

Donald Trump Presidency and the Transformation of Sino-American Relations: Does Asymmetric Economic Interdependence Matter?

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Even though Sino-American relations of the Donald Trump era were perceived as predominately confrontational, with a symbolic trade war between the two, the scale of economic interdependencies between the United States and China results in either a need for collaboration or in serious losses on both sides in the case of lack of cooperation. The paper aims at analyzing economic relations between the United States of America and the People's Republic of China at the time of the Trump presidency. Analysis is based on the complex interdependence theory of Robert Keohane and Joseph Nye. The main hypothesis analyzed in the paper states: Asymmetric interdependence between the People's Republic of China and the United States of America limits the scope, intensity and length of a trade war. For the sake of the paper, economic interdependence will be analyzed. Apart from the reference to the state of the art, the document analysis and descriptive statistics are to be applied in the paper.

Keywords: China, United States, complex interdependence, Donald Trump, trade war

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1. Introduction

The trade war between the United States of America (US) and the People's Republic of China (China) was a key aspect of Donald Trump's strategy towards China during his term as president of the United States from 2017 to 2021. This trade war, initiated in 2018, included not only massive tariffs imposed on virtually all imports from China, but also limitations on investments and the transfer of technology. This trade war occurred during a period where China's regional and global distribution of power had increased, challenging the US' dominant global position, which was further hampered by the activities of Donald Trump.

Much of the scholarship on US-China Relations during the Trump Administration focused on the return to a policy of great-power competition (Lukin 2019, Goldstein, 2020, Bergsten, 2018 Chen, & Zhang, 2020). Much of this literature can be understood to apply the basic concept of the Organski and Kugler power transition theory, that is that a challenger (in this case China) will come into conflict with a dominant power (in this case the US) when the challenger is dissatisfied with the status quo and has reach equivalence of power with the dominant power. Many scholars see the policy undertaken by the Trump Administration as the start of this conflict outlined under the power transition theory (Jeong & Lee 2021, Allison, 2017). The Sino-US trade war which took place during the Trump Administration is held up as an example of the increased conflict between the two states (Boylan, McBeath, & Wang, 2021, Chong, & Li, 2019 Yu., & Zhang, 2019). While some scholars such as Joseph Nye (2020) have highlighted the importance of US-China trade relations in prevention of conflict, little scholarship has focused on the impact of the interconnected nature of the US and Chinese economies and how this might prevent or reduce the prospects of conflict between the two actors. This paper will build on this work focusing on the role of Sino-US economic interaction in preventing conflict between the two actors.

Both countries have been deeply interconnected by a series of economic interactions which seem to be important factors preventing a confrontation. To understand how this series of economic interactions have prevented confrontation, the Robert Keohane and Joseph Nye complex interdependence theory has been applied to the trade war between China and the US.

Two elements of the approach will be taken into account, namely sensitivity and vulnerability. Trade sector, investment sector, sovereign bond holdings, exchange rate problems, as well as political implications of such an interdependence will be analyzed. Relative changes of power in the global economic system, including new multilateral initiatives, will also be presented.

The main hypothesis analyzed in the paper is that the asymmetric interdependence between China and the US limits the scope, intensity and length of a trade war. Auxiliary hypotheses include testing:

- H1: whether the complex economic interdependence exists,
- H2: whether it is mono- or bi-dimensional (sensitivity and vulnerability), and
- H3: if its symmetrical or asymmetrical.

To test this hypothesis, economic interdependence will be analyzed using descriptive statistics and document analysis. Sensitivity and vulnerability, as well as an asymmetric nature of the complex economic interdependence between the US and China have been calculated by authors on the basis of data from the US Census Bureau, US Department of Treasury and the Bureau of Economic Analysis (data for the period 2000-2020 has been tested). Additionally documents of the United States Trade Representative and US Department of Defense were analyzed. The theoretical framework of complex interdependence will be outlined. Thereafter, the development of economic relations between China and the US after 1978, as well as the current economic relationship will be presented, and the level of interdependence examined. Finally, we will inspect the impact of the 2018 Sino-American trade war against the context of US-China economic relations.

2. Complex Interdependence

The concept of complex interdependence was created by Joseph Nye and Robert Keohane and presented in *Power and Interdependence*, originally published in 1977 (updated in subsequent editions). The authors argue that dependence should be understood as being determined (or significantly affected) by certain forces (external to the phenomenon/state). In this context, interdependence is simply characterized as mutual dependence. It follows that a reciprocal effect would impact countries or other actors in given countries, mostly resulting from various types of international transactions, including flow of goods, people, and information across borders (Keohane & Nye, 2011, p.7).

