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1 Introduction

1.1 Addressing a Research Gap in the Empirical Study of Economic Interdependence

Research on economic interdependence is heavily dominated by quantitative methods and almost exclusively executed by Anglo-American researchers. Consequently, this field of study has seen no real innovation in the last years. Current research on the topic mainly consists of studies which analyse the correlation between economic exchange and political conflict. They differ from each other primarily by the selection of data sets and application of different mathematic methods. Remarkably, the findings often contradict each other, creating the impression that results depend to a large extent on the chosen methods and personal interpretation.

The stagnation in this field of research could be addressed by conducting more qualitative studies. Ripsman and Blanchard argue that qualitative research would open up new perspectives and generate deeper insights into the effects of economic interdependence (Ripsman and Blanchard 2003). This study wants to address the lack of qualitative research by conducting a qualitative case study on the effect of economic interdependence on bilateral relations between two states. A bilateral scenario was chosen because it allows analysing interdependence in a limited setting and focuses on the actor level rather than the systemic level. After all, states are still the key players when it comes to hard power in the international system. Due to their level of economic interconnectedness the most suitable research subjects for such a study are the US and China, which are arguably the most interdependent countries at present.

What make this country pair even more suitable for this study is the importance of US-China relations for international politics in the 21st century. The way the US, the current superpower, and China, an emerging superpower, handle their relationship will decide about the future world order. Due to differences in the form of government, organisation of the economy, culture, and society the relationship bears significant potential for confrontation. Furthermore, China and the US often take opposite views on foreign policy matters and compete for influence in international organisations (Buzan 2004, 71 & 142). This makes bilateral relations a tender subject. However, despite these differences, economic relations remain strong and vital for the economic performance of both countries. This constellation makes the country pair very interesting for research on the interaction of economic and political relations. Therefore, US-China relations are a well-suited case to examine the effect of economic interdependence on political relations.

1.2 US-China Relations in the Academic Debate

Events in recent years have made it obvious that the political world order is in transition. Emerging major economies like Brazil, Russia, India, China, and South Africa (BRICS) have challenged “Western” authority and US hegemony over global affairs. For a time, it looked like the world would move from a US-centric, unipolar post-Cold War order to a multipolar one. However, in the aftermath of the 2007-2009 financial crisis the BRICS have lost economic momentum. Only China was able to keep up high economic growth rates, although on a lower level than before the financial crisis. The US also experienced difficult economic times but was able to stabilise gradually (World Bank 2016). This development has led to a situation in which China remains the sole serious competitor to continued US hegemony. Thus, world politics in the 21st century will be deeply shaped by the nature of the Sino-American relationship. For the future development of world affairs it will be crucial whether the relationship will be characterised by conflict or cooperation; or in the words of Henry Kissinger “rivalry or partnership” (Kissinger 2014, 227).

One group of scholars, prominently represented by the realist scholar John J. Mearsheimer, sees China as a “potential peer competitor” to the US and expects a return of 19th-century-style “great-power politics” in case China’s economic development continues (Mearsheimer 2001, 360; 2010, 381–96), because “a wealthy China would not be a status quo power but an aggressive state determined to achieve regional hegemony” (Mearsheimer 2001, 402). It is worth noting that Mearsheimer already made this prediction in 2001 at a time when China was still far away from being a serious competitor to US hegemony. The main argument of this group of scholars is rooted in power transition theory, which postulates that rising powers will inevitably come into conflict with established powers over the political structure and rules of the international system. Power transition theory assumes that it is in the interest of a rising power to revise the status quo for its own benefits and that it will do so once it is strong enough. Contrarily, the established power has an interest in preserving the status quo as it participated in designing the current international political order and benefits from the existing set of rules (Organski and Kugler 1980; Organski 1968).

In a constellation where the rising power is close to reach power equilibrium, which some argue is already the case for the US and China, both powers are fraught with uncertainty about their competitor’s behaviour. According to power transition theory, the rising power must fear that the established power will try to stop its rise as long as it is still superior and the established power must fear that the rising power will try to dictate its own set of rules once power has shifted. The uncertainty about the intentions of the competi-

tor can ultimately lead to a security dilemma, pre-emptive actions and possibly even trigger a military confrontation. Therefore, periods of power transition are referred to as “zones of contention and probable war” by advocates of power transition theory (Tammen, Kugler, and Lemke 2000).

In a large-scale historic case file project for the Harvard Belfer Center Graham Allison and his team have identified 16 cases of power transition between a dominant hegemon and a major rising power in the last 500 years of which 12 resulted in a war over hegemonic power. Presumably the most prominent one is the case of Wilhelminian Germany challenging British hegemony at the beginning of the 20th century which ultimately resulted in World War One. The large number of wars during times of shifting power support power transition theory, though Allison’s case study also shows that more recent power shifts have been less conflictual. Only three out of seven power shifts in the 20th century resulted in war (Allison 2015).

