

The impact of economic interdependence on the probability of conflict between states

The case of “American–Chinese relationship on Taiwan since 1995”

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Abstract

Purpose – The purpose of this paper is to explore to what extent the economic interdependence can affect the likelihood of conflict between States. Specially, over the past few decades, there has been a huge interest in the relationship between economic interdependence and political conflict. Liberals argue that economic interdependence lowers the possibility of war by increasing the weight of trading over the alternative of aggression; interdependent states would rather trade than invade; realists dismiss the liberal argument, arguing that high interdependence increases rather than decreases the probability of war. In anarchy, states must constantly worry about their security.

Design/methodology/approach – This paper highlights the content and level of economic interdependence between China and the USA since the beginning of China’s economic reform in 1979 and examines the impact of economic interdependence between them on their relationship toward Taiwan since 1995 and the probability of conflict.

Findings – Economic interdependence is proved to significantly decrease the onset of conflict between the two parties. This can be shown by comparing the number of armed conflicts during the pre-interdependence period to the number of armed conflicts after the economic interdependence there was an average of 0.79 militarized interstate disputes (MIDs)/year, compared to 0.26 MIDs/year following China’s economic reforms; also, the length of the hostilities was longer during the pre-interdependence period (with an average of 11.13 months versus 5.33 months).

Originality/Value – This means that economic interdependence does not completely prevent the outbreak of international conflicts, but it also plays a major role in influencing the conflict in terms of the conflict’s intensity, the use of armed force and the number of conflicts that occur between the economic interdependence states.

Keywords Trade, Economic interdependence, International conflict, Militarized interstate dispute

Paper type Research paper



1. Introduction

The primary aim of this paper is to explore the impact of economic interdependence on the probability of conflict between states, in an attempt to answer a key question: does economic interdependence increase or reduce the likelihood of conflict among states?

The views of the researchers differed according to the approach and the theoretical schools to which they belong.

In general, there are three main perspectives for analyzing the relationship between interdependence and international conflict:

- (1) Liberal prospective: Economic interdependence reduces international conflict and enhances opportunities for peace.
- (2) Realist prospective: Economic interdependence increases international conflict.
- (3) The impact of economic interdependence depends on the nature and content of relations and the balance of power in the international system.

The paper will adopt the third perspective to emphasize that not all the economic relations are equal, some boost peace others not.

The paper is divided as follows: Section 2 defines the terms of the argument. Section 3 explores the existing approaches that explain the relationship between economic interdependence and international conflict. Section 4 highlights the content and level of economic interdependence between China and the USA since the beginning of China's economic reform in 1979 and the establishment of a diplomatic relations. Section 5 examines the impact of economic interdependence between China and the USA on the Taiwan issue since 1995 and the potential for conflict between them. Finally, Section 6 concludes the paper.

2. Conceptual framework: economic interdependence and international conflict

2.1 *Economic interdependence*

There are many ways in which economic interdependence may be defined and quantified. Although many scholars have written about interdependence, the definition continues to evolve and has multiple parts.

Most of the existing literature focuses on the ratio between trade and gross domestic product. (Wooten, 2007, p. 15).

In 1972, Richard Cooper asserted that “economic interdependence normally refers to the dollar value of economic transactions among regions or countries, either in absolute terms, or relative to their total transactions”(Baldwin *et al.*, 2018, p. 477). He distinguished this “normal usage” from his more restricted concept of “the sensitivity of economic transactions between two or more nations to economic developments within those nations”.

In 1979, Marina v. N. Whitman reiterated the assertion of Tollison and Willett that “as generally understood by economists, the term interdependence reefers to the sensitivity of economic behavior in one country to developments or policies originating outside its own borders” (Whitman, 1979, p. 265).

Waltz's defined interdependence as “a trading link which is costly to break”(Copeland, 1996, p. 13).

In the field of international relations, “economic interdependence” has two meanings: First, “a group of countries is considered interdependent if economic conditions in one country are contingent on those found in the other”(Mansfield and Pollins, 2003, p. 11), for example, the change in the exchange rate of a country affects the economic conditions of other countries that enter into a relationship of economic interdependence. Second,

“countries are considered interdependent if it would be costly for them to rupture or forego their relationship” (Mansfield and Pollins, 2003, p. 11), as would be the case if relations between the Organization of Petroleum Exporting Countries and the advanced industrial countries (which rely heavily on petroleum imports) were severed.

2.1.1 Indicators of economic interdependence The general conception of interdependence can be divided into the following two categories:

- (1) *Sensitivity interdependence*: It deals with cases in which economic conditions in countries are largely sensitive to changes in other countries. For example, if a destabilizing monetary policy shift in one country adversely impacts another country, the two would be said to be in a sensitivity interdependent (Wooten, 2007, p. 15).
- (2) *Vulnerability interdependence*: The more common conception amongst international relations theorists. In this view, countries are irreparably harmed by dissolving their relationships with one another. Thus, vulnerability interdependence highlights the gains of cooperation and the potential losses of destabilizing relationships (Wooten, 2007, p. 15).