Complex interdependence is based on three dimensions: (1) multiple channels connecting societies (simplifying relations between interstate and transgovernmental, that is, challenging the realists' assumption on the coherence of states as a unit, and transnational, by adding new units to analysis); (2) lack of hierarchy of different issues, meaning there is no clear priority for military security and there is no clear distinction between domestic and foreign policy, including many institutions engaged in foreign policy making, and the multi-level foreign policy process; (3) there is no use for military force in the regions prevalent with complex interdependence (Keohane & Nye, et al., 2011, p. 20-21). Complex interdependence between states may refer to a rising number of transactions and actors, increasing the scope of problems which omit state structures (or centralization of foreign policy), as well as a rising number of non-state actors conducting independent international activities (e.g. trans-national corporations) (Cf. Grabowski & Pugacewicz, 2019, p. 42-43). Further stress factors are not only the rising number of transnational actors, but also the increasing scope of issues which bypass official state structures (dealt with transnationally), especially by leaders of states, and solved without the use of military force. Even in the case of interstate relations, a lot of issues are dealt with by government agencies in one country and by their counterparts in another, without centralization.

Nye and Keohane have developed their theory, looking also at new phenomena, including globalization as a factor which increases the complex interdependence. Those changes encompassed density of networks — including systemic relations amongst different networks — reduced communication costs and institutional velocity. This was with lower costs being vital here, and increased transnational participation (Cf. Grabowski & Pugacewicz, et al., 2019, p. 236-242). It is worth mentioning, however, that the early twenty-first century has been facing a gradual shift from globalism to regionalism. This latter trend has been accelerated by the Covid-19 pandemic and the politics of Donald Trump that have jointly catalyzed a trend of slowing globalization and increasing regionalization (also due to the lack of proper international leadership). This is visible in production value-added chains and trade patterns, actually reinforcing the trend visible at least since the global financial crisis of 2008 (Cf. Wang & Sun, 2021, p. 69-87; Grabowski, 2019, p. 15-24).

In order to properly analyze complex interdependence in the context of Sino-American economic relations, one should refer to the problem of sensitivity and vulnerability, which provides an understanding of power in complex interdependence.

Sensitivity was defined as the degree of responsiveness within a policy framework, hence the speed and magnitude of change in one country caused by another, measured by costly effects for societies and for governments. Therefore, within sensitivity interdependence, the policy framework remains unchanged. Those costs may be avoided if the policy framework is adjusted. Vulnerability interdependence presumes that alternative scenarios are costly, and the actor is still liable to suffer costs imposed by external phenomena, no matter that policies have been changed. It follows that it is a more important dimension of complex interdependence (Keohane & Nye, et al., 2011, p. 10-14). Finally, the problem of asymmetrical interdependence should also be considered as illustrating possible scenarios of behavior for a dominant actor within a complex interdependence scheme, including possible military action and its cost. Other possible factors used against weak foes with low costs embedded, nonmilitary vulnerability (cost of alternative policies), used with low normative constraints and rules being not considered as binding, and finally, non-military sensitivity (costs of changes under existing policies), used as a power resource in the short run, with binding rules, and presuming that with high costs, disadvantaged actors may create new policies (Keohane & Nye, et al., 2011, p. 15).

Looking at those abovementioned categories and a simplification made by Smith and Xie (2009), we will notice that the scope and range of Sino-American relations has increased significantly, as has the number of participants of different sectors, the number of issues and their links have grown, and finally, the negotiation process is almost continuous (Cf. Smith & Xie, 2009, p. 167-185).

Sino-American relations are crucial not only bilaterally when considering the complexity of the system and explained by a set of theories including the most popular realist theories — but also neofunctionalist or functionalist theories. According to Feng Liu, a functionalist approach

with the US providing security to the region, and China being responsible for economic benefits, would explain the stability of the system, as two crucial players provide two of the most important public goods (Cf. Feng, 2013, 99-140). Such an approach could be disputed, especially with reference to economic benefit provisions. Complex interdependence may be connected to a neoliberal institutional approach, with interdependence being a factor towards cooperation and peace. It may be naturally connected to broadly understood international institutions (norms and rules, regimes, organizations. Cf Grabowski & Stefanowski, 2019, p.75-76). Finally, a classic approach to interdependence presumes that it makes using rewards and punishments easier, as it becomes more influential where states are interdependent on each other (Cf. Rosencrance, 1981, p. 31-46). In this context, the US can easily adapt economic instruments against China. At the same time, China's rising interdependence together with rising economic capability, has increased its leverage in the system, with power asymmetry favoring China (Macikenaite, 2020, p. 108-126).

Even though most authors connect economic interdependence with cooperation and peaceful international relations, there are opposite approaches connected to Dale Copeland's *Economic Interdependence and War*. This identifies six endogenous and exogenous factors influencing perspectives of conflict within the trade expectations theory (Cf. Copeland, 2015, p. 27-50). Based on this theory, Yeachan Lee compared Japanese-American and Sino-American trade conflicts, connecting them with negative trade expectations, arising from economic growth and an actual increase in economic interdependence. At the same time, it connects the problem with the comprehensive economic security approach in the United States, including social and human security. This emphasizes that the US has had problems with conceptualizing comprehensive economic security, also as a result of its multifaced trade agenda (Cf. Lee, 2018, p. 215-232).