Mearsheimer and his fellows view China in the classic role of a rising power, unsatisfied with the current world order and striving for a revision on its own terms. In fact, the USA and China favour significantly different concepts of world order. While the US traditionally advocate a system of pooled sovereignty and extensive networks of international legal and organisational structures, China takes a stand for bilateral problem solving and absolute national sovereignty as a shield against foreign interference. Opposing views on democracy and human rights constitute further sources for disagreement and conflict (Kissinger 2014, 6–8 & 229–30). Because of its non-conformance with “Western” values and its “alienation from the dominant international society” Barry Buzan calls China “the most obvious challenger [to the US and its global hegemony]” (Buzan 2004, 71 & 142).

While China surely is at odds with many aspects of the still predominant liberal-democratic world order, it has at the same time greatly benefitted from this system. China’s rise was based on economic liberalisation and gradual integration into the world society. In order to achieve economic development it was necessary for China to adapt to capitalist market principles and to play by international rules (Ikenberry 2008, 30–34). This pragmatic approach to political and economic realities speaks against the thesis of China being a revisionist state.

Academics and politicians who believe that China will continue political liberalisation and engage in more global cooperation point to China’s self-imposed foreign policy strategy of a “peaceful rise” through “peaceful development”, which emphasises a peaceful coexistence between great powers. They argue that the US engagement policy, which was started by Henry Kissinger in 1969, has already significantly changed China and they expect that China will continue to gradually adjust to values and structures of the international system if the US is willing to share power and accepts China as an

important and responsible stakeholder in the current world order (Ikenberry 2008; Bijian 2005; Zoellick 2005).

This integrative approach towards China is criticised as “sleeping with the (potential) enemy” (Papayoanou and Kastner 2000). Sceptics claim that the “peaceful development” rhetoric is a Chinese scheme to hide its brightness and bide its time; just as a rising power would do according to power transition theory. They see China’s offer to establish a “new type of great power relations”, one that is designed to avoid historic mistakes, as a way to reintroduce spheres of influence and obtain regional hegemony over East Asia (Glosserman 2013; Erickson and Liff 2014; White, Weihua, and Jianmin 2014). Furthermore, it is argued that even if the current Chinese leadership generation is honestly committed to a “peaceful development”, the possibility that future Chinese leaders - from a more powerful position - will introduce a new Chinese development policy, a potentially more ambitious and aggressive one, cannot be ruled out (Kissinger 2011, 512).

The debate about future scenarios for US-China relations reveals the crux of the matter: uncertainty about each other’s intentions and deep-rooted distrust on both sides exerts negative influence on the relationship and legitimises deterrence and military hedging. As a result, the US and China become ever more assertive, which in turn raises distrust. The prospect that the US and China could unintentionally get caught in a security dilemma is very real. Politicians on both sides of the pacific already realised that addressing strategic distrust is key to a better understanding, but so far failed to establish trust regarding long-term intentions (Lieberthal and Jisi 2012).

However, strategic distrust has not yet led to a confrontation. Neither China’s territorial ambitions in the South and East China Sea nor America’s increased military presence in East Asia as part of the so called “pivot to Asia” triggered serious counteractions. This is not to say the freedom of navigation operations by the US Navy in the South China Sea that lead to regular standoffs with the PLA Navy are harmless. However, given the explosive nature of China’s territorial claims and the US pivot, these standoffs are a rather modest outcome. Despite mutual distrust US-China relations continue to feature a high level of prudence and restraint. This raises the question what the factors are that exert restraint on the parties and prevent a more confrontational relationship?

A possible explanation is provided by the influence of economic relations. In contrast to political relations, which gradually cooled-off over the last decade, economic relations between the two biggest economies in the world remain strong. Even despite the introduction of higher tariffs by the US and China in 2018 the bilateral trade volume continued to grow. Bilateral economic exchange is and will continue to be vital for both economies. The US is by far China’s most important trading partner. In 2016 exports to the US were stagnating but caught up again in the meantime. In 2018 China exported

8,6% more to the US than in the previous year (National Bureau of Statistics of China 2019). For the US, trade vis-a-vis China also has a higher volume than vis-a-vis any other country. However, it is worth pointing out that this is mainly due to the very high number of imports from China to the US. When it comes to US exports China ranks on third place behind the United States' neighbours Canada and Mexico (U.S. Department of Commerce 2017).

Table 1: USA-China Trade Volume in Goods since 1998



Source: (UN Comtrade 2018)

The economic nexus between China and the US is not limited to trade, but also features a high level of reciprocal investments and holdings of treasury securities. As China exports more to the United States than the USA export to China, it generates considerable savings from the trade surplus. A large part of these savings have been used by Beijing to buy US government securities. By doing so China basically lends the United States money for continued government spending and subsequently also to buy more Chinese products. This enables the United States to spend and consume more than they could normally afford and still maintain low interest rates at the same time (Ferguson and Schularick 2007, 227–30).

As long as the United States want to make new debts anyways, this economic cycle is beneficial for both sides. China can grow its economy through exports and the United States can refinance its national budget at favourable conditions and Americans can enjoy a higher standard of living. This symbiotic economic relationship developed during the first decade of the 21st century and was first described by Ferguson and Schularick in 2007 under the term “Chimerica”. The analogy to the mythical hybrid creature Chimera, which combined parts of a lion, a goat and a snake, might or might not be intended by the authors (Ferguson and Schularick 2007, 1–2).