needs to accumulate a large stock of resources, so it must be large and efficient. In short, he thinks that a great power country must produce high output at low costs.

### 2.3 China-US competition

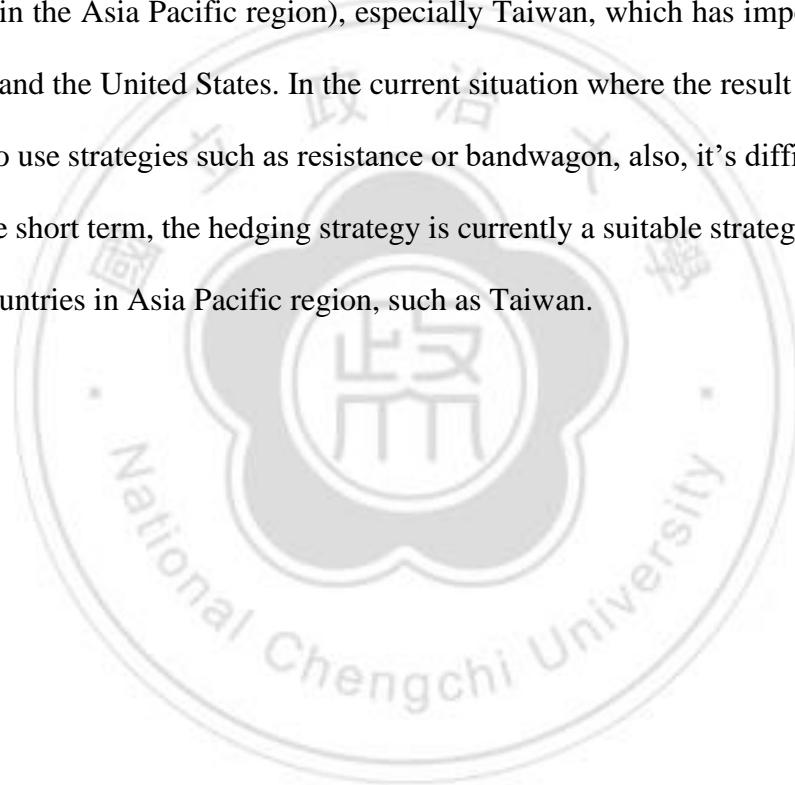
For the US-China competition, the scholars have many different points of view on it, that the causal relationship between the decline of the United States and the rise of China. For example, the articles and comment in Shifrinson (2011/2012), the key differences lie in the way they measure power and they define the term “decline”. Shifrinson (2011/2012) thought that the U.S. is declining due to China’s rise, while Beckley’s statement is that the U.S. is not declining, due to the absolute differences in economic, military and technological capabilities between the U.S. and China is growing, that is, the larger absolute differences between the United States and China in the indicators, the stronger the United States is economically and militarily.

For the concept of decline, Shifrinson thought it should be defined as “a decrease in the ratio of economic and military capabilities between two great powers.” Decline occurs when one state’s capability increases at a faster speed than the others, so that the capability ratio between two shrinks. That is to say, even if the United States still has a huge advantage in terms of absolute capabilities, the fact that the United States is declining relative to China’s capabilities



indicates that the power of United States in the world will be increasingly constrained by the power of China.

Allison (2017) talked about the US-China competition using Thucydides' trap said that "It was the rise of Athens, and the fear that this instilled in Sparta, that made war inevitable." So, when one great power threatens to displace another, war is almost always the result, but it doesn't have to be. At present, the trade war between China and the United States is on the rise, but the uncertainty of the results has already brought risks to neighboring countries (small and middle power countries in the Asia Pacific region), especially Taiwan, which has important relations with both China and the United States. In the current situation where the result is still unclear, it is impossible to use strategies such as resistance or bandwagon, also, it's difficult to stay out of the way. In the short term, the hedging strategy is currently a suitable strategy for small and middle power countries in Asia Pacific region, such as Taiwan.



# Research Design

## 3.1 Data and measurement

This thesis mainly focuses on middle power countries' strategies toward China and the United States, and evaluating the economic impacts of US-China competition. I used the data from 1984 to 2012, which covering important international events such as cold war before 1991, the end of cold war in 1991, Asian financial crisis in 1997, China joined WTO in 1999, global economic crisis in 2008, and so on. Hoping that these data can be used to see important international events covered are the most obvious impact on small and medium countries.

Eighteen countries are selected in this analysis, including Russian Federation, India, Japan, South Korea, Indonesia (including Timor until 1999), Pakistan, North Korea, Canada, Vietnam, Taiwan, Australia, Thailand, Philippines, Burma, Malaysia, Singapore, Cambodia and Laos. There was a couple of reasons why I chose these countries. On the one hand, The Asia Pacific region was the source of inspiration for these strategies, such as hedging, bandwagoning, and balancing, I think it is important to verify these theories with quantitative perspectives. On the other hand, the paper selected some countries in the Indo-pacific regions, because this region has always been the main stage for fierce competition between the United States and China. Therefore, these countries will be one of the important observers to measure the economic impact of the competition between China and the United States on small and medium countries.

I used several data sets to measure state power and economic status with China and the United States. First, although common indicators for measuring state capacity / power of countries include gross domestic product (GDP), purchasing power parity (PPP), military spending, military power, etc., these indicators can only represent a part of state power. Therefore, Singer's (Singer, 1972) **Composite Index of National Capability (CINC)** is a comprehensive

indicator created to solve this problem. Also, this is currently the best measurement used in international political and economic studies to evaluate state power from different perspectives. It uses an average of percentages of world totals in six different components--total population, urban population, production of iron and steel, consumption of energy, military expenditure, military personnel. Each component is a dimensionless percentage of the world's total. Below is the formula to calculate CINC:

$$\text{RATIO} = \frac{\text{COUNTRY}}{\text{WORLD}}$$

$$\text{CINC} = \frac{\text{TPR} + \text{UPR} + \text{ISPR} + \text{ECR} + \text{MER} + \text{MPR}}{6}$$

Where:

TPR = total population of country ratio

UPR = urban population of country ratio

ISPR = iron and steel production of country ratio

ECR = primary energy consumption ratio

MER = military expenditure ratio

MPR = military personnel ratio

The competitive relationship between China and the United States is like a long-term marathon. After the end of the Cold War, China has been promoting economic reforms and meeting the needs of the people. During this period, China did not participate in foreign wars, the society remained in a stable state, and China's performance in the economy has always been very good. On the other hand, although the overall performance of the United States is not bad, the level of science and technology has been leading the world, and American culture is popular around

the world, but there have also been some negative events, such as launching the Iraq war that should not be launched, the international financial crisis, etc. The United States economy, military, science and technology, and cultural strength have not declined, but the soft power of the United States has declined to some extent. The figure 4-1 below shows the changes of CINC between China and the United States between 1984 and 2012.

