

## The Chinese Reassessment of Interdependence

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*The clear-eyed guard against misfortune,  
and the wise plan for disasters the future may bring.*

明者防祸于未萌，智者图患于将来

—A *Three Kingdoms* saying, quoted by Xi Jinping on May 19, 2015

This essay analyzes trends in Chinese views of U.S.-China interdependence from Xi Jinping's rise to the COVID-19 pandemic. It shows how Xi Jinping put forward an expansive vision of national security that highlights the risks of interdependence, while also expanding China's use of its leverage in interdependent relationships to coerce others. These efforts have intensified significantly due to the Trump administration's coercive actions on trade and technology. Xi's and Trump's shifts also accelerated a reassessment of the risks and benefits of interdependence among a broader set of Chinese elites. Most significantly, many former officials and prominent thinkers appear to be newly convinced that longstanding forms of interdependence with the United States pose intolerable risks to China. This essay concludes by assessing the evolution of elite Chinese views of U.S.-China interdependence in the wake of the COVID-19 pandemic, which many see as a potential opportunity for China to reset its interdependence with other countries on more favorable terms for China.

As the COVID-19 pandemic has spread around the world, leaving healthcare systems in crisis and economies paralyzed, many prominent voices are reassessing the risks and benefits of globalization and interdependence. In the United States, some officials and scholars have begun to observe that the frozen state of global trade provides a unique opportunity to restructure the interdependent U.S.-China economic relationship by bringing supply chains home and reducing integration with Chinese markets. In China, where an economic recovery is already underway, elite voices are calling for the leadership to use the crisis to reset the terms of U.S.-China interdependence to the benefit of China—building on a major, years-long reassessment of interdependence. That reassessment, from Xi Jinping's rise to the COVID-19 pandemic, is the subject of this essay.<sup>1</sup>

The debate in the United States on what some call “decoupling” (脱钩) is often curiously devoid of the views of the Chinese side of the couple. Many accounts pay far too little attention to how Chinese elites understand Sino-American interdependence, often caricaturing Chinese leaders' views. As scholars and policymakers assess the fraught future of U.S.-China relations after COVID-19 and the centrality of geo-economics to 21st-century strategy, it is essential to understand Chinese thinking on U.S.-China interdependence. Interdependent relations are maintained not only by flows of trade, investment, and technology transfer but also by people's

beliefs that such relations are benign or tolerable. Across multiple domains, Chinese officials and elites are reassessing the risks and benefits of interdependence.

This essay first analyzes long-term trends in Chinese views of U.S.-China interdependence, which generated massive economic growth but always had critics who warned against the risks of the asymmetries that had created foreign dependency. It then shows how Xi Jinping changed the balance in official Chinese views of U.S.-China interdependence—primarily by putting forward an expansive vision of national security that highlights the risks of interdependence, while also expanding China’s use of its leverage in interdependent relationships to coerce others. These efforts intensified significantly after Trump’s rise to power and his administration’s coercive actions on trade and technology that began in 2018. Xi’s and Trump’s shifts also accelerated a reassessment of the risks and benefits of interdependence among a broader set of Chinese elites. Most significantly, many former officials and prominent thinkers appear to be now convinced that longstanding forms of interdependence with the United States pose intolerable risks to China. This essay concludes by assessing the evolution of elite Chinese views of U.S.-China interdependence in the wake of the COVID-19 pandemic.

## **Long-term Trends**

Interdependence across economic networks—of trade, finance, and digital communications, among others—produces mutual economic gains due to “comparative advantage,” but it is also defined by asymmetries in power, with some countries’ key positions in such networks allowing them immense opportunities for coercion.<sup>2</sup> For the Chinese leadership, interdependence consists of the primary dimensions:

1. An engine of economic growth and technological development;
2. A source of risk due to China’s dependencies and vulnerabilities; and
3. A source of leverage over other countries due to their dependencies and vulnerabilities.

These three dimensions have long coexisted. What is new today is how, in the views of many Chinese officials and thinkers, the balance among them is shifting from a predominant focus on the first dimension to an increased emphasis on the second and third dimensions.

China has been perhaps the world’s greatest beneficiary of interdependence during the past fifty years. Its rise to become the second-largest economy and a major geopolitical power was driven primarily by the hard work of the Chinese people, but it was enabled by China’s integration into the international economy and the U.S.-led order—from the capital, technology, and expertise that the United States and other countries provided to China as trade soared, to U.S. support for China’s accession to the World Trade Organization in 2001. American consumers, in turn, benefited from cheaper and more plentiful goods, even as many workers saw their jobs vanish overseas.

The scale of U.S.-China interdependence is staggering—so extreme that some have called it a “codependency.” Since 2000, an average of 19 percent of China’s total exports have gone to the United States, its largest export market; China is also the United States’ third-largest export market, with approximately 7.1 percent of U.S. exports going to China. Key sectors of the

American economy—from Apple computers to soybeans—rely heavily on Chinese markets, with U.S. companies making an estimated \$500 billion in sales in China. American firms, including many of the largest and most powerful American companies, have come to depend on supply chains and industrial production in China. Vast quantities of technology have been transferred willingly to Chinese firms by U.S. firms, and many millions of dollars' worth of intellectual property have been stolen through cyber theft and industrial espionage. The financial relationship is also vast: As of 2019, there were 156 Chinese companies listed on U.S. exchanges, with a total market capitalization of more than \$1.2 trillion, and the Chinese government held over \$1.1 trillion in U.S. Treasuries. Furthermore, many U.S. universities benefit from the more than 350,000 Chinese students who come to the United States each year.<sup>3</sup>

