From Complementarity to Rivalry: The Political Economy of US-China Relations

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Introduction

Economic relations between the United States and China have deteriorated over the past decade. In the 2000s, Niall Ferguson coined the term "Chimerica" to describe the close economic relationship between the two countries (Ferguson and Schularick 2007), and as late as 2010, the governor of Texas and future Presidential candidate Rick Perry was dining with Huawei's chairman and welcoming him to the company's new headquarters near Dallas. A decade later, wireless service providers in Texas were tearing Huawei equipment out of local telecommunications networks and replacing them with American and European versions, part of a federally-subsidized "rip and replace" program to combat alleged Chinese espionage.

Military tensions are also on the rise. In 2006, the Pentagon expressed its hope China would "continue as an economic partner and emerge as a responsible stakeholder and force for good in the world" (Department of Defense 2006). Four years later, President Obama was ordering naval exercises in the Yellow Sea and enhancing security accords with Japan, Australia, and the Philippines, part of his administration's "Pivot to Asia". Pentagon officials today call China America's "No. 1 long-term geostrategic security challenge" (Hennigan 2023).

Experts claim these developments reflect a classic rivalry (Allison 2017) between two great powers impelled by an inherently threatening external environment to take measures to enhance their own power and security. The rapid growth of Chinese firms under Xi Jinping has, Pearson, Rithmire, and Tsai (2022) argue, generated a classic "security dilemma" in which the Chinese state's attempt to ensure its own security provoke countermeasures on the part of the United States (US), escalating the conflict. Corporations, the authors add, are too divided in their interests to form a united front against China, concluding that the current "backlash against China and Chinese firms is

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better explained in terms of security dilemma dynamics than manifestations of vested interests" (Pearson, Rithmire, and Tsai, p. 174).

These analyses suffer from what we regard as their excessive state-centricity, that is, their positing of states as autonomous entities driven, in their international relations, to seek power and acting more or less independently of domestic social forces. Such analyses, we argue, cannot come to terms with the decisive role of large multinational corporations in the adoption of a more antagonistic posture toward China. As Hung (2022) argues, what impeded US policymakers from doing so prior to the late 2000s was the interest of Boeing, AT&T, General Motors, Walmart and other corporations in maintaining strong commercial relations with this country. These firms acted as a counterweight to protectionist industries, labor unions, and defense hawks (Krauthammer 1995) which had for decades been calling for tariff increases and other measures to reduce imports and restrict China's technological development. "[C]orporate CEOs often played the role of messengers between US and Chinese leaders…Powerful American corporations were the glue, stabilizer, and fuel for the Chimerica formation" (Hung 2022, p. 30).

We reject the notion, typical of realist theories of international relations (Krasner 1978), of foreign policy as an autonomous field in which experts pursue goals independently or potentially in conflict with the interests of big business. National security objectives, we believe, reflect long-term capitalist interests (Panitch and Gindin 2013) and are elaborated within a network of organizations funded and controlled by corporations and the wealthy, or what Domhoff (2020) calls the "upper class of corporate rich" [3].

This article contains two sections, in addition to this Introduction. Section 1 discusses the deterioration in US-China relations after 2010, and the final section concludes the article.

Section 1: From Complementarity to Rivalry

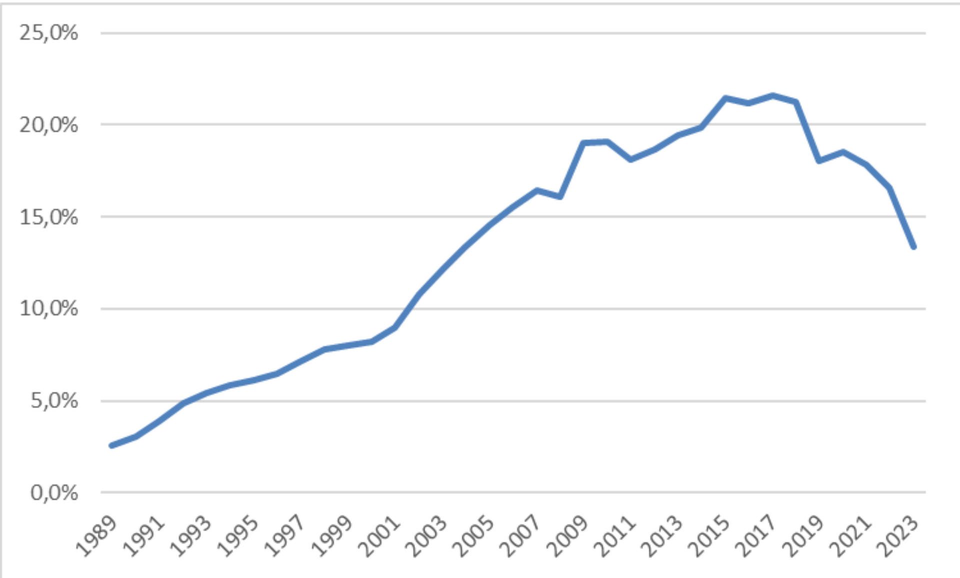
Prior to the late 2000s, the economic relationship between the US and China was complementary. China exported final industrial goods in sectors and activities with low technological content (textiles, clothing), or assembled intermediate and consumer goods