The study will adopt the definition of ‘economic interdependence’ as “countries are considered interdependent if it would be costly for them to rupture or forego their relationship” (Mansfield and Pollins, 2003, p. 11).

2.1.2 Forms of economic interdependence

2.1.2.1 Trade interdependence. It is one of the main forms of economic interdependence which plays a major role in influencing the nature and content of inter-state relations.

The level of trade interdependence depends on the volume of trade between the states; the decision to start the war depends on the level of economic interdependence. According to the assumption of John Oneal and Russett, the less constrained state (or less trade dependent state) has the greater influence in determining whether conflict arises (Clarke, 2008, p. 59).

Throughout history, people have debated the virtues and vices of foreign trade, for many, trade represents a path toward peace and prosperity among nations, for others, trade is viewed as a contributing factor in the impoverishment of some nations and tensions between the nations, still others view trade to be largely irrelevant to leaders decisions to engage, in, or, refrain from, intense forms of interstate conflict (Barbieri, 1996, p. 30).

Montesquieu claimed that “the natural effect of commerce is to lead to peace”. Two nations that trade together become mutually dependent “If one has an interest in buying, the other has an interest in selling; and all unions are based on mutual needs” (Mansfield and Pollins, 2003, p. 3).

It is obvious that not all trading relations are equal, some trading relations may contain the necessary conditions to foster peace, while others instill hostilities or exacerbate pre-existing tensions, to understand how such variations may obtain, it is necessary to consider the nature and the context of economic linkages between states.

2.1.2.2 Monetary interdependence. Monetary interactions may also be a source of interdependence. States may choose to subordinate monetary sovereignty to a foreign power through a fixed exchange rate regime, pool sovereignty in a monetary union, or assert their own sovereignty under a floating exchange-rate regime (Gartzke et al., 1999, p. 396).

Monetary interaction may be considered as part of the general notion of economic interdependence, although they reduce state autonomy in monetary policymaking, higher levels of monetary dependence raise the incentives to cooperate (Gartzke et al., 1999, p. 396).

A state may peg its currency to a precious metal or a foreign currency, engage in a cooperative arrangement with a group of other countries to maintain its exchange rate within a certain “band,” or float the currency to allow the market to determine its equilibrium exchange rate (Gartzke et al., 1999, p. 405).

The choice of exchange-rate regime implies different degrees of monetary interdependence, a peg demands greater interstate commitment and an associated loss of autonomy. Pegging makes it easier to exchange currencies and for the country to maintain price stability. Yet a state that pegs its currency to a foreign currency relies heavily on the economic management of the foreign economy (Gartzke *et al.*, 1999).

Therefore, states maintaining fixed exchange rates face a double-edged sword. The regime may facilitate exchange and provide incentives to avoid conflict, but asymmetry may also increase uncertainty about policy acts and ultimately fail to deter disputes.

Similarly, states embarked on a cooperative exchange-rate arrangement, such as the European monetary system have greater commitment to each other compared with an independently floating system (Gartzke *et al.*, 1999, p. 405).

We see the following three relevant aspects of currency areas and monetary pegs for signaling (Gartzke *et al.*, 1999, p. 406):

- (1) First: States that possess beneficial regimes can reveal information about the relative value of competitive political objectives by threats or acts that jeopardize the status quo.
- (2) Second: Integrating one economy with others restricts a state's ability to shelter itself from negative economic consequences of political shocks. Finally: it is important to note that other factors that historically lead to monetary integration confound the signaling effect of regimes.

2.1.2.3 Capital interdependence. In *Spirit of the Laws*, Montesquieu argues that "movable wealth" encourages peace between and within states. Mobile capital constrains the sovereign domestically. The richest trader had only invisible wealth which could be sent everywhere without leaving any trace, so that rulers have been compelled to govern with greater wisdom than they themselves would have thought.

Trade is only one manifestation of the global spread of capitalism. As capital markets dwarf the exchange of goods and services, firms should weigh the risks of investment much more heavily than trade.

Vittorio Grilli and Gian Maria Milesi-Ferretti suggest that states impose capital controls for the following four reasons (Gartzke *et al.*, 1999, p. 396):

- (1) limiting volatile short-term capital flows;
- (2) retaining domestic savings;
- (3) sustaining structural reform and stabilization programs; and
- (4) maintaining the tax base.