All throughout the heyday of U.S.-China interdependence, however, the story from Beijing's perspective was far more complicated than a cheery mutual embrace. From the very beginning, even as China's rulers acknowledged how much they needed foreign help to “catch up,” they were always pursuing a balance between reaping the benefits of deepening interdependence—for higher growth rates, obtaining foreign technology, and educating Chinese students—and minimizing the risks that came from being the weaker partner with the world's wealthiest country. So these leaders, epitomized by Deng Xiaoping, adamantly placed *limits* on China's openness to exchange with the United States and on excessive dependence on the capitalist superpower. Deng, Jiang Zemin, Li Peng, and other leaders often invoked the specter of foreign forces overthrowing the Chinese Communist Party (CCP) to emphasize that the party's leadership and the socialist nature of the Chinese system depended on maintaining strict limits on China's dependence on others.<sup>4</sup>

For these officials and their successors, China seemed remarkably successful in maximizing the benefits of interdependence while managing the risks. Relentlessly pursuing trade, investment, and technology transfer led to rapid economic and technological development. New risks required new responses, such as the “Great Firewall” of internet restrictions that imposed digital limits on openness and prohibited the free flow of information, as well as the pursuit of “indigenous innovation” capacities that would gradually make China less reliant on foreign technology and know-how.<sup>5</sup> In the late 2000s, the Chinese government also began to experiment with deploying coercive economic measures against countries with whom it was displeased.<sup>6</sup>

This strategy—strongly pursuing the benefits of interdependence while maintaining a secondary but significant commitment to limiting risks and deploying leverage—was predominant, but some members of the Chinese elite also questioned whether the right balance had been struck. For example, government researcher He Xin, who became a close adviser to Premier Li Peng, wrote several reports to this effect as early as 1990, following the Tiananmen crackdown that led many countries to place sanctions on China. He Xin argued that China needed to put up economic defenses against the global capitalist system led by the United States and he criticized foreign investment and interdependence. “The U.S. exploits other countries and inhibits their growth to satisfy its own interests,” He Xin wrote, and as China rose to greater power, “developed countries feel threatened by the increasing competition” and will seek to hold China down.<sup>7</sup> At the time, He Xin's views seemed to many in China to be reactionary or paranoid; lately, they may seem perceptive.

## Xi Jinping Changes the Balance

Despite these detractors, most officials and intellectuals accepted—at least until recently—that the risks of interdependence had to be tolerated in order to propel China’s growth. Despite his periodic paeans to “economic globalization,” Xi Jinping has devoted significant effort to changing the balance in how the Chinese leadership approaches interdependence with the United States. His priorities have been:

1. To increase China’s *resilience* to the risks of interdependence via indigenization (as in “Made in China 2025”), and
2. To a lesser but still significant extent, to bolster China’s ability to use interdependence as a tool of *coercion*.

For Xi Jinping, these priorities are essential to maintain “national security” (国家安全), a concept that he has elevated in prominence as a way of integrating politics, economics, technology, culture, information, social control, and military affairs, among other domains. Xi oversaw the establishment of the CCP’s Central National Security Commission, which he chairs, and presided over its inaugural meeting on April 15, 2014. In the Work Report to the Nineteenth Party Congress in 2017, the term “security” appears 55 times, up from 36 appearances in the Work Report to the Eighteenth Party Congress in 2012.<sup>8</sup> He endorses an expansive concept of “big security” (大安全) that explicitly encompasses “the security of important industries and key areas that are related to the lifeline of the national economy.” U.S.-China interdependence is thus part of Xi’s concept of “national security.”<sup>9</sup> These shifts occurred in two main phases: first, between 2013 and 2018, via an elevation of this expansive concept of “national security,” and second, from 2018 to the present, via an intensified focus on open U.S.-China competition and conflict.<sup>10</sup>

### 1. Resilience

This dimension of China’s grand strategy is centered on a principle of *resilience*—not taking China out of interchange with the outside world but dramatically limiting its vulnerabilities by strengthening China’s domestic capacities and self-reliance in an environment where, as Xi has said, “No country can achieve so-called absolute security.”<sup>11</sup> “The situation of international economic cooperation and competition is undergoing profound changes,” Xi said in 2017. “The pressure for us to deal with external economic risks and maintain economic security is incomparably greater than in the past.”<sup>12</sup>

One non-traditional security risk is China’s much-discussed dependence on foreign technology. “An important reason that Western countries were able to hold sway over the world in modern times was that they held the advanced technology,” Xi said. “We must make a big effort in key fields and areas where there is a stranglehold.” In 2015, China launched the “Made in China 2025” initiative, with the goal of becoming 70 percent self-sufficient in ten core technologies by the year 2025. This important effort focuses on the goal of indigenization: escaping from chokepoints controlled by foreign powers, especially the United States, by producing more at home.<sup>13</sup>

But Xi's focus in fact extends far beyond the well-known story of advanced technology. Supply chains, telecommunications networks, financial ties, innovation flows, and trading relationships are all central to Xi Jinping's expansive vision of national security. In many areas, China still relies heavily on foreign trade and intellectual property, and Xi wants to maintain such access as long as possible. But he is also willing to bear the economic costs to address the risks.<sup>14</sup>

This effort has exploded into the open since 2018, when the Trump administration took a series of measures that exploited both economic and technological interdependence. In March 2018, Trump ordered the U.S. Trade Representative to examine applying tariffs on tens of billions of dollars in Chinese goods, which were then announced on June 15, 2018. In the same period, the U.S. Commerce Department issued a crippling seven-year ban on U.S. firms selling to the Chinese telecommunications firm ZTE, which relied on the United States for approximately one-quarter of the components in its equipment, and the United States subsequently took similar actions against Huawei. Although Trump eventually lifted the ban on ZTE, these actions made Xi Jinping's longstanding arguments about the risks of U.S.-China interdependence seem prescient.<sup>15</sup>