[3] We believe our discussion is also compatible with the analysis in Dugger and Sherman (2020), which draws comparisons between the Institutionalist and Marxist perspectives on economics and social change.

with imported technology and brands (information and communications technology), and imported goods and activities of greater technological complexity. A substantial part of the value of Chinese exports was appropriated by US firms operating in China or subcontracting stages of the production process to Chinese firms, earning royalties and other rents derived from their control over proprietary technologies and intangible assets (Medeiros and Trebat 2017).

These trends were reinforced after China's accession to the WTO in 2001, which led to an increase in outsourcing and US direct investment. Negotiations for Chinese accession were led by the US government and its approval in Congress was the result of an "unprecedented effort funded by the largest multinationals and spearheaded by the US Chamber of Commerce" (Wagreich 2013, p. 143). In 2006, China became the US's second largest trading partner after Canada, and in 2009 it became the US's largest source of imports. Figure 1 illustrates the strengthening of economic ties between the US and China in the 1990s and 2000s, as well as the apparent reversal in this trend after 2017[4].

Figure 1: US Goods Imports from China as a Share of Total Imports, 1989-2023*



Source: United States Census Bureau. *Data for 2023 are through August. Available at https://www.census.gov/foreign-trade/balance/c5700.html. Accessed November 14, 2023.

[4] The fall in US goods imports from China after 2017 is a consequence not only of higher tariffs but also China's decision to reroute its US exports through other nations such as Vietnam, Malaysia, and Taiwan (Hirsh 2022).

Over the past 15 years, China has improved its position in the regional and international division of labor through a massive effort to modernize public infrastructure, stimulate technological innovation, and reduce the degree of foreign control over domestic industries and assets, which is much higher in China than in previous Asian industrializers such as Japan and South Korea. China has made extraordinary strides in the digital economy (smartphones, internet, and big data) and artificial intelligence, largely as a result of the R&D spending of China's largest public companies, which grew three times as quickly as that of other Fortune 500 companies between 2017 and 2021 (McKinsey 2023, p. 2). The number of Chinese companies in the Fortune Global 500 list increased from 15 in 2005 to 130 in 2021, their share of aggregate revenues among companies on this list increasing from 4% to 27% in the same period, very close to the 30% share of aggregate revenues earned by US companies.

Through its control over a rapidly-growing domestic market, the bargaining power of the Chinese state relative to multinational companies has increased. AT&T, which lobbied heavily for improved trade relations with China in the 1990s, has been displaced from the Chinese market by local firms. Such tendencies have strengthened since 2008, with stricter government regulation of foreign multinationals and intellectual property rights violations becoming serious issues for US companies (Morrison 2019).

Throughout the 1990s and 2000s, organized labor and traditional industries such as steel and precision equipment lobbied the US Treasury to designate China a "currency manipulator", which by law would give the Treasury authority to impose extra duties on Chinese imports. Defense hawks (Krauthammer 1995) lent support to these efforts warning China was too strong and ambitious militarily for the US to continue doing business with it. These lobbying efforts were successfully countered by a coalition of high-tech companies, advanced manufacturers, and large investment banks interested in doing business with China. Since 2008, however, the intensity of this counter-lobbying effort has weakened, with companies such as Caterpillar, which previously dominated China's construction machinery sector, reversing their position on the question of exchange rates after losing market share to Chinese competitors (Hung 2022, p. 44).