Capital seeks higher risk-adjusted returns. Risk is contingent on government restrictions, the degree of domestic capital market integration into world markets, and the overall exposure of the economy to direct investments. This has the following three implications for international conflict (Gartzke *et al.*, 1999, p. 407):

- (1) First: States in conflict may place more stringent government restrictions on foreign exchange, payments settlement, capital repatriation or even nationalization.
Since conflict threatens investments among disputing states, it makes such investments less desirable and capital becomes relatively scarce.
- (2) Second: Political shocks produce negative externalities affecting investments. Military conflict increases uncertainty and risk to any capital investment.
- (3) Third: States that are heavily exposed to capital flows are more vulnerable to disruptions.

States that are heavily dependent on international capital markets for national economic well-being are much more vulnerable to the will of these markets.

2.2 *International conflict*

International conflict is one aspect of international interactions, while cooperation is the other side of such interactions; international conflict usually arises because of differences of interest among states.

2.2.1 *Elements of international conflict*

- two or more states;
- a difference of activities, attitudes, interests and objectives adopted by each state;
- each party uses the means or makes decisions to achieve its goals through which each party can achieve its objectives; and
- presence of interactions among the actors that can be observed and realized.

One method used by Rasler and Thompson is to measure the preponderance of militarized interstate disputes (MIDs) and wars. While wars clearly fit the description of conflict, the various definitions of MIDs are somewhat ambiguous. They may be considered activities which involve the “threat, display or use of military force short of war” by one state “explicitly directed toward the government, official representatives, official forces, property, or territory of another state”. (Wooten, 2007, p. 18).

McClelland’s (1971) World Events Interaction Survey (WEIS) presents more serious problems for the aggregation of events into conflict-cooperation time series. WEIS was constructed within a conceptual framework that explicitly denies the possibility of reducing data to one dimension of conflict cooperation.

The cooperative and conflictual categories could further be grouped into verbal and action types as follows (the percentage of all events in the WEIS dataset for 1966 is shown (Goldstein, 1992, p. 371):

- verbal cooperation (approve, promise, agree, request, propose) (24 per cent);
- cooperative action (yield, grant, reward) (9 per cent);
- participation (comment, consult) (35 per cent);
- verbal conflict-defensive (reject, protest, deny) (8 per cent);
- verbal conflict-offensive (accuse, demand, warn, threaten) (16 per cent); and
- conflict action (demonstrate, reduce, relationship, expel, seize, force) (8 per cent).

3. Approaches that explain the relationship between economic interdependence and international conflict

The effect of economic ties on war and peace is a popular topic in the field of international relations. However, findings concerning the relationship between economic ties and peace vary according to liberals, the economic ties between states lead to peace.

3.1 *Liberal view*

Liberals argue that economic interdependence lowers the likelihood of war by increasing the value of trading over the alternative of aggression; interdependent states would rather trade than invade. As long as high levels of interdependence can be maintained, liberals assert, we have reason for optimism (Copeland, 1996, p. 5).

Liberals view that increasing ties between countries in some fields encourages them to achieve greater cooperation in other fields. These linkages are supposed to strengthen communication and reduce misunderstandings which may cause tension and creates cultural and institutional mechanisms capable of mediating conflicts that may arise between them. At the same time, mutual recognition of mutual benefits enhances peace.

Liberals believe that economic relations between nations lead to peace, with liberals pointing to three important points (Korbel and Chen, 2009, p. 15):

- (1) The costs of waging a war against state's economic partner are very high because fighting against a partner with which the state trade and invest, the state actually fights against itself because a war between the state and its partner must have a negative effect on the state's economy.
- (2) Economic ties change states' preferences when economic ties between two states become stronger and these two states become more economically interdependent or even integrated, economic interests – compared with other national interests such as military buildup – become the most important.
- (3) Strong economic ties make non-military threats such as economic sanctions credible. Therefore, when there is a conflict between two states that have strong economic ties, a non-military threat is more likely to be the choice.

Liberals, assuming that states seek to maximize absolute welfare, maintain that situations of high trade should continue into the foreseeable future as long as states are rational; such actors have no reason to forsake the benefits from trade, especially defection from the trading arrangement will only lead to retaliation. Liberals can argue that interdependence as reflected in high trade at any particular moment in time will foster peace, given the benefits of trade over war (Copeland, 1996, p. 16).

The core liberal position is straightforward trade provides valuable benefits, or “gains from trade,” to any particular state. A dependent state should therefore seek to avoid war, as peaceful trading gives it all the benefits of close ties without any of the costs and risks of war. Trade pays more than war, so dependent states should prefer to trade not invade (Copeland, 1996, p. 8).

3.2 Realist view

Realists dismiss the liberal argument, arguing that high interdependence increases rather than decreases the probability of war. In anarchy, states must constantly worry about their security. Accordingly, interdependence gives states an incentive to initiate war, if only to ensure continued access to necessary materials and goods (Copeland, 1996, p. 6).

Some realists argue that highly asymmetric interdependence may restrain the weaker partner in a dyad but is unlikely to deter the stronger partner from resorting to force should their strategic interests collide. Thus, economic ties between states may restrain only one party from resorting to armed force should a dispute arise, while having no effect on (or possibly even inflaming the aggressiveness of) the stronger party (Mansfield and Pollins, 2003, p. 14).