Soon after the first wave of tariffs entered into effect, *People's Daily* issued a laudatory assessment of Xi's views on national security that portrayed China as highly vulnerable: "The overall level of scientific and technological development in China is not high, and the ability of science and technology to support economic and social development is insufficient. This is the 'Achilles Heel' of China's large economy." Driving home the risks of dependence on the United States specifically, Xi highlighted "trade protectionism and economic hegemony" (bywords for the Trump administration's actions) as forces "having a great impact . . . that must be properly addressed to maintain national economic security at this stage."<sup>16</sup>

Xi has also explored diversification away from the United States via non-U.S. suppliers and non-U.S. export markets. U.S. attempts to choke off Huawei have been largely unsuccessful because suppliers such as Taiwan Semiconductor Manufacturing and Samsung have been able to continue selling to the Chinese telecommunications firm, although this may be changing. (In fact, even U.S. firms such as Micron and Intel found loopholes that allow them to continue selling to China.)<sup>17</sup> Furthermore, in 2019, despite U.S. tariffs causing a roughly 20 percent decline in Chinese exports to the United States, China successfully diversified to other markets so that overall global exports held constant at 2018 levels.<sup>18</sup> The Belt and Road Initiative facilitates this diversification, paired with more conventional bilateral trade agreements. Alongside indigenization, diversification is an important component of Xi's strategy to bolster China's resilience.

## 2. Coercion

As part of Xi Jinping's shift in terms of how China approaches interdependence, China has also escalated its use of coercive economic measures, making this longstanding tool a far more central element of Chinese statecraft. This is hardly surprising because, as discussed above, China itself has been the target of such measures for decades.

In large part, China’s exploitation of economic interdependence for coercive ends has been bullying but cost-minimizing, focused on core “national interests” such as territorial sovereignty.<sup>19</sup> But the effects are nonetheless significant: China weaponized its massive domestic market to punish South Korea after the Korean government agreed to deploy the U.S.-led Terminal High Altitude Area Defense missile system, costing the Korean economy approximately \$15.6 billion, and even to punish American firms, most famously the National Basketball Association after the manager of the Houston Rockets tweeted in support of the Hong Kong protests in 2019.<sup>20</sup>

China’s capacities—and willingness—to use its leverage appear to be increasing. “Beijing is rapidly innovating, testing different sources of leverage and modalities of economic coercion, and learning across cases,” Elizabeth Rosenberg, Peter Harrell, and Ashley Feng show in a recent report. For example, China has created an “unreliable entity list” to “punish companies that act contrary to Chinese interests” and to retaliate against U.S. measures. It has expanded “national security” investment reviews and ordered the removal of foreign computer equipment and software from all public institutions. In the past year it has also targeted or threatened U.S. allies and partners, including Canada, Australia, Sweden, the Czech Republic, and Germany.<sup>21</sup>

But China’s leaders may have misjudged certain consequences of such coercive measures. These incidents have played a central role in changing the calculus in other countries, including the United States, about the risks of interdependence with China. Even if Chinese leaders see their actions as reacting to decisions made by other countries, the growing public awareness of China’s willingness to use economic coercion has created a powerful and durable imperative in the United States—on both the left and the right ends of the political spectrum—to increase resilience and defend against Chinese coercive measures that are enabled by U.S.-China interdependence.<sup>22</sup> Mutual anxiety and recrimination have evidently escalated the willingness of leaders in both Washington and Beijing to weaponize U.S.-China interconnections.

### **Other Influential Voices Reassess U.S.-China Interdependence**

Of course, Xi Jinping is not the only voice. Beyond the official discourse, a broader reassessment among influential former officials and thinkers has accelerated against the backdrop of open U.S.-China conflict since 2018. It now extends far beyond Xi’s official statements and decisions and involves an active debate about what balance China should strike among interdependence as an engine of economic growth and technological development, a source of risk due to China’s dependencies and vulnerabilities, and a source of leverage over other countries including the United States. Evolving in dialogue with U.S. actions, these recent developments illustrate the spectrum of views among Chinese elites that will frame and inform future policy choices.

The most consistent feature of these statements is their intensified concern about the second dimension—the high degree of risk that China faces due to its dependencies—although they reach different conclusions about how best to address this problem. Many longtime proponents of integration and interdependence are raising new concerns and changing their views. In areas where clear alternatives to dependence on the United States exist, pursuing a strategy of indigenization and diversification may be sufficient (although calls in key technology markets such as Germany for limiting Chinese investments pose another challenge). But in other areas,

where viable alternatives do not exist, extremely limited diversification—and intense frustration and worry—is mixed with a desire to someday create alternatives to U.S. hegemony.

The reassessment of interdependence centers on warnings about U.S. “bullying measures” and “long-arm jurisdiction” that allow it to use interdependence to coerce or even weaken China, and urgently pursuing a course of action to lessen interdependence and increase China’s security. Given the trends under Xi Jinping and the Trump administration’s apparent willingness to weaponize any aspect of U.S.-China interdependence, by early 2020 there was a growing consensus in China that all of these domains—including trade, technology, finance, information, and education—contain clear national security implications in line with Xi’s concept of “big security.” Even if Xi would like to temporarily de-escalate the trade and technology conflicts, there is now powerful momentum behind what we might call a “security-first” future for U.S.-China interdependence.<sup>23</sup>

### *1. A Spectrum of Views*

This reassessment has revealed a wide spectrum of views. Three stylized positions are most common: (1) those who argue that China’s security depends on rapidly reducing its dependence on the United States; (2) those who advocate strategically leveraging U.S.-China interdependence to “win” the trade war; and (3) those who argue that interdependence is still mutually beneficial and must be maintained even during a period of intensified U.S.-China tensions.