In 2010, 19 business groups and companies wrote to the White House complaining about regulatory changes in China that "pose an immediate danger to US companies", reflecting "[s]ystematic efforts by China to develop policies that build their domestic enterprises at the expense of US firms and US intellectual property" (Meredith 2010). A

2017 report published by the US Chamber of Commerce and the American Chamber of Commerce in China observed that "the business environment in China has deteriorated for many US and other foreign companies", arguing the problem was not one of "defending our markets from subsidized steel and other commodities" but of keeping Chinese markets open to American multinationals and preventing the Chinese government from "forcing the transfer of incredibly valuable U.S. intellectual property and know-how to China" (US Chamber of Commerce 2017).

Unlike the allegations of trade dumping or currency manipulation, lobbying campaigns which large business lobbies oppose, there is a broad consensus regarding the need to defend intellectual property rights and access to the Chinese market. "The list of corporations and organizations involved in lobbying Congress over these issues in 2019 – a peak year for such efforts – manifests a broad spectrum, including Oracle, IMB, Google, GM, Eli Lilly, National Chicken Council, Playboy, Morgan Stanley, United Steelworkers, and Conservatives for Property Rights" (Hung 2022, p. 42-3).

The change in attitude towards the smartphone and telecommunications equipment manufacturer Huawei was an early indicator of the shift in US policy towards China. Huawei, a private firm with close connections to the Chinese state, was founded in the late 1980s and by the late 2000s had become a serious competitor for Oracle, Cisco and other Western firms, reducing their profit margins, according to one estimate, by 10-20 percentage points (Steinbock 2012, p. 40). A European Commission study found that Huawei underbid competitors by up to 70%, observing that this price competition was a result not only of state subsidies but rapid technical progress on the part of the Chinese firm (Berman, Maizland, and Chatzky 2023). "It is this competitiveness effect that serves as a major incentive for the incumbent leaders to deter Huawei's expansion in the US" (Steinbock 2012, p. 40).

Measured as a percentage of sales, Huawei's R&D expenditures are twice that of firms such as Alphabet and Amazon, and the Chinese company has filed more patents related to 5G technology than any of its competitors, including Qualcomm, Samsung, LG Electronics, and Nokia (Berman, Maizland, and Chatzky 2023). "Huawei was successfully replicating what South Korea's Samsung or Japan' s Sony had done decades earlier: learning to produce advanced technology, winning global markets, investing in R&D, and challenging America's tech leaders" (Miller 2023, p. 86).

US efforts to block the expansion of Chinese companies such as Huawei and ZTE resemble similar efforts in the early 1980s to curtail the rise of Japanese electronics firms. The comparison is revealing because, unlike China, a diplomatic and military competitor, Japan is a US military protectorate. In the 1980s, Japanese electronics firms became major producers of dynamic random access memory semiconductors, their world market share increasing from roughly 30% to 75% between 1978 and 1986 (Irwin 1996, p. 7). The Semiconductor Industry Association, an industry lobby created in 1977 by Intel, Motorola, Micron Technology and other companies, demanded the US take punitive measures against Japan. Much as is the case with China today, business leaders and foreign policy experts agued Japan's success was the result of espionage and unfair collaboration between electronics firms and the Japanese government. The US-Japan semiconductor conflict was settled in 1986 with an agreement in which Japan, under the threat of trade sanctions, adopted voluntary export restraints and agreed to reserve 20% of the Japanese market for foreign producers.

The conflict between the US and China is much broader than that between the US and Japan and has fewer prospects of peaceful resolution because China—this is the key element distinguishing it from past Asian industrializers—is a non-subordinate state with autonomous military capabilities, making it difficult for the US to impose conditions on the Chinese. This has led the American state to form coalitions with other Asian states in an attempt to threaten China with isolation. One such initiative was the Trans-Pacific Partnership (TPP), a trade and investor agreement signed in 2016 by the US and twelve countries bordering the Pacific Ocean, including Japan, Malaysia, and Vietnam, but not China.

Hung (2022, p. 44) attributes US interest in the TPP to the "rise of an 'anti-China corporate insurgency'", contrasting the tepid corporate reaction to Donald Trump's tariffs against China with the much more aggressive business reaction in the 1990s to attempts by labor unions and conservative Republicans to block MFN approval for this country. The Biden administration has, for the most part, maintained Trump's tariffs and introduced new sanctions on Chinese firms, pressuring its Asian and European allies to do the same. In October 2022, Biden signed legislation barring Chinese manufacturers from obtaining chips or chipmaking equipment made with US parts anywhere in the world, and in early 2023 it stopped providing licenses for US companies to sell goods to Huawei. In August 2023, the Biden administration announced a new proposal to regulate and ban US investments in China that could stimulate Chinese technological and military progress, mainly in semiconductors and artificial intelligence.