Bearing in mind the abovementioned theories, an analysis of Sino-American economic interdependence is made, with the general presumption of the positive role of economic interdependence for Sino-American relations, as well as the regional system, and finally for reducing tensions connected to the trade war.

3. Sino-US Economic Relations 1978–2001

Since China entered its reform era in 1978 it has been one of the fastest-growing economies globally, with its GDP increasing six-fold from 1979 and 2000 (Purdy, 2020). While the US was a late arrival to the Chinese market with the official establishment of diplomatic relations in 1979 between the Beijing and Washington, the US played a key role in the development of the Chinese economy. In 1980 the US Congress granted China most-favored-nation (MFN) status exempting Chinese exports from high tariff rates under the Smoot-Hawley Act of 1930 (Dumbaugh, et al., 1998, p.1). This was limited by the US' Jackson–Vanik amendment to the Trade Act of 1974 which linked trade benefits with the human rights policies of communist states (Dumbaugh, et al., 1998, p.1). Although weakened by the lack of action by the Bush administration during the 1989 Tiananmen Square crackdown and by the Clinton administration rollback on formally linking the

MFN status to the Chinese human rights record in 1994, these acts by Congress created a link with China's human rights policies to Sino-America trade (Dumbaugh, et al., 1998, p.20).

By 1984 the US had become China's third largest trading partner while China was the US' fourteenth-largest trade partner (Wang, 2010, p. 175.). A year later the US became the third- largest investor in China with about USD 3 billion in assets (Wang, 2010, p. 165-210). As highlighted by Dong Wang, "One noteworthy change facilitating US-China economic relations was the steady liberalizing of controls over American exports of advanced technology" (Wang, et al., 2010, p. 165-210). China moved from category Y (The Warsaw Treaty countries) in 1980, for such exports to category P (new US trading partners), to category V (American allies) in 1983 (Wang, et al., 2010, p. 165-210). This not only opened the US market to Chinese imports but allowed for US investment into China, the creation of US-Chinese joint ventures and the movement of US production to China.

This resulted in a fundamental change in economic relations between the US and China. US direct investment in the manufacturing sector of China grew from about USD 123 million in 1989 to just under USD 4 billion by 1998, with sales by affiliates of US multinationals producing in China having increased from USD 121 million in 1989 to over USD 8 billion in 1997 (Burke, 2000). By the end of the 1980s China also began to play an important role in the US treasury bond market and this increased throughout the 1990s (Lampton, 2001, pp. 159–203).

By the end of the 1980s there was growing American anxiety over the trade deficit with China. This led to demands for counter protectionist measures (Chang Bloch, 1997, p. 185-216). However, throughout the 1990s the US government adopted a policy of "constructive engagement" (Dumbaugh, et al., 1998, p.5). This led the US to push for greater market access to China and more transparency in production, by attempting to integrate China into the western system of global governance — most notably the World Trade Organization (Kent, 2002, p. 343–364) when China became a member in 2001. However, this policy of constructive engagement failed to prevent the US from developing a trade deficit with China. From 1995 to 2009 the US ran a trade deficit with China, which grew from USD 33.8 billion in 1995 to USD 266.3 in 2008 (Wang, et al., 2010, p. 165-210). The trade deficit masked a healthy level of US exports to China during this period and an increasing reliance on the Chinese market to support US jobs (Wang, et al., 2010, p. 165-210). This suggested that the Sino-American trade relationship was moving towards economic interdependence.

4. Sino-American Economic Interdependence

Conceptualization of the Sino-American economic interdependence is a challenging task, even though it is a relatively popular concept. The concept of complex Sino-American economic interdependence is tested, following two dimensions, namely sensitivity and vulnerability, and finally adopting the asymmetric dimension of interdependence. In order to assess these phenomena, the research design focused on the data for trade in goods and trade in services. This was due to the crucial role this data played in the trade war during the Trump presidency, as well as the

Chinese hold on American sovereign bonds. This data was compared with the total trade of the US and China to see if interdependence had been increasing.

Table 1 illustrates US-China trade in goods in the last 20 years. Looking at Table 1, trade has been generally growing since 2000 through 2018 (first year of the trade war). The following two years witnessed a trade and deficit decrease, but unfortunately it is not so easy to decide whether it results from the trade sanctions of Donald Trump, or the coronavirus pandemic. Most likely both factors contributed to this phenomenon. Table 2 illustrates US-China trade in services in the period 2000-2020.

