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ALTINBAS UNIVERSITY

Institute of Graduate Studies

Political Science and International Relations

The Role of Economic Diplomacy in International Cooperation and Conflict: The US and China

Master of Science

Supervisor

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Istanbul, 2021

The Role of Economic Diplomacy in International Cooperation and Conflict: The US and China

by

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Political Science and International Relations

Submitted to the Institute of Graduate Studies

in partial fulfillment of the requirements for the degree of

Master of Science

ALTINBAŞ UNIVERSITY

2021

The thesis titled "The Role of Economic Diplomacy in International Cooperation and Conflict: The US and China" prepared and presented by Ali Abdulkareem BILAL was accepted as a Master of Science Thesis in Political Science and International Relations.

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Ali Abdulkareem BILAL

Signature

DEDICATION

I dedicate this thesis to the man I have looked up to since my childhood, my father, my first and best supporter in my academic journey; and to the source of love, altruism and generosity, my revered mother. To all those from whom I have received advice and support, I present to you my scholarly efforts.

ACKNOWLEDGEMENTS

I would like to express my sincere gratitude to the people who helped me make this study a reality. In particular, I would like to express my deep gratitude to Assistant Professor Bahadır KAYNAK, my thesis advisor, whose dedication, guidance and invaluable support contributed so much to study. My boundless appreciation is owed to my family and close friends for their support and encouragement during this process.

Many thanks to the Turkish people, who have welcomed me and treated me with all their kindness and friendliness throughout two years.

My profound gratitude to my dear country, for which I long with all my heart.

ABSTRACT

The Role of Economic Diplomacy in International Cooperation and Conflict: The US and China

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Date: May/2021

Pages: 88

This thesis examines the role of economic interdependence in influencing Sino-US relations and the act of economic diplomacy that pushes relations toward cooperation rather than conflict. Tensions have arisen since the return of bilateral relations in 1979, but networks of economic interdependence have always worked to calm these tensions, find solutions, transform and strengthen relations, as well as ensure their growth. This thesis examines the role of economic interdependence on bilateral relations through data provided by each of the two countries, organizations, studies, and many other database and resources, through a theoretical framework of complex interdependence theory.

Keywords: Sino-US Relations, Cooperation, Conflict, Complex Interdependence, Economy, Diplomacy

ÖZET

Uluslararası İşbirliği ve Çatışmada Ekonomik Diplomasinin Rolü: Amerika Birleşik Devletleri ve Çin

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Tez Danışmanı: Dr. Bahadır KAYNAK

Tarih: Mayıs/2021

Sayfa sayısı: 88

Bu tez, ekonomik karşılıklı bağımlılığın Çin-ABD ilişkilerini etkilemedeki rolünü ve ilişkileri çatışmadan çok işbirliğine doğru iten ekonomik diplomasi eylemini incelemektedir. İkili ilişkilerin 1979'da geri dönmesinden bu yana gerilimler ortaya çıktı, ancak ekonomik karşılıklı bağımlılık ağları her zaman bu gerilimleri yatıştırmak, çözümler bulmak, ilişkileri dönüştürmek ve güçlendirmek ve büyümelerini sağlamak için çalıştı. Bu tez, karmaşık karşılıklı bağımlılık teorisinin teorik çerçevesi aracılığıyla her iki ülke, kuruluş ve çalışma tarafından sağlanan veriler aracılığıyla ikili ilişkilere ekonomik bağımlılığın rolünü incelemektedir.

Anahtar Kelimeler: Çin-ABD ilişkileri, işbirliği, çatışma, Karmaşık Karşılıklı Bağımlılık, Ekonomi, Diplomasi

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Chimerica	:	The economies of the US and China
FDI	:	Foreign direct investment
GATT	:	General Agreement on Tariffs and Trade
GDP	:	Gross domestic product
HRS	:	Household responsibility system
ICT	:	Information and communications technology
IPR	:	Intellectual property rights
MFN	:	Most favored nation
PRC	:	People’s Republic of China
SEZ	:	Special economic zone
WTO	:	World Trade Organization

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1. INTRODUCTION

This study elucidates the role of complex interdependence in the relationship between the United States (US) and the People's Republic of China (PRC), and inquires into how this relationship may shape their future political relations. Before beginning on its path of economic reform and trade liberalization almost 40 years ago, China maintained policies that kept its economy stagnant, centralized, and relatively isolated from the global economy. From 1979, however, China has decided to follow a policy of global economic openness and began to emerge as a major economic power, leading Western countries including the US to show remarkable interest in their commercial relationship with the Asian country. The US realized how much benefit could derive from its economic relationship with Beijing, which could lead to the political containment of China and its distancing from the socialist camp.

Many developments have since occurred in both countries. The US is the largest economy in the world; China is the largest developing country and the largest emerging market, and their economic cooperation has brought great benefit to both sides. In 1980 the total trade between the US and China reached nearly 4 billion dollars, making China the 24th largest trading partner of the US, the 16th largest export market, and the 36th largest source of imports (Morrison, 2018: 2). Four decades later in 2019, the total trade in US goods and services with China was an estimated 634 billion dollars (Office of the United States Trade Representative, 2019).

China is currently the US's largest supplier of merchandise imports into the US, third largest merchandise trading partner, third largest commodity export market, third largest market for agricultural exports, and sixth largest supplier of agricultural imports. The interdependent relations and common interests between the US and China in the context of economic globalization have become a cornerstone for the development of bilateral relations. After signing many trade agreements and building economic networks in all areas, leaving their relationship complex, the economies of the two countries have become interdependent, as expressed in terms linking their economic power such as "G2" and "Chimerica".

In some aspects, Sino-American relations have been beset by difficulties; however, due to their economic interdependence that has developed over time, political relations have continued, and paved the way for their economic growth and deepening reliance upon each other. Since many individuals and companies in both countries depend heavily on the cooperation of China and the US, the cessation of which would severely harm their interests, they have applied pressure on decisionmakers to continue relations through channels which are explored in this dissertation. In the coming decades, this may lead to bilateral cooperation rather than conflict.

The methodology of this dissertation includes historical analysis, based on primary and secondary sources written in English, including academic books, scholarly articles, newspapers, and reports produced by governments and international organizations such as the World Trade Organization (WTO). The dissertation also makes use of quantitative research methods, drawing on statistics provided by the World Bank, the US-China Investment Hub, and US Department of Commerce, among other related databases and research materials.

This thesis is organized in three chapters before the conclusion. The remainder of this introduction below includes the aims and objectives inclusive of the main research question, the author's hypothesis, and the conceptual theoretical framework, literature review, and historical background for the study. The second chapter, entitled "China's Integration into the World Economy" explores the stages of economic reform in China after its opening to the outside world, and the importance of China's accession to the WTO. The third chapter, "The Sino-US Economic Relationship", analyses the development of Sino-US economic relations in trade and investment since 1979, and the economic issues of concern between the US and China, and reviews and analyzes the benefits of economic cooperation for the US and the PRC. The final conclusion, provides a comprehensive analysis of the entire research.

1.1 Aim and Objectives of the Thesis

The study aims to highlight the role of the complex economic interdependence in the political relationship between the US and the PRC, and asks how their complex web of economic relations can create a positive environment for cooperation rather than conflict in the coming decades. To attain these aims, the following objectives need also to be reached:

1- To clarify the role of the complex economic interdependence in the oscillating relationship between China and the US;
2- To describe the evolution of the relationship between the two superpowers; and
3- To recommend a possible way of using complex economic interdependence to settle misunderstandings and avoid any possibility of dispute escalation.

1.2 Research Hypothesis

The political relationship between the US and the PRC has been strained over several key issues. Meanwhile, complex economic interdependence has played an essential role in shaping and articulating this unique relationship. This study argues that a complex web of economic relations developed by each of the two countries will allow Sino-US relations to be directed towards cooperation rather than conflict, and the settlement of pending disputes, in the coming decades.

1.3 Theoretical Framework

In recent decades, the world has become significantly more globalized, with the creation of an endless network of cooperation and interdependent relationships, as individuals, groups, political systems, and states are increasingly linked together. As relationships between countries have come to involve a set of interdependent ties, the international system has become more complex.

1.3.1 Overview

Since the beginning of the twentieth century, liberal theory has been one of the most important paradigms for studying relations between states. Through US President Wilson after the First World War, liberal principles were at the center of formulating the most important rules of interstate ties and the creation of an international organization, the League of Nations (replaced in 1945 by the United Nations), as the reference to which states turn for their relations. The adherents of liberalism begin from the idea that countries can cooperate in facing common obstacles. They call for respect for the rules of international law, and for the development of cooperation between states instead of conflict. They asserted that this vision was not mere idealism, but what international relations should be. Liberals' optimistic view of human nature, and their belief in the individual's ability to cooperate, place a significant focus on the individual's rationality in choosing cooperation rather than conflict (Osiander, 1998).

This trend retreated with the Second World War and then the Cold War, replaced by the realist view that states act according to their national interests, and that the study of international relations should be conducting through studying it as it appears on the ground, rather than through envisaging what it should be (Korab-Karpowicz, 2010). Realists (and, more recently, neorealists) assert that the state is the dominant actor in world politics, and that violence and military force are the primary means by which the state attempts to achieve its goals and advance its interests.

However, despite the impetus that realist theory received after the Second World War, which helped it to dominate the study of relations between states, liberal ideas reappeared, but with new concepts and assumptions. During the mid-1970s, neoliberalism began to become a dominant theory in international relations, albeit with a number of diverging trends. One current focused on the role of international cooperation, while another trend concentrates on theories of integration and dependence. Institutional liberalism was the final form of liberal theories of international relations, and included writers such as Robert Keohane, Joseph Nye and many others. The debate between institutional liberalism and neorealism has in recent decades been one of the major forces shaping the study of international relations (Devitt, 2011).

Drawing on realism's view of states' interests, the most important of the propositions given by neoliberal theory is the possibility of international cooperation based on states' interests, rather than good nature as liberals had earlier argued. Summarizing the neoliberal position in international relations, Robert Keohane and Joseph Nye (2011) argue that a decline in military power as a political tool, and an increase in economic and other forms of interdependence, should increase the likelihood of interstate cooperation. Theorists argue that in the post-Second World War period, states have become increasingly interdependent. The theory of complex interdependence emphasizes cooperation rather than conflict. Neoliberal trends note that realism neglects many factors in international relations. For example, it cannot explain the increase in the degree of dependence between countries, and forces which transcend geographical borders. These are what Keohane and Nye have called 'cross-border relations', and play a large role in international relations.

Of particular note, the huge growth in transnational corporations and institutions has effectively obliterated state borders, placing traditional realist assumptions about the centrality of the state in international affairs on the intellectual defense. In his book *After Hegemony* (1984), Keohane accepted the neorealist hypothesis that states are rational and self-interested, but also argued that the pursuit of self-interest could lead to cooperation. He also articulated the important neoliberal claim that cooperation between states does not only exist when imposed by hegemonic military power. According to Keohane, international cooperation did not diminish after the decline of US hegemony in the 1970s, because of the creation of "international systems" such as the International Monetary Fund and the General Agreement on Tariffs (GATT).

Illustrating the arguments raised by neoliberal theory, in 2007 the economists Ferguson and Schularick described the symbiotic relationship economic between the US and China that arose from 1996 to 2006 as 'Chimerica'. During this time, the economies of China and the US became intertwined and mutually reliant; the economists thus found it useful to treat the two nations as two sectors in a single enormous economy. According to Ferguson and Schularick (2007), the integration of China's huge workforce into the global economy increased the global returns to capital, while the cost of capital, measured in real long-term interest rates, did not increase but rather decreased. They pointed out that the excess savings in China led to a decrease in American and international interest rates, as the Chinese savings glut was not primarily a result of families' prudent behavior, but was due to the high profits of Chinese companies due to the increase in the exchange rate.

The Chimerica model was rooted in China's dependence on exports and manufacturing to drive its economy's growth, and the growing US budget deficit. China has increased the value of its exports, by keeping its currency artificially weak against other world currencies. The massive economic growth of China was due significantly to this currency control. China has bought large parts of the US debt in the form of treasury bonds to prevent inflation. This has also contributed to the accumulation of capital and savings policy, aimed at protecting the Chinese economy from future financial crises. Meanwhile, to artificially keep interest rates low, the United States used the credit line offered by China, encouraging US citizens and businesses to replace saving with investment. This has also resulted in an increased budget deficit.

In their later article "The End of Chimerica" (2009), Ferguson and Schularick found that currency appreciation was not a problem if productivity was high. China successfully imitated Japan and Germany's strategy for export-led growth, but without raising the exchange rate that would have made its economic rise less destabilizing to the global economy. On the one hand, China is unwilling to risk the consequences of revaluation, as it prefers to maintain the status Chimerica over the price of raising the State Agency for Foreign Exchange holdings of dollar-denominated bonds. Ferguson and Schularick, however, believed at the time that "Chimerica" was coming to an end, as China had undergone internal changes and the US did not wish to remain under the shadow of a trade deficit.

Recently, playing on the election slogan of the US President Donald Trump (2017-2021), Ferguson and Xiang (2018) asked what was needed for "Making Chimerica great again". The researchers noted that, given the political tensions between the countries, the term "Chimerica" should have ended, but economically Chimerica has proven flexible; its survival was not down to the considerations of policymakers. National stimulus policies and the trade war, when central bankers in both the US and China began to turn away from the *laissez faire* monetary policies that encouraged the emergence of Chimerica, will likely harm China more than America, though it will harm the whole world's economy (Ferguson & Xu, 2018). The two countries will have to resolve the dispute one way or another. A new equilibrium is required, for which China should back down, unless a long-term "divorce" of Chimerica is to occur, an even more serious prospect for the global economy.

1.3.2 The Concept of Complex Interdependence

While liberal theory has always explored modes of coordination between states, the concept of "complex interdependence" was first introduced by Keohane and Nye as part of their neoliberal critique of realism. Complex interdependence is the idea that states and their wealth are inextricably linked. The theory emphasizes the multitude of ways in which transnational actors become mutually dependent as a result of growing relationships, vulnerable to each other's actions and sensitive to each other's needs in a range of economic, social, and political fields. Kirchhoff (2008: 65) states that although interdependence in the international system may remain limited in some respects, its existence is evident, and it is one of the basic pillars of the contemporary world order. Theorists have recognized that the various and complex transnational ties and interdependence between states and societies are increasing, while the use of military force and the balance of power are decreasing, but remain important. This section explores their argument in close detail.

Interdependence in international relations refers to overlapping relations between countries in economic, social and political domains. These relationships arise through various actors, such as states and non-state, organizations and individuals, that depend on each other in some way. Deutsch (1954) defined interdependence as interlocking relationships between parties; the division of labor between them affects the outcomes. According to Keohane and Nye (2011: 7), dependence is "a state of being determined or significantly affected by external forces. Interdependence most simply defined means mutual dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries". Barry Jones (2001) argues that the interdependence of a group of two or more actors arises when each of them depends on at least one other member of that group to achieve satisfactory results in any issue(s) of importance.