First, for many voices in China, dramatically lessening U.S.-China interdependence is now clearly in China’s interests. Wang Fan, vice dean of China Foreign Affairs University, writes that China’s “asymmetric” dependence on the United States is clearly limiting its “strategic autonomy”—that is, “greatly restricting China’s policy toward the United States and, to a certain extent, its strategic choices.” Going forward, China must find a more “symmetrical interdependence” by moving away from its export-driven economic structure, lessening its external energy dependence, and increasing its “scientific and technological autonomy.”<sup>24</sup> Li Qingsi, professor and director of the Center for American Studies at Renmin University, writes that the ZTE case “disillusion[ed] those who advocate relying on the US to develop our own economy” and drove home the lesson that “China must carry forward the tradition of self-reliance and reduce external dependence.”<sup>25</sup>

Others advocate strategically leveraging U.S.-China interdependence to “win” the trade war and then strike out on a new phase of developing diversified economic interdependence with countries friendlier than the United States. For Jin Canrong of Renmin University’s School of International Studies, China has significant leverage over the United States that it should be prepared to use: banning export of rare earths to the United States, deploying China’s holdings of U.S. Treasuries, and, most importantly, what he calls the biggest card of all: “American companies in the Chinese market.” Noting that U.S. firms in 2017 made \$380 billion in the Chinese market—and naming firms such as GM, Apple, and Proctor & Gamble—Jin warned that China could limit or terminate these firms’ market share in China if it wished.<sup>26</sup> Other even more nationalistic voices, like commentator Yu Yunhui, argue that China’s economy must “rebuild a

national capability that can survive and develop without U.S.-dollar capital, U.S. technology, and the U.S. market.”<sup>27</sup>

However, many prominent thinkers disagree, arguing instead that interdependence is still mutually beneficial and must be maintained even during a period of intensified U.S.-China tensions. Former vice premier Zeng Peiyan, longtime chairman of the China Center for International Economic Exchanges, criticized the United States but said, “If [‘decoupling’] is allowed to develop, it will be a disaster for China, the United States, and the world”—destroying supply chains, impeding the development of the digital economy, and limiting the provision of global public goods.<sup>28</sup> Zhang Baijia, a leading official CCP historian, urged China to avoid the errors made by rising great powers in the past and “interact with the world on a reciprocal and peaceful basis, cultivate a sound national mindset, and guard against great-power self-importance.”<sup>29</sup> The end goal, according to Xue Li, director of the International Strategy Department of the Institute of World Economics and Politics at the Chinese Academy of Social Sciences, should be to avoid “large-scale conflict” and accept “a wrestling of interests entangled with each other,” with the objective of “determining the ‘new equilibrium’ of Sino-U.S. relations in each field.”<sup>30</sup>

Yao Yang, dean of the National School of Development at Peking University, delivered an even stronger message: Decoupling is “dangerous” and “will cause huge waste,” he stated. For China, the best path forward is to look at American companies as key allies, “the glue between China and the United States”: “Don’t underestimate the energy of American companies and Wall Street. They hope that China and the United States will not be decoupled.” Even so, as tensions continue to rise in the U.S.-China relationship, China should “consolidate old friends and develop new allies,” primarily by diversifying its export markets. “By doing so, China can become part of the majority, and in fact isolate the United States.”<sup>31</sup> For Yao, China’s security cannot come from “decoupling” but rather from pursuing a continued relationship with the United States, while also diversifying into new markets and new partners.

## *2. A New Frontier: “Financial War”*

This spectrum of views encompasses trade, technology, and many other domains of U.S.-China interconnections. But to understand the immense challenges of reassessing interdependence from China’s perspective, it is worth examining one new frontier more deeply: how members of the Chinese elite, even longtime advocates of market reform and economic opening, are focused on America’s global financial hegemony as an urgent risk to their country’s security—a major reevaluation of the current international order and China’s place in it.<sup>32</sup>

China is not alone, of course, in its concerns about U.S. sanctions and financial dominance; even U.S. allies in Europe have voiced dissatisfaction with the Trump administration on this score. But Chinese concerns about American financial power rose throughout 2019, especially because the high-profile arrest of Huawei executive Meng Wanzhou relied on cooperation from U.S. banking institutions to demonstrate that Huawei had violated sanctions on Iran—triggering a fierce response from Beijing, which decried these actions as “motivated by strong political intentions and manipulation.”<sup>33</sup>

Against this backdrop, economist and former finance minister Lou Jiwei, who has been a proponent of deepening U.S.-China economic integration since the 1980s, rang the alarm.<sup>34</sup> At a forum in Beijing in late 2019, he warned: “The next step in the frictions between China and the United States is a financial war (金融战). The U.S. has been hijacked by nationalism and populism, so will do everything in its power to use bullying measures [and] long-arm jurisdiction.” Internationalizing China’s currency and moving toward full capital account convertibility had been longtime goals of many Chinese internationalists—but, Lou said pointedly, these are “not safe options” in this new world of financial war.<sup>35</sup> Lou is not alone in his concern—with other figures such as former chairman of the China Development Bank and vice governor of China’s central bank Chen Yuan and Zhou Yu, director of the Research Center of International Finance at the government-run Shanghai Academy of Social Sciences, also predicting an escalating “financial war”; Zhou called for China to see the “urgency of beefing up its financial independence and sovereignty.”<sup>36</sup>

These concerns are made even more acute by a sense that China is trapped—unable to find a more resilient path forward in the financial domain by developing an agenda like the “Made in China 2025” plan. Most of the world’s currency reserves are held in dollars, and the dollar remains indispensable in international trade and transactions. China accounted for more than 25 percent of global GDP growth in 2018, but its currency still made up less than 2 percent of all assets held by central banks and only 1 percent of the international payments market.<sup>37</sup> Even across the Belt and Road Initiative, contracts are undertaken in U.S. dollars.<sup>38</sup> This is amplified by the fragility of the Chinese economy and especially the tremendous systemic risks, bad debt, and other problems that plague China’s financial sector that Xi has declared to be one of his top priorities.<sup>39</sup> Indeed, despite concerns about U.S. financial power, recent reform measures have sought to bring more foreign capital into the country while still controlling money leaving the country. This is partly because China’s balance of payments position is no longer as robust as it once was and because China needs to finance debt servicing on dollar-denominated debts.