Table 1

Trade in Goods US-China

Year	Exports	Imports	Balance
2000	16 185,20	100 018,20	-83 833,00
2001	19 182,30	102 278,40	-83 096,10
2002	22 127,70	125 192,60	-103 064,90
2003	28 367,90	152 436,10	-124 068,20
2004	34 427,80	196 682,00	-162 254,20
2005	41 192,00	243 470,10	-202 278,10
2006	53 673,00	287 774,40	-234 101,40
2007	62 936,90	321 442,90	-258 506,00
2008	69 732,80	337 772,60	-268 039,80
2009	69 496,70	296 373,90	-226 877,20
2010	91 911,10	364 952,60	-273 041,50
2011	104 121,50	399 371,20	-295 249,70
2012	110 516,60	425 619,10	-315 102,50
2013	121 746,20	440 430,00	-318 683,80
2014	123 657,20	468 474,90	-344 817,70
2015	115 873,40	483 201,70	-367 328,30
2016	115 594,80	462 420,00	-346 825,20
2017	129 997,20	505 165,10	-375 167,90
2018	120 281,20	538 514,20	-418 233,00
2019	106 448,40	450 760,40	-344 312,00
2020	124 485,40	434 749,00	-310 263,60

Notes. All figures are in millions of US dollars on a nominal basis, not seasonally adjusted unless otherwise specified. Details may not equal totals due to rounding. Table reflects only those months for which there was trade.

(United States Census Bureau, 2021)

Table 2

Trade in Services US-China

Year	Exports	Imports	Balance
2000	5 497,00	3 109,00	2 388,00
2001	5 628,00	3 315,00	2 313,00
2002	6 046,00	3 905,00	2 141,00
2003	5 982,00	4 002,00	1 981,00
2004	7 403,00	5 629,00	1 774,00
2005	8 811,00	7 092,00	1 719,00
2006	10 028,00	8 766,00	1 262,00
2007	12 359,00	10 274,00	2 085,00
2008	14 928,00	10 867,00	4 061,00
2009	16 130,00	9 475,00	6 656,00
2010	20 518,00	11 493,00	9 025,00
2011	25 256,00	12 643,00	12 612,00
2012	29 851,00	13 494,00	16 357,00
2013	35 215,00	14 578,00	20 636,00
2014	41 639,00	14 905,00	26 734,00
2015	46 818,00	15 605,00	31 214,00
2016	53 360,00	16 619,00	36 741,00
2017	54 981,00	17 995,00	36 986,00
2018	57 060,00	19 112,00	37 948,00
2019	56 537,00	20 140,00	36 398,00
2020	37 921,00	15 500,00	22 421,00

Notes. In millions of US dollars.
(Bureau of Economic Analysis, 2021)

In order to assess US-China trade dependence, data on total American trade (in goods and services) from 2000–2020 as well as total American trade were presented in Table 3 and total American trade with China in Table 4 during the same period. This data suggested that China and the US have become key trading partners since the turn of the century.

Table 3

US Dependency on China (Trade in Goods)

Year	US Export Dependency on China	US Import Dependency on China	US balance dependency on China
2000	0,02	0,07	0,19
2001	0,03	0,07	0,20
2002	0,03	0,09	0,22
2003	0,04	0,10	0,23
2004	0,04	0,11	0,24
2005	0,05	0,12	0,26
2006	0,05	0,13	0,28
2007	0,05	0,14	0,31
2008	0,05	0,13	0,32
2009	0,06	0,15	0,45
2010	0,07	0,15	0,42
2011	0,07	0,15	0,40
2012	0,07	0,15	0,43
2013	0,08	0,16	0,45
2014	0,08	0,16	0,46
2015	0,08	0,17	0,48
2016	0,08	0,17	0,46
2017	0,08	0,17	0,47
2018	0,07	0,17	0,48
2019	0,06	0,15	0,40
2020	0,09	0,15	0,34

Notes. Own calculation.

Table 4

US Dependency on China (Trade in Services)

Year	US Export Dependency on China	US Import Dependency on China	US balance dependency on China
2000	0,02	0,01	0,03
2001	0,02	0,01	0,04
2002	0,02	0,02	0,04
2003	0,02	0,02	0,04
2004	0,02	0,02	0,03
2005	0,02	0,02	0,03
2006	0,02	0,03	0,02
2007	0,02	0,03	0,02
2008	0,03	0,03	0,03
2009	0,03	0,02	0,06
2010	0,04	0,03	0,06
2011	0,04	0,03	0,07
2012	0,04	0,03	0,08
2013	0,05	0,03	0,08
2014	0,06	0,03	0,10
2015	0,06	0,03	0,12
2016	0,07	0,03	0,14
2017	0,07	0,03	0,13
2018	0,07	0,03	0,13
2019	0,06	0,03	0,13
2020	0,05	0,03	0,10