Complex interdependence has both economic and political ramifications in international relations. Cooper (1985) states that economic interdependence refers to some measures of the value of economic transactions between two countries, or between a country and the rest of the world, which may be measured in terms of gross national product or other measure of total financial assets. Economic interdependence is a system in which many firms are economically dependent on one another. At the macroeconomic level, this could include the economic dependence of countries on each other as well. This interdependence is the product of labor specialization, meaning that when many products are produced in one country, jobs become more specialized, and economic interdependence is bound to result. When this happens, companies become part of a commercial network, and depend on each other to supply products that they cannot produce themselves. Globalization is thus a by-product of economic interdependence, in which every country and their economies depend on other nations for products and goods (Davis, 2017).

In the field of international relations, the term economic interdependence has two meanings. The first is that states can be considered interdependent if their internal economic conditions depend on those in other countries, for example, if inflation in France resulted in upward pressure on German prices. The second is that states may be considered interdependent if the severing of their relationship would be a very costly matter, for example if relations were severed between oil-exporting countries and industrialized countries that depend heavily on oil imports. The first is referred to as sensitivity interdependence, while the second is referred to as vulnerability interdependence (Mansfield & Pollins, 2009: 11). As Haas (1980: 86) states, "Sensitivity is measured by the perceived effects of interrupting a pattern of interdependence; on the other hand, Vulnerability is measured by the opportunity costs incurred by making alternative arrangements for collaboration when the initial arrangement breaks down".

The economic dimension of interdependence is itself closely related to the political. Genest (1996: 140) defines the term as "An economic transnationalist concept that assumes that states are not the only important actors, social welfare issues share center stage with security issues on the global agenda, and cooperation is as dominant a characteristic of international politics as conflict". Young (1992: 188) expands on sensitivity, focusing on the mutual influence of parties' actions on each other's welfare. "Interdependence arises when the actions of individual members of a social system impact (whether materially or perceptually) the welfare of other members of the system. Those who are interdependent are affected by and react in a sensitive manner to each other's behavior; the higher the level of interdependence, the more pronounced these impacts and reactions will be". Rosecrance (1977: 425) notes that in interdependent relationships, a change in the position of one state affects the position of others and *vice versa*. De Wilde (1991: 19) notes that actors wish to preserve their identity, but are structurally influenced by the behavior of others whether they like it or not, and argues that the reasons for this mutual effect may be two-fold: the actors may be directly involved in each other's affairs, or they are merely part of the same system.

Keohane and Nye's *Power and Interdependence* gives a broader concept of interdependence in the international system, as the world has become a network of complex interdependencies. The characteristics of complex interdependence theory according to Keohane and Nye (1973: 21-22) are:

1- That societies are connected through multiple channels, not only official government diplomatic relations and transient government officials. There are many informal links between societies, non-governmental elites, and companies, which transcend relations between states, make these relationships complex and interdependent.
2- The interstate agenda for these complex interstate or transnational relations consists of multiple issues that are not arranged in a clear or fixed hierarchy. According to realism and neorealism, the agenda for interstate relations is very hierarchical, with military security issues predominate, and everything else secondary. Keohane and Nye disagree, and assume that in light of complex cross-border relations, all domains are important, including economic and societal transnational relations, and that not only the military aspect is politically important.
3- Governments do not use military force towards other governments when complex interdependence exists. The effect of this complex interdependence on interstate relations is similar to that of interstate communication. When economic interdependence and societal interdependence between two parties is high, the destruction of this interdependence will lead to danger. The damage is costly on both sides, as it is difficult to sever relations.

Keohane and Nye (2011) argue that complex interdependence transforms relations between states, and indicated that wars between interdependent countries are unlikely. The use of military force between interdependent states, and countries close to complex interdependence, would destroy this existing interdependence and cause harm. States participating in this complex interdependence have the incentive to resolve their disputes cooperatively and not through conflict, because there is a mutually beneficial relationship between these parties which it is unreasonable to abandon.

Nevertheless, according to Barbieri (1996), wars do occur when the interdependent relationship between two countries, whether symmetrical or asymmetrical, has the potential for increasing the likelihood of conflict. Einstein (2017) disagrees, claiming that the trade decreases wars between the countries based on interdependence relations, and discounting the theory that interdependence leads to a higher chance of conflict through erosion of credibility. Gasiorowski (1986) articulates a position between both trends: while the costly aspects of interdependence may lead to an international conflict, its beneficial aspects seem to lead to the decline of conflict. The results of a study by Maoz (2009) provide strong support for the liberal model regarding the effects of strategic and economic interdependence on conflict. Rana (2015) argues that the role of military force as a bargaining chip remains relevant and important in complex interdependent politics. It has the power to influence the outcome of interdependent relationships. In general, military force is used to pressure the weaker actor in the relationship, for the stronger to achieve its political goals. The manipulation of economic or socio-political vulnerabilities is not without risk, and may lead to military counter-strategies. However, in the contemporary interdependent world, military confrontation is not a preferred option, and is used as a theoretical bargaining tool.

Theorists have considered how interdependence shapes the international system, and have sometimes attempted to reconcile this with some neorealist ideas. Milner (2006) describes interdependence as an essential structural feature of the international system, along with the neorealist concept of anarchy, and argues that interdependence and anarchy are not mutually exclusive. According to Genset (1996: 133), states cooperate because it serves their common interests; the direct results of this cooperation are prosperity and stability within the international system. Bull (1977: 16-18) has argued that while the international system remains anarchic, it is also subject to principles of interdependence. In the history of international relations, there is ample evidence supporting this theory. For instance, throughout most of history France and Germany have been set on a bloody collision course. In the post-Second World War era however, particularly since the 1957 Treaty of Rome establishing the European Economic Community, the countries' economic ties have entirely changed the nature of the relationship. Today can be seen a strong interdependence between these two countries, reducing the possibility of war to a minimum.

It should be noted that the theory of complex interdependence holds strongest when the cooperation between two parties are positive, similar, and equal, i.e. each of them depends on the other in a relationship that is symmetric to some extent. If the interdependence is asymmetric, disorder can result. For example, hypothetically, if China depended on the US for its exports without mutuality from the US side, for instance a lack of exports to the US or no other benefit from this exchange, then the US would have the upper hand, and would be able to exploit China which would have to concede. Unequal dependence usually leads to an unstable relationship.

Turning from theory to the specifics of the US-China relationship, Sino-US relations are certainly an example of the theory of complex interdependence. Since the end of the Cold War, the US-China relationship has been not only peaceful, but also highly economically fruitful. According to Guo & Guo (2010: 100), peace between the US and China has been preserved due to their complex interdependence. Guo & Guo argues that, despite controversies and arguments between the two countries occurring over the years, military conflict has not taken place, and conversely their relationship continues to progress in various fields, such as increasing bilateral trade, economic cooperation and culture, as well as military cooperation. Crises and serious incidents arising between the two powers, such as the spy plane collision of April 2001, have been peacefully resolved. Similarly, Harding (2009: 8) noted that interdependence has led to the stability of the two countries' overall bilateral relations, but there have long been complaints on both sides that the other side benefits more, implying disagreement over how to assess the relative benefits of the economic relationship. Delaney (2011) has argued that the unique economic relationship between China and America – "Chimerica" – will continue, regardless of all the thorny issues between them. Despite the financial crisis that occurred in 2008, the two countries hold all the ingredients for rapprochement.

The US considers China its main strategic competitor, and there are many conflicts and disputes between the superpowers. The existence of economic interdependence between the countries has led to the exclusion of the war, forcing them to resolve conflicts constructively through cooperation. Both sides depend on one another to a similar (i.e. somewhat symmetrical) extent. Through the remainder of this study, the researcher sheds further light on the ties of complex interdependence and economic policies that the US and China have applied since the normalization of their relations, beginning in 1979.

1.4 Historical Background

The period of 1971-1980 witnessed the rapid development of ties between the US and China, represented by the building of institutions, the lifting barriers to the flow of goods and technology, and a general shift in trade relations between the two countries and the position of China in the global economy. It worth noting that the US initially viewed China as a 'tacit ally' against the Soviet Union (Goh, 2004). The Sino-US relationship began to take shape when President Richard Nixon visited China in 1971 to meet with China's first communist leader Chairman Mao Zedong (leader 1949-1976). After an international isolation that had lasted for over 20 years after the PRC's establishment in 1949, the US announced the lifting of barriers between the two countries. At the same time, the Nixon administration decided to reduce the value of the dollar by 8 percent and imposed a system to control wages and prices and determine exchange rates for the US currency, in an attempt to reduce inflation and unemployment in US. This led American companies to export a wide range of non-strategic products to China (Devane, 1978).

Relations between the two countries were not fully normalized until 1 January 1979. With the establishment of full diplomatic ties and signing a bilateral agreement, China and the US set about removing the remaining legislative and administrative obstacles and pushing forward with trade relations (Wang, 2013: 251). In the period from 1979 to 1989, Sino-US relations witnessed several important developments, including the opening of consulates, and agreements covering areas such as trade, economy, education, culture, and nuclear energy. The first trade agreement came on 24 June 1980, when the US Congress passed a trade agreement which granted the PRC most favored nation (MFN) trade status (Wang, 2010: 172). Some tensions nevertheless persisted, including the US relationship with Taiwan, and in economic terms were represented by the increase in tariffs on Chinese goods on 3 January 1983 (Office of the United States Trade Representative, 1988: 175). However, the relationship soon became more cooperative. In May 1983, the US lifted some control over technology transfer to China. High-level visits, such as that of Chinese Prime Minister Zhao Ziyang to the US in January 1984, accelerated the pace of contact, and to a new agreement on trade, industrial and scientific cooperation. This was followed by a visit by President Ronald Reagan to China and a meeting with Chinese leader Deng Xiaoping (Liu, 2016: 87). In March 1985, Reagan met with President Li Xiannian at the White House, and signed an agreement to sell non-military technology to China.

The relationship maintained stable until the late 1980s, when the transformations within the Eastern bloc were revealed with the beginning of the disintegration of the security and economic structure of the Soviet camp (Cox, 2011). Occurring at the beginning of the administration of President George H.W. Bush in the US, this power shift made Washington less concerned with maintaining China as an ally. This was especially pronounced after the occurrences at Tiananmen Square in June 1989: after the Chinese army's brutal confrontation with student pro-democracy protestors the West, led by the US, condemned China for violating human rights. The US took harsh measures against China, most notably banning the export of advanced technology and stopping US economic aid, withdrawing high-level envoys, and asserting its involvement in Hong Kong's political and financial issues (Harding, 1990).

However, economic interests led the US and other states to sacrifice human rights considerations in China. By this time, economic ties between the US and China had already become deep; many large American companies had already begun investing in China for its cheap labor, allowing American consumers to benefit from inexpensive Chinese goods. This economic relationship generated pressure on the US administration, which thus quickly canceled the abovementioned economic sanctions. China's other trading partners, such as Japan and Taiwan, also quickly returned to business as usual, as did the European Union by 1993 (Shambaugh, 2012: 39). American visions of China were divided into those who supported constructive contact with China, expanding economic ties and pushing China into the international community, and those who emphasized the potential Chinese threat to US interests and the need to implement a firm containment policy. After Tiananmen Square, Bush's conciliatory approach to the Chinese authorities was unpopular at home, both in Congress and among the wider public, contributing to his electoral defeat in 1992 (Skidmore & Gates, 1997: 514-517).

During the period of President Bill Clinton's administration, Congress's wish for the linking of human rights issues with trade *vis-à-vis* China remained unfulfilled. However, the first US "trade war" with China occurred in 1994. The US made explicit accusations against Chinese companies' violation of intellectual property rights (IPR), and threatened to impose a customs penalty of up to 100 percent on China's exports to it, amounting to around one billion US dollars. At that time, the total value of Chinese exports to the US, including textiles, clothes, toys, and electronic devices, was around 2.8 billion dollars (Jeffries, 2013: 675). China responded in return with similar threats, announcing customs duties imposed on imported American goods including cigarettes, cosmetics, and video tapes. Many Chinese businesspeople dissolved their contracts with US counterparts. In 1995, the US further demanded that 29 Chinese companies be punished for violating IPR (Kennedy, 2017).

President George W. Bush initially attempted to reset ties with China. Tensions continued, however: on 1 April 2001, a US reconnaissance plane collided with a Chinese fighter jet over the Chinese island of Hainan. Beijing's decision to keep the damaged US aircraft and detain its crew constituted the first major challenge to Bush's foreign policy (Kan, 2001). Human rights considerations also returned in Congress, and the US threatened to create difficulties for China's desired membership of the WTO. However, the Congress attempt to prevent China's joining the WTO failed, illustrating the truth of Deng's description of China as "a big piece of meat" which foreign business cannot resist (Shambaugh, 2012: 39). Even before the 9/11 strikes in New York, both the US and China were looking for a means of reconciliation. Those events presented an opportunity to revive the relationship. President Jiang Zemin of China hurried to express his condolences to the United States and the victims' families, as well as condemn all violent terrorist acts. Beijing supported Washington's call for a concerted response, including UN Security Council resolutions condemning the attacks, and urged all countries to take steps to fight terrorism and deter terrorist activity in general, and support international attempts to overthrow the Taliban in Afghanistan; The regime that provided Al Qaeda with shelter and resources. also requests that Iraq ceases to hinder UN inspections of weapons of mass destruction (Delisle, 2011).

In 2004 the US and China established a mechanism to further improve their relations. After one year, this resulted in the Sino-American Strategic Dialogue, represented by Bush and Chinese

President Hu Jintao's meeting in Santiago. The two sides declared that the dialogue was useful and constructive (Tao, 2017: 309). This mechanism provided an essential platform for handling bilateral relations in the long perspective, as well as for strengthening cooperation. After these successes the Bush administration proposed a mechanism for Strategic Economic Dialogue, which was warmly accepted on the Chinese side. US Treasury Secretary Henry Paulson and Vice-Premier Wu Yi announced the start of Sino-American economic strategic dialogue in Beijing on 20 September 2006. The dialogue was an attempt to strengthen financial cooperation in the long-term, as international changes required the two countries to enhance their contacts. The dialogue was held five times, twice a year (Tao, 2017: 310).

These trends continued during President Barack Obama's administration, which believed in the necessity of cooperation with China. Obama's presidency raised hopes for increased cooperation and friendship between the two countries. As the two most influential and powerful states globally, there were increasingly loud calls within American political circles to create a "G2" relationship, for the US and China to solve global problems together (Beasley, 2012). Obama nevertheless recognized that the US-China relationship suffered from significant problems, especially in trade. His attitude is summarized in the words:

> I will also encourage China to play a responsible role as a growing power -- to help lead in addressing the common problems of the twenty-first century. We will compete with China in some areas and cooperate with others. Our fundamental challenge is to build a relationship that broadens cooperation while strengthening our ability to compete. (USC US-China Institute, 2008)

On 1 April 2009, Obama, and Hu agreed to continue the US-China strategic and economic dialogue mechanism, due to its importance in planning for the future, developing emergency response mechanisms to face crises, and achieve consensus and cooperation key to conflict management and reducing the bilateral, regional, and global challenges facing the US and China (Guo, 2010: 309-309). During Obama's second term, the Sino-American relationship was characterized by cooperation. In the statements of Obama and President Xi Jinping, the two sides emphasized mutual respect and managing their differences in a constructive manner and ensuring the growth of bilateral relations (White House, 2014).