We have focused on business attitudes, but other social forces also played a role in Biden's decision to retain aspects of Trump's approach to China. Trump's campaign success was based on his ability to exploit divisions within the capitalist class as well as present himself as a defender of workers and domestic industry against the type of neoliberal globalization supported by mainstream Democrats and Republicans. Offshoring and trade liberalization over the course of the 2000s had a huge impact on wage inequality and the degradation of worker rights and social conditions in the US, and economic integration with China was a major part of this story (Case and Deaton 2017). These conditions, and Trump's success in taking advantage of them for electoral purposes, made it impossible for Biden to defend the expansion of trade and investor accords along the lines of the TPP, which big business would still fervently support were it politically feasible. "The era of trade liberalization", a senior fellow at the Council on Foreign Relations recently observed, "has petered out… It's a mixture of change in the world and a change in perception in the Democratic Party. But it's a pretty clear repudiation of the Clinton-Obama legacy" (Lynch 2023).

Conclusion

The deterioration of US-China relations after 2010 illustrates the inadequacy of approaches that ascribe US foreign policy objectives to the decisions of an autonomous foreign policy elite motivated by abstract considerations of "power" and "security". States are not independent entities pursuing their own logic; they are not as Marx (1978) put it, "suspended in mid-air". The parameters of foreign policy debate in the US are constrained by the attitudes and interests of big business, the main funders and organizers of what has been described as the "policy planning network" (Domhoff 2020; Van Apeldoorn and de Graaf 2016), referring to the assortment of foundations, think-tanks, lobbies and policy-discussion groups that structure debate on international issues in the US. Bureaucrats and intellectuals whose opinions conflict with core interests of big business do not play a role in defining national security objectives.

This does not imply that the American state blindly carries out the interests of large corporations. Even the small subset of corporations referred to here as "big business" is too diverse for it to simply draw up instructions for government officials to carry out. Furthermore, other social classes and fractions of capital have some capacity to defend their interests. Political power under capitalism is not exerted by brute force alone, and the political hegemony of big business relies on some degree of consent from other social groups. Elections, though limited as instruments of genuine democracy (Dugger and Sherman 2000, p. 31), force the political representatives of capital to take popular interests into account, if only to impede wealthy renegades such as Donald Trump from assuming leadership positions within the state. Trump's success fed off working class contempt for neoliberal globalization, as well as the demands of traditional industries for protection from cheap imports, forcing Democrats and mainstream Republicans to retain aspects of the Trump-era policies that much of big business would gladly do away with, such as tariffs on Chinese goods and the diminished enthusiasm for trade agreements such as the TPP. Aluminum tariffs, export controls, and the government-imposed boycott of Huawei (a major client of US semiconductor and semiconductor equipment manufacturers) are clear examples of the "relative autonomy" of the American state (Panitch and Gindin 2013), revealing its ability to impose policies that go against specific capitalist interests as well as its need at times to take into account the demands of workers and less powerful fractions of the capitalist class.

The susceptibility of the American state to interests other than those of big business has reinforced the trend toward a more combative approach toward China, impeding presidential administrations since 2017 from simply resuming the neoliberal agenda of earlier years. The focus now is on maintaining US technological leadership and coordinating a selective decoupling from China. This new strategy reflects in part the need to appease domestic interests long opposed to the "Chimerica" formulation, but the primary objectives are to stem China's economic and technological advance, reduce supply chain vulnerabilities, and prepare for a worst-case scenario, war. The relationship between China and the US resembles in certain ways the conflicts of the late 19th and early 20th centuries between Germany and the other imperialist powers. Though the product of an entirely different history and social configuration, China, like Germany in the late 19th and early 20th centuries, has autonomous military capabilities and is seeking control over its own technologies, economic infrastructure, and natural resource supplies. This conflicts with the fundamental geopolitical objective of the US in the postwar era: impeding the formation of countries or alliances capable of disrupting a world economic and political order organized by the American state and in which US capitalists are the principal beneficiaries.

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