Notes. Own calculation

Table 5

Chinese Trade in Goods Dependency on the US

Year	Chinese Export Dependency on the US	Chinese Import Dependency on the US	Chinese balance dependency on the US
2000	0,40	0,07	3,48
2001	0,38	0,08	3,69
2002	0,38	0,07	3,39
2003	0,35	0,07	4,87
2004	0,33	0,06	5,06
2005	0,32	0,06	1,98
2006	0,30	0,07	1,32
2007	0,26	0,07	0,98
2008	0,24	0,06	0,90
2009	0,25	0,07	1,16
2010	0,23	0,07	1,50
2011	0,21	0,06	1,90
2012	0,21	0,06	1,37
2013	0,20	0,06	1,23
2014	0,20	0,06	0,90
2015	0,21	0,07	0,61
2016	0,22	0,07	0,65
2017	0,22	0,07	0,87
2018	0,22	0,06	1,16
2019	0,18	0,05	0,80
2020	0,17	0,06	0,58

Notes. Own calculation

Table 6

Chinese Trade in Services Dependency on the US

Year	Chinese Export Dependency on the US	Chinese Import Dependency on the US
2000	0,04	0,15
2001	0,04	0,14
2002	0,04	0,13
2003	0,07	0,11
2004	0,07	0,10
2005	0,09	0,10
2006	0,09	0,10
2007	0,08	0,10
2008	0,07	0,10
2009	0,08	0,11
2010	0,10	0,15
2011	0,06	0,10
2012	0,07	0,11
2013	0,07	0,11
2014	0,07	0,10
2015	0,07	0,11
2016	0,08	0,12
2017	0,08	0,12
2018	0,08	0,11
2019	0,08	0,11

Notes. Own calculation

Table 7

China Holding of US Securities (Sovereign Bonds), Total Value of American Sovereign Bonds Traded

Year	China holdings of US Treasury Securities	Total value of Treasury Securities traded	Ratio
2000	712,3	11778,9	0,060473
2001	854,5	12050,5	0,07091
2002	1220,9	14616,2	0,083531
2003	1841,7	17877,7	0,103017
2004	2427,2	22683,6	0,107002
2005	3517,1	25340,2	0,138795
2006	4634,7	26713,5	0,173497
2007	5755,7	28830,6	0,199639
2008	7384,4	34947,2	0,211302
2009	11085,7	44431,9	0,249499
2010	13288,7	53163,9	0,249957
2011	15764,6	60919,2	0,258779
2012	13983	64033,7	0,218369
2013	15332,7	68006,9	0,225458
2014	15171,4	72108,1	0,210398
2015	15091,4	73622,3	0,204984
2016	14246,8	74032,9	0,192439
2017	13641,4	73980,9	0,184391
2018	13960,9	74689	0,18692
2019	13290,5	80225,1	0,165665
2020	12875,8	84575,8	0,15224

Notes. In billion dollars

(US Department of the Treasury, 2021)

Based on the data on Sino-American trade, the calculation was done to assess the level of interdependence in this area, referring to trade in goods and services. Data in Tables 3–6 illustrate those trends. As for American dependency on goods exports to China — it's been relatively low for the last 20 years (2% of total American exports were going to China in 2000, 8% in 2018 when the trade war started, 6% in 2019 at the peak of the trade war and up to 9% in 2020 — this could be associated with the so-called phase one trade deal between the US and China. The official name for this is The Economic and Trade Agreement Between the Government of The United States of America and the Government of The People's Republic Of

China (United States Trade Representatives, 2020, p. 1). Dependency on the US side is much more visible in terms of imports from China, which constituted 7% of total American imports in 2000, up to 17% in 2015 (2016, 2017) and falling to 15% in 2019 and 2020. As for the role of trade in goods for the US trade balance, it was 19% of American trade deficit in 2000, peaking at 48% in 2015 and then in 2018. In this context, the US is dependent on trade with China, but also has huge leverage being able to influence Chinese economic development significantly.

As for services trade, US services exports to China rose from 2% in 2000 to 7% in 2016–2018, decreasing to 5% in 2020. Considering services imports, it has been ca. 2%–3% annually for the last 20 years. At the same time, the services trade with China constituted up to 14% (in 2016) of the total American service trade surplus (it fell to 10% in 2020).

As for Chinese export dependency on the United States, we will notice that in 2000, 40% of Chinese exports were sent to the United States and since then the ratio of Chinese exports to the US v. total Chinese exports has been reduced by almost half (to 22% in 2016–2019), and to ca. 17% in 2020. This results from the trade war and the Covid-19 pandemic. Chinese imports dependency on American goods has been relatively constant (in the range 5-8%). Services dependency has grown from 4% in 2000 to ca. 8% in 2016–2020 (it was 9% in 2005 and 2006). In terms of services imports, the US has been an important services source for the China market (15% in 2000, 11% in 2020).

