

How Bidenomics Reshaping China-U.S. Relations

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ABSTRACT

The relationship between the U.S. and China has changed rapidly over the past decade. After Joe Biden took office in 2021, U.S. economic strategy towards Beijing began with investment at home and rebuilding alliances abroad. In 2023, Biden created such terms as “Bidenomics”. Under this policy, the U.S. has assembled an increasingly imposing body of exclusionary policies aimed at cutting Chinese businesses out of the most strategically important sectors and markets. Moreover, Washington and its partners have been undermining China’s development by pursuing all-around containment and suppression of China. Bidenomics already posed a real threat to economies in both countries and had negative global repercussions. In the long run, the only key to progress in bilateral relations is win-win cooperation. Therefore, Washington needs to reorient its approach to Beijing.

KEYWORDS

Bidenomics; China-U.S. Relations; Decoupling; De-risking; Containment; Trade War; World Order.

1. INTRODUCTION

The unstoppable rise of China in the international system, especially in the economic, military, political, and technological fields in the last 30 or 40 years, has made it the most important global rival for the United States of America. Starting from 2018, the China-U.S. trade war has kicked off a slow but sure decoupling between the two economic giants. Since Biden’s election, political and business stakeholders have been paying close attention to the direction of China-U.S. relations. Some officials encouraged Biden to put China-U.S. relations back on a normal course. However, from Covid to the Russia-Ukraine in February 2022—Europe’s most consequential conventional conflict since the Second World War—has highlighted the serious mutual misperceptions and dueling geostrategies of the two nations. It seemed U.S. policymakers have relearned the lessons of the cold war and returned to containment to deal with China.

As pundits and politicians talk about a new cold war erupting between the United States and China, the White House has announced its Cold War-era plan, known as “Bidenomics”, to improve American domestic manufacturing and restrain China’s economy. Following Biden’s theory, U.S. government drove a very aggressive agenda focused on China containment. This article aims to analyse the essence of Bidenomics and reveal the scourge it brings both to China and the United States itself, and to the world.

2. A NEW AREA OF BIDENOMICS

Relations between the Trump administration and China had been strained. Since the Donald Trump took office in 2017, he publicly described China as “threat to America’s economic and political way of life” and focused on his unique “America First” mantra. Soon Washington initiated the Trade War and adopted a whole-of-government approach to compete with China [1]. Trump based its economic

strategy on economic nationalism, centering on countering China and bringing jobs back to the United States. Even so, in February 2019, China became the largest trading partners and primary suppliers of the United States. Correspondingly, the United States became China's largest purchaser of Chinese exports [2].

After Joe Biden was sworn in as U.S. president in 2021, he signaled that he supported a tough policy on China, although he was expected to change the course of China-U.S. relations. A series of crisis, such as “Chinese spy balloon” and U.S. diplomatic exchanges with Taiwan, triggered a diplomatic storm between the two superpowers. Meanwhile, as economic competition intensified, the Biden administration has taken actions to uphold its rules-based economic world order. In February 2023, the White House released a fact sheet titled “The Biden Economic Plan is working”. President Joe Biden believed, in the wake of unprecedented economic disruption from a historic pandemic and inflation, his administration has led to a historic recovery with tangible benefits for Americans. He first promised to “build the economy from the bottom up and middle out, not the top down [3]”, through public investments, empowering workers, and promoting competition. Critics scornfully derided his economic strategy as “Bidenomics”.

Four months later, the White House declared, “Bidenomics is working”. Biden attacked the idea of “trickle-down economics”—that prosperity trickle’s down from the top. Instead, he insisted the only way to grow the economy is to fully include more people in it. Bidenomics centered around three key pillars: 1) Making smart public investments in America; 2) Empowering and educating workers to grow the middle class; 3) Promoting competition to lower costs and help entrepreneurs and small businesses thrive [4]. Of these three pillars, the most dramatic departure from the old consensus has come in the administration’s historic Executive Order on Competition [5], which intended to create opportunities for innovative new products to come to market. Despite the U.S. economy’s consistent slightly growth, some critics called Bidenomics “Chinese Capitalism With American Characteristics”, and condemned that Biden administration is pursuing a government-directed industrial policy using taxpayer subsidies and mandates to pick economic winners and losers [6]. They also regarded “Bidenomics” as a new term for a very old idea: the state always knows best how to spend your money [7]. To be sure, Biden has thus far failed to get credit from voters for his strong economy.

Even so, the Biden administration has been making every effort to demonstrate its commitment to economic statecraft. The proclaimed goals of Bidenomics are to revive American manufacturing and union density, and contain China’s economic and military power. Therefore, U.S. government has embarked on the most sweeping campaign into industrial policy, creating an enticing alternative to China and its trade agenda. On the excuse of “national security”, Biden has doubled down on the Trump administration’s mistakes, like tariffs, export controls and subsidies. China, on the other hand, is mobilizing resources to support economic stability and determines to achieve a degree of autonomy within the American empire. Worsening trade relations has accelerated the decoupling process between the two economic giants.

