Peoples' democratic republic of Algeria

Department of International Relations



Sino-American Relations; From Interdependence to Decoupling: A Geoeconomic Struggle for Strategic Supremacy

A Dissertation Submitted in Partial Fulfillment of the Requirements for the Degree of Master in International Relations

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Abstract

This study examines the structural shift in U.S.-China relations from a geo-economic perspective, aiming to understand and anticipate the United States' efforts to maintain its strategic superiority in the international system in the face of China's rapid economic and technological rise.

The research problem stems from a question regarding the extent to which the two powers are willing and able to transition from a state of interdependence to policies of economic decoupling, and the extent to which this choice affects their international standing.

To achieve the study's objectives and test its hypotheses, the research was divided into three chapters. The first chapter focused on formulating the conceptual and theoretical framework of geoeconomics, highlighting the historical shift from classical geopolitics toward the use of economic tools to achieve major strategic objectives, while the second chapter focused on the architecture of U.S. geoeconomics, tracing the historical trajectory of U.S.-China relations from the 1972 trilateral diplomacy and the emergence of the "Chimerica" thesis, through to the "Pivot to Asia" strategy and the use of trade war tools and major parallel projects as geo-economic buffers against Chinese expansion.

On the other hand, Chapter 3 examined China's geo-economic pillars, namely state capitalism and the Belt and Road Initiative, as well as the use of trade and supply chains as tools to achieve geopolitical gains. This chapter also uniquely presents a quantitative analytical framework that integrates game theory to model the pattern of cooperation and competition between the two powers, with a statistical regression analysis to examine the relationship between geopolitical and macroeconomic variables for both parties.

The study concluded that complete economic decoupling is a costly option for both parties given the interconnectedness of global value chains and the complex interdependence of both economies, as the current conflict is moving toward de-risking as the United States' attempt to decouple from China is part of its effort to regain control over high-value and critical stages of

manufacturing processes, particularly in vital industries (such as advanced technology, agentic AI, the chip and semiconductor industry... etc.) and to prevent China from establishing a foothold in them, and on the other hand, to reduce its disproportionate dependence, which has created strategic vulnerability to China, in an American attempt to contain China's rising power and ensure its strategic superiority.

Keywords: geoeconomics, interdependence, economic decoupling, strategic superiority, Belt and Road Initiative, game theory.

Résumé

Cette étude aborde la transformation structurelle des relations américano-chinoises sous l'angle géo-économique, dans le but de comprendre et d'anticiper les efforts déployés par les États-Unis pour préserver leur supériorité stratégique au sein du système international face à l'essor économique et technologique accéléré de la Chine.

La problématique de la recherche part d'une interrogation sur la capacité et la volonté des deux puissances de passer d'un état d'interdépendance à des politiques de découplage économique, ainsi que sur l'impact de ce choix sur leur position internationale.

Afin d'atteindre les objectifs de l'étude et de tester ses hypothèses, la recherche a été divisée en trois chapitres. Le premier chapitre s'est concentré sur l'élaboration du cadre conceptuel et théorique de la géoéconomie, en mettant en évidence la transition historique de la géopolitique classique vers l'utilisation d'outils économiques pour atteindre des objectifs stratégiques majeurs, tandis que le deuxième chapitre s'est concentré sur l'architecture de la géoéconomie américaine, en retraçant l'évolution historique des relations américano-chinoises depuis la diplomatie tripartite de 1972 et l'émergence du concept de « Chimerica », jusqu'à la stratégie du « pivot vers l'Asie » et l'utilisation des outils de la guerre commerciale et des grands projets parallèles comme remparts géoéconomiques contre l'expansion chinoise.

En revanche, le troisième chapitre a passé en revue les piliers géoéconomiques de la Chine, à savoir le capitalisme d'État et l'initiative « La Ceinture et la Route », ainsi que l'utilisation du commerce et des chaînes d'approvisionnement comme armes pour obtenir des avantages géopolitiques. Ce chapitre se distingue également par la présentation d'un cadre analytique quantitatif combinant la théorie des jeux pour modéliser le schéma de coopération et de concurrence entre les deux puissances, et une étude statistique standard visant à examiner la relation entre les variables géopolitiques et macroéconomiques des deux parties.