Finally, it's worth referring to the problem of China's holdings of US treasury bonds. The ratio of Chinese holdings in total increased from 6% in 2000 to ca. 25% in 2009–2011, during the global financial crisis and then was gradually reduced to 15% in 2020. This dimension of complex interdependence is giving the PRC a leverage towards the US, as China is one of the two most important holders of US treasury bonds (apart from Japan), influencing the price of American debt and indirectly interest rates (allowing the US to offer cheap loans to consumers and producers, hence increasing competitiveness of the American economy). Such influence is sometimes overestimated, but definitely should be taken into account as an important factor in bilateral economic relations.

Looking at the abovementioned data, we clearly see the economic interdependence between the US and China, as well as asymmetry in this interdependence, as China is more dependent on the US (vulnerable) than the US on China (sensitive only). At the same time, we've observed gradual change in this situation, as the PRC has reduced its dependency on the US, hence increasing its leverage power and reducing the effectiveness of American economic foreign policy tools.

5. The Trump's Administration China Policy

In relation to China the Trump's administration faced several challenges. These included a reduction in US soft power in Asia, a need to develop a system of cooperation with India, continuous engagement in Afghanistan, security in the Korean Peninsula as well as the need to

develop and strengthen regional multilateral system in Asia to deal with non-traditional security issues. Key to dealing with these challenges was ratification of the Trans-Pacific Partnership (TPP) and the United Nations Convention on the Law of the Sea (UNCLOS) and the development of a balanced approach in China policy which would include support for regional institutions—including ASEAN and Asian Infrastructural Investment Bank (AIIB) (The Asia Foundation, 2016, p. X-XII). As highlighted by the 2017 report of the Asia Economic Strategy Commission entitled: *Reinvigorating U.S. Economic Strategy in the Asia Pacific*, to face these challenges the Trump's administration needed to undertake a number of domestic investments to maintain the technological advantage of the US as well as develop cooperation with congress to support US priorities in Asia (Barshefsky, Greenberg & Huntsman, 2017, p. VIII-IX). It was also recommended that the Trump's administration would also need to encourage the participation of US companies in infrastructure investments in Asia which in turn would require the US to strengthen of economic institutions in the Asia-Pacific region in cooperation with regional partners and the private sector in order to maintain a rules-based regional order (Barshefsky, Greenberg & Huntsman, 2017, p. VIII-IX).

Overall the challenge raised by China's increase influence globally but in Asia in particular required the Trump's administration to develop a China policy which would focused on shaping the rules and norms in Asia's regional system through multilateral cooperation (particularly TPP but also Chinese-led bodies), bilateral cooperation (particularly partnership with India and stable and predictable relations with China). A number of these recommendations were developed as part of the Trump administration's strategic documents for the Asia Pacific region.

Faced with the rise of China the Trump's administration launched a number of key strategic documents. The National Security Strategy of the US is key in strategic documents from Trump's administration. This document focuses on the implementation of the term Indo-Pacific to replace the term Asia Pacific. The Indo-Pacific region is defined as the region from the western coast of India to the western coast of the United States, the most populous and most dynamic region in the world. The key aspect of the document was the concept of a *Free and Open Indo-Pacific* region. The main thrust of this concept includes the willingness to cooperate with China, limited by their economic and military threat. Maintaining alliance commitments with Japan, South Korea, Australia, and New Zealand, was confirmed in the document, but also a new strategic-military component was developed, namely the QUAD (Quadrilateral Security Dialogue) between the United States, Japan, India and Australia. In terms of Southeast Asia, it focused on traditional allies (Thailand, the Philippines) but also highlighted Vietnam, Indonesia, Malaysia, and Singapore as new important actors for the US' interests in the region. Prompting institutions, which led to a more balanced regional order such as ASEAN and APEC were a key aspect of the document. A commitment to Taiwan and support for strong partnership with India were also key aspects of the documents (White House, 2017, p. 45-47).

The *National Defense Strategy* summary published in 2018 focused on China. The 2018 strategy explicitly indicated that a rise of the Chinese economic and military position would be

followed by a regional struggle for hegemony and removal of the US from this position if no action was taken (Department of Defense, 2018, p. 2,9).

In November 2020 the US Department of Defense published a document entitled *The Elements of the China Challenge*. While the document claims that China has also been transforming international organizations from within (Department of Defense, 2018, et al., p. 8-26), it warns of a new era of great powers with China constructing a new Chinese center of international order to serve the authoritarian and hegemonic ambitions of China (Cf. The Policy Planning Staff, 2020, p. 1).

The Elements of the China Challenge suggested a strong US response to China's rise, including maintaining global military advantage, securing a free, open and rules-based order, redefining the alliance system and international organizations, reinforcing alliances by burden sharing, and educating American citizens on China's challenge (The Policy Planning Staff, 2020, et al., p. 46-50). 1). While much of these strategic documents were generally similar to those issued under the Obama administration, they addressed China's challenge in a much more multidimensional manner.