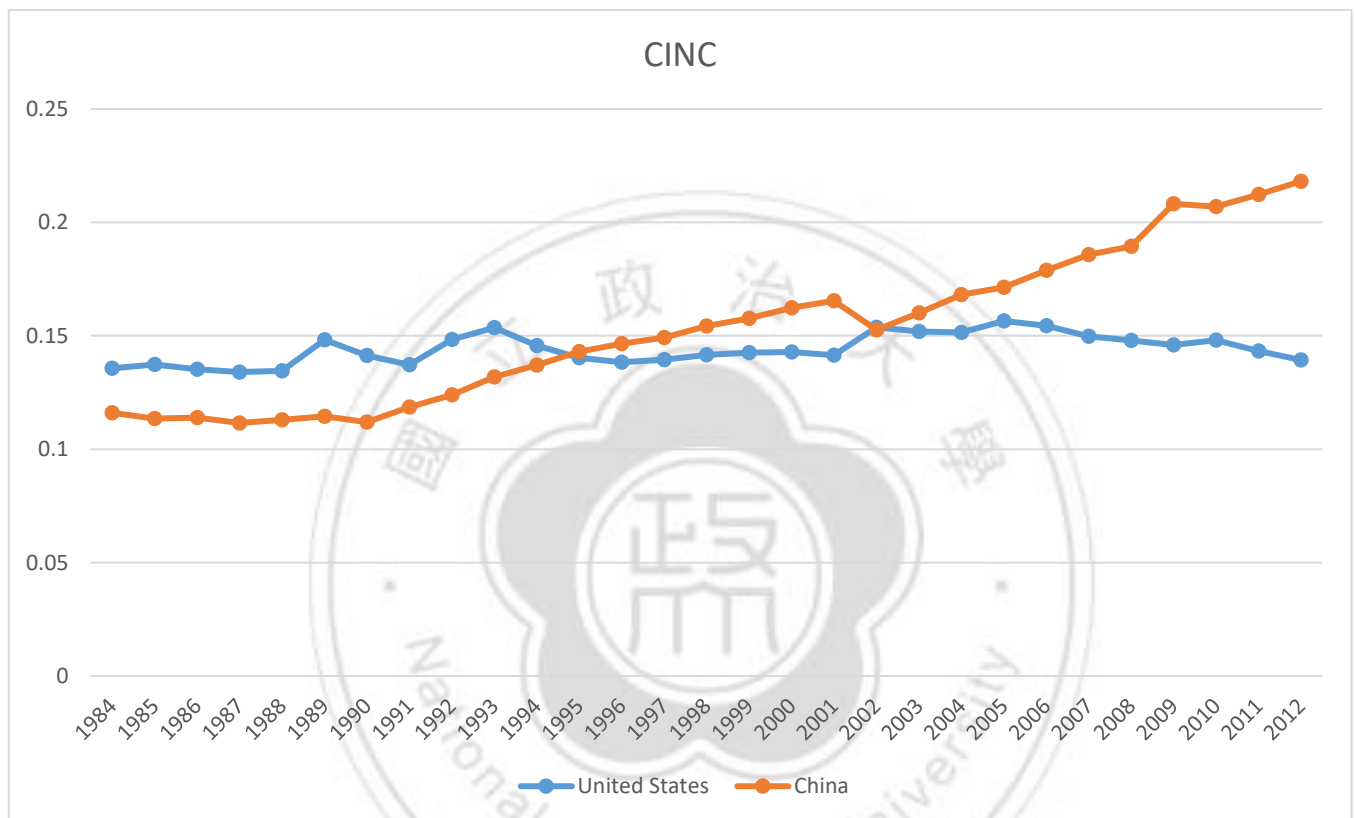


Figure 3-1

In order to distinguish the differences in state power between countries and observe whether different groups will have different strategic choices, I used standardized CINC score (CINC (SMC) / CINC (US)) to measure the power in this thesis. The selected small and medium countries are divided into three groups, which named as potential challengers, middle power countries and small power countries. As I mentioned above, the CINC is a more reasonable way for us to measure national power. For great power countries like the United States and China, we might be surprised to see that the CINC score of China is higher than the United

States after the year of 1995. In order to divide small and medium countries into three groups, as you can see from the figure below, I used the average CINC from 1984 to 2012 of these selected countries, the first group is called potential challenger due to the power of these countries reached and exceed the 30% of super power countries (take the United States as a standard), including Russian Federation, India and Japan. I formed Japan, India and Russia in the potential challenger group not just because they are the top three state of the CINC scores after China and the United States, but because they were viewed as the regional hegemon and threat to the great power.

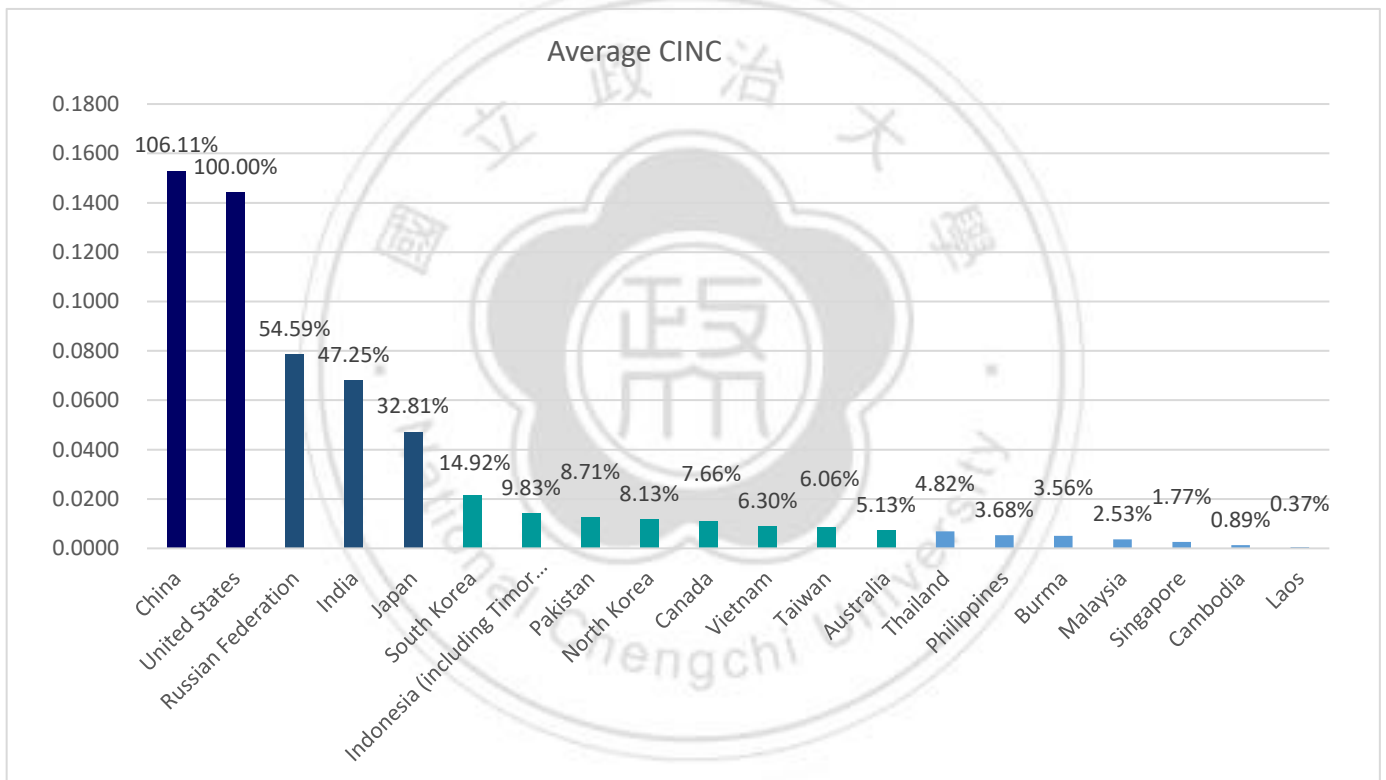


Figure 3-2

There are a couple of reasons to call these three countries potential challenger, for Russian Federation, it's no doubt that Russia is a powerful state as it was post-WWII great power until 1991. It had long-term military conflicts and hostility with the United States. The power of Russian Federation was almost equal to the United States during the Cold War. For Japan, in the 1980s, Japan was seen as a huge threat to the United States, constantly challenging the

United States economic dominance, the Japanese economy had reached the highest point where it could replace the United States, leading the United States to take a series of activities to maintain its advantages in the global economy. During this period, the total market value of real estate in Tokyo even exceeded the total market value of all real estate in the United States. The reason why India score high in the CINC is because of its huge population. For India, as a hegemonic country in South Asia, scholars have begun to discuss and calculate when India can be on an equal footing with great power countries. In addition to its status in the South Asian region, its population is the only country that can compete with China. It is expected that India's population can surpass China in 2035. In addition, India plays an indispensable role in the Free and Open Indo-Pacific Strategy ( FOIPS ) .

The second group is called middle countries, which included South Korea, Indonesia, Pakistan, North Korea, Canada, Vietnam, Taiwan and Australia. As the head of the middle countries, the concept of middle power was started from the Korean academic community. Korea itself is also regarded as a standard middle power country; it has risen rapidly in the past few decades. So how to define middle power and small power? Australia is a good example, although it's CINC score is quite small (it's about 5% of the average CINC of the state), which is on the bottom of the list of middle power countries, it is still recognized as a middle power country by scholars. First of all, Australia is the South Pacific regional hegemony, it has the ability to conduct military operations in the South China Sea, claiming that the South Pacific is its sphere of influence. Secondly, it is a member of The Five Eyes (FVEY), an alliance with the United States, the United Kingdom, Canada, New Zealand for sharing intelligence, which makes it one of the best allies for the United States. In summary, I thought setting Australia (5% of the great power's CINC score) as a country to define middle power and small power is a reasonable value. Using this standard, South Korea, Indonesia, Pakistan, North Korea, Canada, Vietnam,

Taiwan and Australia belong to the middle power category while Thailand, the Philippines, Burma, Malaysia, Singapore, Cambodia and Laos were put in the category of small power.

### 3.2 Strategic choice in economics

Since the implementation of the reform and open policy in 1978, the miraculous rapid growth over these forty years has attracted many foreign investment and trade. In the face of China's rise, it is difficult for the middle power countries to refuse contact with China in bilateral economic relations. China is not only a world factory, but also developing economic influence on a global scale by investing a large amount of investment in developing countries. In 2001, after China joined the World Trade Organization (WTO), China began to move from a state-controlled economic system to the global economy and incorporated its vast population and economy into the world trade system. Since then, foreign trade and investment have become an important means of China's economic growth, and China has continued to enhance its economic strength in the world.

How to evaluate the economic strategic choice by middle powerful countries? I use the trade dependence toward the United States and toward China as an indicator. That is, the difference of trade dependence can be a static measurement for whether a country inclines to China or the United States economically. The concept of foreign trade degree of dependence (FTD) is the ratio of the total amount of foreign trade of that country to its gross domestic product (GDP). The ratio is used to measure the degree of dependence of a country's economy on the international market.

$$FTD = \frac{EX + IM}{GDP}$$

Use the FTD concept, we calculate trade dependence on the United States and China for each middle power country. Generate a coordinate with x axis for the ratio of trade dependence on the United States and y axis for the ratio of trade dependence on the China to see the change of dependence for each middle power. where EX is export and IM is import. We then calculate trade dependence on the United States and China for each middle-power country using the following formula.

$$FTD_{ij} = \frac{EX_{ij} + IM_{ij}}{GDP_i}, j = \text{CN, US}; i = \forall \text{ middle powers}$$





## Analysis

To see how middle powers' strategic choices in the global economy when facing the great powers, I put the yearly difference in trade dependence of the United States and China on the two axes, and showed the result below into three group, which were potential challengers, middle power countries and small power countries.