During the early days of the administration of President Donald Trump, relations between the two countries proceeded in a stable direction towards understanding. Trump encouraged the two countries to move forward on trade, and US Commerce Secretary Wilbur Ross announced a deal between Beijing and Washington to expand trade in products and services such as beef, poultry, and electronic payments. Bilateral relations reached a new level (Nakamura, 2017).

However, the relationship soon sharply deteriorated. After one year of relative stability in bilateral trade relations, Trump announced tariffs on goods imported from China amounting to 60 billion dollars on 22 March 2018. The measures include a significant change in tariffs on steel and aluminum. Describing Chinese trade as an increasing threat (Landler & Tankersley, 2018), Trump argued that China was responsible for thousands of lost American jobs and huge losses on financial markets. This flew in the face of the views of many economists: according to a report published by Oxford Economics (2017: 1), trade with China supported 2.6 million jobs in the US, the PRC was among the leading export markets for US businesses, Chinese investment generally supported the US economy, and China's role in the global supply reduces the inflation rate in the US. Many US economists argued that the tariffs were likely to harm sectors depending on China which Trump claimed he was trying to protect. The Automobile and Equipment Manufacturers Association, for instance, described the tariffs as "taxes that harm US companies and endanger jobs". International Monetary Fund Director Christine Lagarde said that the trade war would lead to "losers on both sides", and could have a dangerous impact. Republican Congressman Kevin Brady stated that these new tariffs would harm US manufacturers, farmers, workers, and consumers (BBC News, 2018). In response to US actions, the Chinese Ministry of Commerce imposed tariffs on 128 American products, including nuts, wine, and pork, with an estimated 3 billion dollar value (Landler & Tankersley, 2018). Four months later, the Trump administration imposed a further 25 percent tariff on 50 billion dollars of Chinese goods, once again accusing Beijing of IPR theft. China responded with billions of dollars of further tariffs (BBC News, 2018).

Political decisions worsened relations. Following the successive tariff escalations, US Vice-President Mike Pence delivered a short speech criticizing the Chinese government in the political, military, economic, and human rights fields. He indicated that the US would prioritize competition over cooperation by using tariffs to combat 'economic aggression'. The Chinese

Foreign Ministry condemned Pence’s words, describing them as ‘false accusations’, and warned that such measures could harm relations between the US and China (Tiezzi, 2018). In December 2018 Meng Wanzhou, the chief financial officer of the Chinese corporation Huawei, the second-largest smartphone maker in the world, was arrested. The US Department of Justice argues that Huawei and Meng had violated trade sanctions against Iran and committed fraud. Meanwhile, China arrested two Canadian citizens, and accused them of spying and undermining China’s national security (Reuters & CNBC, 2018). Amid the legal proceedings against Meng, Huawei filed a lawsuit against the US to prevent US federal agencies from using its equipment, as Huawei President Guo Ping stated that the US’s measures were not only illegal but also restricted Huawei from entering into fair competition, a battle with Beijing for technological supremacy which would hurt American users (Pham & Horowitz, 2019).

The new tariffs imposed by Trump on 10 May 2019, of from 10 to 25 percent on 200 billion dollars of Chinese goods including over 5,700 products, coming amid talks between US and Chinese negotiators to try to end the ten-month trade war, further increased tensions (Lawder, 2019). Likewise, as the two countries were close to signing the first stage of an agreement, Trump signed a law expressing US support for anti-government demonstrators in Hong Kong, stipulating annual reviews of Hong Kong’s special trade status under US law, leading Asian stocks and US futures to fall, along with the yuan (Bloomberg Washington, 2019). In the same year, and for the first time since 1994, the US Treasury Department classified China as a currency manipulator. Governor of the People's Bank of China, Yi Gang, stated that China would not participate in a competitive devaluation, and that the decline in the Yuan was due to market forces (Timiraos & Mauldin, 2019).

On 15 January 2020, to curb the over 18-month trade war, the US and China finally signed the “phase one” of a trade agreement, which included provisions to eliminate intellectual property theft and forced technology transfer, and increase China’s purchases of American goods by 200 billion dollars. The agreement also includes provisions to enhance market access for financial services companies over two years, and for the US to withdraw its labelling of China as a currency manipulator (Pramuk, 2020). However, tensions persisted between the countries over political issues. On 14 July, Trump issued an executive order to end Hong Kong’s special status with the

US, revoking the special privileges US had laws granted to Hong Kong in the areas of national security, foreign policy, and economy; specifically, Washington imposed restrictions on exports of sensitive technology (Olsen, 2020).

The arrival of President Joe Biden to the White House in January 2021 provided a sense of comfort, with the expectation of a return to stability in US-China bilateral relations, after the waves of escalation that had previously slowed economic growth. Biden stated that the previous years had been bad for the foreign relations of the US in general, and he pledged to restore relations with China to their proper place, while emphasizing US leadership: "we are ready to work with Beijing when it's in America's interest to do so. We will compete from a position of strength by building back better at home, working with our allies and partners, renewing our role in international institutions, and reclaiming our credibility and moral authority, much of which has been lost" (White House, 2021).

Regarding the most recent developments in bilateral relations between the US and China, on March 18, 2021, the Chinese Director of the Foreign Affairs Bureau Yang Jiechi and Foreign Minister Wang Yi held a high-level meeting with US Secretary of State Antony Blinken and National Security Adviser Jake Sullivan. They discussed the pressing issues related to bilateral relations, including how to develop China-US economic ties and return to the previous path that had been complicated by the Trump period. An article by the PRC's Ministry of Foreign Affairs emphasized China's view that at the core of Sino-US relations is mutual benefit, not a zero-sum game; that China and the US are not doomed to threaten each other; that differences are not a cause for confrontation the consequences of which neither side can bear; and that China and the US should trust each other rather than doubt, understand rather than blame, and work together rather than obstructing. The conference was concluded positively, and it was emphasized that trade and economic relations between the two parties would continue to grow (Ministry of Foreign Affairs of the PRC, 2021).

through a session on the future of economic and trade agreements between China and the US in 2021, Susan A. Thornton, a senior fellow at Yale Law School, stated that the bilateral trade and economic relations between the two countries held the greatest potential for positive and constructive cooperation. While the Biden administration has been slow in trade negotiations at the moment, she underline that "multilateral mechanism should also be a major focus for the US and China, because this is really the over-arching global architecture that's going to fast regulate our trade and investment environment" (Global Times, 2021a). The scale of the complex economic interdependence between the two countries has thus always provoked analysts to consider its ramifications between the two countries, and can be considered as exerting huge pressure on American policymakers, which may be a departure point for solutions to the tensions and disagreements which have most recently arisen.

Successive US administrations from 1972 until today have attached special importance to the relationship with China. Relations between the countries have been heavily determined by the vision and approach of the administration of whichever incumbent sits in the White House, as it appears that in most cases, US administrations have broken from the course of the previous administration's relationship with China. According to Medeiros (2019), the political leaderships in both Washington and Beijing have been important in determining the countries' relationship since 1971; senior leaders' actions on both sides have played a significant role in preserving the relationship and building (or rebuilding) stable relations, when these exist.

Yet it is evident that economics has also played a significant role. As Heath (2016) has pointed out, political competition and contestation has overlapped with economic interdependence. Saunders (2014) and Lawrence (2019) both note that international trade between the two countries is beneficial for both parties, as it provides benefits to companies and consumers; this has helped ensure relative stability in relations. From an optimistic viewpoint, economic competition between the two countries, in a context of political cooperation, may provide benefits to both countries, and China's victory does not necessarily mean America's loss (Friedberg, 2005). Layne (2007) has asserted that the countries' economic positions has meant that China should not be considered an enemy of the US, but rather an economic competitor, while Allison (2015) argues that war between the US and China, like the conflicts between France and Germany in 1870, 1914, and 1939, is today impossible. Guo (2010: 100) has noted that while many disputes have occurred between the two countries, military conflict has so far been prevented, and their relationship has continued to progress in different fields such as bilateral trade and economic cooperation, culture, and even military cooperation. In serious crises subsequently the end of the cold war, like the 2001 spy plane incident, their problems have been peacefully resolved, partly as a result of the high economic interdependence.

Less optimistic predictions began to be made during the Trump presidency, however. Some analysts have seen the two countries as being locked in the midst of a competitive struggle, with the possibility of a future drastic collision in the form of a conflict (Swaine, 2019). Jisi and Ran (2019) have described the Sino-US relationship as deteriorating at an alarming rate, While Danner and Martin (2019) claim that despite the various challenges of the bilateral relations neither the US nor China is looking for a serious confrontation, the future is unclear. The findings of this thesis hopes to offer a constructive way forward.

2. CHINA’S INTEGRATION INTO THE WORLD ECONOMY

Prior to the beginning of economic reforms and trade liberalization over four decades ago, China’s economy was stagnant, centralized, and isolated. Since the opening to foreign trade and investment, and the implementation of free-market reforms began in 1979, China has become one of the world's fastest-growing economies. This chapter considers the lessons from China’s economic success, and their implications for China’s relationship with the US. The narrative presented below clearly illustrates the benefits which China since 1979 has come to offer the American economy, and that when the relationship is not hindered by serious disputes, the interconnectedness of the two countries has enabled mutual growth and stability.

2.1. China’s Economic Reforms

Chinese leaders have adopted a set of strategies for economic reform in four stages, each of which have enabled the progress of the PRC towards the goal of the peaceful emergence and integration of China into the global economy. Chinese leaders have desired China’s economic progress without wars and conflicts, believing there are no winners in wars. Their plan of economic development has consistently been facilitated by the facts that China is the third-largest country in terms of size and the largest in terms of population.

2.1.1 The First Stage of Reforms, 1978-1984

China’s transformation began with the accession to power of the successors to Mao Zedong, first of all Deng Xiaoping, who may be termed as the architect of today’s PRC. After the exacerbation of economic and social problems within China due to the Cultural Revolution proclaimed by Mao, Deng adopted a policy of reform impacting all state institutions, cultural and economic domains, and the field of scientific progress (Kobayashi, 1999: 2-10). Deng realized that China’s economic development was hampered by its spending policy and the insistence on a state-directed economy, while resisting the mechanisms of the market economy and the need to open up to the world (Meisner, 1999). China promoted rural industrialization in villages and towns, leading to a robust industrial economy with a low cost to the state (Dutt et al, 1994: 7; Noble, 1994: 214-216). The most prominent characteristic of this experience is that China was able to combine market and socialist economy, to benefit from the advantages provided by both economic systems (Dooley & Luke, 2018: 26-30).

The first stage of reform focused on the agricultural sector and reviving the rural economy. Economic reforms led to a return to small-scale private farming, encouraged to contain the movement of people from rural to urban areas, improve agricultural production by raising the prices of long-stagnant state purchases of major crops, modify management methods, and increase agricultural investments (Liu and Zhang, 2009: 6). The state purchase prices for major crops were raised, on average, by 22.1 percent in 1979, the year in which the change from collective farming to the household responsibility system (HRS) began (Lin, 1992: 34-35). This shift, which abandoned the commune system and allowed private ownership of land and means of production, was the main factor behind the sudden growth in production. HRS was initially piloted in some remote areas, but was eventually encouraged nationwide by the central government. By the end of 1984, all production brigades and 98 percent of rural Chinese households had adopted HRS. It is noteworthy that this agricultural reform was not initiated by reformists at the central or local government levels, but initially arose among farmers at the grassroots level.[1]

HRS gave freedom to farmers in terms of choosing the type and quantity of crops and selling their products on the free market, and encouraged farmers through providing subsidies and materials. Farmers had autonomy in operations and the rights to profits from more efficient use of land and labor, which provided incentives to increase productivity (Garnaut & Fang, 2018: 11). The state also focused on reforming prices through a proportional increase in the consumer costs of grains, oils and meats, towards market prices (Lin, 1992: 36). The growth of China's gross domestic product (GDP) increased from about 11 percent in 1978 to 15 percent in 1984, while merchandise exports, which amounted to about 13 billion dollars in 1979, increased to around 26 billion in 1984 (World Bank data).

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[1] In one impoverished village of eastern Anhui Province, a secret agreement was written between 18 farmers that included dividing communal lands into family-managed plots. the villagers increased their production in less than a year, providing a surplus goods for sale in the market, not just to satisfy their needs. This work was discovered and supported by provincial secretary Wan Li, and gained the attention of the Communist Party of China (Liu & Zhang, 2009: 6).

2.1.2 The Second Stage of Reforms, 1984-1989

In the second stage, the PRC leadership focused on the reform of state-owned enterprises and the price system, while moving attention from the countryside and the agricultural sector to cities and the industrial sector. Coordinating reform at the industrial or state level initially proved extremely difficult. Industrial form was implemented through the introduction of a liability contract system for industrial enterprises in urban areas. In order to stimulate increased industrial productivity, China adopted a gradual reform strategy of permitting and encouraging companies and their employees to share profits from additional production once the state quotas were fulfilled. Simultaneously, a dual-track price system was introduced, making it easier for companies to sell their additional output and purchase additional inputs (Liu & Zhang, 2009: 6-7). China's trade reforms also proceeded gradually, as trade planning was replaced with border measures in the form of tariffs, quotas, and licensing. For several years, trade plans co-existed with border measures and exchange controls, but the former eventually gave way to the latter in the late 1980s and early 1990s (Lardy, 1991).

These years marked an important turning point in China's economic policy. The reforms brought rapid economic growth in China, but also resulted in the appearance of many economic imbalances. One was poor control over cash and credit supply, which led to an 18 percent inflation rate in 1988-1989. The second was the rapid expansion of income inequality, partly resulting from faster economic development in urban areas than in rural areas. A third defect arose due to ineffective use of government power, which led to serious corruption and distortion of income distribution. This aroused intense resentment among the general public, contributing to the political turmoil of 1989 (Garnaut & Fang, 2018: 174). Due to the high inflation rate at the end of 1988 in particular, the Chinese government intended to stop the reform process, and a group of politicians sought to abandon the market reorientation and return to traditional central planning, recentralizing power to the localities and state institutions. Private sector development and the pace of some reforms stalled, and China's GDP growth counted from 11.2 percent in 1988 and fell to 3.9 percent in 1990 (World Bank data). This led to widespread popular discontent, and boycott by pro-reform government officials at various levels.

Deng turned the tide during his 1992 tour of southern China and visits to special economic zones (SEZs) where private enterprise predominated. Deng delivered a warning speech in which he stated, “Everyone who wants to change the line, principles, and policies since the third plenary session [held in 1978] will be defeated by people who do not agree” (Garnaut & Fang, 2018: 175). The reforms resumed, with a different configuration (Naughton, 2009: 7)

2.1.3 The Third Stage of Reforms, 1991-2001

After Deng’s southern China tour, the austerity program ended and reforms resumed. In this phase, the non-governmental market-oriented sector continued to grow and flourish (Garnaut & Fang, 2018: 176). Nevertheless, due to the structural imbalances in the economy, China imposed a hybrid socialist-market economic system as a way for reforms to proceed (Dongtao, 2011: 321). The economic reforms resumed in earnest in late 1993. Decentralization, contracting, and the dual-track pricing were set aside, as the focus of institutional reforms shifted to efforts to create a level playing field and an appropriate institutional basis based on competition (Naughton, 2009: 11).