With so few ways out of dollar hegemony, China has turned its focus to specific pieces of the international financial infrastructure, such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the financial messaging system used widely for cross-border payments. SWIFT, based in Belgium, claims to be “a global and neutral service provider,” but because of the massive power of the United States, it has complied with U.S. sanctions (such as those on Iranian banks) even over the objections of the European Union. Lou Jiwei called for China and other countries to create “independent international clearance systems” to weaken American leverage over their economies. Huang Qifan, a retired economic official and mayor of the megacity Chongqing, also criticized SWIFT and other similar systems. China began its own Cross-border Interbank Payment System in 2015, but it has not gained traction, and some Chinese academics have acknowledged that replacing SWIFT may be “utterly impossible.”<sup>40</sup>

Yet China’s leadership seems increasingly determined to try to engineer alternatives to U.S. dominance of international finance—including Xi Jinping’s recent endorsement of blockchain technologies, which he sees not only as a promising innovation but also as a tool to someday diminish the power of the dollar.<sup>41</sup> Faced with such limited options, some former officials have even raised the prospect of China using its biggest potential source of leverage: Its holdings of U.S. sovereign debt, which total \$1.1 trillion. “That means the U.S. is not completely without

weakness,” said Chen Yuan. But weaponizing Chinese holdings of U.S. sovereign debt would have catastrophic effects on China as well as on the United States; it would be a potentially fatal way of trying to escape from interdependence. The fact that it is even being discussed signals the seriousness of the reassessment underway in China.

### **COVID-19 and the Future of U.S.-China Interdependence**

The COVID-19 pandemic has thrust U.S.-China relations to their lowest point in many decades. Although it is too soon to draw definitive conclusions about how this global crisis will impact the Chinese reassessment of interdependence, several paths are taking shape. Xi Jinping has repeatedly emphasized the importance of “boosting the stability and competitiveness of industrial and supply chains” as China emerges from the pandemic.<sup>42</sup> And this wider reassessment of interdependence is at the heart of China’s COVID recovery. The central dynamic is a tension between (1) a more inward-looking, domestic-demand-driven growth agenda that sees the United States moving forward with “decoupling,” and (2) a powerful sense of opportunity to deepen interdependence, propel growth, and gain geopolitical advantage.

First, some thinkers argue that China should focus on ensuring its basic economic security to defend against the impact of future waves of the coronavirus, while focusing on recovery mainly by expanding domestic demand. This follows the official line set out by Xi Jinping at a Politburo meeting on April 17, 2020, in which he emphasized “fully stimulating China’s ultra-large-scale market advantages and domestic demand potential” amid the global economic lockdown.<sup>43</sup> But for some commentators in this vein, such as the influential economist and People’s Bank of China adviser Yu Yongding, it is possible that this will need to be a permanent shift, not simply a strategy for recovery: “China’s dependence on external [i.e., overseas] demand is still quite high. The recovery process for external demand will be extremely long. In fact, many of our overseas markets may have been lost forever.”<sup>44</sup> The year 2020 was also supposed to be China’s “Year of Europe,” with free trade deals and other opportunities to diversify away from the United States, but those opportunities have likely been lost for now.

Many thinkers in China expect that the United States will push harder to disentangle its supply chains from China in the wake of the pandemic. “Now some China hawks in America can’t wait to use COVID-19’s short-term impact on the global supply chain as an excuse for a new international economic architecture and new supply chains in an attempt to find a basis for their continuing to seek decoupling,” former vice minister of foreign affairs He Yafei writes. This “amounts to a hegemonic country suppressing and containing an emerging power out of geopolitical considerations, which is a destructive and dangerous move.” He advises China to “wait and see, while planning ahead and thinking deeply about the possibility of a supply chain restructuring and how it should take place.”<sup>45</sup> Others, such as Shi Zhan, a professor at China Foreign Affairs University, urges China “not to panic about some recent statements,” such as the call by White House economic adviser Larry Kudlow for American manufacturing to withdraw from China. Shi Zhan warns against the increasing risk of “supply chain weaponization” and the unlikely “worst-case scenario” of a “production system independent of China.”<sup>46</sup>

Some former officials and thinkers are more optimistic about the pandemic’s long-term effects. “China’s achievements in bringing the coronavirus under control are currently moving world

supply chains toward China,” Huang Qifan declared. “It will win markets for China and will provide an opportunity for China to reconstruct world supply chains.” Huang continues:

Many companies originally thought that China’s industrial chain would be abandoned by other countries because of the epidemic, and that China would be passively decoupled from the world economy. However, with the spread of the global pandemic, other countries have experienced large-scale shutdowns, and by contrast China has become the world’s most stable region in terms of productive capacity, a safe haven for the world’s manufacturing industry, which will surely bring additional opportunities for development. ... This trend will present a once in a lifetime historical opportunity in the development of China’s capital markets and the construction of her supply chain clusters.<sup>47</sup>

Huang asserted that China could be the great winner of the global economic shifts underway if it further opens its economy, especially its capital markets, and creates new opportunities for manufacturing. For Zhang Jun, dean of Fudan University School of Economics, even if the United States seeks to diversify away from China, other countries will not follow suit: “The world may now be more dependent on China than China is on the world,” he writes. “I believe that the COVID-19 pandemic will strengthen this dependence, not least because China is months ahead of most countries (at least) in getting a handle on the virus and reopening its economy.”<sup>48</sup> These thinkers see the global recovery from COVID-19 as a vast potential opportunity for China to reset its interdependence with other countries, potentially even including the United States, on more favorable terms for China.