L'étude a conclu que la découplage économique total constitue une option coûteuse pour les deux parties en raison de l'interdépendance des chaînes de valeur mondiales et de l'imbrication complexe des deux économies, le conflit actuel s'orientant vers une réduction des risques, étant donné que la tentative des États-Unis de se désengager de la Chine s'inscrit dans le cadre de leurs efforts pour reprendre le contrôle des étapes à forte valeur ajoutée et d'importance cruciale dans les processus de fabrication, en particulier dans les industries stratégiques (telles que les technologies de pointe, l'intelligence artificielle agentique, l'industrie des puces et des semi-conducteurs... etc.) et de priver la Chine de toute présence dans ces domaines, et d'autre part pour réduire sa dépendance disproportionnée qui a engendré une vulnérabilité stratégique vis-à-vis de la Chine, dans le cadre d'une tentative américaine visant à contenir la puissance chinoise montante et à garantir sa supériorité stratégique.

Mots-clés: géoéconomie, interdépendance, découplage économique, supériorité stratégique, initiative « La Ceinture et la Route », théorie des jeux.

الملخص

تتناول هذه الدراسة التحول البنيوي في العلاقات الأمريكية الصينية من منظور جيواقتصادي، في محاولة لفهم واستشراف سعي الولايات المتحدة للحفاظ على تفوقها الاستراتيجي في النظام الدولي في مواجهة الصعود الاقتصادي والتكنولوجي المتسارع للصين.

تنطلق إشكالية البحث من تساؤل حول مدى نجاعة ورغبة القوتين في الانتقال من حالة الاعتماد المتبادل (Interdependence) إلى سياسات الفصل الاقتصادي (Decoupling) ومدى تأثير هذا الخيار على مكانتهما الدولية.

لتحقيق أهداف الدراسة واختبار فرضياتها، تم تقسيم البحث إلى ثلاثة فصول، حيث ركز الفصل الأول على صياغة الإطار المفاهيمي والنظري للجيواقتصاد، مبرزا الانتقال التاريخي من الجيوبوليتيك الكلاسيكي نحو توظيف الأدوات الاقتصادية لتحقيق أهداف استراتيجية كبرى، في حين ركز الفصل الثاني على هندسة الجيواقتصاد الأمريكي، باتباع المسار التاريخي للعلاقات الأمريكية-الصينية بداية من الدبلوماسية الثلاثية عام 1972 وبداية أطروحة كايمريكا (Chimerica) ، وصولا إلى استراتيجية "الارتكاز و التوجه نحو آسيا" (Pivot to Asia) وتوظيف أدوات الحرب التجارية والمشاريع الكبرى الموازية كمصدات جيواقتصادية ضد التمدد الصيني.

بالمقابل، استعرض الفصل الثالث الركائز الجيواقتصادية للصين، متمثلة في رأسمالية الدولة ومبادرة "الحزام والطريق"، إضافة إلى توظيف سلاح التجارة وسلاسل التوريد لتحقيق مكاسب جيوسياسية. كما تفرد هذا الفصل بتقديم إطار تحليلي كمي دمج بين نظرية الألعاب لنمذجة نمط التعاون والتنافس بين القوتين، وبين دراسة قياسية احصائية لفحص العلاقة بين المتغيرات الجيوسياسية والاقتصادية الكلية لكلا الطرفين.

خلصت الدراسة إلى أن الفصل الاقتصادي التام يعد خيارا مكلفا للطرفين نظرا لترابط سلاسل القيمة العالمية و التشابك المعقد لكلا الإقتصادين، إذ أن الصراع الراهن يتجه نحو تقليل المخاطر (De-risking) باعتبار أن محاولة الولايات المتحدة لفك ارتباطها بالصين تأتي في إطار سعيها لاستعادة السيطرة على المراحل ذات القيمة والأهمية العالية في عمليات التصنيع خاصة الصناعات الحيوية (كالتكنولوجيا المتقدمة، الذكاء الاصطناعي الوكيل Agentic AI، صناعة الرقائق وأشباه الموصلات...إلخ) و حرمان الصين من التموضع فيها، و من جهة أخرى لتقليل اعتمادها غير المتكافئ الذي ولد انكشافا استراتيجيا على الصين، في محاولة أمريكية لاحتواء القوة الصينية الصاعدة وضمان تفوقها الاستراتيجي.