These documents reframed Sino-US relations as a form of great-power competition. This includes the USs reducing traditional state-to-state diplomacy with China only engaging with Beijing in area which benefit the US. The Trump administration also abandoned the policy of previous US administration of engaging with China when dealing with regional issues such as North Korea and Iran. On a global level the Trump administration began to use unilateral economic policy when dealing with China rather than the established multilateral bodies of global governance such as the World Trade Organization (WTO). At the core of the Trump administration reframing Sino-US relations as a form of great-power competition was a reframing of US' bilateral trade deficit with China as an indication of a positive relationship between the two states. This reframing of US trade with China resulted in the trade with China being considered part of national security which resulted in applying investment screening and export controls to Chinese trade with the US. The policy shift has also resulted in the US moving away from the market force to a manage bilateral trade relationships. A managed bilateral trade relationship moves trade to a relationship determinate by policymakers using unilateral applied tariffs to force changes in Chinese trade policy. The managed bilateral trade relationship also targeted the decoupling of the US and Chinese economies by incentive US companies to move their supply chain out of China. The resulted of this new policy shift under the Trump administration was the trade with China.

6. The Trade War with China

China accounts for almost half of American global trade. In 2016 US trade in goods deficit with the world (seasonally adjusted) amounted to USD 735 billion, followed by USD 793 billion in 2017 and USD 875 billion in 2018. (United States Census Bureau, 2020) (see Table 1 and Table 2). The deficit stood at USD 378 billion in 2018 rising from USD 103.1 billion in 2002 (United

States Census Bureau, 2021). This deficit was a major focus of Donald Trump's US presidential campaign in 2016 where he promised to reduce the large trade deficit with China. Trump claimed that this deficit developed due to unfair Chinese trading practices, such as currency manipulation, lack of access to the Chinese market and Chinese subsidies of Chinese companies (Beckley, 2021, p. 227-245). As a reaction, the Chinese state framed Trump's campaign narrative as part of the wider US policy of restricting China's rise as a regional and global power. The Trump administration attempted to deal with the deficit using several tariffs based on old Cold War legislation. These included section 201 of the 1974 Trade Act used to impose tariffs on washing machines and solar panel imports. Section 232 of the 1962 Trade Expansion Act was used to impose tariffs on steel and aluminium imports. Section 301 of the 1974 Trade Act was used for further tariffs covering virtually all imports from China. The Chinese reaction was to impose of tariffs on imports from the US.

The Trump administration's use of tariffs had limited success due to its negative effect on investment, sovereign bond holdings etc. This led to economic losses on both sides (see Tables 3–6) (As for further details of both the Sino-American economic relations, and the trade war, cf. Congressional Research Service, 2019, *passim*; Lawrence, Campbell, Fefer, Leggett, Lum, Martin & Schwarzenberg, 2019, pp. 19-27; as for the doubts on actual effects of the trade war, cf. Yu & Zhang, 2019, p. 160-174, Sheng, Zhao & Zhao, 2019, p. 137-159, Sachs, 2019, p. 100-108, Tu, Du, Lu & Lou, 2000, p. 199-240). However, the trade war may be perceived as another coercive diplomacy tool, limiting the Chinese position in the global system (Cf. Min, 2021, p. 89-105. Zuo, 2021, p. 107-127). As the trade war was causing losses to both sides of the conflict, negotiations of US and Chinese representatives resulted in the signing of a phase one trade agreement in January 2020. As part of this agreement the US cut some tariffs on Chinese goods in exchange for Chinese pledges to purchase American goods (focusing on agricultural goods, energy, and manufactured goods) (United States Trade Representative, 2020, et al., p. 61.). China also agreed to address issues related to intellectual property practices damaging US interests. The agreement also required China to remove barriers to US investment in the Chinese financial services markets. China agreed to improve US access to China's financial services market including banking, insurance, securities and credit rating services (United States Trade Representative, 2020, et al., pp. 41-44). The US agreed to cut the tariff rate on \$120 billion US of Chinese goods to 7.5% (Bown, 2021) The tariffs on \$160 billion worth of Chinese goods due to come into force were suspended indefinitely (Bown, 2021).

As part of the agreement China pledged not to use its exchange rate for trade advantage and to refrain from competitive currency devaluations. This pledge included an enforcement mechanism which allowed the US to impose tariffs in response to Chinese currency manipulation which has been deemed to give China a trade advantage (United States Trade Representative, 2020, et al., pp.51-52). This mechanism was part of a wider system of enforcement under the phase one trade agreement. The US and China agreed to resolve differences through bilateral consultations and where this does not resolve disputes, tariffs could be imposed (United States Trade Representative, 2020, et al., p. 18).