## **Conclusion**

In Washington today, two theories predominate about how U.S. foreign policy should address the question of interdependence with China in an era of intensifying competition. One argues that to increase its security, the United States should disentangle its interdependencies with China, diversifying as much as possible away from Chinese suppliers and consumers—the school of thought often shorthanded as “decoupling.” The other maintains that the United States must continue interdependence, on favorable terms, in order to ensure that it has leverage over China. This leverage can be used both to deter China—creating costs for Chinese actions against U.S. national interests—and to coerce China.<sup>49</sup>

As policymakers make decisions about U.S.-China interdependence in the months and years ahead, they should bear in mind several lessons that emerge from this study. First, China today feels profoundly vulnerable to its dependence on the United States. Despite its massive size and scale, its leaders’ belief in its own insecurity remains powerful. And they know that if the United States were to ramp up its disentanglement from the Chinese economy, or impose coercive measures in partnership with allies to limit China’s ability to diversify, the effect on China’s development would be severe.

Second, Xi Jinping’s remarkable assertiveness in seeking to address this problem is very much a process in motion, not a foregone conclusion; it simply may not be possible for China to achieve

the degree of security that it desires, though Xi will not stop trying. And the more successful China's indigenization and diversification efforts are, the more U.S. leverage will diminish.

Third, the astonishingly high level of U.S.-China interdependence today means that there is much room for adjustment on both sides. Interdependence has many benefits in terms of promoting economic growth and technological progress, upholding American ideals as an open society, and maintaining stability through deterrence—and these benefits can be obtained in many different configurations between total openness and total closure. As our countries consider the future after the COVID-19 pandemic, finding a sustainable new balance must be a top priority for our leaders.



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<sup>1</sup> I am grateful to Minxin Pei, Ganesh Sitaraman, and Ketian Zhang for their comments on earlier drafts of this essay.

<sup>2</sup> Robert O. Keohane and Joseph S. Nye, Jr., *Power and Interdependence: World Politics in Transition* (Boston: Little, Brown, 1977); Henry Farrell and Abraham Newman, "Weaponized Interdependence: How Global Economic Networks Shape Coercion and Surveillance," *International Security* 44, no. 1 (2019): 42–79; Joseph S. Nye, Jr., "Power and Interdependence with China," *Washington Quarterly* 43, no. 1 (2020): 7–21.

<sup>3</sup> Stephen Roach, "American-Chinese Tensions in the Trump Era: The Pitfalls of Economic Codependency," *Asia-Pacific Journal*, February 15, 2017, at

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<https://apjff.org/2017/04/Roach.html> ; Elizabeth Rosenberg, Peter E. Harrell, and Ashley Feng, “A New Arsenal for Competition: Coercive Economic Measures in the U.S.-China Relationship,” Center for a New American Security, April 2020.

<sup>4</sup> Julian Gewirtz, “‘Loving Capitalism Disease’: AIDS and Ideology in the People’s Republic of China, 1984–2000,” *Past & Present*, no. 249 (2020), <https://doi.org/10.1093/pastj/gtz068> .

<sup>5</sup> James McGregor, *China’s Drive for “Indigenous Innovation”: A Web of Industrial Policies* (Washington, DC: U.S. Chamber of Commerce, July 28, 2010).

<sup>6</sup> James Reilly, “China’s Unilateral Sanctions,” *The Washington Quarterly* 35, no. 4 (Fall 2012): 121–133.

<sup>7</sup> 何新政治经济论文集 [Collected Works of He Xin on Political Economy] (Ha’erbin: Heilongjiang jiaoyu chubanshe, 1993) and 何新对美国对华政策的看法 [He Xin’s Views of U.S. Policy Toward China] (manuscript), in Fairbank Center Special Collection of Fung Library, Harvard University.

<sup>8</sup> “安邦定国 重温习近平‘总体国家安全观’的中国意蕴” [Peace and Stability for the Nation: Revisiting the Meaning for China of Xi Jinping’s ‘Overall National Security Concept’], April 15, 2020, <http://politics.people.com.cn/n1/2020/0415/c1001-31674996.html> ; Sheena Chestnut Greitens, “Domestic Security in China under Xi Jinping,” *China Leadership Monitor*, no. 59 (March 1, 2019), <https://www.prclleader.org/greitens> .

<sup>9</sup> Weixing Hu, “Xi Jinping’s ‘Big Power Diplomacy’ and China’s Central National Security Commission,” *Journal of Contemporary China* 25, no. 98 (2016): 163–177; “十四，坚决维护国家主权‘安全’发展利益(习近平新时代中国特色社会主义思想学习纲要[15])” [Resolutely Safeguard National Sovereignty, Security, and Development Interests] (Study Outline of Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era [15]), *People’s Daily*, August 9, 2019, <http://politics.people.com.cn/n1/2019/0809/c1001-31284589.html> .

<sup>10</sup> “Foreign affairs are an extension of domestic affairs,” wrote Zhang Jun, director-general of the Department of International Economic Affairs at the Ministry of Foreign Affairs, in 2017. “As China becomes ever more integrated into the world, what happens in and outside the country has [become] more closely interconnected.” See “Director-General Zhang Jun Publishes Article Entitled ‘China’s Economic Diplomacy Enters the New Era,’” Ministry of Foreign Affairs, April 19, 2017, [http://www.fmprc.gov.cn/mfa\\_eng/wjbxw/t1454825.shtml](http://www.fmprc.gov.cn/mfa_eng/wjbxw/t1454825.shtml) .