### 4.1 Potential challengers

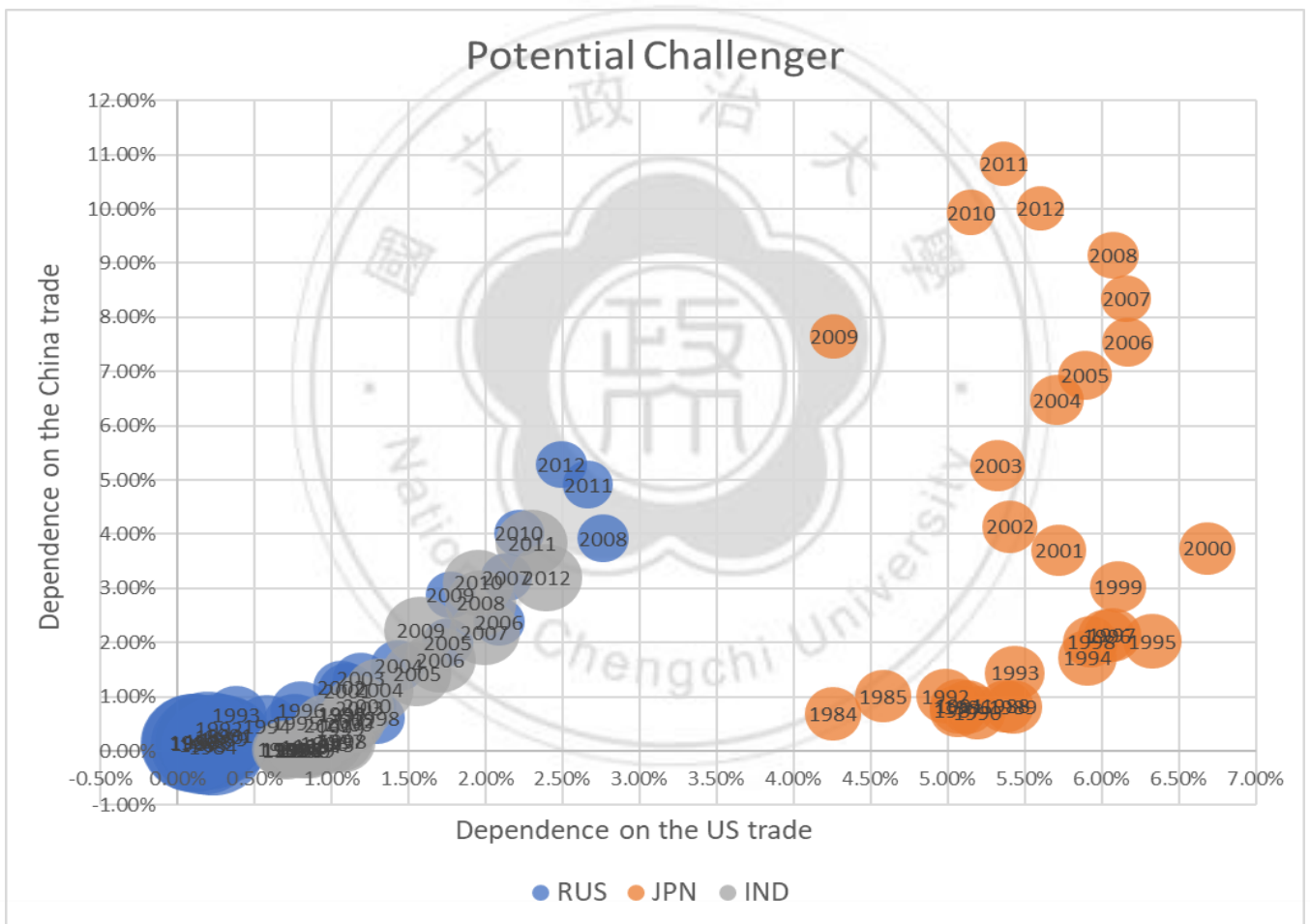


Figure 4-1

In the group of potential challengers, we can see that over the decades, Japan increasingly side with China in comparison to the United States in terms of the trade dependence. In the dataset, the Japan's trade dependence toward the United States was relatively stable, the value was

maintained between 4%~7%, while Japan's trade dependence toward China is gradually growing from 0 to around 10%. Russia is a typical case showing how a middle power would behave experiencing a sudden decline of state power. As Figure shows, after 1990, Russia politically moved closer to the United States dramatically due to its power sharply declined, it was forced to choose side for survival. There was less room for Russia to employ balancing strategy even though it remain powerful enough to be a potential challenger. The influence of 1991's collapse was still ongoing in its choice of strategy against the competition between the United States and China. The slope of India's trade dependence is roughly similar to Russia, both show a positive slope of growth, that is, the pattern of trade dependence were almost equally growing on the United States and China, but from the data we can still see that compared with India, Russia's trade dependence on China is slightly higher.

In my statement, I believe that the stronger the power, the lower the impact of international events. Although the impact was not strong, the period of 1997 to 1998 was still a crucial moment for potential challengers to change their attitudes toward the United States and China in terms of economics. For example, Japan after 1997 there was a slightly declined of trade dependence toward the United States while the trade dependence toward China rapidly grew; For India and Russia, after the year of 1997, their trade dependence toward China were just beginning to rise.

## Japan

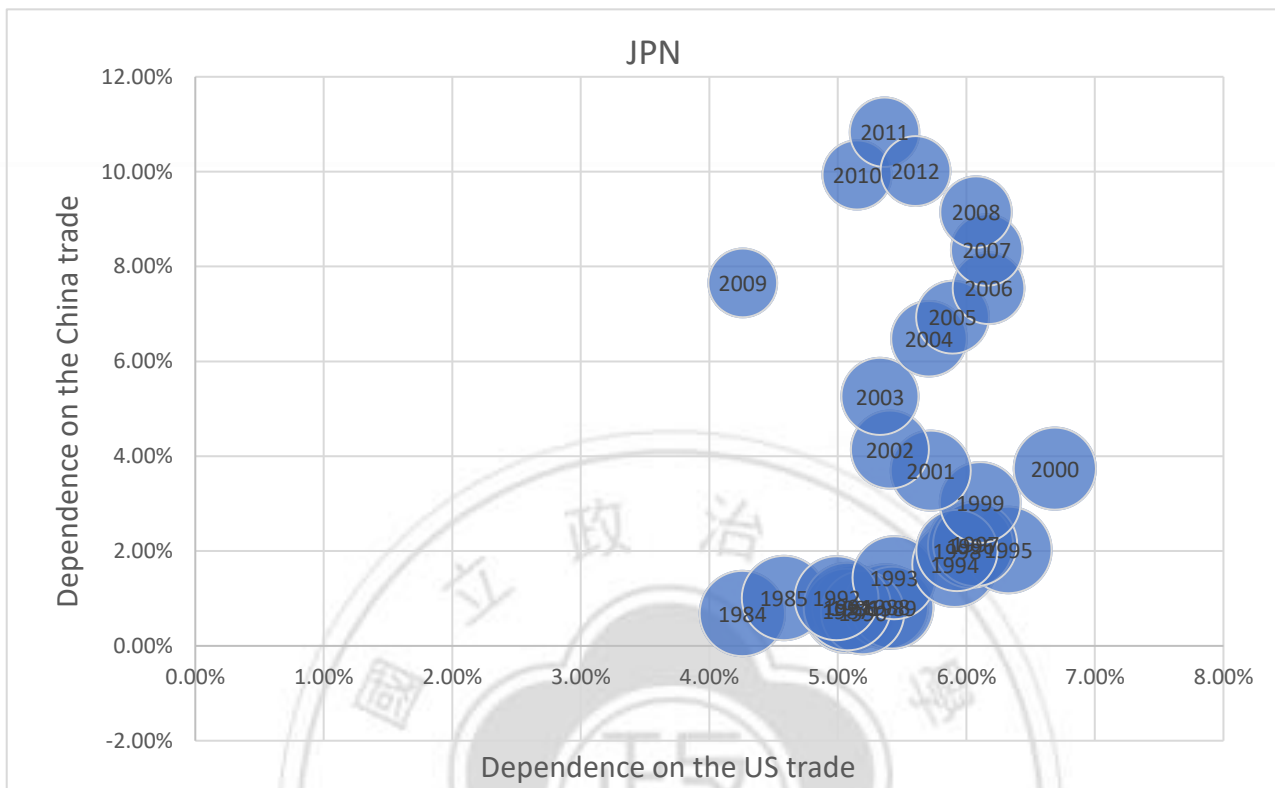


Figure 4-2

In the group of potential challengers, I chose Japan as a case study to have further discussion. From the late 1970s to the 1980s, Japan's economic growth was only about 4% per year, down from 9% in the early 1960s. Japan's rapid economic growth period has come to an end, but in the world economy still Japan ranks second. At the same time, Japan's trade surplus has been good for many years, so the trade friction between Japan and other countries, especially the United States, has increased year by year. On September 22, 1985, Japan was forced to sign a Plaza Accord. In the late 1980s, Japan moved to a domestically-dominated economic growth period, stock prices and land prices continued to rise sharply, which is the so-called bubble economy. We can see the slightly increase of trade dependence on both China and the United States.