The history of colonialism and imperialism illustrates how military force may be used in conjunction with trading strategies to establish and maintain inequitable economic relations, thus, the expansion of trade may not promote peace, but may involve increased interstate conflict, as Powerful states vie with one another for control over markets and resources (Barbieri, 1996, pp. 32-33).

Barbieri and Jack S. Levy provide evidence that states often trade with the enemy while at war and suggest that liberalism and realism reconsider expectations regarding interdependence and conflict (Gartzke *et al.*, 1999, p. 395).

John Mearsheimer, “nations that depend on others for critical economic supplies will fear cutoff or blackmail in time of crisis or war.” Consequently, “they may try to extend political control to the source of supply, giving rise to conflict with the source or with its other customers.” Interdependence, therefore, “will probably lead to greater security competition (Copeland, 1996, p. 10).

Realists turn the liberal argument on its head, arguing that economic interdependence not only fails to promote peace but also in fact heightens the likelihood of war.

3.3 The impact of economic interdependence depends on the nature and content of relations and the balance of power in the international system

A number of studies on the relationship between economic interdependence and international conflict concluded that economic interdependence may not have a systematic effect on political conflict.

Conflicts arise mainly because of differences in the distribution of political and military capabilities, thus, the distribution of political-military capabilities and that power relations underlie any apparent effect of economic exchange on conflict. That economic ties among the major powers were significant prior to First World War but far less extensive prior to Second World War which is frequently presented as evidence that such ties have little systematic impact on armed conflict when core national interests are at stake (Mansfield and Pollins, 2003, p. 4).

From the theories that criticize the liberals view, it becomes clear that not all trading relations are similar, some trading relations may contain the necessary conditions to foster peace, while others instill hostilities or exacerbate pre-existing tensions. To understand the difference between the two views (realist and liberal), it is necessary to consider the nature and context of economic ties between states (Barbieri, 1996, p. 33).

3.3.1 A theory of trade expectations. Liberalism and realism are theories of “comparative statics,” drawing predictions from a snapshot of the level of interdependence at a single point in time.

The strength of liberalism lies in its consideration of how the benefits or gains from trade offer the state a material incentive to avoid war, even when they have unit-level predispositions to favor it. The strength of realism is its recognition that states may be vulnerable to the potential costs of being cut off from trade on which they depend for wealth and ultimate security. Current theories, however, lack a way to fuse the benefits of trade and the costs of severed trade into one theoretical framework (Copeland, 1996, p. 17).

More significantly, these theories lack an understanding of how rational decision-makers incorporate the future trading environment into their choice between peace and war.

High interdependence can be peace inducing, as liberals maintain, as long as states expect future trade levels to rise in the future; positive expectations for future trade will lead dependent states to assign a high expected value to a constant peaceful trade, and making war the less appealing option. If, however, a highly dependent state expects future trade decrease because of the politic decisions of the other party, then realists are likely to be correct; the state will attach a low or even negative expected value to continued peace without trade, making war an attractive alternative if its expected value is greater than peace (Copeland, 1996, p. 17).

The expectations of future trade variable should have a determinant effect on the likelihood of war. If State A has positive expectations for future trade with B, and A and B are roughly equal in relative power, then state A will assign a high expected value to

continued peaceful trade, will compare this to the low or negative expected value for invasion, and will choose peace as the rational strategy. The higher A's dependence and the expectations for future trade, the higher the expected value for peaceful trade, and therefore the more likely A is to avoid war. However, if State A is dependent and has negative expectations for future trade with B, then the expected value of trade will be very low or negative. If the expected value for trade is lower than the expected value for invasion, war becomes the rational choice, and this is the case even when the expected value of invasion is itself negative; war becomes the lesser of two evils (Copeland, 1996, p. 21).

In making the final decision between peace and war, however, a rational state will have to compare the expected value of trade to the expected value of waging war against the other party (Table I).

4. The content and level of economic interdependence between China and the USA

4.1 Trade interdependence between China and the USA

Oneal and Russett looking at the period from the mid-1960s to 2002 they found that the USA and China went from having no trade to a very significant level of economic interdependence, Oneal and Russett are aware that the US-Chinese case represents a uniquely important test of interdependence theory (Clarke, 2008, p. 59).