الكلمات المفتاحية: الجيواقتصاد، الاعتماد المتبادل، فك الارتباط الاقتصادي، التفوق الاستراتيجي، مبادرة الحزام والطريق، نظرية الألعاب.

List of acronyms:

Acronym	Full term
AI	Artificial Intelligence
AIIB	Asian Infrastructure Investment Bank
BIS	Bureau of Industry and Security
BRI	Belt and Road Initiative
CHIPS	Creating Helpful Incentives to Produce Semiconductors and Science Act
CPEC	China-Pakistan Economic Corridor
DIME	Diplomacy, Information, Military, Economics
DRC	Democratic Republic of Congo
DSR	Digital Silk Road
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GVC	Global Value Chain
IMEC	India-Middle East-Europe Economic Corridor
IPD	Ideal Point Distance
IPE	International Political Economy
MoU	Memorandum of Understanding
NSS	National Security Strategy
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
SMIC	Semiconductor Manufacturing International Corporation
SOE	State-Owned Enterprise
SWF	Sovereign Wealth Fund
THAAD	Terminal High Altitude Area Defense
TIC	Treasury International Capital
TPP	Trans-Pacific Partnership
TSMC	Taiwan Semiconductor Manufacturing Company
UAE	United Arab Emirates
USA	United States of America
USSR	Union of Soviet Socialist Republics
USTR	United States Trade Representative
WMD	Weapons of Mass Destruction
WSJ	Wall Street Journal
WTO	World Trade Organization
ZTE	Zhongxing Telecommunication Equipment

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Introduction

- **Contextual background:**

The conclusion of the Cold War marked a structural shift in international relations, where the traditional logic of military confrontation was increasingly displaced by **geoeconomics**—the use of economic instruments to achieve strategic geopolitical ends. For decades, the global order was defined by "absolute globalization," characterized by the symbiotic **"Chimerica"** relationship, in which the United States and China functioned as an integrated system of consumption and production. However, as the 21st century progressed, the rise of revisionist powers and the weaponization of interdependence transformed these economic ties into sources of **strategic vulnerability**.

- **Problem statement:**

The central tension of the modern era lies in the **"Geoeconomic Dilemma"**: the struggle for states to balance the liberal pursuit of market efficiency with the realist necessity of national security. While interdependence was once viewed as a path to peace, it has evolved into a mechanism for **structural coercion**, leading to the erosion of the "Chimerica" model. The international system is now witnessing a move from market-driven integration toward a security-driven fragmentation, as both powers attempt to mitigate the "choke-point" and "panopticon" effects of their embedded networks.

- **Research question (problematic):**

This study addresses a fundamental interrogation regarding the willingness and capacity of the two superpowers to transition from deep interdependence to a state of strategic disengagement. Specifically, the **primary research question** is: **To what extent is economic decoupling becoming a central instrument of Sino-American geoeconomic rivalry?**

- **Objectives of the Study:**

  - To **deconstruct the theoretical framework** of geoeconomics, weaponized interdependence, and economic statecraft to establish a clear conceptual hierarchy.

- To **analyze the three levels of decoupling** (financial, technological, and commercial) within the context of the growing Sino-American rivalry.
- To **quantify and model** the strategic dynamics of this rivalry, moving beyond descriptive analysis toward a predictive, measurable reasoning.

- **Sub-questions**

To answer the main question, the study explores several key dimensions:

- In which specific strategic sectors is the decoupling process most concentrated?
- How do measurable geopolitical shifts, such as divergence in the United Nations, influence bilateral economic interdependence?
- To what degree is selective decoupling a strategic tool utilized by the United States to preserve its global supremacy?

- **Hypotheses:**

- **Main Hypothesis:** Economic decoupling is not a total separation of economies, but a **sector-specific instrument** of geoeconomic "co-opetition" functioning as a hedging strategy against structural vulnerabilities.
- **Sub-hypothesis 1:** Decoupling efforts are concentrated in three specific strategic sectors: **advanced technologies, finance, and commerce**.
- **Sub-hypothesis 2:** Greater geopolitical divergence (Ideal Point Distance) directly correlates with increased bilateral economic fragmentation.
- **Sub-hypothesis 3:** Selective decoupling is a **strategically led U.S. process** intended to deny China access to strategic leverage.