As the yen appreciated sharply, the yen's appreciation was depressed. In order to understand the export industry that was hit by the appreciation of the yen, the Japanese government began to implement quantitative easing policies, resulting in excess circulating funds. There has been a boom in speculation in Japan, especially in the stock exchange market and the land trading market. At that time, the total land price of 23 districts in Tokyo even reached the level where all the land of the United States could be purchased, which means in this period of time, economic strength of Japan exceeded that of the United States.

After entering 1990, asset prices fell sharply, the bubble economy collapsed, and the economy deteriorated rapidly. Throughout the 1990s, the Japanese economy was plagued by the aftermath of the bubble economy, known as the lost decade. Since 2002, with the boost of external demand, the economic climate has improved and the longest record of the boom period has been achieved. As we can see in the figure above, after 2002 the trade dependence on China sharply increased, the trade dependence on the United States also increased in the first 5 years.

The average CINC of Japan during the period of 1984-2012 is 0.0473, that is 32.81% of the United States average CINC, almost one third of the power of the United States is the main reason I put Japan in the group of potential challengers.

## 4.2 Middle Power

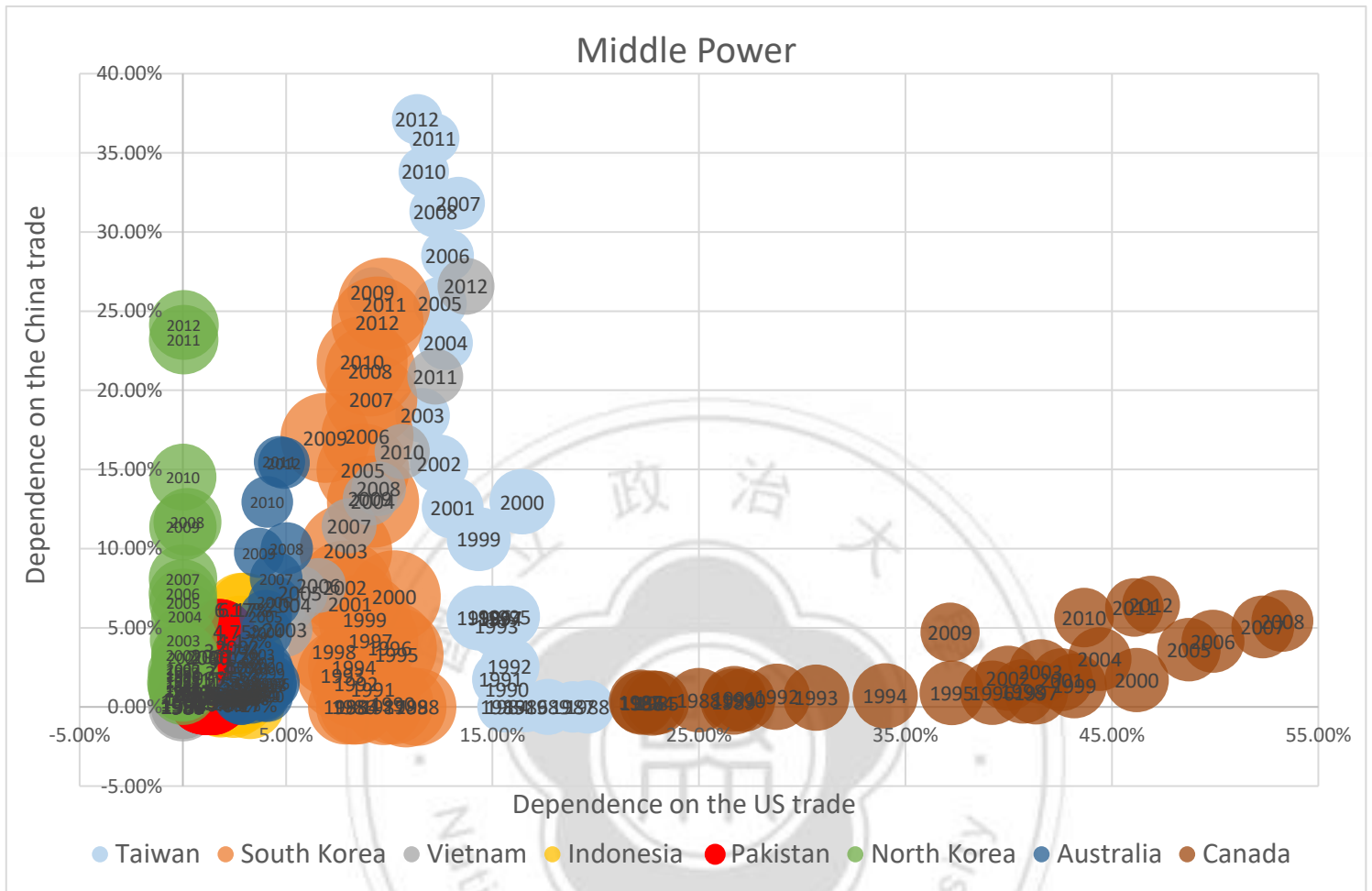


Figure 4-3

There are many countries in the group of middle power, including South Korea, Indonesia, Pakistan, North Korea, Canada, Vietnam, Taiwan and Australia. We can see that these middle power countries showed a variety of strategic choices since they possess a higher degree of freedom in choosing sides of super powers.

The situation in South Korea is quite similar to Japan, as we have discussed above in previous paragraph. The trade dependence of South Korea toward the United States was keeping at 10%, while trade dependence toward China is rapidly growing from 0 to 25%. We can see South

Korea's ambitions in strategic choice as the head of middle power countries, as it showed the same pattern of the potential challenger countries.

From an economic perspective, after 2008, the dynamics of the trade dependence is highly unstable, as we can see, Indonesia, Pakistan, Vietnam, have increasing economic ties with China. On the other hand, only Canada has a lower dependence on China, although Canada experienced a period of the boost of trade dependence on China, they after 2008 have tried to resist such trends by having more trade and gradually deepen its economic dependence with the United States.

For countries other than Canada, no matter what kinds of political strategies they pursued, most countries were economically embraced Chinese rise with more trade dependence upon China comparing to the United States. Such as Taiwan, we can see that trade dependence toward the United States was gradually decreasing from 20% to 10%, at the same time, trade dependence toward China was rapidly growing from 0 to almost 40%.