Theory	Core liberal theory (e.g. Rosecrance)	Core realist theory (e.g. Waltz, Mearsheimer)	Trade expectations theory (Copeland)
Nature of the system	Anarchy	Anarchy	Anarchy
Nature of the state	Generally a rational, unitary calculator of costs/benefits, but may also have aggressive, unit level drives	Rational, unitary actor seeking to reduce vulnerability to improve security	Rational, unitary actor calculating the expected stream of benefits and costs over the foreseeable future, to maximize wealth and therefore security
Analytical focus	The individual state's concern for its own dependence	The individual state's concern for its own dependence	The individual state's concern for its own dependence
State's decision for war or peace driven by	Benefits of trade (the "gains from trade" from specialization)	Costs of severed trade (the costs of adjustment after being cut off, because of specialization)	Benefits of trade and costs of severed trade, plus expectations of future trade
Ultimate reason that state goes to war	If level of dependence low (i.e. trade is low), "restraint" on unit level aggressive tendencies removed	High dependence creates a systemic incentive to use force to overcome vulnerability	High dependence and pessimistic expectations for future trade, creating a low or negative expected value for trade
Reason for state choosing to stay at peace	If level of dependence high (i.e. trade is high), then high dependence "restrains" by making benefits of trade greater than value of war	Low dependence removes another systemic incentive for war	High dependence and optimistic expectations for future trade, creating a high expected value for trade

Source: (Copeland, 1996, p.24)

Table I.
The competing theories

On January 24, 1980, Congress passed a trade agreement conferring most favored nation (MFN) status on China. This measure exempted Chinese exports to the USA from the high tariff rates stipulated by the Smoot-Hawley Act of June 1930 (Institut für Asienkunde (Hamburg) and National Institute of Chinese Studies, 2010, p. 172).

Economic and trade reforms begun in 1979 and have helped transform China into one of the world's fastest-growing economies. China's economic growth and trade liberalization, including comprehensive trade commitments made upon entering the World Trade Organization (WTO) in 2001, which have led to a sharp expansion in USA–China commercial ties (Morrison, 2018, p. 1).

USA–China trade rose rapidly after the two nations reestablished diplomatic relations (in January 1979), signed a bilateral trade agreement (July 1979) and provided mutual MFN treatment beginning in 1980.

In 1979 (when China's economic reforms began), total USA–China trade (exports plus imports) was \$2n; China ranked as the USA's 23rd largest export market and its 45th-largest source of imports (Morrison, 2018). In 2014, total bilateral trade (exports plus imports) reached \$592bn. China is currently the second-largest USA trading partner (after Canada), the third-largest USA export market (after Canada and Mexico) and the largest source of USA imports (Morrison, 2018, p. 2) (Table II).

Year	US exports to PRC	US imports from PRC	Total bilateral trade
1991	6,278.2	18,969.2	25,247.40
1992	7,418.5	25,727.5	33,146.00
1993	8,762.9	31,539.9	40,302.80
1994	9,281.7	38,786.8	48,068.50
1995	11,753.7	45,543.2	57,296.90
1996	11,992.6	51,512.8	63,505.40
1997	12,862.2	62,557.7	75,419.90
1998	14,241.2	71,168.6	85,409.80
1999	13,111.1	81,788.2	94,899.30
2000	16,185.2	100,018.2	116,203.40
2001	19,182.3	102,278.4	121,460.70
2002	22,127.7	125,192.6	147,320.30
2003	28,367.9	152,436.1	180,804.00
2004	34,427.8	196,682	231,109.80
2005	41,192	243,470.1	284,662.10
2006	53,673	287,774.4	341,447.40
2007	62,936.9	321,442.9	384,379.80
2008	69,732.8	337,772.6	407,505.40
2009	69,496.7	296,373.9	365,870.60
2010	91,911.1	364,952.6	456,863.70
2011	104,121.5	399,371.2	503,492.70
2012	110,516.6	425,619.1	536,135.70
2013	121,746.2	440,430.0	562,176.20
2014	123,657.2	468,474.9	592,132.10
2015	115,932.0	483,188.7	599,120.70
2016	115,602.1	462,618.1	578,220.20
2017	69,284.5	273,511.6	342,796.10

Table II.
Sino–American
trade, 1991–2017
(Division, 2018.)

Note: In millions of current US dollar

4.2 USA trade deficit

The issue of trade deficit between China and the USA is one of the most important economic factors controlling the course of bilateral relations between the two countries.

From 2001 to 2010, China had an estimated world trade surplus of \$1.3tn, of which \$1.1tn with the USA.

The USA trade deficit with China rose from \$10bn in 1990 to \$268bn in 2008. It fell to \$227bn in 2009 as a result of the effects of the financial crisis, then rose to \$273bn in 2010 and reached \$295bn in 2011 and \$315bn in 2012 then jumped to \$318bn in 2013. The US trade deficit reached about \$375bn in 2017 (Division, 2018).

4.3 Bilateral investment treaty

The USA and China have held negotiations on reaching a bilateral investment treaty (BIT) with the goal of expanding bilateral investment opportunities. US negotiators hope such a treaty would improve the investment climate for the USA firms in China by enhancing legal protections and dispute resolution procedures, and by obtaining a commitment from the Chinese government to treat USA investors no less favorably than Chinese investors (Morrison, 2018, p. 27).