The specific focus was on further reforming faltering state-owned enterprises, to encourage the development of the foreign and private investment sectors. This ranged from bailing out the state-owned banking system due to bad loans, to building a modern capital market system, from loosening foreign exchange controls and devaluing the renminbi to creating a modern financial system that more effectively defines local central relationships. Reforming foreign exchange controls improved and strengthened the international competitiveness of Chinese companies, and created massive domestic jobs for the massive surplus workforce. There was rapid export growth and a large trade surplus, along with a sudden rise in foreign direct investment inflows in the wake of the renminbi's devaluation in 1994 (Liu and Zhang, 2009: 7). The inclusion of the private sector, whether foreign or domestic, in China’s new economic landscape, was achieved through the practical application of market socialism in the SEZs, an environment designed to attract foreigner capital and investment. In this period, FDI as a percentage of GDP increased from 0.2 percent in 1991 to 1 percent in 1993 (World Bank data).

China’s transformation into a dynamic private sector-led economy, and its integration into the global economy, were the defining economic developments of this period. The PRC’s total share of world trade went from about 383 billion dollars in 1991 to around 1.339 trillion in 2001 (World Bank data).

2.2 Economic Openness to the Outside World

The advocates of reform in China have unanimously agreed that China cannot develop in isolation from the world, but rather that it must import science and technology, capital, and expertise from abroad. The Chinese openness policy was based on a realistic appraisal of economic forces, and was implemented in various stages roughly corresponding to the periods outlined above. These may be summarized as the following:

2.2.1 The First Stage

This stage was based on the successes of other countries such as Japan and the "Asian tigers" through "special export zones", later called "special economic zones" (Ge, 1999). The Chinese government, under the influence of Deng, decided in 1979 to establish areas through which China would open up to the global, in Zhuhai, Shenzhen, and Xiamen in Fujian Province, and Shantou in Guangdong Province. By 1984, the experiment had expanded to 14 major coastal regions, the recently created Hainan Province in 1988, and a cluster of Yangtze River areas and inland frontier areas in the early nineties (Garnau, Song and Fang, 2018: 6). The objectives behind establishing these areas were:

1- Attracting foreign investment;
2- Bringing in advanced technology and advanced management expertise;
3- Gaining information about international market conditions;
4- Expanding exports and increasing the entry of hard currencies into the country; and
5- Participation in international economic and technological cooperation.

2.2.2 The Second Stage

Since 1979, the "production contract liability system" policy had spread in rural areas, significantly improving labor productivity and creating a large surplus of unemployed workers. In contrast to the high labor costs in the world market, labor was cheap in China, suitable for industrial production, services, trade, etc. (Li, 1992: 80-86). According to the "Coastal Development Strategy", China sought to benefit from the prevailing global trends, and transform its economy from one with abundant surplus labor to one benefitting from technological advances. China strove to attract industries depending on modern technology and productive industries from abroad to its coastal areas, necessitating the expansion both import and export sides of the economy and the importation of large amounts of crude oil. This strategy has the following objectives (Li, 1992):

1- Absorbing the huge surplus agricultural labor;
2- Compensating for the relative shortage of raw materials; and
3- Increasing exports to obtain foreign exchange.

2.2.3 The Third Stage

This stage was characterized by the experience of Shanghai, with a new trend in the Chinese external openness strategy: preferential treatment for foreign investment greater than that offered by other economic regions. This strategy represented the most important Chinese experience of socialist market economy, and witnessed the local government's use of market mechanisms to support the unified market economy of the state. As a result, in 1991 the growth rate increased in Shanghai by 14 percent annually, and the policy of openness reached China at an unprecedented level in the global economy (Daniels, Ho and Hutton, 2012: 150-152). The following were the pillars of this stage:

1. This strategy was based on the concept of the global city, which by its nature seeks wealth generation at the lowest possible cost;
2. It aimed to raise the technical level of the Chinese economy by giving priority to developing advanced technology;
3. It sought to transform Shanghai into the largest financial center in the Asian region, and the center for China's domestic and foreign financial operations; and
4- It was intended to achieve economic prosperity in the inner regions of China.

The expansion of China's trade in the global economy was in little breathtaking. Since 1979, China's imports and exports have grown at an average rate of 15 percent each year, compared to the annual expansion of world trade of 7 percent during the same period. This was facilitated by general openness in the economy and trade reforms, leading to a boom in FDI and increased integration with global trade. China serves as the final assembly and processing platform for a large number of imports from other Asian countries to Western countries (Barnett, 2004: 1). China has also increased its penetration into the markets of developed countries, and at the same time has become a more important export destination, especially for regional economies. China's role is becoming increasingly important in Asian regional trade (Barnett, 2004: 6).

Once only the target of foreign investment, in recent years, China has developed into a major global investor on the world stage. In 2006, the acquisition policy of Chinese foreign investment accounted for 40% of overall foreign investment. According to Feng He, a researcher with the Chinese Ministry of Commerce, the main reason behind overseas acquisitions is that some large companies see overseas mergers and acquisitions as the best way to go international (Chinadaily, 2007). Key acquisitions have included China Mobile's acquisition of Pakistan Telecom, Lenovo's acquisition of IBM's computer business, Zijin Kuangye's acquisition of British mining companies and South African mines, and CITIC Group's acquisition of Kazakhstan oil fields.

2.3 China's Membership of the World Trade Organization

After China adopted the market economy system, its increasing desire to integrate into the global economic system led it to seek membership of the international economic organizations and institutions that form the backbone of this system. These organizations were initially represented by the GATT,[2] which later changed its name to the WTO.

Joining the WTO was a difficult challenge for the PRC. Negotiations began in 1986, and resulted in several important points that China had to implement to demonstrate its commitment to the liberalization of trade (Sutter, 2011: 106). In this period, and to meet the requirements of the WTO, China took a series of steps to deepen reforms and ensure its trading system was compatible with the WTO system. These reforms included reducing tariffs, approving intellectual property and financial services laws, and making its currency convertible in commercial transactions (Zhou, 2019: 53-60). China also agreed to give up its status as a developing country concerning agricultural aid. One of the main pillars of the WTO was its MFN clause, ensuring the contracting partner countries the same treatment as other contracting states, meaning that no single country

[2] It worth noting that China was one of the original signatories of the GATT (Kong, 2002: 4).

could gain an advantage through lighter or lower tariffs (Boden, 2012: 13). In 1991, China reduced tariffs on 43 items; in 1992, on 3371 items; in 1993, on 2898 items; in 1994, the general level of customs tariffs was reduced to 35.9 percent; in 1996, tariffs were reduced on 4,994 items, accounting for 76.3 percent of the total 6,350 tariff lines on imports and exports. The average tariff rate decreased from 35.9 percent in 1994 to 17 percent in 1997, affecting approximately 5,000 items (Drysdale, Zhang & Ligang, 2012: 3).

After a long series of reforms and negotiations that lasted over 15 years, the PRC finally joined the WTO during the Fourth Ministerial Conference of the organization, held in November 2001 in Qatar. This was a historic day for China (Kong, 2002: 6). China's membership of the WTO has had great implications for the Chinese economy and the lives of the Chinese people. WTO membership reduced the burdens on many Chinese companies by allowing them to import equipment and raw materials from abroad, opened the Chinese market to foreign competition and high-quality consumer goods at cheap prices, and increased foreign investment flows into China. China's accession to the organization is considered a source of strength, because it has expanded exports and placed China in a strong position, especially in the balance of payments. People's republic of China accession to the World Trade Organization has led to increased access to foreign markets and the increased export of Chinese products. While exports rose from 23.6 billion dollars in 1982 to 208.6 billion dollars in 2001, after China's WTO membership the export of goods and services increased to 2.6 trillion by 2019. China's GDP increased from 1.3 trillion dollars in 2001 to 14.3 trillion in 2019 (World Bank data).

Policymakers saw China's WTO membership as essential for their strategy of a peaceful rise and progress through growth, and also viewed the WTO accession agreement as a way to accelerate domestic reform. China's economic reforms reached a fourth level since joining the WTO. The main approach shifted away from partial reforms and toward more systematic reforms, with the creation and strengthening of the economic legal framework and corporate governance at the forefront. To maintain its WTO pledge, China has accelerated the development of its economic legal framework, passing more than a hundred economic laws and regulations in compliance with WTO requirements since 2002. Meanwhile, current rules and legislation have been improved, and governmental regulatory processes have been more transparent. These reforms have made a huge difference in China's corporate governance. (Liu & Zhang, 2009: 8), and also indicate Chinese policymakers' recognition of the need to address the widening gap between urban and rural incomes.

From the data presented in this chapter, it is clear that China has played an increasingly important role in the global economy. It has been one of the fastest growing economies in the world, and has provided important opportunities for trade, investment and international cooperation to enhance global prosperity and stability. This indicates China's capacity to benefit the US on one hand, and potential to pose strong economic competition to it on the other. Complex interdependence theory assumes that the partners must have roughly symmetrical capabilities in order to operate equally, preventing one side from taking more advantage and exploiting the other, which could lead to a crisis. During the next chapter, Sino-US bilateral relations are clarified and analyzed in more detail.

3. THE SINO-US ECONOMIC RELATIONSHIP

After China decided to pursue a policy of global economic openness in 1978 and began to emerge as a major economic power by increasing its exports and imports, Western countries began to take a remarkable interest in their trade relationship with China. The US, the dominant economic and political force in the post-1945 world, quickly realized the benefit which could be derived from its economic relationship with China, the largest developing country and the largest emerging market. Not only could economic cooperation between them bring great benefits to both sides, but it could also result in the political gain of luring away of China from the socialist camp.

After the signing of many trade agreements, and the building of economic networks in all fields, resulting in the emergence of the highly interdependent economies "Chimerica", the picture became rather more complex. The interdependence and common interests between the US and China, in the context of economic globalization, have become the main drivers in the development of bilateral relations. This chapter seeks to clarify the impact of the economic channels built by the two sides, which have strengthened this unique relationship and made it difficult to abandon as national interests compel decisionmakers on both sides to find peaceful solutions to thorny issues. The balance of interests between the two countries means that all outstanding issues between them may be overcome, and their ties may grow stronger, developing towards cooperation rather than conflict to prevent the deterioration of economic relations beneficial for both sides.

This chapter consists of four sections. The first reviews the development of trade relations between the two countries since 1979, over four periods. The second reviews the development of investment relations between the two countries since 1979, also in four periods. The third considers trade problems between the two countries, including the Chinese currency, IPR, the US trade deficit with China and Chinese Investments in the US and Tensions over US Bonds. The fourth examines the benefits of economic cooperation benefits for the US and the PRC and the consequences of separation.

3.1 The Development of Sino-US Economic Relations Since 1979

Trade between the US and China is part of a complex economic relationship. After the foundation of the PRC as a communist state in 1949, the US suspended bilateral trade with China in 1951; conditional trade relations were only restored in 1980. In that year, total US-China trade was about 4 billion dollars, making China the 24th largest trading partner of the US, 16th largest export market, and 36th largest source of imports (Morrison, 2018: 2).

Four decades later, in 2019, the total US trade in goods and services with China was an estimated 634.8 billion dollars. China is currently the third-largest merchandise trade partner of the US, the third-largest export market for US goods, third-largest market for agricultural exports, sixth-largest supplier of agricultural imports, and the largest supplier of merchandise imports to the US (Office of the United States Trade Representative, 2019). Developments in the trade exchange relations between China and the US since 1979 can be divided into approximately four periods, as follows.

3.1.1 The First Period, 1979-1991

This period began in 1979 with the restoration of diplomatic relations in January 1979, and many bilateral agreements that clearly increased trade between US and the PRC. The most important economic event was a bilateral trade agreement in July 1979, providing China with the MFN treatment in 1980. Moreover, trade grew rapidly after China's economic reforms and opening (Morrison, 2018), as outlined in the previous chapter. This period ended over tensions in Sino-US relations escalating after the "Tiananmen Square" crisis in 1989, and decline in trade after bilateral relations ceased. The US imposed sanctions against China, represented by the suspension of financial loans and the suspension of technology exchange, as well as the suspension of the exchange of diplomatic envoys (Harding, 1990).

The primary focus on goods trade from a low base was the most striking feature of this period of bilateral economic exchange. Clothing occupied the bulk of trade, estimated at 1,710 million dollars in 1986, while low-cost goods such as toys and games were estimated at 673 million dollars in 1986, and communications and audio recording and reproduction equipment totaled an estimated 57 million dollars. Imports of these goods had increased significantly by 1990, with a share of toys and games at around 3,243 million dollars, clothes accounting for 3,469 million, and communications and recording equipment at 1,163 million (Columbus, 1998: 96).

In 1986, China's own imports from the US were mostly parts for heavy industries and aircraft at 467 million dollars, communications, sound recording and reproduction equipment amounting to 66 million dollars, fertilizers at 46 million dollars, and grain and related products 11 million. Imports on these commodities increased significantly by 1990, with the share of aircraft and aircraft spare parts at 755 million dollars, fertilizers at 544 million, grain and related products at 513 million, and communications, audio recording and reproduction equipment at 81 million (Columbus, 1998: 95).

According to US statistics (See Table 1), China's exports to the US in 1980 amounted to around 1 billion dollars, while US exports to China were estimated at around 3.8 billion dollars. Thus, total bilateral trade in goods rose rapidly from 4.8 billion US dollars in 1980, to over 33 billion US dollars in 1992. Much of this trade has taken the form of so-called "processing and assembly", in which most of the inputs and components are imported into China, and all outputs are exported (Stoler and Redden 2009: 325).

Table 1: US-China Trade Exchange, 1980-1991 (in millions of dollars)

Year	US exports to China	US imports from China	Total trade
1980	3,754.4	1,058.3	4,812.7
1981	3,602.7	1,865.3	5,468.0
1982	2,912.1	2,283.7	5,195.8
1983	2,176.1	2,244.1	4,420.2
1984	3,004.0	3,064.8	6,068.8
1985	3,855.7	3,861.7	7,716.14
1986	3,106.3	4,771.0	7,877.3
1987	3,497.3	6,293.6	9,79,9
1988	5,021.6	8,510.9	13,531.15
1989	5,755.4	11,989.7	17,744.11
1990	4,806.4	15,237.4	20,043.8
1991	6,278.2	18,969.2	25,247.4

Source: Harding (1992: 364), US Census Bureau.

3.1.2 The Second Period, 1992-2001

The starting point of this period was Deng Xiaoping's inspection tour of southern China in mid-1992, to announce the return of economic reforms after they had earlier stalled due to recession and inflation. While a group of old guard politicians demanded a return to the old economic system that preceded the reforms, Deng's efforts ensured that reforms resumed (Garnaut and Fang, 2018: 176). Deng's tour preceded the return of the US's relations with China after the Tiananmen Square crisis, with the resumption of bilateral relations in 1993 under the administration of George W. Bush (Shambaugh, 2012: 39).