## South Korea

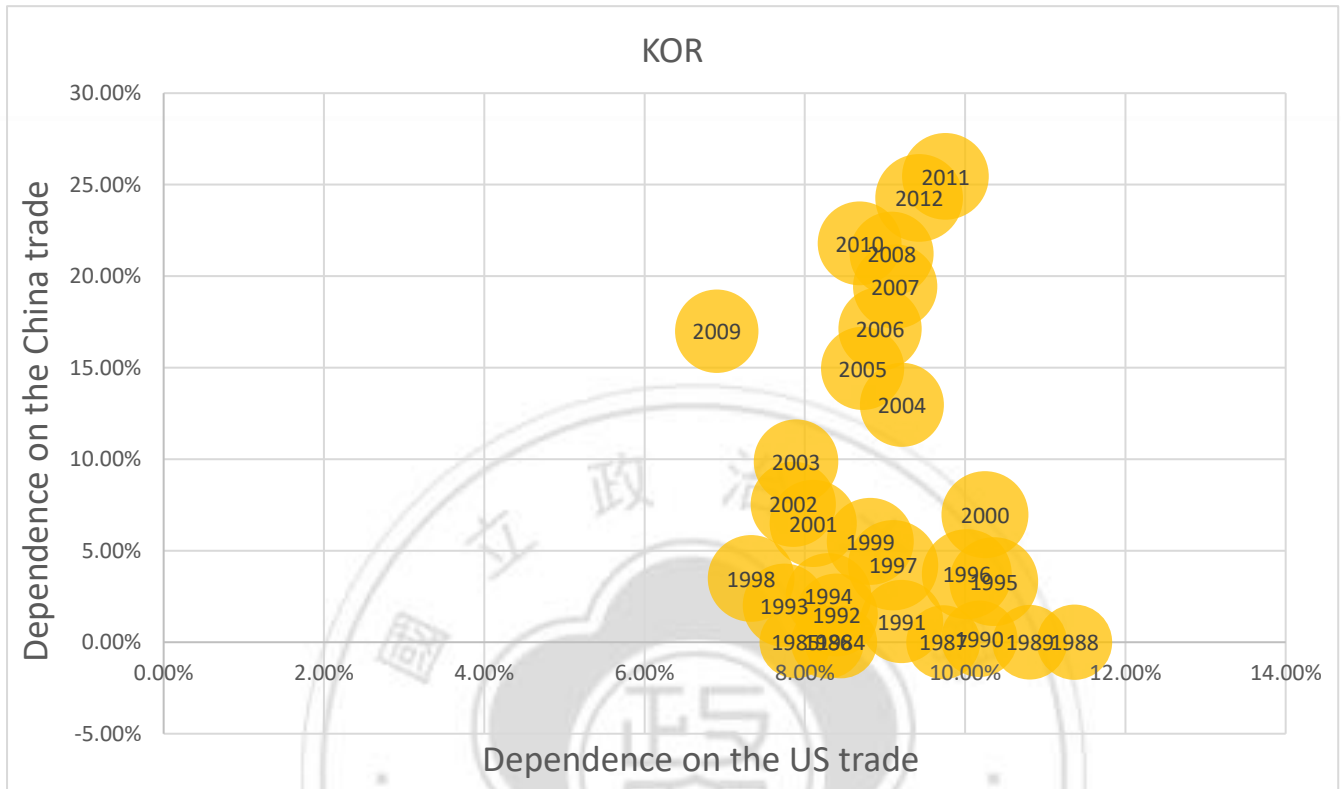


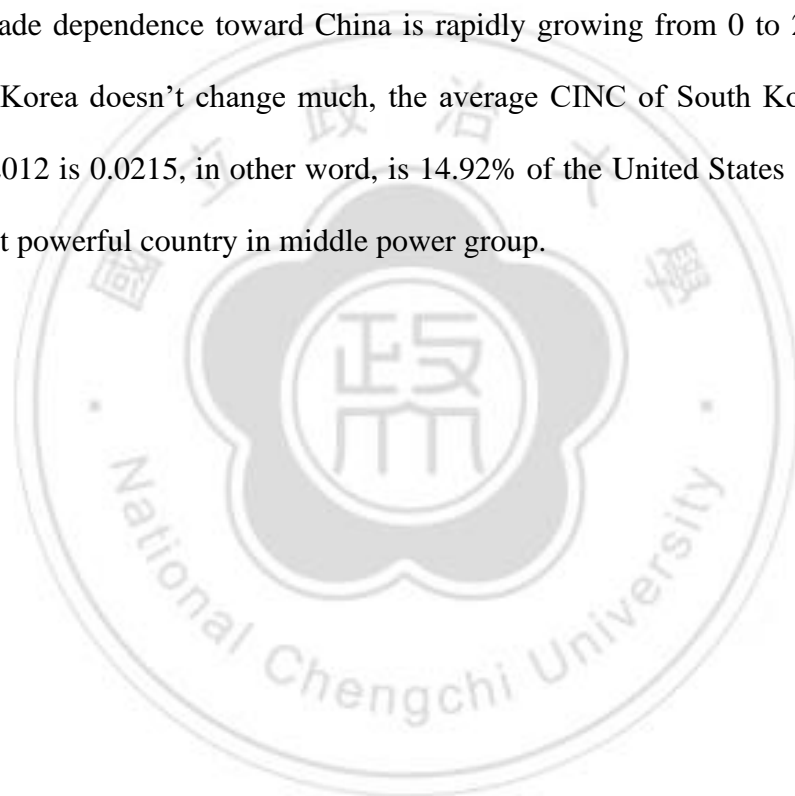
Figure 4-4

South Korea used to be one of the "Four Asian Tigers" in the 1980s. In this period, South Korea maintained in high rates of GDP growth, peaking in the years 1986–1988, which was the highest in the world (12% annually). Even after that the growth rate slowed down, the economy still continued to expand through 1996 at an average rate of 7 percent.

In 1997, the Asian financial crisis hit the country, South Korea even requiring an international rescue package. As we can see above, after the financial crisis, the trade dependence on China grow rapidly, while the trade dependence on the United States was pretty stable at around 9%. Different from Taiwan, the strategy of South Korea was just simply increasing the trade activities with China, but no need to reduce the trade with the states.

Overall, South Korea as the strongest power country in the middle power group, the score changed in the economic strategy is similar to the pattern Japan. Although South Korea has experienced more fluctuation than Japan did, this showed that South Korea was trying to pull back to balance the economic impact of China and the United States on its economy when facing the gravity of Chinese huge market.

Look closer to the data, South Korea has kept the trade dependence toward the United States at 10%, while trade dependence toward China is rapidly growing from 0 to 25%. Also, the power of South Korea doesn't change much, the average CINC of South Korea during the period of 1984-2012 is 0.0215, in other word, is 14.92% of the United States average CINC, which is the most powerful country in middle power group.





**Taiwan**

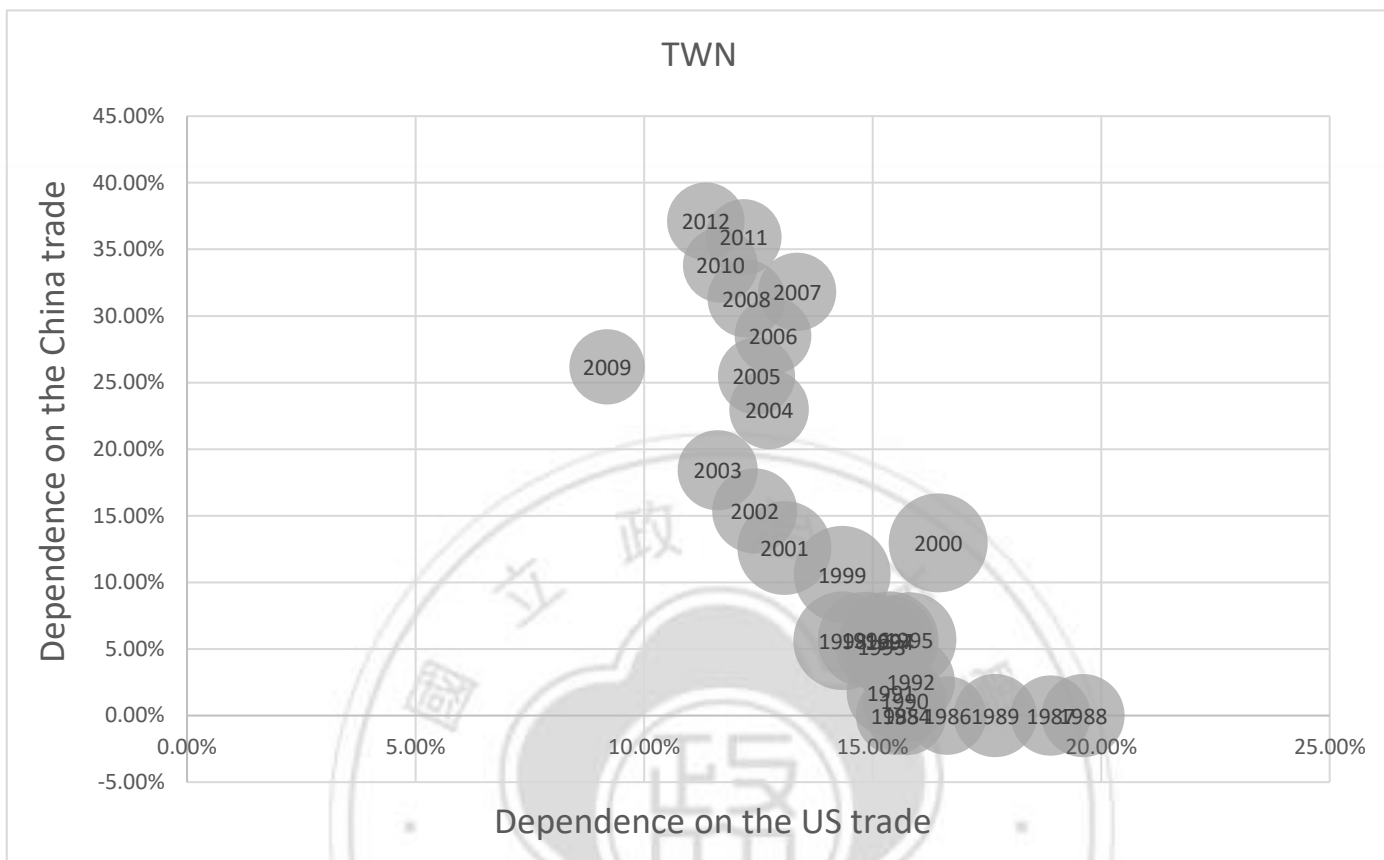


Figure 4-5

Taiwan, used to be one of the "Four Asian Tigers" in the 1980s. Since the beginning of the 1990s, the economic ties between Taiwan and the People's Republic of China have been much flourished. After the 1997 Asian financial crisis, Taiwan's economy gradually slowed down, Taiwan's economy suffered a severe impact, and the fiscal surplus turned into a fiscal deficit.

However, Taiwan's economic growth rate in 1998 still yielded impressive results. Compared to neighbor countries Singapore, Hong Kong and South Korea, which the economy growth has turned negative, Taiwan still maintained a growth rate above 4%. From the above figure we can see that roughly after the 1997 Asian financial crisis, the trade dependence on China grew rapidly, while the trade dependence on the United States slightly declined, so we can see that

the strategy of Taiwan has a pattern, which was far away from the United States and moved close to China.

For Taiwan over the years in our analysis, the trade dependence toward the United States is gradually decreasing from 20% to 10%, while at the same time, trade dependence toward China is rapidly growing from 0 to almost 40%, the average CINC of Taiwan during the period of 1984-2012 is 0.008734, in other word, is 6.059% of the United States average CINC.

From another perspective, we can try to use the indicator to interpret Taiwan's economic strategy on the US-China competition. As a democracy, Taiwan is struggling for balancing the economic influence of the two great powers. For example, during 2000 to 2008 under the governance of Democracy Progress Party, which was against China politically, while economically we can see from the above figure that Taiwan has higher rate of the increase of trade dependence on China rather than the United States in this period. After 2008 when the pro-China party Kuomintang came to power, the trade dependence even became more fluctuated. From these contradictory strategy performance we can see that Taiwan has lived under the gravity of Chinese economy and is quite difficult to follow its own strategy when facing the competition between China and the United States.