- **Significance of the study:**

This research addresses a critical **gap in geoeconomic literature**, which often lacks quantitative integration and focuses largely on qualitative description. It derives its empirical significance from contemporary global events, such as the 2026 presidential summit in Beijing, and examines how China's rise within global value chains has forced a reassessment of classical globalization.

- **Scope and delimitation:**

The study focuses on the **bilateral geoeconomic relationship** between the United States and China, specifically examining instruments such as the **Belt and Road Initiative (BRI)**, the **India-Middle East-Europe Economic Corridor (IMEC)**, and the **CHIPS and Science Act**. The quantitative analysis is delimited to the period between **2016 and 2023**.

- **Literature Review:**

- *War by Other Means: Geoeconomics and Statecraft* (2016) by Jennifer M. Harris and Robert Blackwill provides the foundational conceptual framework for modern geoeconomics and significantly informs this study.
- *The Uses and Abuses of Weaponized Interdependence* (2021) by Daniel W. Drezner develops the theory of weaponized interdependence by showing how structural hubs in global networks—such as financial systems and technological chokepoints—are exploited by states for strategic advantage.
- In *U.S.–China Technological "Decoupling": A Strategy and Policy Framework* (2022), Jon Bateman argues that U.S.–China decoupling is not a total economic rupture but a state-directed strategy of selective decoupling, focused primarily on high-tech and strategic sectors to contain China's rise and reduce vulnerabilities.

- **Research gap:**

Despite the fact that existing thesis and literatures focus on traditional geopolitical rivalry and economic tension, however, there is a shortage of longitudinal studies that address economic decoupling through 3 main dimensions (finance, technology, and trade), therefore, this study aims to overcome this gap, especially through time series analysis that measures how these three levels restructure global supremacy.

- **Methodological overview:**

The research employs a multi-dimensional approach:

- **Comparative Approach:** Analyzing the distinct strategies and responses of both the U.S. and China.
- **Statistical and Correlational Approach:** Utilizing **Python and Jupyter Notebooks** to perform regression analysis and Granger causality tests on variables such as the **IPD index, trade deficits, and semiconductor restrictions**.
- **Game Theory:** Applying a **payoff matrix** to model the co-opetition and "Nash equilibrium" of the decouple-decouple strategy.

- **Theoretical Framework:**

The study is situated at the intersection of several key theories:

- **Power Transition Theory:** Focusing on the cyclical nature of rivalry between a dominant power and a revisionist challenger.
- **Weaponized Interdependence:** Exploring how hubs in global networks exploit their positions for coercion.
- **Neo-mercantilism:** Analyzing the shift toward state-led economic intervention for national power.

- **Structure of the study:**

- **Chapter One:** Establishes the **conceptual hierarchy** of geoeconomics and the theoretical approaches to decoupling (Power Transition, Smiling Curve, and GVC).
- **Chapter Two:** Examines **American geoeconomics**, tracing the evolution from engagement to strategic competition and the "Small Yard, High Fence" strategy.
- **Chapter Three:** Analyzes **Chinese geoeconomics**, focusing on state capitalism, the BRI, and "Dual Circulation," concluding with a **quantitative assessment** of the rivalry.

Chapter One:

Theoretical and conceptual framework of geoeconomics

Section One: conceptualizing Geoeconomics

This chapter aims to unpack the multidimensional nature of geoeconomics in international relations, where the shift from traditional geopolitical rivalry towards strategically-led economic policies became of a paramount importance, not only due its impact on the conventional dynamics and structure of global politics, but also, by creating new dimensions for competition, cooperation, and alliances, where leverage and stakes are no longer of pure military nature.

Subsection 1: From Geopolitics to Geoeconomics; The Rise of Geoeconomics in International Relations

The end of the Cold war represented a turning point not only in the history of international relations, but also in the strategic logic and calculations for states, a logic coupled with more rationality and possession of WMD, provoked a diminishing tendency towards direct military confrontation as the best option, causing a structural shift in the perception of power, a shift that made the pen of accountants more tariffing than soldiers' gun.

The quest for dominance, spheres of influence and geopolitical superiority did not stop or change after the dissolution of the USSR, it was the means that changed. Geostrategic options, built on military might and power projection were displaced by economics and commerce, which represented the new battle fields of our time[1].