The subsequent years witnessed a stable bilateral relationship in the fields of human rights and the Chinese currency. In June 1994, the Clinton administration supported China as the MFN; in June 1998, Clinton challenged his critics in Congress by renewing China's trade concessions, despite human rights concerns (Pecht and Lee, 1999: 52). China's devaluation of the renminbi also steadily boosted the growth in China-US trade (Morrison and Laponte, 2013). This period ended with the agreement on China's accession to the WTO in 1999, creating favorable conditions for the stable, healthy, and long-term development of economic relations between the US and China (Economy, 2000). The US and China reached deep economic interdependence during these years.

According to official US statistics (Table 2), US exports to China in 1992 amounted to 7.4 billion dollars, and more than doubled to over 16 billion dollars in 2000. China's exports to the US reached 25 billion dollars in 1992, and over 100 billion dollars in 2000. Bilateral trade thus grew rapidly between the countries, with the total value of trade between the two countries increasing from 33 billion dollars in 1992 to around 116 billion dollars in 2000.

Table 2: US-China Trade Exchange, 1993-2000 (in millions of dollars)

Year	US exports to China	US imports from China	Total trade
1992	7,418.5	25,727.5	33,145.1
1993	8,762.9	31,539.9	40,301.18
1994	9,281.7	38,786.8	48,067.15
1995	11,753.7	45,543.2	57,296.9
1996	11,992.6	51,512.8	63,504.14
1997	12,862.2	62,557.7	75,419.9
1998	14,241.2	71,168.6	85,409.8
1999	13,111.1	81,788.2	94,899.3
2000	16,185.2	100,018.2	116,203.4

Source: US Census Bureau

The leaps in trade exchange between the two countries are immediately noticeable, indicating the increasing importance of trade. The deepening of economic interdependence also reveals that both countries realized the importance of each other, leading the US, for example, to quietly set aside human rights concerns after the Tiananmen Square incident and resume trade exchange. The US sought the separation of human rights issues from trade where China was concerned. It is important to note that the balance trade has favored China, although the increase in trade has resulted in job opportunities for both sides, further deepening mutual relations at the domestic level. Bilateral relations thus entered a new and unparalleled era of cooperation at this time.

3.1.3 The Third Period, 2001-2009

This period began with further expansion of bilateral trade between the US and the PRC, after China acceded to the WTO. This event marked a turning point in China's openness to the world, and gave an additional impetus to the growth of Sino-US economic relations (Boden, 2012: 13 China continued to be the fastest-growing market for US exports. China also started to develop into an essential part of the production and supply chain network in East Asian and global consumer markets.

At the beginning of 2005 the Multi-Fiber Arrangement, which since 1974 had governed global trade in textiles and clothing by imposing quotas on textiles and garments that could be exported by developing countries to developed countries, expired (Ernst, 2005). It was replaced by the Uruguay Round Agreement on Textiles and Clothing, which entered into force through the WTO (Butcher, 1999: 146). The end of the quota system resulted in a very rapid increase in Chinese exports, which was another significant event in the growth of Chinese trade. China was very competitive in the textile and clothing sectors, and the end of the quota system increased Chinese exports.

This period ended with the US financial crisis of 2008, and China's emergence as a stable market. The US relations with China helped to absorb the impact this crisis (Duignan, 2019). US exports to China maintained some stability, while the proportions of imports from China decreased, thus increasing American interest in Chinese markets.

According to official US statistics (see Table 3), US exports to China in 2001 amounted to over 19 billion dollars, increasing by more than threefold by 2008 to around 69 billion. As for China, its exports to the US reached over 102 billion dollars in 2001, by 2008 jumping to around 338 billion dollars. Thus, bilateral trade grew rapidly between the two countries, as the total value of trade between the two countries increased from 121.5 billion dollars in 2001 to about 408 billion dollars in 2008.

Table 3: US-China Trade Exchange, 2001-2009 (in millions of dollars)

Year	US exports to China	US imports from China	Total trade
2001	19,182.3	102,278.4	121,46.7
2002	22,127.7	125,192.6	147,319.13
2003	28,367.9	152,436.1	180,803.10
2004	34,427.8	196,682.0	231,109.8
2005	41,192.0	243,470.1	284,662.1
2006	53,673.0	287,774.4	341,447.4
2007	62,936.9	321,442.9	384,378.18
2008	69,732.8	337,772.6	407,504.14
2009	69,496.7	296,373.9	365,869.16

Source: US Census Bureau

As a result of the financial crisis which spread from the US around the world, China's exports to the US decreased from around 41.4 billion dollars in 2008 to around 296.4 billion dollars in 2009. Alternately, the US maintained relatively stable export rates for China, with around 69.5 billion dollars in 2009, with a decrease of 236 million dollars compared to 2008. Thus, the total bilateral trade between the two countries was an estimated 365.7 billion, a decrease of 41.6 billion dollars compared to 2008.

The Chinese market proved its stability in the face of the global financial crisis, and could present itself as a good bet for any future crises. The profits of many US companies were assured, as American exporters increased their dependence on the Chinese market. This increased the economic partnership between the two countries at all levels, leading to strengthening ties between the US and China.

3.1.4 The Fourth Period, 2010-2020

According to US official statistics (see Table 4), US exports to China in 2010 amounted to 91.9 billion dollars, and in 2018 reached around 120.3 billion, a natural rise in US exports to China. As for China, its exports to the US in 2010 amounted to about 366 billion dollars, jumping in 2018 to an estimated 539.2 billion. Thus, bilateral trade between the two countries reached a new stage of progress, the total trade between the two countries increased from 456.9 billion in 2010 to 659.5 billion in 2018.

Table 4: US-China Trade Exchange, 2010-October 2020 (in millions of dollars)

Year	US exports to China	US imports from China	Total trade
2010	91,911.1	364,952.6	456,863.7
2011	104,121.5	399,371.2	503,492.7
2012	110,516.6	425,619.1	536,135.7
2013	121,746.2	440,430.0	562,176.2
2014	123,657.2	468,474.9	592,131.11
2015	115,873.4	483,201.7	599,074.11
2016	115,594.8	462,420.0	578,014.8
2017	129,997.2	505,165.1	635,162.3
2018	120,289.3	539,243.1	659,532.4
2019	106,447.3	451,651.4	558,098.7
2020 (until October)	95,823.7	348,717.6	444,54.13

Source: US Census Bureau

The height of US exports to China was in 2017, amounting to about 130 billion dollars; the decline in exports in the following year was due to the customs tariff, as mentioned above. In 2019, China's exports to the US amounted to 451.7 billion, a decrease of 87.6 billion from 2018; in the same year, US exports to China were estimated at 106.4 billion, down 13.8 billion dollars from 2018. In 2020, after the signing of the first phase of an agreement to restored trade relations – which need some time to recover – to fairly stable conditions, it can be seen that trade between the two countries has risen again, with US exports to China reaching 95.8 billion dollars up to October, while China's exports to the US were approximately 348.7.

The Obama presidency witnessed a balanced and stable bilateral relationship and the great growth of economic relations, with the US and China entering a new period of mature and comprehensive economic exchange. Even before he took the presidency, Obama advocated strengthening ties with China based on mutual benefit. In 2008, it was announced that the US would compete with China in some areas and cooperate with it in others (USC US-China Institute, 2008). Obama's approach to China reflected his belief in the importance of understanding and cooperation in relations, evident through the establishment of several mechanisms for dialogue and agreements to maintain the stability of bilateral relations in the economic field. In 2009, Obama supported the continuation and expansion of the Sino-US Economic Strategic Dialogue which his predecessor had created, an attempt to create a space for deep understanding over long-term financial issues. In May 2011, the US and China signed the “Comprehensive Framework for the United States and China to Promote Strong, Sustainable, and Balanced Economic Growth and Cooperation”. This program stipulated enhanced economic cooperation on the basis of common interests and a long-term and comprehensive strategic perspective, leading to mutual benefits and a strong and sustainable growth of the global economy. The two countries entered into wide-ranging cooperation in trade, investment, technology, and many areas mutually beneficial to them (US Department of the Treasury, 2011). Obama also followed the principle of resolving disputes constructively. For example, at press conference with Xi Jinping in November 12, 2014 Obama stressed the importance of mutual respect, managing sensitive differences constructively, and ensuring growth (White House, 2014).

The stability of bilateral economic relations under his tenure was due to Obama’s reliance on international organizations, dialogue, and the conclusion of agreements to resolve differences and diffuse tensions. Economic and political tensions such as the dispute over IPR were present all along, but constructive solutions ensured that relations continued. For example, in 2015, in a meeting between Obama and Xi Jinping , a joint statement expressed a ‘common understanding’ that neither country would conduct or support electronic espionage or intellectual property theft for commercial profit, thus increasing bilateral cooperation over commercial, health and international issues. It is noteworthy that during these years, tensions always ended with the new cooperation between the US and China (Zetter, 2015).

However, bilateral relations became strained with the election of Trump. While Obama's approach advocated cooperation and competition, Trump called for punishing China economically. Even before he took office, Trump’s rhetoric towards China was sharp, as he claimed that China was stealing jobs from the US and threatening the American economy, and manipulating its currency to increase its exports. (Huang & Ide, 2016). In dozens of speeches and media or social media statements, Trump repeatedly accused China of trade theft against the US (Stracqualursi, 2017).

With steps taken which were unprecedented compared to other administrations, the Trump era witnessed many trade tensions and reciprocal tariffs, instigating a trade war between the two countries. A new era of strained relations between the US and China began on March 22, 2018, with Trump's announcement of the imposition of tariffs on some Chinese goods under Article 301[3] of the Trade Law of 1974, which includes unfair trade practices and IPR (White House, 2018). Trump claimed these measures were a response to China's policies which force US companies to transfer technology and intellectual property to domestic Chinese companies. The US government argued that these policies reinforced China's declared intention to take the global economic leadership in advanced technology, as stipulated in its industrial plans such as "Made in China 2025" (US Trade Representative, 2018).

The Chinese government responded in kind, imposing tariffs on American goods (Landler & Tankersley, 2018). The tariff war escalated, until total US tariffs on Chinese goods approaching 550 billion dollars and total Chinese customs duties on US goods approaching 185 billion dollars (China Briefing, 2020). Both sides suffered losses, but according to several studies the US was affected more, as Trump's tariffs did not lead to a more favorable trade agreement or improved national security. While some workers in import-competing industries benefited from the tariffs, workers in sectors that depend on imported inputs and export industries facing retaliation from trading partners suffered more than any other. The vast majority of Trump's tariffs have been paid for by US companies and customers (Gertz, 2020). Tariffs have a noticeable effect on levels of trade, reducing imports and exports and consumer choices, and increases prices. According to a study by Lee (2020), Trump's new tariffs on steel, aluminum, and a variety of Chinese goods have pushed up prices in the United States. Tariffs and retaliation in the United States affected over 460 billion dollars in imports and exports in 2019, with Trump's tariffs raising average consumer prices by around 57 billion dollars annually.

According to a report compiled by Oxford Economics (2021), the trade war with China harmed the US economy and unable to fulfill the Trump administration's main policy objectives.

[3] "Relief from Unfair Trade Practices", also referred to as "Article 301", provides a legal means by which US imposes trade sanctions on foreign countries that violate US trade agreements, or engage in "unjustifiable" or "unreasonable" practices and burden US commerce (Congressional Research Service, 2020).

It also slowed economic recovery and employment in the United States, resulting in a peak loss of 245,000 jobs. The report warned that the escalation of trade tensions and a separation with China would harm the US economy and decrease job opportunities still further. In addition to a major short-term shock to the economy, for the next five years, the US economy could fall by 1.6 trillion dollars in real terms, resulting in 732,000 fewer workers in 2022 and 320,000 fewer workers in 2025. Declining output and long-term impacts would lead to a lower GDP on a long-term basis, as a result of lower economic productivity. By 2025, households in the United States will lose an average of 6,400 dollars in real income. Writing before the election of the Biden administration, Meltzer and Shenai (2019) conclude that the Sino-US economic relations were at an important crossroads. They postulate that developing a permanent basis for mutually beneficial US-China economic relations will bring benefits to the two economies, while simultaneously avoiding the disruptions to the complex relations of interdependence that would occur if the economies of the two countries separate.

On the other hand, there are many who believe that China’s growth has always been at the expense of the US. Some see China as a “predatory partner” for its forcible transfer of technology or attitude to IPR. As a State Department spokesman stated, the US has deep concerns about China's technology policy (Reuters, 2021). China's trading partners also have an increasing list of other complaints about Beijing's business practices. These include China’s wide-ranging restrictions on market access, from equity caps on investment to regulatory harassment, and universal subsidies directed at domestic companies that tend to compete against foreign companies in China and in tertiary markets. Moreover, US businesses and national security experts are concerned about the continuation of these self-service practices; the “Made in China 2025” plan describes Beijing's aspirations to control key industries in the future, such as advanced biotechnology, aerospace and robotics (Matthew, 2017).

However, contrary to the expected results of the economic tensions between the US and China, data from the National Bureau of Statistics in January and February of 2021 showed that China’s trade with the US rose by a whopping 81.3 percent in US dollar terms. This exceeds the expectations of many economists, who expected that trade relations would decline significantly, especially since the Biden administration has so far done nothing to counteract the Trump administration's policies targeting China. According to Tian Yun, an economist at the State Economic Planning Agency, "as long as the Biden administration does not make the current trade policies tougher for China, China's exports to the United States may reach a record high this year" (Global Times, 2021b).

To approach a theoretical understanding of the hiccough in US-China economic relations in recent years, the theory of complex interdependence warns of the existence of sensitivity between countries, particularly when the sides benefit unevenly. This is what happened between the two countries. Yet while China has indeed benefited more than the US in terms of exports and jobs, Trump did not take a comprehensive view of the situation. Ultimately, the countries' economic ties proved stronger than his efforts to disrupt them and thus forced him to concede. The trade war finally ended diplomatically, with the signing of the First Phase Agreement. Formally, the agreement stipulated 200 billion dollars of Chinese investment in the US, but China in recent periods has increased its proportion of investment in America without these conditions, rendering this part of the agreement unnecessary.

The outlook of economic relations between the US and China in the next decade is rather different. Joe Biden, who defeated Trump in the November 2020 presidential election, is a Democrat who served as Vice President under Obama, an era characterized by open dialogue and the use of international organizations to strengthen bilateral relations without escalating tensions affecting the interests of the two countries. Bilateral relations may be expected to move back towards stability and rebalancing after the Trump-era tensions, with the US and China moving towards cooperation and healthy competition in the economic field, finding common interests and strengthening economic ties, as it was during the Obama era. Movement is likely to come especially from the US, due Biden's recognition of the recklessness of Trump's actions, which harmed not only the US but also Europe and Japan, by escalating tensions with China (Biden, 2020).