3. FROM DECOUPLING TO DE-RISKING

Over decades, the Chinese and U.S. economies were tightly integrated. Since China joined the World Trade Organization (WTO) in 2001, China’s share of U.S trade had steadily increased. However, in 2018, Trump launched a trade war, seeking to rebalance the U.S. trade deficit with China by deploying tariffs on Chinese products. Meanwhile, Washington leaned on companies to shift part of their supply chains out of China. In the year of 2020, the exact phrase “decouple from China” or “decoupling from China” became prevalent in China-U.S. relations.

Following the pandemic and the Russia-Ukraine War, president Joe Biden has kept almost all of decoupling policies in place. Bidenomics to crack down on the Chinese economy has only strengthened. The first element of Biden’s strategy was to outcompete Beijing with new legislation.

Three major laws form the core of Biden’s transformative economic strategy — the Inflation Reduction Act, the CHIPS and Science Act, and the Infrastructure Investment and Jobs Act (IIJA). Earlier in 2023, Biden even signed a bipartisan law prohibiting the TikTok on federal government phones, warning of national security risks stemming from the Chinese government’s ability to access American user data [8]. These laws represent American-style industrial policy: bringing factories and jobs back to America, and stifling China’s economic and technological modernization.

Together with these legislation, U.S. government enforced Biden’s another China doctrine: using trade restrictions, blacklists and investment curbs as strategic tools to curtail the growth of China’s technology sectors. Biden administration has been consistently enforcing export controls against China for years. Biden has added over China-based 155 entities to on its trade blacklist known as the “Entity List [9]”. China’s largest chip manufacturer, Huawei and SMIC were among the first list of of U.S. controls. Biden’s team continued Trump’s strategy to cut off trade with China in high-end microchips and imposed comprehensive set of trade restrictions aimed at crippling the entire Chinese semiconductor industry. In August 2023, Biden signed an executive order to prohibit some new U.S. investment in China in sensitive technologies like computer chips and require government notification in other tech sectors [9]. Through a combination of export controls and subsidies for domestic production, the Biden administration has taken an important step towards decoupling.

With those trade restrictions rolling, Washington crafted its third part to break reliance on China — align nations to against Beijing and create a new Cold War with dueling economic systems. In March 2022, with the goal to keep China’s chip industry at bay, Washington proposed a technology partnership to build a semiconductor supply network. This network includes South Korea, Japan, and Taiwan, known as the Chip 4 Alliance. Biden has also discouraged its Western allies from selling chips to China. As a result, in March 2023, the Netherlands repeated American trick and announced its own export control of semiconductor technology.

Group of 7 (G7) is another form of the U.S. to recruit allied countries to hinder China’s development both in advanced technology and manufacturing. In June 2022, Biden and other G7 leaders relaunched the newly renamed “Partnership for Global Infrastructure and Investment” to counter the “economic coercion” from China [10]. Biden has also peddled a new type of economic “partnership” in Asia and Latin America aiming to set higher global trade standards for members, but exclude adversaries like China. After years of containing China, supply chains are shifting as Washington and its allies showed a greater interest in diversifying risk away from Chinese market and are embracing a “China plus 1” sourcing strategy.

Before the 78th Session of the United Nations, Biden made remarks, “We are for de-risking, not decoupling with China [11]. Soon Washington has officially adopted the term “de-risking”. U.S. National Security Advisor Jake Sullivan outlined the differences between the two words, “decoupling suggests a radical separation, whereas de-risking—a term that initially comes from the financial sector—implies curbing risks while avoiding a clean break [11].” For Chinese government, the elaborately crafted term “de-risking” might sound milder than decoupling, but in essence it is just another word game played by Washington and its allies to contain China [12]. In response, China had determined to strengthen its self-reliance in science and technology amid sanctions and trade tensions. Since Biden took office, his team has not opened any new traditional trade negotiations with China. As bilateral trade relations sour, China is increasingly turning to the emerging markets as a source of supply and as a target for its exports.

4. A RETURN OF CONTAINMENT

In 1947, American diplomat George Kennan published an influential essay in Foreign Affairs, in which he unveiled the idea of “containment” for the first time [13]. Throughout throughout the Cold War, the strategy of “containment” had been one of the most successful U.S. foreign policies, which

the United States used to curb the expansion of Soviet Union. The Kennan-era template was pressed into service to China. From the 1970s to the 2010s, American attempted to use insidious form of containment to lock China into economic dependence and political subservience to the West and eventually integrate China into the U.S.-led liberal order. With regard to China today, the U.S. government avoids using the term “containment”, because it implies an intention to hinder China’s development more aggressively. However, as competition with China goes stiff, the United States girds its loins for a new cold war and returns to containment to deal with China.