By saying so, it is believed that the logic of realists concerning **relative gains** was replaced by **absolute gains**, a more liberal perception that would lessen competition leading to more cooperation instead of conflict, however, in fact, this did not prevent conflicts completely, but rather, changed its nature.

The transition to consider economics and commerce as a new **war theatre** had a significant impact on the , due to the fact that it guarantees the minimum amount of proportionality, i.e., no matter how tensions rise, it will -in most of the time- remain below the threshold of the adversary to respond destructively -at least militarily –as managed escalation and strategic rationality are paramount in this context, for this reason, Edward Luttwak, who is

[1] Luttwak, Edward N, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," *The National Interest*, 1990, 17.

considered to be the very first geoeconomist who coined this term defines it as "the admixture of the logic of conflict with the methods of commerce"[2] .

The collapse of the USSR in 1991, on the other hand, unleashed the triumph of western liberalism, and economic interests eclipsed security imperatives, as no existential threat -mainly ideologically- is looming, and the victory is of the western civilization. This euphoria paved the way for globalization to establish the building block of the contemporary geoeconomic order where markets are prioritized over the quest of influence[3]. However, as the concept of security expanded, so did the logic of relative gains. Given that economic vitality is of a paramount importance in state's power, any disruption to this part "financial crisis such as of 2008, currency wars…etc." which could jeopardize the overall power and position of the state, will be considered as a security concern, requiring more geopolitical and political considerations rather than pure economic, i.e., the saucerization of economy.

These global structural shifts, consolidated the Security-Economy Nexus, where security imperatives drive and dictates the red lines for commercial transactions rather than allowing them freely for the "laisse- faire" principle, a phase where economists and national security strategists are working along next to each other than before, a fusion between as the current perception of supremacy is not economic-prosperity-based only, but a power-based as well. This perception is shaped by a fact perfectly described by Michael Mandelbaum: "The heart of politics is power; the aim of economics is wealth. Power is inherently limited. The quest for power is therefore competitive. It is a "zero-sum game:" one player's gain necessarily imposes a loss on another. Wealth, by contrast, is limitless, which makes economics a "positive-sum game" in which everyone involved can gain simultaneously."[4]

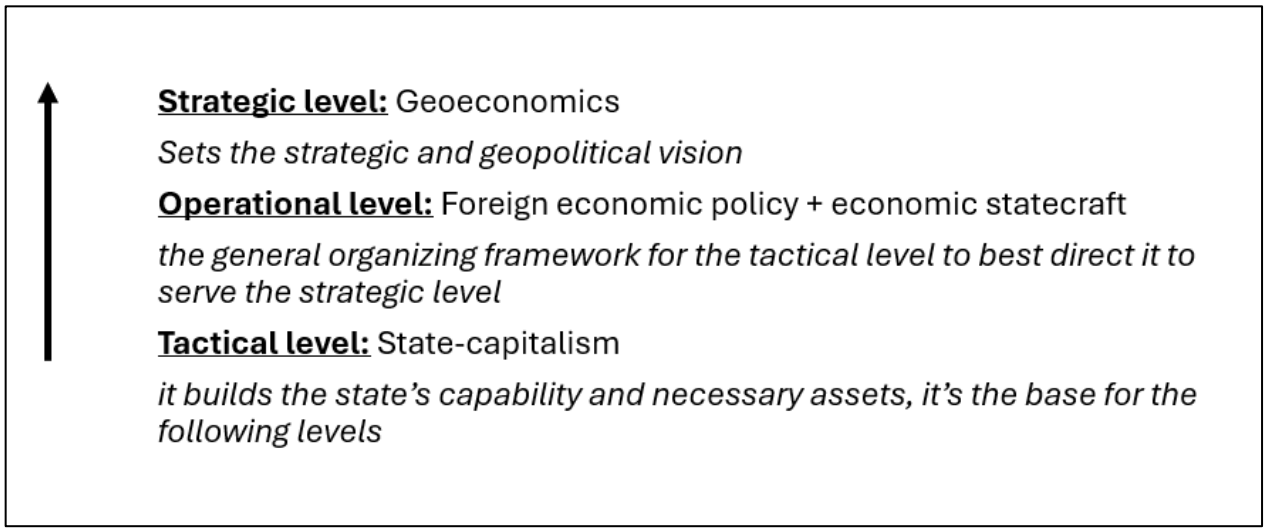
Therefore, in light of this entangled context, geoeconomics emerges as a pre-eminent Interdisciplinarity that could perfectly handle these paradoxical phenomena, as it represents the most sufficient lens that can encompass within its analysis both the economic and geopolitical considerations.