The phase one trade agreement suggested that the US was successful in forcing China to deal with long-held US complaints of the lack of access to the Chinese market, the US trade deficit with China, Chinese currency manipulation and dealing with Chinese intellectual property practises. However, a number of these Chinese pledges had been made before and never come into force. In terms of direct results, the trade war did see an increase in the Chinese purchase of US goods, but even this has not come into full force due to the effect of the Covid-19 pandemic (Cheng, 2021).

In terms of sensitivity of US China relations, we can see that there is a high degree of responsiveness to the trade war within a policy framework of both states. The impact of the trade sanctions on economics in terms of growth, but also in term of employment levels which were high and the impact of the trade war was quickly felt by both states. Within sensitivity interdependence, the policy framework in both states were readjusted to avoid the cost of conflict between China and the US in terms of vulnerability.

As the US was successful in forcing China to deal with long-held US complaints, most notable during the Trump administration's US trade deficit with China, it is clear that China is more vulnerable in terms of its economic interdependence with the US. It is clear that the alternative scenarios for China are costly.

7. Conclusions

Sino-American trade relations since the signing of the Shanghai Communiqué (1972) have moved towards an interdependence relationship. The policy of constructive engagement employed by US presidential administration from 1978 to 2000 was the main driver of the creation of this interdependence relationship. The period of US constructive engagement and Chinese membership of WTO led to the US developing a trade deficit with China. While there has been growing American anxiety of this trade deficit since the 1980s, it became a major focus of the 2016 Trump presidential election. The Trump administration policy towards China was predominantly confrontational which was clear from the trade war which began in 2018. However, it was clear from the data outlined in this paper that while the 2018 trade war was symbolic, the scale of economic interdependencies between the United States and China results in either a need for collaboration, or in serious losses on both sides in the case of lack of cooperation.

Analysis based on the complex interdependence theory of Robert Keohane and Joseph Nye confirmed the main hypothesis analyzed of this paper that the asymmetric interdependence between the China and the US limits the scope, intensity, and length of a trade war. As for auxiliary hypotheses, the analysis confirmed that there is a complex economic interdependence between the US and China, it is bi-dimensional, and it is asymmetrical. The United States is sensitive to trade war with China, having been dependent on its export to the PRC (9% of total US export in 2020 after phase one deal, 6% in 2019 at the peak of trade war), and imports to the PRC (15% in 2020, same in 2019 at the peak of trade war, 17% in 2016, 2017, 2018

respectively). Having this picture in mind we realize, that trade war with China influenced especially American export to China, and the deal was expected by business communities. Import dependency was reduced to much lower extent. Chinese export dependency on the US was much higher accounting for 22% of total exports before and 17% after the trade war, hence US authorities were able to influence the Chinese economy significantly. This was one of the reasons for the relatively conciliatory Chinese approach in negotiations. There is no doubt this asymmetry had been reduced significantly from 2000 to 2020 (in 2000 Chinese dependence on export to the US was 40%, while in 2020 17%). There is no doubt, however, that interdependence remains asymmetrical also in 2020. Its complexity is visible in the fact that China is not only the source of biggest American trade deficit in terms of goods, but also the biggest surplus in terms of services export. Finally, it's worth mentioning that important portion of Chinese exports is attributed to foreign companies (pretty often American), and China still holds 15% of internationally traded US sovereign bonds. Even though both countries are sensitive due to their economic interdependence, the United States may be affected mostly in economic terms, whilst the People's Republic of China has limited options for short term reverse of its export patterns (including development of domestic market), hence it is still vulnerable in its relations with the United States (also because serious economic problems may cause political risks to the ruling Chinese Communist Party).

The trade relationship between China and the US is a relationship of complex economic interdependence as both parties are dependent on each other's markets (see Tables 3-6). The complex Sino-American economic interdependence was tested, based on two dimensions, namely sensitivity and vulnerability. In order to assess those phenomena, operationalization of the research design focused on the trade in goods and trade in services, due to the crucial role of this data in the trade war during the Trump presidency, as well as Chinese holdings of American sovereign bonds. This data was compared with the total trade of the US and China to see if interdependence has been increasing and this relationship is an asymmetric interdependence. Therefore, the policy of constructive engagement employed by US presidential administration from 1978 to 2000, which helped to create the asymmetric interdependence relationship, has limited the US' policy response to China's rise in the global economy. The use of complex interdependence theory to understand Sino-American relations during the Trump administration brings into question the predominantly confrontational approach employed by that administration. As the Trump administration's confrontational approach was limited by the interdependence of Sino-American economic relations, it focused both the US and China to move towards cooperation rather than confrontation. It suggests that despite the clearly aggressive approach by the Trump administration, the structure created by complex interdependence between the US and China resulted in the Trump administration adopting much the same China policy as the Obama administration did. What this suggests is that the structure created by the economic relationship between China and the US will also limit the Biden administration to broadly the same set of policy options.

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