Bidenomics, motivated by fears that the U.S. is falling behind China, signaled Washington’s new economic containment strategy. On the one hand, Bidenomics was designed to counter China’s industrial strategies. Made in China 2025, for example, is an initiative to comprehensively upgrade Chinese manufacturing industry. The plan called for indigenous innovation and focused on state-of-the-art information technology [14]. A clear goal of Made in China 2025 was to make Chinese manufacturing companies more competitive across the board. However, in some ways, Biden administration defined this plan as a frontal challenge to the U.S. and made broader efforts to break reliance on China. Ironically, taking a page from China’s economic playbook, Bidenomics also targeted direct subsidies, tax incentives and government loans to key sectors.

On the other hand, Bidenomics intended to shape a “new economic world order [15]”. As China announced a slew of measures to bolster its economy in 2010s. Many U.S. officials warned, the tendrils of Chinese influence were gradually wrapping themselves around the world. Serious concerns had emerged in Washington that Beijing’s real purpose was to construct a Chinese-led world order in which unsavoury regimes can thrive. Since Biden took office, his team was grappling with how to shape a new global economic system. Now Washington is aligning its allies against China’s economic policies.

Belt and Road Initiative (BRI), launched by Chinese government in 2013, refers to the Silk Road Economic Belt and 21st Century Maritime Silk Road. The Initiative was designed to form an infrastructure network and enhance the connectivity of Asian, European and African continents and their adjacent seas. Over the last ten years, the Chinese government has been actively promoting the implementation of BRI. In October 2023, as of the 10th anniversary of Xi’s speech in Kazakhstan, 154 countries had signed official documents on BRI cooperation with China [16]. Until now, this initiative has been creating an economic win-win and benefiting the world. However, Washington rivaled China’s BRI by stigmatizing it as “Debt Trap Diplomacy”. Even worse, the U.S. pressured countries not to take stances that run counter to U.S. interests. In September 2023, Biden proposed a counter-initiative called India-Middle East-Europe Economic Corridor (IMEC), which sought to counter the inroads China has made through its Belt and Road Initiative (BRI) by linking India, the Arabian Gulf, and Europe [17]. Indeed, the United States probably see the IMEC as a vehicle to counter China’s growing influence in these regions.

Further complicating the matter, American policymakers alike use “new economic order” as a strategy to isolate China. Early in 2022, Biden defined the state of global politics as “the battle between democracy and autocracy [18]”. Despite Beijing bristled at this definition, Biden recommended that democratically-led countries should establish economic ties to balance autocratic-led countries, aiming at Russia and China. As Biden’s team embrace Cold War stereotype, the world is increasingly sorting itself into two or more trading groups — one led by the U.S. and one by China.

Given China’s geographic location and the situation of its neighbors, it can be said that U.S. strategic containment of China is destined to fail. Some of U.S. partners, such as Republic of Korea, Japan, Australia, and India, have a close economic and commercial tie with China. The probability of these countries to fully join in the containment strategy seems low. Although Washington has tried to slow down China’s development, first by efforts aimed at decoupling the two economies, then by de-risking, and by imposing restrictions on technology exports to China, none of these attempts are

successful. As the global economy has already become intertwined, the constituent of Bidenomics to contain China becomes a false proposition.

5. CONCLUSION

Bidenomics, based on massive government spending, has triggered a burst of inflation. U.S. citizens are feeling the pain of Bidenomics and rejecting Biden's handling of the economy. With such a gloomy backdrop, Bidenomics may have a negative effect in 2024 presidential vote. In terms of China, the balancing act between promoting trade with China and curtailing its rise is a particularly delicate one for Biden going into his reelection campaign. If Biden pushes China too hard, any conflicts between the two superpowers would be final straw before World War III. But go too easy, the Trump's team may hit him for putting U.S. national security at risk.

On November 15, 2023, Chinese President Xi Jinping and U.S. President Joe Biden held their first face-to-face meeting, signaling the start of a diplomatic thaw after months of rancor. According to Biden, this meeting is to get the two countries "back on a normal course" and "being able to pick up the phone and talk to one another if there's a crisis, being able to make sure that our military still have contact with one another [19]." Although the meeting showed a mutual desire to ease tensions, more controversial issues, such as Taiwan and South China Sea, were not really addressed.

Above all, China-U.S. economic relationship can be mutually beneficial and obtain win-win outcomes. In an era of economic globalization, it would be wrong to hope China-U.S. relations to get extraordinary results from decoupling. Even political and economic fundamentals doom the U.S. and China to remain rivals for a short term, it is possible to bring China-U.S. economic and trade relations back to the right track of sound and stable development in the long term.

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