## Vietnam

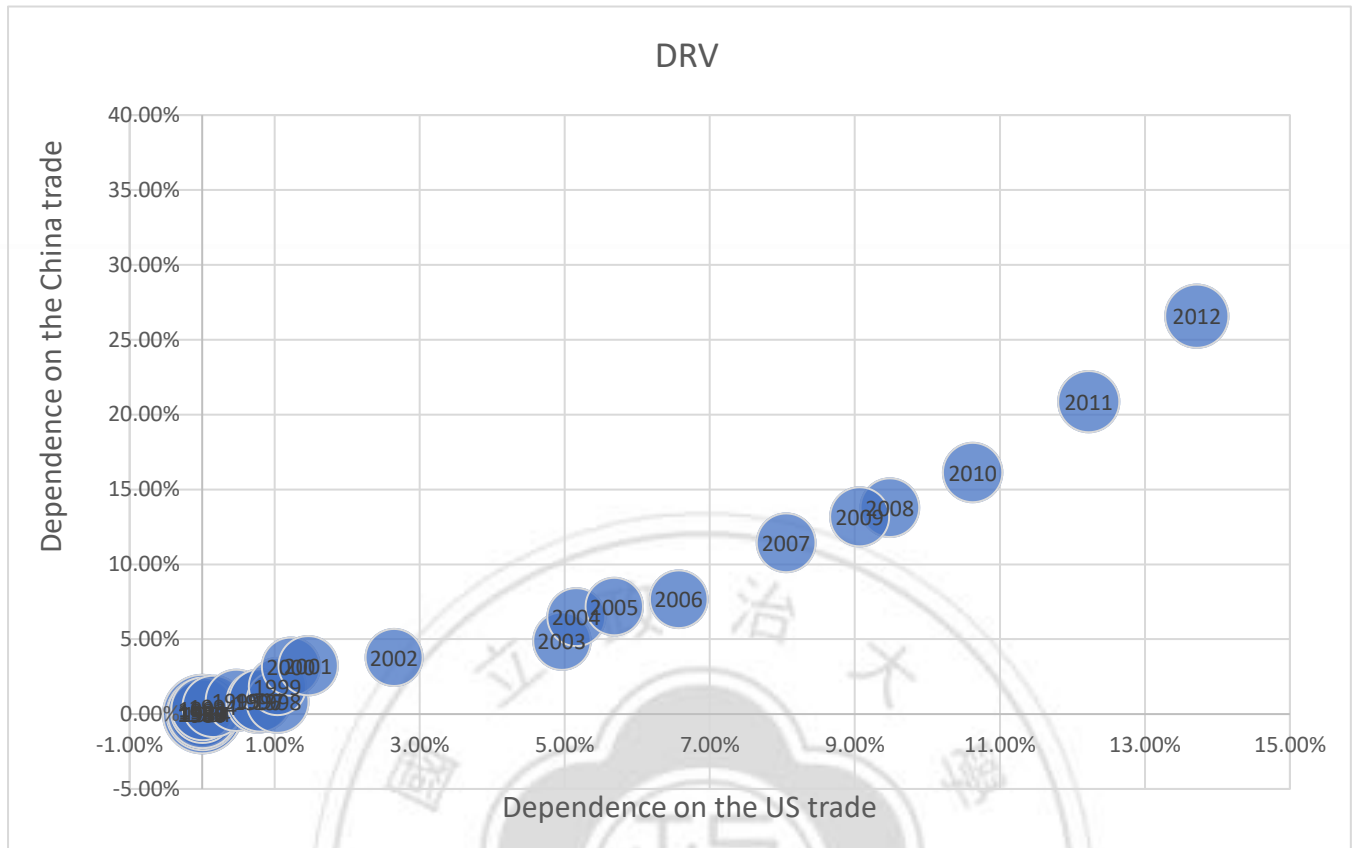


Figure 4-6

As a country that insists on not being involved in the competition between China and the United States, Vietnam has a very firm and flexible strategy. The average CINC of Vietnam during the period of 1984-2012 is 0.0091, which is 6.3% of the United States average CINC, this means the power of Vietnam was even larger than Australia, therefore I classify it in the group of middle power countries.

During the Cold War, Vietnam strongly condemned the ASEAN countries as "the running dogs of American imperialism." However, after the end of the Cold War, they were happy to join the ASEAN. Soon after the collapsed of Soviet Union in 1991, Vietnam joined the ASEAN in 1995. While joining the ASEAN, Vietnam also conformed to the mainstream of ASEAN, opened its economy and participated in world trade. Although Vietnam has implemented a

Soviet-style centrally planned economy for several decades, the implementation of economic reforms is very fast, so since 2000, Vietnam has successfully ranked among the fastest growing economies in the world. As we can see in the above figure, after the year of 2000, the trade dependence on both China and the United States increased in a very fast speed.



### 4.3 Small power

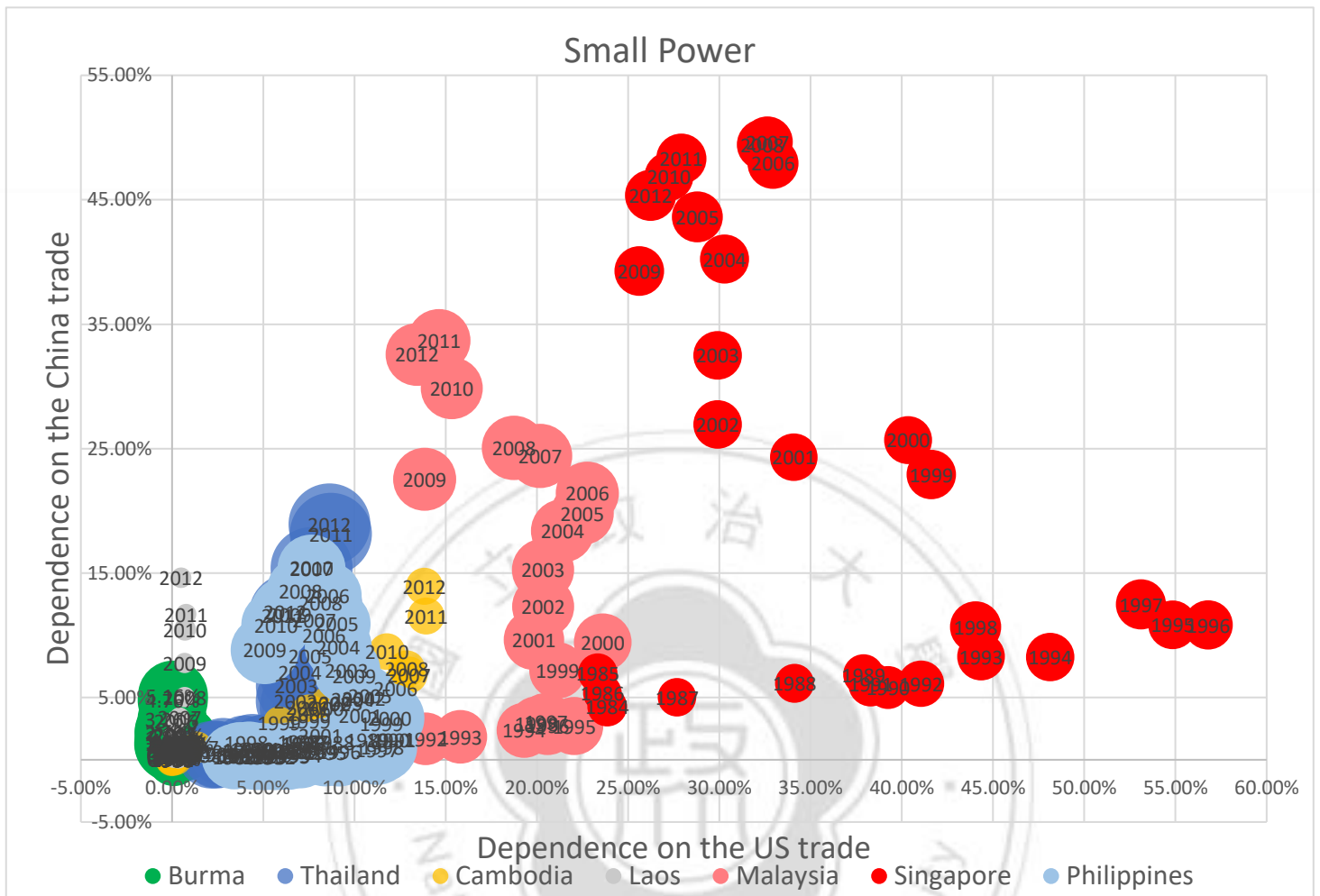


Figure 4-7

There are also many countries in the group of small power, including Thailand, Philippines, Burma, Malaysia, Singapore, Cambodia and Laos. From the above figure, we can see that the economic strategies of small countries change as well. But according to the data, it's not surprising that Singapore is the only country that can maintain their own strategy under the competition between the United States and China.

Singapore in this figure is a special case, in the first half period, the trade dependence toward the United States is rapidly growing to an extremely high percentage (almost 60%), simultaneously, trade dependence toward China was gradually growing from 5% to about 15%.