<sup>11</sup> “陈理谈《习近平关于总体国家安全观论述摘编》” [Chen Li Discusses *Excerpts from Xi Jinping’s Discussion on an Overall National Security View*], *People’s Daily*, August 4, 2018, <http://theory.people.com.cn/n1/2018/0814/c40531-30227214.html> and Wen Yan 闻言 (pseudonym), “全面贯彻落实总体国家安全观” [Fully Implement the Overall National Security Concept], *People’s Daily*, May 4, 2018, <http://henan.people.com.cn/n2/2018/0504/c351638-31535665.html> .

<sup>12</sup> “为全球经济治理提供‘思想红利’” [Offer an “Idea Dividend” for Global Governance], 环球 [Globe Biweekly], November 7, 2017, [http://www.xinhuanet.com/globe/2017-11/07/c\\_136717158.htm](http://www.xinhuanet.com/globe/2017-11/07/c_136717158.htm) .

<sup>13</sup> Chris Buckley and Paul Mozur, “What Keeps Xi Jinping Awake at Night,” *New York Times*, May 11, 2018; Julian Baird Gewirtz, “China’s Long March to Technological Supremacy,” *Foreign Affairs*, August 27, 2019, <https://www.foreignaffairs.com/articles/china/2019-08-27/chinas-long-march-technological-supremacy> .

<sup>14</sup> Kevin Rudd, “To Decouple or Not to Decouple?” November 4, 2019, <https://asiasociety.org/policy-institute/decouple-or-not-decouple> . See, for example,

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<https://www.newamerica.org/cybersecurity-initiative/digichina/blog/translation-xi-jinpings-april-20-speech-national-cybersecurity-and-informatization-work-conference> and <http://www.mofcom.gov.cn/article/difang/202004/20200402955351.shtml> . Of course, these debates also connect to the better-known debates about whether freer markets or stronger industrial policies are the best path forward for China, exemplified by the Zhang Weiyong–Lin Yifu debates (Coco Feng, “Professors Clash Over Proper Role of Government in Economy,” *Caixin*, November 10, 2016, <https://www.caixinglobal.com/2016-11-10/professors-clash-over-proper-role-of-government-in-economy-101006347.html> ).

<sup>15</sup> Steve Stecklow, Karen Freifeld, and Sijia Jiang, “U.S. Ban on Sales to China's ZTE Opens Fresh Front as Tensions Escalate,” *Reuters*, April 16, 2018, <https://www.reuters.com/article/us-china-zte/u-s-ban-on-sales-to-chinas-zte-opens-fresh-front-as-tensions-escalate-idUSKBN1HN1P1> .

<sup>16</sup> “Chen Li Discusses *Excerpts*.” Even so, Ren Zhengfei, CEO of Huawei, repeatedly asserted that he is opposed to China pursuing a path of “independent innovation”: “Independent innovation focuses on working alone but I want to make friends with people all over the world,” he said (quoted in Li Wei, “Towards Economic Decoupling?”).

<sup>17</sup> Paul Mozur and Cecilia Kang, “U.S. Tech Companies Sidestep a Trump Ban, to Keep Selling to Huawei,” *New York Times*, June 25, 2019, <https://www.nytimes.com/2019/06/25/technology/huawei-trump-ban-technology.html>

<sup>18</sup> Rosenberg, Harrell, and Feng, “A New Arsenal.”

<sup>19</sup> Ketian Zhang, “Cautious Bully: Reputation, Resolve, and Beijing’s Use of Coercion in the South China Sea,” *International Security* 44, no. 1 (Summer 2019): 117–159; Ketian Vivian Zhang, “Chinese Non-military Coercion—Tactics and Rationale,” Brookings Institution, January 22, 2019, <https://www.brookings.edu/articles/chinese-non-military-coercion-tactics-and-rationale>

<sup>20</sup> Evan A. Feigenbaum, “Is Coercion the New Normal in China’s Economic Statecraft?” *MacroPolo*, July 25, 2017, <<https://carnegieendowment.org/2017/07/25/is-coercion-new-normal-in-china-s-economic-statecraft-pub-72632>> .

<sup>21</sup> Rosenberg, Harrell, and Feng, “A New Arsenal.”

<sup>22</sup> See Marco Rubio, “We Need a More Resilient American Economy,” *New York Times*, April 20, 2020, <https://www.nytimes.com/2020/04/20/opinion/marco-rubio-coronavirus-economy.html> and Ganesh Sitaraman, “A Grand Strategy of Resilience” (forthcoming).

<sup>23</sup> For an example of this framework applied to technology and the case of Huawei, see Shi Xiangsheng 史往生, “垄断设施、监视全球，网络公共空间竟成美国私有领地” [Monopolizing Facilities and Monitoring the World: The United States Makes Cyber Public Space into a Private Dominion], *People’s Daily*, June 12, 2019, <http://world.people.com.cn/n1/2019/0612/c1002-31131560.html> .

<sup>24</sup> Wang Fan 王帆, “对外依存与中国外交的战略自主” [External Dependence and Strategic Autonomy in China’s Diplomacy], *外交评论* [Foreign Affairs Review] 37, no. 2 (2020): 1–22.

<sup>25</sup> Li Qingsi 李庆四, “特朗普对华贸易战的原因及影响” [The Origins and Influence of Trump’s Trade War Against China], *现代国际关系* [Contemporary International Relations], no. 6 (2018), quoted in Li Wei, “Towards Economic Decoupling?”