April 2012, the Obama Administration released a “Model Bilateral Investment Treaty” that was developed to enhance USA objectives in the negotiation of new BITs.

During July 10-11, 2013, session of the S&ED, China indicated its intention to negotiate a high-standard BIT with the USA that would include all stages and sectors of investment. A press release by the Chinese Ministry of Commerce stated that China was willing to negotiate a BIT on the basis of nondiscrimination and a negative list, meaning the agreement would identify only the sectors which are not open to foreign investment on a nondiscriminatory basis (as opposed to a BIT with a positive list which would only list sectors open to foreign investment) (Morrison, 2018, p. 28).

During July 9-10, 2014, S&ED session, the two parties agreed to a broad timetable for reaching agreement on core issues and major articles of the treaty text and committed to initiate the “negative list” negotiation early in 2015. The last round of US–China BIT talks reportedly occurred on November 17, 2014, in Washington, DC. (Morrison, 2018, p. 28).

4.4 The trade war between the USA and China

Donald Trump announced after his victory in the US presidential election “impose tariffs of 35 per cent on Mexican imports and 45 per cent on Chinese imports to protect American jobs from unfair foreign competition” (Bouët and Laborde, 2018, p. 5).

The Trump Administration has presented three major reasons to justify the initiation of a China–US trade war: China’s large trade surplus against the US, China’s failure to comply with World Trade Organization (WTO) commitments and China’s unreasonable acquisition of US technology and theft of intellectual property rights (Yu, 2018, p. 38).

The trade war between the USA and China appears to be escalating. The US imposed an additional 25 per cent tariff on US\$34bn of Chinese goods on July 6, 2018, and China retaliated with a similar tariff on US imports worth US\$29.6bn.

In that case, the negative impact of the increased US protectionism could lead to more negative results for its trading partners in terms of welfare and gross domestic product (Bouët and Laborde, 2018, p. 51).

5. The impact of economic interdependence between China and the USA on the Taiwan issue since 1995 and the potential for conflict between them

The Taiwan issue has been an element of tension in Sino-US relations; therefore, the Taiwan issue is a source of potential conflict between Taiwan, the People’s Republic of China and the USA.

The Chinese–Taiwanese Conflict began in 1949, after the Chinese Communist Party, led by Mao Tse-Tung overthrew the nationalist government of the Republic of China (ROC). It was during this time that President Chiang Kai-shek of the ROC and his political party, the Kuomintang (KMT), was forced to flee with soldiers and civilians loyal to them to the Chinese island of Taiwan and reestablish the Chinese nationalist government. In 1950, the Chinese Communist Party established the People’s Republic of China (PRC) and invaded Taiwan, to unify all of China under their rule. However, their plan failed, when the USA sent naval forces and successfully defended Taiwan (Hunkovic, 2009).

Since then, both countries have witnessed in a state of neither complete independence nor integration, neither war nor peace. Military hostilities and tensions between the two countries have risen at times.

Beijing insists that Taiwan has been one of the provinces for hundreds of years and the issue of reuniting Taiwan with the “motherland” is an internal matter that will be solved militarily or peacefully. Taiwan’s anti-secession law was issued in Beijing in March 2005, noting that if Taiwan tried to declare full independence from China or if peaceful means to achieve reunification were exhausted, China would use force to restore Taiwan.

The Taiwan Government has repeatedly rejected the threat of the People’s Republic of China to the possibility of achieving Chinese unity and reintegration.

In 2002, Taiwanese President Chen Shuibian made the statement that “each side of the Taiwan Straits is a country” (Hunkovic, 2009). A clear reference to Taiwan’s refusal to integrate under the Chinese Government and that Taiwan is indeed a state and does not accept the idea of integration or unity with China.

5.1 The US view toward Taiwan

For more than half a century, the USA has played a role in the conflict between China and Taiwan, making it difficult to look at the Taiwan crisis without taking into account the role of the USA.

After the Second World War, with the rise of confrontation between the Eastern and Western blocs, the US Government spared no effort in providing funds, arms and advisers to support the Kuomintang to continue the Chinese civil war to eliminate the Chinese Communist Party.

The USA was keen to support Taiwan; after Chiang Kai-shek’s escape, the USA has committed to defend Taiwan if attacked by China in the Taiwan Relations Act of 1979.

5.2 Reasons for US interest in Taiwan support

There are many reasons why the USA has supported Taiwan and declared that it is resisting any attempt on the part of China to forcibly annex Taiwan. The reasons for the USA to stand with Taiwan can be determined by the following factors:

- The USA sought to support Taiwan during the Cold War to curb Communist expansion in the region.
- Most Chinese observers attribute current US support for Taiwan primarily to a fear of China’s rising power in the post-Cold War era (Kennedy, 2007, p. 272).