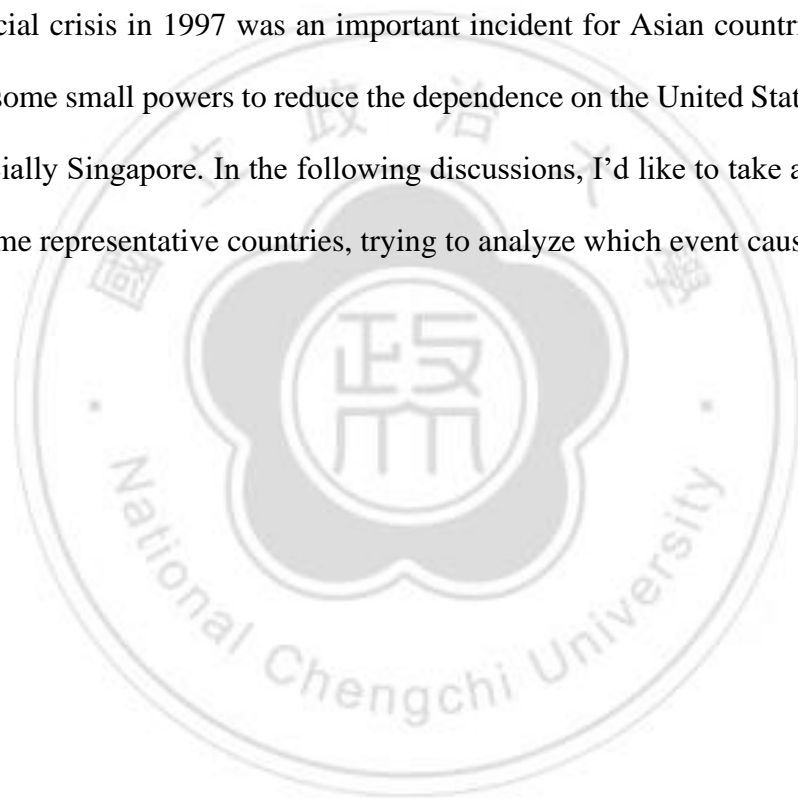
After 1996, compared with the United States, Singapore's trade dependence on China has increased sharply, which shows that in view of the rise of the Chinese economy, Singapore's strategy of choosing on the China side. During the Asian financial crisis of 1997, Singapore was not affected, and the economic growth rate remained at the level of 7.8%. Nevertheless, the exchange rate of the Singapore dollar against the US dollar has fallen, depreciating by 13%, and the stock market has depreciated by 26%. During this period, in terms of foreign trade, Singapore's main trading partners were the United States, Japan, Europe and China. By 1998, the continued deterioration of the Asian financial crisis had a great impact on Singapore economy. As we can see in the above figure, the trade dependence of Singapore on the United States significantly declined 10%. In 1999, economic and trade relations with China gradually increased. Among all ASEAN countries, Singapore's investment and trade with China ranked first.

In the Asian region, we can see from the above figure that the period from 1997 to 1998 is a crucial moment for most of the small powers to change their attitudes toward the United States and China in terms of economics. But the magnitude of the fluctuation depends on the size of the country's strength. The stronger the power, the lower the impact of international events. On the contrary, the sensitivity of small countries is relatively high. As for the small powers with higher CINC scores than Singapore, such as Thailand, the Philippines, Burma, Malaysia, their strategies seem to be similar to those of Singapore, but more struggling than Singapore in choosing sides under the tremendous pressure of the China's economy. More significantly, countries with lower CINC scores than Singapore (such as Cambodia and Laos) showed an obvious move toward having close economic ties with China.

My theoretical expectation is that small countries will be relatively less likely to resist the gravity of hegemony when facing competitions between great powers (such as China and the

United States.) Looking at the trend of economic strategy from the above figure, we can see that the small powers were also pursuing bandwagon strategies. With the rise of China from 1985 to 2012, the economic ties between these countries and China are also increasing. In comparison to the United States in 2011 or 2012, Cambodia, Laos, Thailand, and Malaysia increased their trade dependence on China the most. Because they are not powerful enough to resist China politically and economically, bandwagon strategies has been most popular strategy in the small powers.

The Asian financial crisis in 1997 was an important incident for Asian countries, which was the key year for some small powers to reduce the dependence on the United States and become pro-China, especially Singapore. In the following discussions, I'd like to take a closer look at the change of some representative countries, trying to analyze which event causing change.



*Singapore*

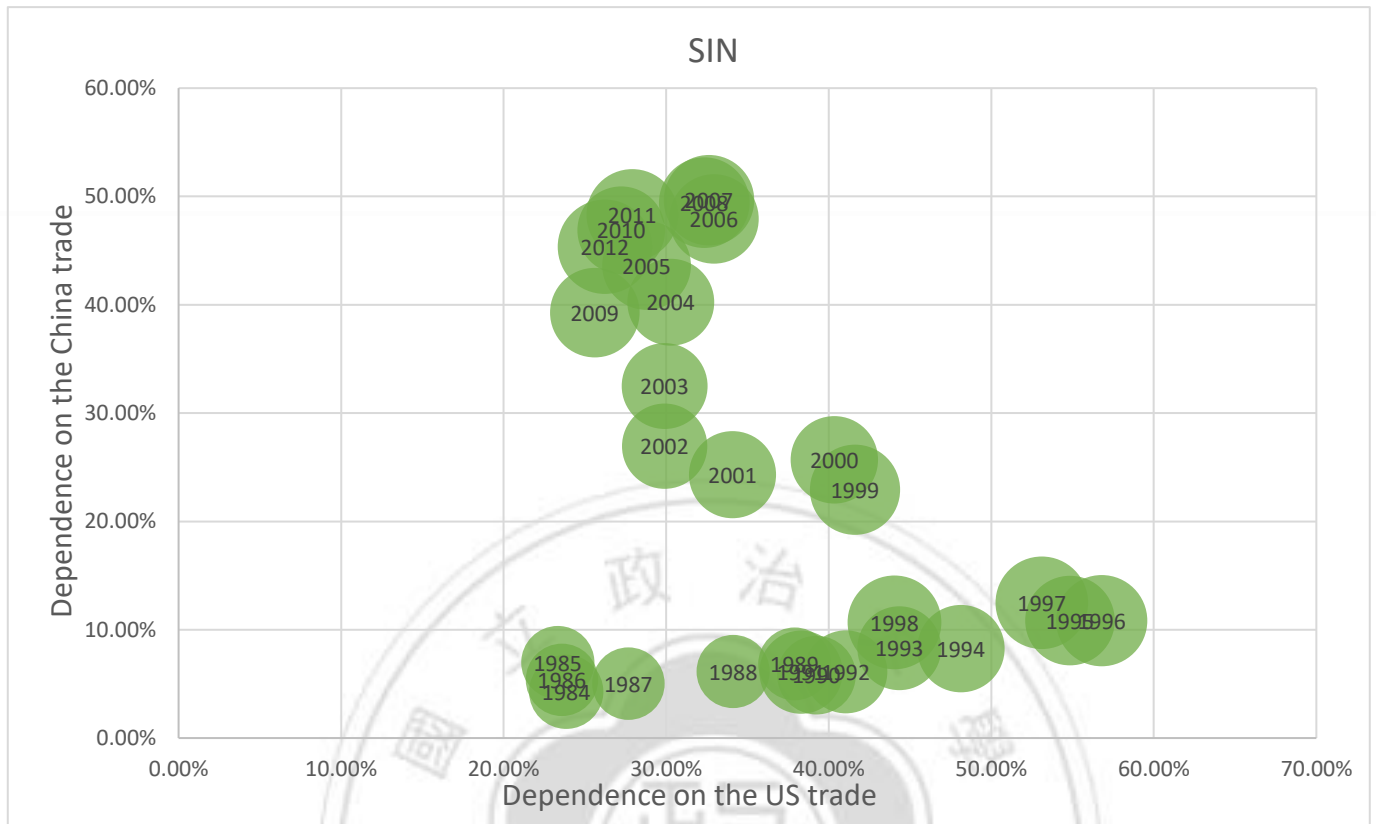


Figure 4-8

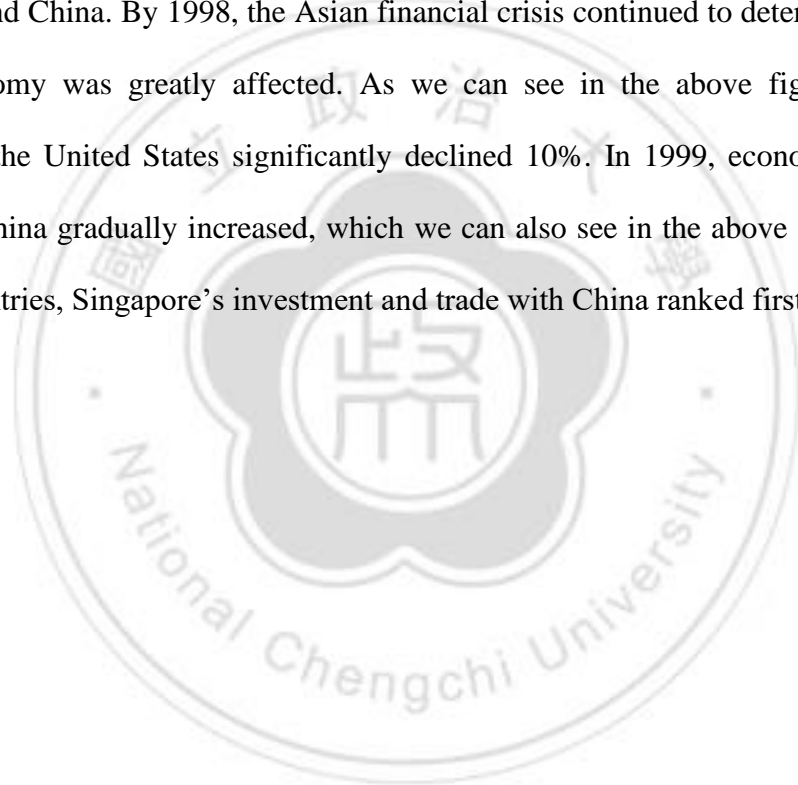
The average CINC of Singapore during the period of 1984-2012 is 0.0026, which is only 1.77% of the United States average CINC. 1970s Singapore's economy began to rise, famous in the world, its "decade of economic development plans" effect is very significant, transferred into a diversified economic structure from a single original colonial economic model, became the first Asian newly industrialized countries, and also one of the Asian Tigers.