<sup>26</sup> Jin Canrong 金灿荣, “中国有三张王牌打赢贸易战” [China Has Three Trump Cards to Win the Trade War], *Guancha* [The Observer], May 12, 2019, [https://www.guancha.cn/JinCanRong/2019\\_05\\_12\\_501232\\_s.shtml](https://www.guancha.cn/JinCanRong/2019_05_12_501232_s.shtml) . While casting the United States as seized by the forces of “anti-globalization, protectionism, and unilateralism,” Jin writes

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that China could carry forward “globalization, free trade, and the multilateral order” on its own terms. For an abridged English version, see <http://www.globaltimes.cn/content/1150061.shtml> .

<sup>27</sup> Yu Yunhui 余云辉, “美中要切割,中国怎么办?” [If the U.S. and China Break Up, What Should China Do?], 红歌会网 [Red Song Meeting], July 13, 2019, <http://www.szhgh.com/Article/opinion/zatan/2019-07-13/205141.html> .

<sup>28</sup> Zeng Peiyan 曾培炎, “中美应反对脱钩 加强合作 共同推进经贸磋商” [China and the United States Should Oppose Decoupling, Strengthen Cooperation, and Jointly Promote Economic and Trade Consultations], 全球化 [Globalization], no. 12 (2019): 5–8.

<sup>29</sup> Zhang Baijia 章百家, “不搞对抗是处理中美关系的基本经验” [Not Engaging in Confrontation Is the Basic Experience of Handling Sino-U.S. Relations], 经济导刊 [Economic Herald], no. 12 (2018). For other statements in this vein, see Tian Guoqiang 田国强, “我对中美贸易摩擦和大国战略的看法” [My Views on Sino-U.S. Trade Frictions and Great Power Strategy], 爱思想 [Enjoying Intellectual Discussion], October 18, 2018, <http://www.aisixiang.com/data/112858-2.html> .

<sup>30</sup> Xue Li 薛力, “中美关系的性质: ‘冷缠斗’而非新冷战” [The Nature of Sino-U.S. Relations: “Cold Struggle” Instead of New Cold War], 世界知识 [World Knowledge], no. 21 (2018): 73.

<sup>31</sup> Yao Yang 姚洋, “警惕中美脱钩论中的利益企图” [Be Alert to the Interests Behind China-U.S. Decoupling], Peking University, August 13, 2019, <http://nsd.pku.edu.cn/sylm/gd/495979.htm> .

<sup>32</sup> Julian Gewirtz, “Look Out: Some Chinese Thinkers Are Girding for a ‘Financial War,’” *Politico*, December 17, 2019, <https://www.politico.com/news/magazine/2019/12/17/look-out-some-chinese-thinkers-are-girding-for-a-financial-war-086610> . See also Rush Doshi, “China’s Ten-Year Struggle against U.S. Financial Power,” National Bureau of Asian Research, January 6, 2020, <https://www.nbr.org/publication/chinas-ten-year-struggle-against-u-s-financial-power> .

<sup>33</sup> Cao Desheng and Zhou Jin, “Beijing Slams US Request for Huawei CFO,” *China Daily*, January 30, 2019, <https://www.chinadaily.com.cn/a/201901/30/WS5c509a77a3106c65c34e72bf.html> .

<sup>34</sup> For more on Lou Jiwei’s background, see Julian Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China* (Cambridge, MA: Harvard University Press, 2017).

<sup>35</sup> Orange Wang, “China-US Rivalry on Brink of Becoming a ‘Financial War,’ Former Minister Says,” *South China Morning Post*, November 9, 2019, <https://www.scmp.com/economy/china-economy/article/3037039/china-us-rivalry-brink-becoming-financial-war-former-minister> .

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<sup>36</sup> Chu Daye, “Payments Linkage by China, Russia and India Can Challenge SWIFT Hegemony,” *Global Times*, October 29, 2019, <http://www.globaltimes.cn/content/1168382.shtml> .

<sup>37</sup> Adam Tooze, “Is This the End of the American Century?” *London Review of Books* 41, no. 7 (April 4, 2019), <https://www.lrb.co.uk/the-paper/v41/n07/adam-tooze/is-this-the-end-of-the-american-century> .

<sup>38</sup> Colby Smith, “The Belt and Road’s Dollar Problem,” *FT Alphaville*, December 18, 2018, <https://ftalphaville.ft.com/2018/12/18/1545130791000/The-Belt-and-Road-s-dollar-problem/> .

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- <sup>39</sup> George Magnus, *Red Flags: Why Xi's China Is in Jeopardy* (New York: Oxford University Press, 2018).
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- <sup>42</sup> "Xi Focus: Xi Chairs Leadership Meeting on Regular Epidemic Response, Industrial and Supply Chains," Xinhua News Service, May 14, 2020, [www.xinhuanet.com/english/2020-05/14/c\\_139057432.htm](http://www.xinhuanet.com/english/2020-05/14/c_139057432.htm)
- <sup>43</sup> Newspaper Commentator 本报评论员, "坚定实施扩大内需战略" [Resolutely Implement the Strategy of Expanding Domestic Demand], *People's Daily*, April 22, 2020, [http://paper.people.com.cn/rmrb/html/2020-04/22/nw.D110000renmrb\\_20200422\\_5-01.htm](http://paper.people.com.cn/rmrb/html/2020-04/22/nw.D110000renmrb_20200422_5-01.htm) .
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- <sup>47</sup> Huang Qifan 黄奇帆, "新冠肺炎疫情蔓延下全球产业链重构的三点思考" [Three Points on Reconstructing Global Industrial Supply Chains under the Spread of the Novel Coronavirus], March 29, 2020, <https://www.yicai.com/news/100570404.html>. "Three Thoughts on the Reconstruction of World Supply Chains," trans. David Ownby, *Reading the China Dream*, <https://www.readingthechinadream.com/huang-qifan-three-thoughtsin-china-and-the-west.html> .
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