It is notable that with each new US administration, there has been a change in attitude China. Historically, since the beginning of bilateral relations, China has sought to not escalate conflicts, and has always desired dialogue. It can be assumed that China's approach will remain the same, avoiding triggering any tensions and will seeking understanding and cooperation. The two countries have already built a common economy that depends on each other, meaning that both sides will suffer if this is interrupted. In the next four years, at least, cooperation and concessions will probably be present from both sides, to accommodate any junctures they may face. This economic interdependence extends to relations on the levels of individuals, companies, organizations, and public relations between the two countries. The next section turns to one specific element of this relationship: foreign investment between China and the US

3.2 The Development of Sino-US Investment Relations and Mutual Industries

Foreign investment is defined as "a transfer of funds or materials from one country to another country in return for a direct or indirect participation in the earnings of that enterprise" (Sornarajah, 2010: 8). Whereas the classic definition of FDI is "a company from one country that makes a material investment in building a factory in another country" (Kevin, 2009: 222). According to the United Nations Conference on Trade and Development (1999), FDI is defined as "an investment made to obtain a permanent interest in companies operating outside the investor's economy". The FDI relationship consists of a parent company and a foreign subsidiary that together form a multinational corporation. The development of Sino-US investment relations since 1979 can be roughly divided into the following four periods.

3.2.1 The First Period, 1979-1989

Chinese policies before 1978 restricted foreign investment as inconsistent with China's internal socialist economic structures. Chinese decisionmakers viewed foreign investment as interference in China's internal affairs. Deng Xiaoping is credited with launching and promoting China's openness to the influx of international foreign capital when he announced the China Open Door Policy in 1978 (Huan, 1986).

Starting with the passage of the Property and Joint Ventures Law in 1979, China gradually reduced FDI restrictions, opened sectors for foreign investment, and greatly improved the investment environment (Das, 2007). In 1980, China's extensive strategic plans began with the establishment of four SEZs in Fujian and Guangdong provinces. In 1984, the Chinese government made significant efforts to draw FDI inflows, including opening up more areas for FDI, such as

Hainan Island and 14 coastal cities spanning ten provinces (Chen, 2018). The government also provided special tax incentives to international investors, as shown by the Foreign Corporate Income Tax Law, the Joint Venture Income Tax Law, and other commercial and industrial tax provisions. A series of further regulations and laws to promote FDI inflows include the Sino-Foreign Joint Ventures Law of 1983, the Companies Law exclusively focusing on foreign capital, State Council provisions on encouraging foreign investment in 1986, and the Sino-Foreign Contractual Companies Law in 1986-1988 (Chen, 2018).

Simultaneously with China's opening to the world, American multinational companies were strongly supportive of the normalization of relations with China, and their operations in China were pivotal to the relations between the two countries. These companies transferred technology, created jobs, and helped reshape the Chinese economy (Haneman & Rosen, 2016: 1). The volume of US contract investment in China from 1979 to 1985 was about 2.2 billion dollars, or 13.1 percent of all US contract investment globally, making the US the second largest investor in China after Hong Kong (US Department of Commerce, 1988: 65). While China did not embark on a similarly large investment program in the US, from 1979 to 1989 many joint ventures were established with American companies, such as manufacturing electronics and machinery, processing wood, fishing, operating restaurants, and food processing. Chinese businesspeople sought to invest in the US to gain first-hand experience in US technology, management techniques and new marketing developments in their fields. In 1986, Chinese direct investment in the US reached 10 million dollars (US Department of Commerce, 1988: 66).

3.2.2 The Second Period, 1990-2000

In this period, the PRC became the destination for a still larger share of FDI (LaFleur & Hamlish, 2003: 107). US investment targeted the SEZs, where Chinese companies could import duty-free components and materials from US companies, process them into finished goods, and re-export them to the US (Morris, 2017). US FDI in China reached about 6.5 billion dollars in 1998, and 7.8 billion in 1999 (Bronfenbrenner, 2001: 82). According to the US-China Investment Hub, US FDI in all Chinese industries from 1990-2000 accounted for about 37.8 billion, while Chinese FDI in all US industries from 1990-2000 accounted for about 93.6 million.

As Table 5 shows, the most important investment of the US in China in the 1990s was in oil and electricity. In 1995, oil investments reached 951 million dollars, increasing in 1999 to 991 million. Electricity investments reached 434 million dollars in 1995, and 2.3 billion in 1999 (Bronfenbrenner et al, 2001: 83).

Table 5: Sino-US FDI, 1990-2000 (by sector, in dollars)

Sector of investment	Total US FDI in China
1- Agriculture and food	4.05 bn
2- Automotive	4.58 bn
3- Aviation	237.66 mn
4- Basic materials, metals and minerals	5.22 bn
5- Consumer products and services	2.27 bn
6- Electronics and electrical equipment	3.18 bn
7- Energy	3.71 bn
8- Entertainment, media and education	122.61 mn
9- Financial and business services	682.85 mn
10- Health, pharmaceuticals and biotechnology	2.43 bn
11- ICT	5.39 bn
12- Machinery	4.76 bn
13- Real estate and hospitality	209.48 mn
14- Transport, construction and infrastructure	973.79 mn

Source: US-China Investment Hub

3.2.3 The Third Period, 2001-2010

In this period, China became the largest foreign holder of US Treasury bonds. China's holdings of securities leapt from 2002-2010, increasing from 118 billion dollars to 1.3 trillion dollars at the end of 2010, an increase in the total foreign holdings of US Treasury bonds from 9.6 percent to 26.1 percent. These include securities from the US Treasury, US government securities such as Fannie Mae and Freddy Mac, and corporate and equity securities. The US Treasury bonds, which help the federal government finance its budget deficit, are the highest class of US securities held by China (Morrison, 2011: 12).

According to the US-China Investment Hub, US FDI in all Chinese industries from 2001-2010 amounted to about 101.55 billion dollars, while Chinese FDI in all US Industries in the same period was around 9 billion dollars. As shown in Table 6, the most important US investment industries in China were financial and business services at around 15.6 billion dollars, information and communications technology (ICT) amounting to around 15.1 billion, basic materials and minerals at about 12.31 billion, real estate and hospitality around 9.9 billion, and energy at about 9.9 billion dollars. As for the Chinese, the most important investment industries was the energy sector, with a value of around 3.1 billion dollars, ICT at about 2.4 billion, and the automotive sector at about 848.8 million.

Table 6: Sino-US FDI, 2001-2010 (by sector, in dollars)

Sector of investment	Total US FDI in China	Total Chinese FDI in the US
1- Agriculture and food	6.15 bn	60.5 mn
2- Automotive	6.89 bn	848.8 mn
3- Aviation	557.04 mn	344.6 mn
4- Basic materials, metals and minerals	12.31 bn	330.4 mn
5- Consumer products and services	5.31 bn	---------
6- Electronics and electrical equipment	3.53 bn	67.5 mn
7- Energy	9.85 bn	3.05 bn
8- Entertainment, media and education	1.09 bn	59.5 mn
9- Financial and business services	15.59 bn	453.2 mn
10- Health, pharmaceuticals and biotechnology	4.29 bn	531.1 mn
11- ICT	15.09 bn	2.38 bn
12- Machinery	7.68 bn	472.4 mn
13- Real estate and hospitality	9.87 bn	238.5 mn
14- Transport, construction and infrastructure	3.36 bn	138.5 mn

Source: US-China Investment Hub

As Table 7 shows, bilateral investment relations grew rapidly between the two countries. US investments in China in 2001 amounted to around 12.1 billion dollars, rising to about 59 billion in 2010. Chinese investments in the US amounted to 540 million dollars in 2001, and 3.3 billion by 2010. The total value of American investments between 2001 and 2010 amounted to 293.7 billion dollars, while the total value of Chinese investments in the same period represented 9.6 billion. In 2009, China was ranked the 34th largest source of cumulative FDI in the US (Morrison, 2011, p.14).

Table 7: Sino-US investment, 2001-2010 (in dollars)

Year	US investment in China	China investment in the US
2001	12.08 bn	540 mn
2002	10.57 bn	390 mn
2003	11.26 bn	280 mn
2004	17.62 bn	440 mn
2005	19.02 bn	570 mn
2006	26.46 bn	790 mn
2007	29.71 bn	580 mn
2008	53.93 bn	1.11 bn
2009	54.07 bn	1.62 bn
2010	59 bn	3.3 bn

Source: Statista

Through this data, the importance of China to the US may be noted, as US investment was tens of times greater than Chinese investment. In return, China overtook Japan to become the largest possessor of foreign securities for the US. In this period, bilateral relations on the investment side steadily increase, overcoming all political obstacles.

3.2.4 The Fourth Period, 2011-2020

In these years, Chinese businesspeople became the largest buyers of residential real estate in the US. The value of these investments went from 7 billion dollars in 2011, to reach $ 31.7 billion in 2017. Perhaps as a result of tensions with the Trump administration, this almost halved in 2019, falling to 17 billion dollars (Schwarzenberg, 2019). In 2016, sales of foreign subsidiaries of US companies in China amounted to 463.5 billion dollars. China was the third-largest market for US subsidiaries abroad, after the United Kingdom and Canada. Additionally, US subsidiaries in China employed 2.1 million workers, paid 35.3 billion dollars in salaries, and spent 3.5 billion on research and development. China is the second-largest holder of US securities, with a value of 1.1 trillion dollars (US Department of the Treasury, 2020).

As Table 8 shows, US FDI in all Chinese industries from 2011 to June 2020 amounted to about 118.6 billion dollars, while Chinese FDI in all US industries amounted to about 145.48

billion. The most important US investment industries in China are ICT, which amounted to about 20.2 billion dollars, automotive at around 13.5 billion, and real estate and hospitality equating to 12.7 billion. For the Chinese, the most important investment industry was real estate and hospitality at about 41.7 billion dollars, transport, construction and infrastructure with a value of about 16.59 billion, and ICT at about 14.82 billion.

Table 8: Sino-US FDI, 2011-2020 (by sector, in dollars)

Investment sector	Total US FDI in China	Total Chinese FDI in the US
1- Agriculture and food	9.58 bn	7.66 bn
2- Automotive	13.47 bn	5.14 bn
3- Aviation	1.02 bn	793 mn
4- Basic materials, metals and minerals	10.56 bn	2.92 bn
5- Consumer products and services	6.07 bn	9.42 bn
6- Electronics and electrical equipment	2.75 bn	5.16 bn
7- Energy	7.1 bn	10.94 bn
8- Entertainment, media and education	10.39 bn	13.51 bn
9- Financial and business services	4.75 bn	6.99 bn
10- Health, pharmaceuticals and biotechnology	11.73 bn	8.03 bn
11- ICT	20.16 bn	14.82 bn
12- Machinery	5.02 bn	1.47 bn
13- Real estate and hospitality	12.67 bn	41.65 bn
14- Transport, construction and infrastructure	3.36 bn	16.59 bn

Source: US-China Investment Hub

As Table 9 shows, US investments in China in 2011 amounted to about 53.7 billion dollars, increasing by 2019 to around 116.2 billion dollars. China's investments in the US amounted to about 3.6 billion dollars in 2011, and 37.7 billion by 2019. Thus, bilateral investment relations between the two countries had grown rapidly. The total value of American investments between 2011 and 2019 amounted to 773.4 billion dollars, while the total value of Chinese investments in the same period representing 177.7 billion

Table 9: Sino-US investment, 2011-2019 (billions of dollars)

Year	US investment in China	Chinese investment in US
2011	53.66	3.6
2012	54.51	7.08
2013	60.45	7.86
2014	82.24	10.07
2015	92.15	14.71
2016	97.29	31.87
2017	107.56	31.31
2018	109.33	33.54
2019	116.2	37.69

Source: Statista

In the great changes of this period, China took a step forward to enhance its investments in the US, for the first time surpassing the US in investing in many industrial sectors. Even after the fluctuations of the Trump presidency, it is unreasonable to expect that neither country will work to strengthen these economic ties and benefit from them in the future. It is highly likely that both countries will work in the coming years to identify new mechanisms to enhance this unique relationship, especially since both countries have continued to enhance their mutual investment, despite political tensions over economic issues.

3.3 Economic Issues of Concern Between the US and China

Although the growth of economic relations between the United States and China are widely considered to be mutually beneficial, tensions between the two countries have escalated over several issues, as explored below.

3.3.1 China's Currency Policy

The continuing rise in China's trade surplus with the US, and complaints by some US manufacturers and workers about the competition posed by Chinese imports, have led many policymakers to view the value of the Chinese currency relative to the dollar as unfair, and advocate that the US government takes action on this issue. Some in the US argue that the Chinese currency is undervalued against the US dollar by as much as 40 percent (Wharton, 2010). While there has been no exact agreement on how much the Chinese currency is undervalued, there is agreement that it is undervalued to some extent (Picardo, 2019). This makes Chinese exports to the US cheaper, and US exports to China more expensive, than if exchange rates were fixed according to market forces, contributing to an increase in the US trade deficit with China. The exchange rate is depicted below in Chart 1.

The impact of Chinese currency policy has both positive and negative sides, as pointed out by Morrison (2019). Positively, if the renminbi is undervalued, as some argue, this may be seen as an indirect subsidy for exports as the prices of Chinese products that are imported into the US artificially are reduced. This benefits US companies and consumers that use Chinese-made parts and components. Morrison also argues that the People's Republic of China's large purchases of United States Treasury bonds, a result of its currency policy, have helped the US government finance its budget deficit, keeping US interest rates low. However, China's policy also negatively affects some import-competing American companies and their workers. According to Wang, why China has followed this approach can be explained by the lessons learned from the past at home and abroad, for example Japan and its yen currency, with an undervalued currency for a long time and the boom in the export-dependent economy during the 1970s and mid-1980s (Similar to present-day China) "the Japanese tried to delay the appreciation of their currency, and in the end they had to adjust the exchange rate under U.S. pressure too quickly". However, after Japan approval to accept the 1985 Plaza Accord, the yen rose against the US dollar, leaving the country facing an asset price bubble that was bound to burst dramatically (Wharton, 2010).

It should be noted that the US government has twice accused China of manipulating its currency. The first occasion was in 1994 during the Clinton administration, while the second incident came during Trump's term in 2019, during the trade war between the countries. From 1994 to July 2005, the Chinese government responded to the Clinton administration's complaint by pegging the value of the yuan to the US dollar, allowing the renminbi to respond naturally to supply and demand forces. The plan was aimed at increasing the flexibility of the exchange rate over time, as China's Budget Committee would "adjust the range of the RMB exchange rate as necessary according to the development of the market as well as the economic and financial situation" (Das, 2019: 5). Chinese leaders argued that their currency strategy was not aimed at encouraging exports or discouraging imports, and noted that China, like many developing countries, pegged its currency to the dollar to enhance economic growth, stability and investor confidence. Chinese policymakers have expressed fears that adopting this strategy could lead to an economic crisis in the country, hurting export industries in particular at a time when the country is undergoing painful economic reforms such as the closure of inefficient state-owned enterprises. (Morrison & Labonte, 2008).