In 1981 the Singapore government officially released a second "decades of economic development plans", and in the early 1980s, Singapore's economic restructuring has achieved good results. By 1984, capital-intensive manufacturing technology from multinational companies, an annual investment of 1.7 billion Singapore dollars. With the increase in technical talents and the improvement of science and technology, Singapore's GDP has grown at an



average annual rate of 8.5%, and per capita national income has reached 5,219 US dollars, which is the level of the world's moderately developed countries. With a total national savings of 65 billion Singapore dollars, which was one of the highest in the world.

In the Asian financial crisis of 1997, Singapore was not affected, and the economic growth rate remained at 7.8%. However, the exchange rate of the Singapore dollar against the United States dollar fell, with a depreciation of 13%, and the stock market suffered a 26% depreciation. In addition, in terms of foreign trade, Singapore's main trading partners are the United States, Japan, Europe and China. By 1998, the Asian financial crisis continued to deteriorate, and the Singapore economy was greatly affected. As we can see in the above figure, the trade dependence on the United States significantly declined 10%. In 1999, economic and trade relations with China gradually increased, which we can also see in the above figure. Among all ASEAN countries, Singapore's investment and trade with China ranked first.



## Philippines

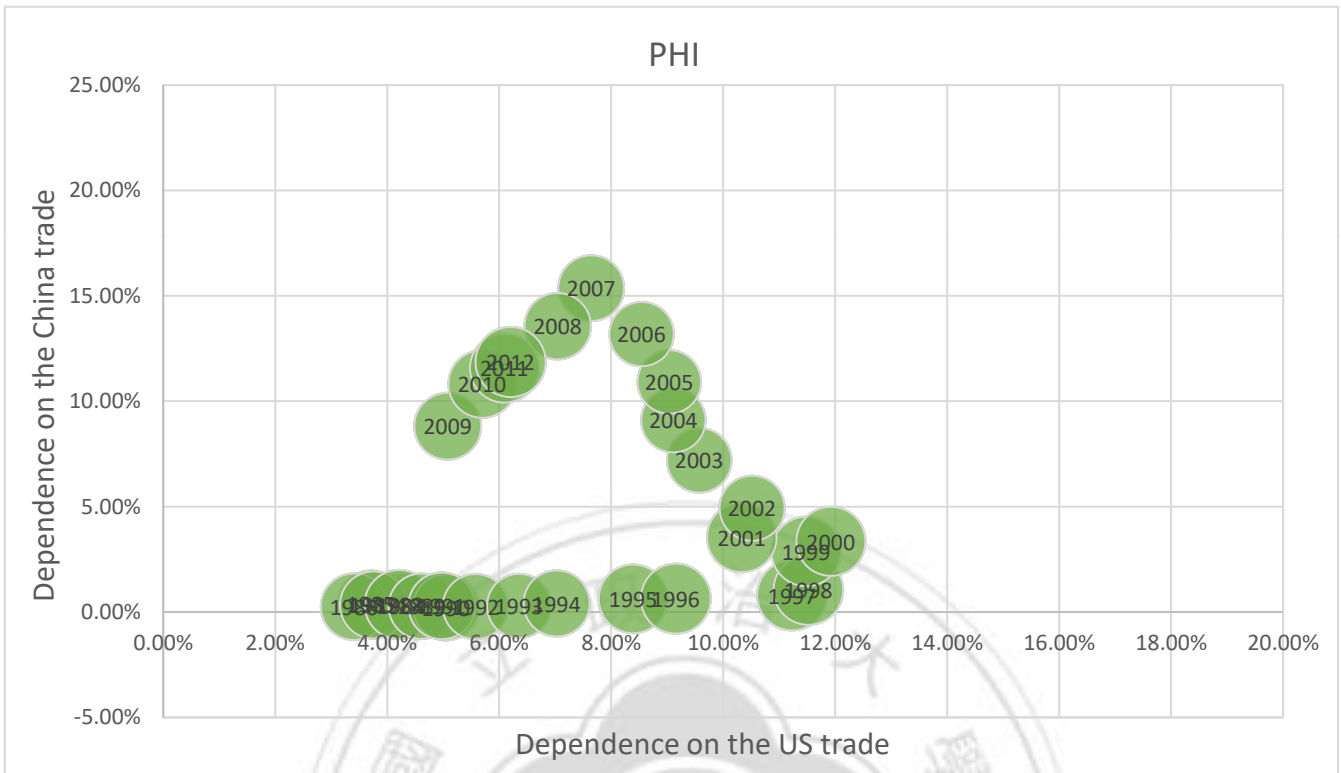


Figure 4-9

The average CINC of Philippines during the period of 1984-2012 is 0.0053, which is 3.68% of the United States average CINC. In 1985-93, Japan invested nearly \$51 billion in the Asia-Pacific region. Thailand, Malaysia and Indonesia have seized this great opportunity and achieved dazzling economic achievements, while the Philippines has missed this opportunity. The main reason was the poor investment environment in the country at the time, and the dictatorship of Ferdinand Marcos caused economic turmoil and economic recession. A large amount of corruption and private use of public appliances caused the Philippine economy to lose nearly 10% from 1984 to 1985. Since 1986, during the period of democratic reconstruction, an export-oriented, democratic economy has been implemented. Philippines is currently one of the emerging industries and emerging markets in the world. In 2006, the Philippines was ranked by the World Bank as the 36th largest economy by purchasing parity.

## Conclusion

In this paper, I assume that state power will influence the strategy of small and medium countries, that is, the comprehensive strength of a country will restrain its freedom in choosing strategies to engage with great powers in an era of competition between the United States and China. To validate my arguments, I used the CINC as a comprehensive measurement of state power to divide middle power countries into three groups: potential challengers, middle powers, and small powers. Then look at whether their strategic choices for the United States and China are different between the three groups or along the line of state power.

My analysis shows that strategic choices are relatively stable for the potential challengers, and that relatively powerful countries have engaged cautiously with the United States and China. The same pattern can be found in the group of small power. However, there are substantial differences in strategies between the two groups. For relatively powerful countries like potential challengers, they are balancing the influence of China and the United States in order to gain the maximum benefits. As such, the economy that used to rely on the United States has moved closer to China economically, but not politically. However, for country such as Russia that used to rely on China both economically and politically, they tend to balance their influence by closer to the United States.

For the small countries, they may have different political and economic affinities with China and the United States, however they do not have many choices but could only move closer to China economically with the rise of Chinese investment and market. But what is more difficult to analyze in this part is that their political position is relatively unchanged. It might be difficult to see an obvious result from US-China competition in global politics to determine which side is the winner, so it is also difficult for those small countries to bandwagon, due to political

information is insufficient for them to choose one side. The smaller the country's power is, the more likely it falls on the spectrum of choosing between the United States and China. The small powers seem to be more sensitive than the middle powers to the US-China tug-of-war regarding their trade dependence on the two great powers. Singapore is a clear example. As a result, their political strategies against the United States and China are like hedging.

Over the past three decades, small and medium countries increasingly established closer economic ties with China while meanwhile, their economic dependence on the United States has declined. Last but not the least, just like what my theory expected, the countries in the middle power group show the greatest differences of state strategies in dealing with their relationships with the United States and China. Among these countries, Canada is the country with the most increased support to the United States. Although the CINC score of Canada was relatively low, it seems to have more autonomy to choose sides, a possible explanation is that in the face of the rising China, Canada's strong alliance with the United States has been strengthened.

Some ideas for evaluating middle powers' strategies on great powers can be found in this paper, although there are still many research questions worthy of further exploration in the future. This paper contributes to current literature by using a quantitative approach to examine the strategic choices of middle power countries in the era of the fierce competition between the United States and China. However, the causal relationship between state power and its choice of hegemonic strategy is still unreasonable. By collecting more information and high-quality data in the future, a more sophisticated and mature analysis can be expected.

Moreover, some common arguments were proved in this paper that state power may influence their strategic choices toward great powers, the result of this paper also shows some anomalies

of state behavior in their choices. This paper can be used as a framework for future research to investigate the dynamics of middle powers' behavior in response to the rising and the containment policy that the United States is gradually adopting to maintain its status of global hegemony.



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