5.3 Crises in the China–Taiwan–USA triangle since 1995 and the impact of economic interdependence

5.3.1 Taiwan officials allowed to visit the USA. The Sino–US relations witnessed a negative development in 1995 because of the visit of the Taiwanese President Lee Teng-hui to the USA in June 1995.

On May 22, 1995, the white house approved a visa for Lee Teng – Hui to visit the USA in early June to attend his graduated school reunion at Cornell University. In violation of the US policy of not allowing a Taiwanese official to visit the United States since the normalization of relations with China in 1979, the white house approved a visa for Lee Teng – Hui On May 22, 1995 to visit the USA in early June to attend his graduated school reunion at Cornell University (Ross, 2000, p. 87).

However, in April 1995, US Secretary of State Warren Christopher had told Chinese Foreign minister Qian Qichen that a visa for Lee would be “inconsistent” with the USAs’ unofficial relationship with Taiwan. Further, National Security Council officials had argued against issuing a visa to Lee. However, when in May the Senate voted 97-1 and the House of Representatives 360-0 in support of a visa, the president acquiesced (Ross, 2000, p. 91).

Leaders in Beijing considered the US decision to grant a visa to Lee as a serious challenge to China’s opposition to Taiwan’s independence movement. A Chinese foreign ministry statement charged that this was just the latest step in Lee’s effort to create “one China and one Taiwan”.

Therefore, China–US relations reached their lowest level since the beginning of the exchange of diplomatic relations in 1979. Although the USA has asserted that the visit is private and does not carry any content that involves recognition of Taiwan’s independence, which resulted in several factors that highlight the level of conflict between the two countries as the following:

- (1) This event prompted Beijing to recall its ambassador to Washington.
- (2) Beijing officials have suspended semi-official contacts developed with Taipei.

In a dramatic turn, Beijing engaged in various displays of military power, It was declared that a series of missiles would be launched off the coast of Taiwan; commercial air and sea vessels were warned to remain clear of the test area (Kessler, 2008, p. 27).

In an effort to ease tension and maintain relations between China and the USA in the context of economic interdependence, presidents Clinton and Jiang met in a 1995 summit and reaffirmed its a one china policy, WA perceived that a visit by President Lee would not trigger a tension that might be caused by the USAs’ support for a “one China policy” owing to the following facts:

- President Lee’s visit was informal.
- The visit did not involve any recognition of Taiwan’s independence from China (Clarke, 2008, p. 63).

5.3.2 The 1995-1996 Taiwan’s strait crisis. The Taiwan Straits crisis began in July 1995 between Taiwan and China and ended five days after the Taiwanese election on March 23, 1996.

The USA is noted as entering the MID in December 1995, when it conducted military operations in the strait. The US’s highest activity was a “show of force”, while both Taiwan and China had higher levels of activity in the form of “fortifying borders” none of the participants rose to the level of using force, and there were no casualties (Kessler, 2008, p. 62).

Throughout 1995, the People’s Liberation Army (PLA) carried out naval and air maneuvers involving tests of a new type of weapons near the Taiwan coast, which raised concern among the USA, especially after what the Chinese defense minister said at a ceremony marking the 68th anniversary of the Chinese army “that Beijing does not rule out the use of The power to discipline Taiwan if it insisted on the idea of secession”.

In March 1997, China conducted a series of maneuvers in the Taiwan Straits to train its troops to occupy the islands. The USA announced the movement of some US naval vessels to international waters off the Taiwan coast to observe the exercises. The Chinese leadership announced that the exercises were confined to China's territorial water, and again warned against the interference of the USA in the Taiwan issue because it is a Chinese internal affair. The spokesperson for China announced that the significance of Taiwan for China makes it even ready to sacrifice the state of the USA MFN granted to Beijing and the issue of the reunification of Taiwan with China's main territory was a matter of principle and could not be debated, and all of these events were enough to cause conflict.

5.3.3 The goals that china sought to achieve from the crisis.

- influence on the Taiwanese presidential elections;
- change Taiwan's public opinion against the president Lee Teng – Hui;
- sending a clear message that the process and goal of the unification of the Chinese nation is a central issue;
- reducing the US's additional intervention in Taiwan's issue throughout by demonstrating the huge military power of China; and
- thwarting the Taiwanese leadership on its hope for exhibiting Taiwan's international identity.

5.3.4 US arms sales to Taiwan as an element of conflict and tension between China and the USA. According to the 1982 USA–China Joint Declaration, WA committed to gradually reduce the supply of arms to Taipei. In return, Beijing vowed to resolve the issue peacefully. However, In the 1990s, US arms sales to Taiwan increased. In 1992, the Bush administration sold 150 F-16s to Taipei and between 1991 and 1998, the USA arms sales to Taiwan was totaled by \$20bn.

On the occasion of USA Vice President Al Gore's visit to Beijing in March 1997, Chinese prime minister Wen Jiabao requested Washington to stop arming Taiwan and stressed on the fact of continuing USA arming of Taiwan is one of the reasons for the tension in bilateral relations.