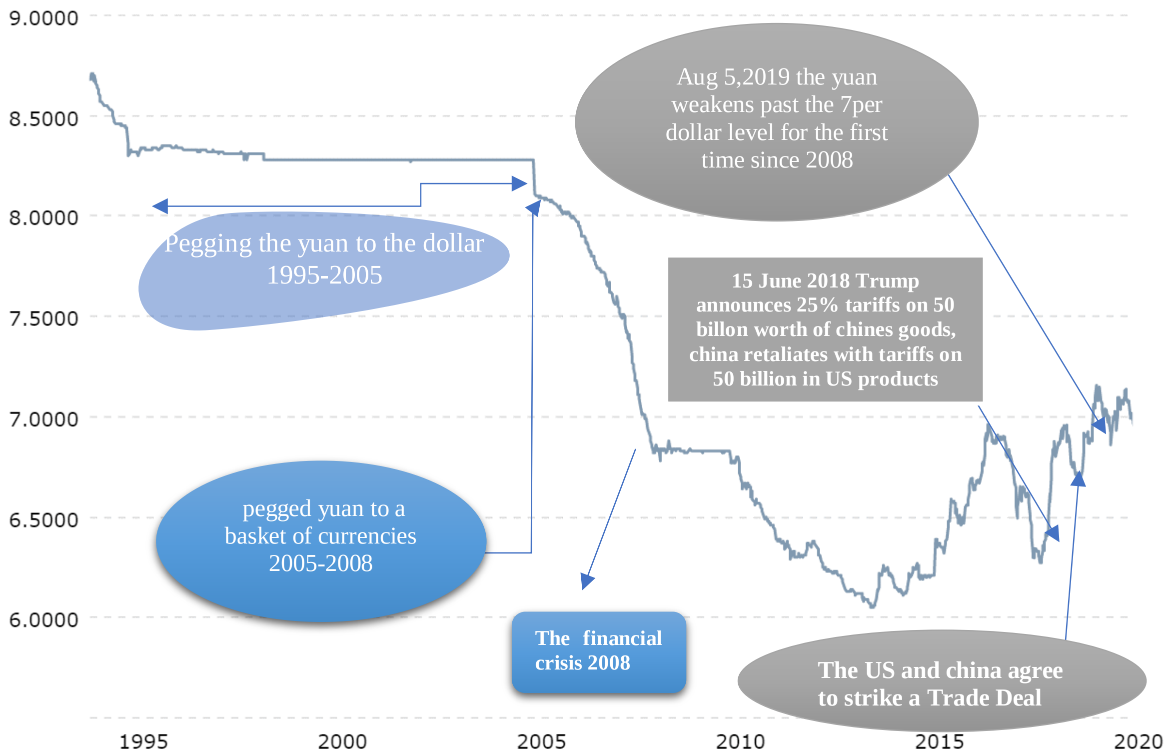
However, in 2005 the People’s Bank of China (PBOC) declared that for two years it would renounce the currency’s peg to the dollar, meanwhile China began a transition to a floating – though very tightly managed – exchange rate system (Wharton, 2010). The yuan was permitted to appreciate by around 21% to 6.83 against the dollar. Moreover, due to the world financial crisis, China stopped the appreciation of the yuan with the decline in global demand for Chinese products, and then it pegged the value of its currency to a basket of currencies instead of just the dollar. China resumed its policy of gradually increasing the yuan in June 2010, and by December 2013, the currency had increased by around 12% to 6.11 against US Dollar. (Picardo, 2019). A study conducted by Das (2019) concluded that Since abandoning the fixed exchange rate in 2005, China's exchange rate system has undergone gradual reform. Regular steps have been taken to increase exchange rate flexibility, which has been accompanied by efforts to increase participation and efficiency in the foreign exchange market. As a result, the exchange rate has become more flexible over time, but it is still managed carefully.

While China thus responded to US demands to change its currency policy, the problem was not fully addressed, and concerns persisted on the US side. Under President Obama, tensions escalated over Chinese currency policy, leading to further measures being taken. In 2010, the US government introduced HR 820: The Currency Reform for Fair Trade Act, approved by a majority of both Republicans and Democrats, enabling the Commerce Department to impose countervailing duties on imports from foreign countries for the purpose of offsetting the effect of currency manipulation on an American industry (GovTrack.us, 2010). On February 11, 2015, the Obama administration acted against Beijing in the WTO, focusing on the subsidies China provided to exporters through so-called “common service platforms” and “supply rules”, through which China devalued its currency. However, on April 14, 2016, China and the US informed the Dispute Settlement Body that they had reached an agreement on this dispute (WTO, 2015).

In 2016, during his election campaign, Trump confirmed that he would accuse China of currency manipulation. Initially, however, tensions over China's currency policy stabilized, as the value of the yuan rose at the beginning of 2017 by 7 percent, and continued to increase by 3.5 percent toward the dollar, reaching around 10.5 percent. This extinguished some of the criticism that China relied on suppressing its currency to gain economic advantage over its trading partners. Meanwhile, China assured that it would maintain the yuan's stability. The Chinese government thus demonstrated that it sought to balance political concerns with the economic reforms and demands that come with a market-based system (Tan, 2018).

Nevertheless, in early August 2019, as a result of tariffs imposed by the Trump administration, China allowed its currency to decline to 7 yuan against the US dollar, a kind of move that had not been seen since the global crisis in 2008. This provoked the US Treasury to classify Beijing as a currency manipulator. A weaker currency made Chinese exports cheaper and more competitive in international markets, and could offset some of the effect of the tariffs (Roy, 2019). However, after consultation and dialogue between the two sides, an agreement was reached, following which the US withdrew its accusation of China's currency manipulation, and ended the trade war (Pramuk, 2020).

Chart 1: Fluctuations of the yuan against the dollar and the impact of the trade war on the Chinese currency



Source: Macrotrends

As Chart 1 shows, the actions of the two sides are closely related: China's policy shifts to depreciate its currency when its goods face tariffs by the US, whilst the US also takes many measures to control the situation by enacting laws or going to international organizations. Whilst the value of the Chinese currency is a complex issue, the response from both sides has been to take action to try to limit the deterioration of the relationship. It can be noted here that one aspect of the theory of complex interdependence is the existence of an interdependent economic relationship. The size of the economic interdependence between the two countries has thus forced decisionmakers to retreat from confrontational posturing on many occasions, including Trump himself. The interdependence between the two countries is so great, and so potentially beneficial to both sides, that all their outstanding issues can be resolved, including the changes in value of the Chinese currency.

3.3.2 Intellectual Property Rights

The first appearance of IPR as a bone of contention between the US and China occurred in 1979, during the work of the two countries to restore relations. Subsequently, China made progress in establishing intellectual property law, and joined the International Convention on Intellectual Property Rights (OECD, 2008: 409).

However, the dispute reoccurred in 1991, when the US accused China under Article 301, and threatened to impose trade sanctions worth 150 billion dollars. Shortly before the sanctions took effect, the two countries entered into a memorandum of understanding in January 1992, reducing penalties in return for China's agreement to provide greater protection for intellectual property, including provisions relating to patent protection for pharmaceutical products, requirements for revising copyright law, and restrictions on compulsory licensing of patent-protected products. China also acceded to international copyright and related conventions (Paradise,1999: 49).

In 1993, China was accused of violating US copyrights for a variety of goods, such as computer programs and CDs. Since then, the focus has shifted from providing legal measures to the enforcement of IPR. China has responded by signing the China Enforcement Action Reports under the 1995 Intellectual Property Rights Agreement, with a focus on copyright issues. In 1997 Article 216 was added, providing a criminal penalty for patent forgery. The Copyright Act and the Trademark Act were amended in 2001, to comply with the rules of the WTO (OECD, 2008: 410).

After over two decades had passed, in March 2018, the US Trade Representative once again accused China of violating intellectual property, claiming that several Chinese policies and practices violated Article 301 of 1974. In response, the US imposed billions of dollars of tariffs on Chinese imports. China responded by imposing tariffs on US goods, and challenging US tariffs at the WTO. In January 2020, the US and China reached the Phase One Agreement, reaching a solution on IPR (Hickey & Hart, 2020).

While the Sino-US relationship has indeed been heavily strained at times over this issue, the repeated history of agreements closely following accusations confirms the hypothesis that the two countries are able to overcome contentious issues, including those surrounding intellectual property. China, from the beginning of its economic opening, has sought to quickly resolve any outstanding problems. On the US side, while some decisionmakers have wanted to halt relations at times, domestic pressures often force them to return to relations with China.

3.3.3 The US Trade Deficit with China

One of the reasons for the emergence of the large trade deficit in US foreign trade arises from the American economy. After the Second World War, the revolution in global science and technology produced a major transformation in global industries, as American transcontinental companies shifted their labor- and energy-intensive industries to developing countries. The US established a system for the progressive horizontal distribution of work based on the vertical distribution of labor, reflecting a large trade deficit between mineral fuels on the one hand, and the final products in the changing commodity structures on the other.

According to the US-China Investment Hub, US FDI in all Chinese industries from 2011 to June 2020 amounted to about 118.6 billion dollars. American multinational companies such as Apple and General Motors opened branches across China due to cheap labor, land and raw materials, and the provision of tax incentives (Davies, 2013: 40-45). These companies shifted production from the US to countries like China and then exported their products back to their home country. The quantities of these products are thus calculated in the trade deficit between the two countries. The largest categories of Chinese exports to the US include cellphones, computers, toys, clothing, and sporting goods. Many of these imports come originally from US manufacturers, who send raw materials to China for assembly at a low cost; once shipped back to the US, they are considered imports (Amadeo, 2020).

Table 10 shows the rates of the US trade deficit for the period between 2010 and October 2020. The lowest point of this deficit was around 273 billion dollars in 2010. With the gradual rise of the trade deficit and the increase in trade exchanges between the two countries, the deficit reached its highest rate in 2018, at around 419 billion dollars. In 2019 the size of the US trade deficit with China was about 345 billion dollars, a decrease of 74 billion, owing to the trade war waged under Trump.

Table 10: US Trade Deficit with China (billions of dollars)

Year	US trade deficit
2010	-273.042
2011	-295.25
2012	-315.103
2013	-318.684
2014	-344.818
2015	-367.328
2016	-346.825
2017	-375.168
2018	-418.954
2019	-345.204
2020 (to October)	-252.894

Source: US Census Bureau

This large trade deficit cannot be considered as resulting from Chinese actions alone. There are many considerations, the most important of which is that China is currently the largest manufacturer in the world, and many countries invest in it, use it as a final assembly station, and then re-import goods from China. This contributes to the development of a trade deficit with China's trading partners, although they still stand to benefit. The US and China should thus take a comprehensive view of their overlapping interests and economic interdependence, as China's investment, along with its trade surplus with the US which is then spent on US Treasury bonds and other dollar assets, have boosted the US national economy in the long run.

3.3.4 Chinese Investments in the US and Tensions over US Bonds

When bilateral relations between the US and China returned in 1979, and after China became the largest developing country, China made many forms of investment in the US. One of the most important investments was China's portfolio investment in purchasing US Treasury bonds or Treasury bills ("T-bills"). The concept of portfolio investment "refers to holding of stocks and bonds, below the 10 percent ownership threshold" (Kroeber, 2020:395). The US first provided T-bills to foreign investors to help it bridge the financial deficit in its budget after the First World War due to the subsequent material distress. Guaranteeing the payment of these bills within a year, the US sold these bills at slightly less than their face value, meaning a profit for the investor (Corporate Finance Institute, n.d.).

China increased its investments rapidly after signing an agreement with the US regarding its accession to the WTO in 2000 (see Table 11). China's investments in US Treasury bonds in that year amounted to 60.3 billion dollars; the value of these investments increased rapidly in subsequent years, until China became the largest holder of US securities, with a value of 727.4 billion dollars in 2008, surpassing Japan. China's purchase of US Treasury bonds peaked in 2014, at a value of 1,244.3 billion dollars. However, China's investment in US bonds declined after the election of Trump in 2016. China fell to second place in possession of US Treasury bonds, which some attribute to Trump's harsh statements against China during the election. In 2017 and 2018, however, China rose again to first place, with about 1,184.9 billion dollars; in 2019 and 2020 China again fell to second, with 1,069.9 billion and 1,072.3 billion dollars of investment, possibly attributable to the trade war launched by Trump.

Table 11: Chinese Investment in US Treasury Securities

Year	Chinese investment	Year	Chinese investment
2000	60.3	2011	1151.9
2001	78.6	2012	1220.4
2002	118.4	2013	1270.1
2003	118.4	2014	1244.3
2004	222.9	2015	1246.1
2005	310.0	2016	1058.4
2006	396.9	2017	1184.9
2007	477.6	2018	1124.3
2008	727.4	2019	1069.9
2009	894.8	2020	1072.3
2010	1160.1	2021	--------

Source: US Department of the Treasury

China has sought to purchase these US Treasury bonds due to several reasons. According to Lee (2020), China for many years achieved a large trade surplus in goods and services. As such, its international income has also increased, with many commercial transactions with companies in the US and other countries paid in US dollars, thus providing China with safety and stability and allowing it to use reserves to counter fluctuations in money flows and stabilize its economy during times of financial crisis. Furthermore, US Treasury bonds provide a guarantee for buyers of these bonds, as the dollar is among the most secure currencies. Moreover, Chinese exporters receive US dollars for their goods sold to the US, but need the renminbi (yuan) to pay their workers' salaries and store the money domestically. They sell the dollars they receive through exports to obtain the renminbi, which increases the supply in dollars and the demand for the yuan. To prevent the imbalance between the US dollar and the yuan in domestic markets, the People's Bank of China intervenes, buying the excess US dollars available from the exporters and providing them with the required yuan, which the People's Bank can print as needed. Indeed, this intervention has led to a scarcity of the US dollar, which kept the US dollar rate higher. Thus, China collects US dollars as a foreign exchange reserve (Seth, 2021). In the view of researchers such as Amadeo (2021), China has followed this strategy because owning US Treasury bonds helps its economy grow at a rapid pace. Additionally, the demand for dollar-denominated bonds raises the value of the dollar compared to the yuan, making Chinese exports cheaper than goods manufactured in the US, meaning an increase in Chinese sales of goods as US consumers benefit from low-cost goods.

However, due to the tensions in the two countries in recent years, fears have arisen over China's potential dumping of the US Treasury bonds, which would slow the pace of growth in the US economy and cause major disruptions. According to Labrecque (2019), flooding China with US securities would lead to a great pressure on the dollar and its weakening against other currencies. A domino effect could occur: if China begins to dump US bonds, the price of US bonds everywhere will generally decrease, negatively affecting other countries holding US bonds. Other countries may also sell their bonds, leading to an even bigger crisis. Amadeo (2021) agrees with the above, assuming that China's dumping of Treasury bonds would damage the US economy. China's position as America's largest banker gives it some political clout because it is responsible for low interest rates and cheap consumer goods. If debt is demanded, US interest rates will rise, slowing US economic growth. The demand for its debt will lead to a sharp decline in the demand for the dollar, causing the collapse of the dollar, and disrupting the international market more than the 2008 financial crisis.

From another point of view, China cannot abandon these investments for several reasons. The Chinese economy would also suffer from the above-stated scenario. Perhaps most importantly, the Chinese economy is still dependent on exports. Therefore, it must operate a current (or commercial) surplus. If not, China will face increasing unemployment because lower exports mean that Chinese exporters have to lay off workers, or more debt as Beijing will encourage large household remittances through social security, unemployment benefits, food stamps, etc., or the creation of new businesses to alleviate the consequences of unemployment (Niyazov, 2019). Moreover, the abandonment of US Treasury bonds and the dumping of the dollar, which will lead to the weakening of the dollar against the yuan, will inhibit the ability of the Chinese central bank to intervene to weaken the yuan, making China lose its comparative advantage that depends on low-cost exports.