On January 29, 2010, the Defense Cooperation Agency of the US Department of Defense announced its approval of the long-awaited arms deal valued about US\$6.4bn. This deal included advanced Patriot missiles, radar, Black Hawk helicopters and others of modern weapons.

China's reaction to the arms deal between the USA and Taiwan:

- China has stopped exchanges and military ties with the United States.
- China called-up the US ambassador to “Beijing” to make a formal complaint showing rejection and resentment of the arms deal.
- The Chinese Government expressed its dissatisfaction with the USAs' support for Taiwan militarily and that this would undoubtedly affect cooperation with the USA in other fields.
- China has taken a strong stance and explicitly threatened punitive measures against US companies, such as US firm Boeing, which is involved in arms sales to Taiwan.
- China suspended its cooperation with the USA in the framework of coordinating the Copenhagen conference on climate change problems. It also announced at the same month that it will be testing its missile defense recently.

Because of the desire of the USA to maintain its relationship with China in the framework of mutual economic cooperation between them, The Obama administration regretted the deterioration of relations with China, and the reason for this is the recognition by the American side of the existence of common interests between the two countries, especially in the economic sphere, where the USA is well aware that the impact of relations between the two countries would negatively affect USA economic interests. Adding that this would do harm to US companies that benefit heavily from Chinese markets such as Boeing and other companies.

5.4 *The impact of economic interdependence over conflict on Taiwan*

Oneal and Russett tested a three independent variables (Economic Interdependence, democracy, and Joint Intergovernmental Organization membership) against the dependent variable conflict, Oneal and Russett found that independently, democracy, economic interdependence and joint IGO membership all reduce conflict (Clarke, 2008, p. 60).

In their book triangulating peace, Oneal and Russett found that increasing the level of interdependency by a single standard deviation decreased the level of conflict by 44 per cent. (Clarke, 2008, p. 58), and the potential for conflict compared to when the state had almost no trade represents as 27 per cent decrease in the potential for conflict, calculating the impact of all three variables, Oneal and Russett believe that the potential for conflict has been reduced by 58 per cent for the dyad (Clarke, 2008, p. 59).

- During the pre US–China interdependence (1949-1977), there was an average of 0.79 MIDs/year, compared to 0.26 MIDs/year following China’s economic reforms (1978-2001) (Clarke, 2008, p. 60).
- The length of hostilities was longer during the pre- interdependence period (with an average of 11.13 months versus 5.33 months) and reached a higher average level of hostile action (3.7 versus 3.2 on the 1-5 COW scale).

On the other hand, all of the six MIDs during the 1978-2001 period occurred from 1994-2001, while three occurred during 2001, when the two economies were becoming truly intertwined.

5.5 *Can economic interdependence reduce china’s incentives to use force?*

A-The impact on Taiwan–China conflict: it is plausible to argue that business interests are likely to impose restraint by both Taipei and Beijing. It is also a widely held belief among government officials and academia that trade and investment with the mainland might reduce incentives for the PRC to use force.

In his book *The Lexus and the Olive Tree*, Thomas Friedman asserted that the economic ties between mainland China and Taiwan greatly affect the possibility of military conflict between the two sides since such a development would cause “mutual assured economic destruction. (Ezra and Chen, 2003, p. 42)

B-The impact on China–USA conflict about Taiwan: in the USA–China dyad, according to interdependence theory, China is less constrained states in its Taiwan policy, which would suggest that Beijing has a greater freedom to use force against Taiwan.

For Washington, interdependence theory does suggest that Washington used a strategy of ambiguity because of high independence. (Clarke, 2008, p. 64).

6. Conclusion

- The interdependence theory cannot take into account all the contextual factors that might lead to conflict, Interdependence theory does account for such things as

formal alliances, military capabilities and proximity of states, but it does not address the specific security environment and its impact on conflict.

- Despite providing statistical evidence that bilateral trade reduce conflict, Oneal and Rusette and other theories cannot predict that in a specific case of bilateral interdependence the result will be a measurable 27 per cent reduction of the risk of military conflict between the members of dyad.
- According to the Oneal–Russett model, the less constrained states (or the less the state is trade dependent) have the greater influence in determining whether conflict arises. Ironically, then it is the USA, according to Oneal and Russett, which will most determine the potential for conflict in the Sino–American dyad.
- Whether in a state of economic interdependence, the Taiwan issue drives conflict between the USA and China; this means that economic interdependence does not completely preclude the outbreak of conflicts.
- While the economic interdependence does not prevent the outbreak of international conflicts, it plays a major role in influencing the conflict in terms of the level of conflict, the use of armed force, and the number of conflicts that erupt between countries with a state of economic interdependence. To influence the length and duration of the conflict “period for the continuation of conflict”.

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