3.4 Benefits of Economic Cooperation for the US and China, and the Consequences of the Separation

Over the past 40 years, the close economic ties between the US and the PRC have brought in more goods and services, in addition to creating jobs and raising living standards, for both countries. It has also encouraged the exchange of ideas, people, and technology. Following economic interdependence, cooperation has also strengthened on many international issues, including tackling climate change, energy use, and many others. These economic and political benefits are largely attributable to the frank dialogue and constructive cooperation between the PRC and the US.

3.4.1 Benefits to China

After China opened up to the outside world, its relationship with the US became key to its growth strategy, playing an important role in China's GDP and export growth over the past few decades. Chinese policymakers view the US as an important partner in areas such as trade and investment. The significant points that benefit the People's Republic of China include the following:

1. US market is the largest market for Chinese goods: China has gained significant benefits by accessing the US market, which represented 1.1 billion dollars in 1980, to a high point in 2018 of 539.2 billion dollars, and a trade surplus of 419 billion. Investments achieved

their highest rate, about 37.7 billion dollars, in 2019, and Chinese FDI in all American industries from 2011 to June 2020 amounted to 145.5 billion.

2. The economic and trade relationship with the United States helps China overcome market and resource bottlenecks: Through the continuous expansion of economic and trade cooperation between the two countries, the US and China have been able to overcome market and resource bottlenecks through technology, and improve the size, structure and quality of their economies. The US is the largest market for Chinese goods, with 16.8 percent of all China's exports going to the US in 2019 (Workman, 2020). The US has been the largest source of trade surplus for China; even in the shadow of the trade war in 2019, trade in services and goods with the US generated a trade surplus of 345.2 billion dollars, showing the extent of the two countries' ties. The greater the trade surplus with the US, the more new jobs have been created in China, buoyed by the cheaper labor costs in China.
3. US companies are bringing technology and capital to China: Foreign companies' investment in China generates tremendous amounts. The US invested 116.2 billion dollars in 2019 alone. By sector, US FDI from 2011-2020 included 20.2 billion dollars in ICT, 13.5 billion in automobiles, and 12.7 billion in real estate and hospitality. These investments create great job opportunities for the Chinese side, leading factories move to China for its cheap labor. As the US is among the most technologically advanced countries, China has been a beneficiary of the gradual transfer of technology over the years, accelerating the pace of Chinese technological development.
4. China's possession of US and foreign securities provides a stable and secure environment against global financial fluctuations: According to Lee (2020), with many commercial transactions with companies in the US and other countries paid in US dollars, thus providing China with safety and stability and allowing it to use reserves to counter fluctuations in money flows and stabilize its economy during times of financial crisis. Furthermore, US Treasury bonds provide a guarantee for buyers of these bonds, as the dollar is among the most secure currencies. Furthermore, according to Amadeo (2021), China owning US Treasury bonds helps its economy grow at a rapid pace. Additionally, the demand for dollar-denominated bonds raises the value of the dollar compared to the yuan, making Chinese exports cheaper than goods manufactured in the US, meaning an increase in Chinese sales of goods as US consumers benefit from low-cost goods.

The data demonstrates the benefits of the depth of the economic interdependence with the US economy for China, its government and domestic employees and workers. The loss of the US as an economic partner is inconceivable for China, given such large network of dependence.

3.4.2 Benefits to the US

According to the prominent American analyst in Chinese security studies, Michael D. Swaine (2019) developments in China have tangibly benefited the US. The American economy has benefited from the large market of China, which came as a result of Beijing's integration into the international community that Washington desired. The economic development in China has contributed significantly to the overall global growth. Moreover, while Beijing has stolen US technology in various fields, Chinese investments in the US and technology exchanges with it have, in return, contributed significantly to the development of cutting-edge technologies in Silicon Valley and beyond.

Through the data collected in this study, and several other studies that dealt with Sino-US relations, the significant points that benefit the United States include the following:

1- China provides a huge market for American goods: China has become an important overseas market for many US products. In 1980, American exports to China amounted to about 3.8 million dollars, making China to become the 24th largest trading partner of the US and the 16th largest export market. After one decade, US exports to China amounted to 4.8 billion dollars, 16.2 billion by 2000, 91.9 billion by 2010, and around 130 billion in 2017. China is currently the third-largest merchandise trade partner of the US, the third-largest export market for US goods, the third-largest market for US agricultural exports (Office of the United States Trade Representative, 2019).

2- The trade relationship with China supports jobs in the United States: According to a report prepared by the US-China Business Council (2020), the combined exports of goods and services to China in 2017 supported over 1.1 million jobs across America, dropping to less than 1 million in 2018 as a result of Trump’s ignition of a trade war. US exports to China declined in 2018 to 120.3 billion dollars, and in 2019 to 106.4 billion. Finally, after the end of the tariff war, trade rates began to return to normal.

3- China offers important business opportunities to US companies: Despite the recent friction and tariffs, China has remained a major market for US exporters, reflecting the important business opportunity China offers to US companies (US-China Business Council, 2020). General Motors, similarly, in one year sold over 3 million cars, a record for the company which could only be achieved through the huge Chinese market (Henderson, 2020).

4- Chinese investments in Treasury bills and US securities, allows US to finance its deficits: The heavy dependence of America on China can partly be explained by a fundamental weakness in the structure of the US economy: a deep and disturbing shortage of domestic savings. In late 2017, the US net domestic savings rate was only 1.3 percent of national income. This leads to dependency, as the US has to import surplus foreign savings from abroad and manage the balance of payments and trade deficits to import this capital. For example, in 2017, the US had a deficit in merchandise trade with 102 countries (Bloomberg, 2018). China fed and supported the US economy through the purchase of securities, with China the largest owner of securities in 2017, but falling to second-largest after Japan in 2020 with 1.1 trillion dollars (US Department of the Treasury, 2020).

5- US companies invest in China to produce cheap and high-quality products that enable them to be competitive: Many US companies, such as Apple, benefit from their investment in China, which is the most suitable location for their factories due to their labor-intensive needs which require rapid production and cheap labor (Pino, 2018).

6- Chines exports to US provide a wider range of products to US consumers: One major benefit China poses to the US is the cheapness of its goods compared to American-produced goods. The US thus relies heavily on China to provide low-cost products that enable low-income Americans to meet their needs, saving money on commodities such as clothes, computers, and many other goods and components that raise American families' standards of life (Roach, 2020). American families with limited incomes are among the greatest beneficiaries of the US-China economic relationship. Moreover, China offers many options to American consumers, as they can access high-quality, economical products that are manufactured, designed, or assembled in China.

7- China provides cheap and reliable goods and inputs keeping US inflation low: In a study conducted by Pain & Koske and Sollie (2008) it found that the effect of imports from China led to a reduction in domestic inflation in the United States at an average rate of 0.1 percentage points per year from 1996 to 2005. This is a result of increased imports by lower-priced Asian producers, and differences between the growth rate of their export prices and those of producers in importing economies.

8- The emergence of China as a stable market helps the United States to absorb the impact of the financial crises: This was observed through the financial crisis of 2008, which spread from the United States to around the world, as American exports to China were characterized by some stability. US merchants and investors doing business with China have made large profits for their American shareholders

9- The US relationship with China accelerates technological progress: Through the environment of competition between the two countries. For example, companies such as Apple, Samsung, Huawei and many other companies where competition depends on time as well as quality.

The data which has been provided throughout this chapter illustrates the depth of the US dependence on China, which constitutes a complex web of dependency within the framework of US-China relations. This complex economic network can be seen through the increasing US exports to China, the jobs China produces for the US side, and the mutual investments that lead to billions of dollars in profits. The competition between the two countries has sometimes resulted in the race to develop technology, and at other times resulted in cooperation in other areas. This set of benefits that the US obtains from China is capable of strengthening cooperation and expanding dialogue, and thus able to move the balance from conflict to peaceful solutions.

3.4.3 The Consequences of Economic Separation and Loss of Interdependence in Sino-US Relations

Each side has enormous benefits, as mentioned above, but if those benefits are lost, then what are the negative consequences? Certainly, many opportunities will be lost, profits will decline, technological progress will decline, economic growth slows, and efforts that have lasted for more than 40 years will be wasted. The observed points of the consequences include the following:

1. The economic separation of the two countries may lead China to abandon US Treasury bonds. according to Amadeo (2021) and Labrecque (2019) the consequences of which will be is slowing the pace of growth in the US economy as well as China’s dumping of Treasury bonds, would lead to great pressure on the US dollar and weakening it against

other currencies. If China starts dumping US bonds, the price of US bonds everywhere will generally drop, negatively affecting other countries that hold US bonds. Other countries may sell their bonds as well, leading to an even bigger crisis.

2. The United States will lose the third largest huge market for its products. In addition to losing more than 2 million jobs provided by bilateral relations. As for China, China will lose its largest export market and millions of businesses will be lost. American companies such as Apple and other large companies will lose the advantage that the Chinese environment provides in terms of production speed and cheap labor.
3. furthermore, US companies will lose the stable market of China in times of financial crisis. Likewise, China will lose the expertise offered by these companies. The United States will lose Chinese support to finance its budget deficit through Chinese investments in US Treasury bonds. On the other hand, China will lose a secure and stable environment for these investments. The United States will miss the wide and varied Chinese goods that it provides to American consumers, particularly those with limited incomes, in addition to the advantage that accompanies these goods from reducing inflation in the United States.
4. China will lose the opportunity to obtain advanced technology which it increases the pace of its development. For the United States, will lose a lot of Chinese contributions in the field of technological development. In addition, the two countries will lose the competitive advantage that enables them to advance technology together through research and development.

According to (Rosen & Gloudeman, 2021), the negative consequences for the US economy in the event of US-China economic separation include the following:

1. In the field of trade, the US would abandon up to 190 billion dollars of its GDP by 2025, as tariffs are expanded by 25 percent to include two-way trade. The stakes are high, and this could result in lost jobs, research and development budgets, and competitiveness.
2. US investors would lose 25 billion dollars annually if half of US FDI stocks in China were sold, with a one-off GDP loss of 500 billion dollars. Decreased foreign direct investment from China to the US could increase costs, and America's competitors would potentially benefit from flowing elsewhere. Regarding flows of people, if future flows were halved

from pre-COVID levels, the US would lose between 15 billion and 30 billion dollars annually in services and trade exports.

3. Separation may also undermine the productivity and innovation of the US in thought flows. US commercial research and development at home to support operations in China would decrease, and companies from other countries will reduce their research and development spending linked to Chinese ambitions in the US. Competition over global innovation is where other countries will try to bridge the gap with the US.

It should be mentioned that the United States and China have achieved a very high level of interdependence, and it seems difficult to separate at this phase due to the massive damage that would be caused to their interests. Furthermore, according to their mutual interdependence, the two countries may find an obstacle in avoiding the issues that may arise if they separate. Before taking actions against each other that might seem weird and irrational, the two countries should adopt a holistic view. And from the point of view of researcher, Separation will not occur at this period, since each country requires the other, but if China's role replaced by another country, separation may occur in the future, which seems difficult and takes a long time.

4

CONCLUSION

Through this research on the Sino-US economic relationship, it becomes clear that the strength of economic interdependence between the US and China is a powerful tool to avoid trade wars that would cease the bilateral relations. The closely linked economies of the US and China indicates the extent of the interdependence of interests on both sides. This is the result of the large trade exchanges between the two countries, in addition to the increasing volume of investment from both countries, making the US the eighth largest investor in China. Networks of economic interdependence have continuously developed, period after period, despite all the economic tensions that have occurred. Even in a globalized, multipolar world, the existing interdependence will prevent the two countries from fundamentally clashing, and the breakdown of relations. Nevertheless, a review of the Chinese economy demonstrates its strength and stability economy, and that it does pose genuine competition to the US economy.

Since 1979, China has sought diplomatic means in dealing with the US, abandoning the force of military power to resolve disputes and reduce tensions that hinder bilateral relations. Furthermore, China has relied on the policy of economic openness in trade and investment in dealing with countries of the world, especially the US, which it considers the best partner to secure its strategy of peaceful rise. China considers the Sino-US relationship of great importance, because the US market is the largest market for Chinese exports, of great importance to the US consumer, while the Chinese market is the third-largest market for the US. China's relative stability during the financial crisis of 2008, compared to the US, meant the Chinese market provided great support to the US economy, enabling US companies with economic ties to China to survive. US exports to China stabilized during this period, with the decline in Chinese exports to the US.

The Sino-US economic relationship has generated strong pressure on US policymakers, as a result of the integration of many US companies into the Chinese economy. It is worth noting that, before China's accession to the WTO, the volume of its investment in the US did not exceed 1 billion dollars; in 2019, China's investment in the US amounted to about 38 billion dollars.

Moreover, China's possession of more than one trillion US dollars has helped reduce inflation in the US. Any harm done to China, whether from the US or another source, will harm American interests. Even in the 1990s, before China acceded to the WTO, it may be observed how the economic pressures of large companies led to the continuation of bilateral relations.

The data on Chinese portfolio investment and its effects demonstrates the importance of China's investment in US Treasury bonds for both sides, and reveals the worrying threat to the US were China to dump these bonds. However, it is clear that China is very unlikely to take this action which would inflict major damage to its own economy. In fact, the two countries have entered a state of deep interdependence, and their separation could cause an economic crisis not only in China and the US, but including all the economies in the world.

Nevertheless, issues related to trade deficit, IPR, US Bonds, and currency manipulation, are pressure points on China. Yet these differences have always been relatively swiftly resolved. The US and China have become linked through many active international organizations, such as the WTO, which could be used to solve bilateral disputes, and have created many bilateral mechanisms that provide a platform for deep and long-term understanding and developing strategies for cooperation in the economic field. The economic interdependence between the US and China has thus far allowed for the overcoming of many economic tensions and crises that did pose a strong challenge for the two countries.

Every American president has somewhat differed from his predecessors in dealing with China. However, the approaches of both (most) Republicans, like Nixon and Bushes Senior and Junior, and Democrats like Obama and the newly elected Biden, have believed in healthy economic competition with China and the need for bilateral relations for the peaceful management of tensions and crises. Only the aggressive and unstable approach represented by Trump in dealing with China has departed significantly from the post-1979 script. Hence, bilateral relations are expected to return to competition and stability in the next four years of the Biden administration, and most likely much longer.

Despite this reasonable optimism, it must be admitted that the threats to Sino-US relations are many. Differences will certainly arise between them, and divergent interests will arise in the coming period, with the possibility of a return of the periodic contentious issues like the currency, US trade deficit, IPR, etc. The two parties must carefully consider the many available alternatives to settle these disputes, and work to enhance the positive elements of their relationship. Moreover, it is important for both countries to realize the interdependence of economic interests existing between them, and to use this interdependence constructively in solving unfinished issues. If this is accomplished, and the needlessly destructive path of collision is avoided, a stable economy can be expected for both of them for many years to come.

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