[2] Luttwak, Edward N, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," 4.
[3] Francis Fukuyama, *The End of History and the Last Man: With a New Afterword*, 1st.ed (Free Press, 2006).
[4] Michael Mandelbaum, *The Road to Global Prosperity* (Simon & Schuster, 2014), xvi.

Subsection 2: The Conceptual Hierarchy of Geoeconomics; An Integrated Framework

In order to address a common intricacy between related terms, the following schema proves a structured framework that represents the hierarchical levels of Geoeconomic, divided based on warfare logic:

Figure 1:*Hierarchical levels of Geoeconomics*



Source: prepared by the student.*

A- Tactical level: State capitalism

I argue that State capitalism represents the tactical foundation for geoeconomic practices, it is the building block for the state to gain and acquire means of power, that will later be the assets for its influence.

At the outset, it is significant to distinguish between 2 types of systems: Capitalism and Socialism as **Economic systems**, and State capitalism as a **Geoeconomic system**.

An economic system (in this case capitalism and socialism) aims ultimately for growth and wealth creation purposes within the society, while a geoeconomic system focuses

* This diagram is synthesized the student's cumulative academic lectures and coursework.

on instrumentalizing these economic capabilities and power by transforming them into external strategic leverage.

In this context, the main criteria in classifying economic systems are **the role of governments in economic activities and freedom of markets**, an economy that is characterized by more governmental intervention and less freedom for markets is typically identified as a command economy (a centrally planned economy), while an economy with less governmental intervention and more freedom for markets is defined to be described as a market economy.[5] Amid this intricacy, State capitalism emerges as an attempt by the state to best direct free markets to enhance its national power, i.e. it is not pure "laisser-faire" policy, nor absolute centrale planification, but rather, canalizing the momentum of market forces, individuals and corporations to provide the state with necessary economic and financial assets that will enable it to practice geopolitical and strategic influence.

This convergence led to "**State capital hybrids**" emergence, a state capital hybrid refers to an organizational model that regulates the relationship between states and markets. It is a form of state interventionism in economic activities that operates alongside the capitalist mechanism of the markets by recalibrating the economic and financial gains acquired by markets to promote its geoeconomic and strategic interests outside the state, rather than pure wealth creation and social allocative purposes, and it manifests primarily in **SOEs** (State-owned enterprises), **SWFs** (Sovereign Wealth Funds) and **National Champions**.[6]

This model reshapes the purposes and function of capital accumulation, and overpasses the traditional dichotomy of economics by presenting new type of assets for the state, these assets could be summarized as the following:

1. **SOEs:** State-owned enterprises are companies in which the government has a significant, and often a majority, stake. In many state capitalist nations, SOEs dominate the 'commanding heights' of the economy—sectors like energy, telecommunications, and finance that are vital to national security and development.[7]

2. **National Champions:** National champions are large private or semi-private companies that receive special treatment and support for the state, such as financing or protection from foreign competition or even acquisition, in exchange for carrying out the government's strategic objectives, domestically or abroad.[8]

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[5] Paul R. Gregory and Robert C. Stuart, *Comparing Economic Systems in the Twenty-First Century*, 7th Edition (South-Western Cengage Learning, 2014), 17–19.
[6] Ilias Alami and Adam D. Dixon, "Theories, Tensions, Controversies," *The Spectre of State Capitalism* (Oxford: Oxford University Press), July 25, 2024, 2–4.
[7] Joshua Kurlantzick, *State Capitalism: How the Return of Statism Is Transforming the World* (Oxford University Press, 2016), 7.
[8] Kurlantzick, *State Capitalism*, 8.

3. **Sovereign Wealth Funds (SWFs):** Sovereign wealth funds are state-owned investment vehicles that manage a country's reserves, often derived from commodity exports or trade surpluses. Unlike traditional central bank reserves, SWFs seek higher returns by investing in a wide range of global assets, from real estate to high-tech startups.[9]

4. **State banks:** State banks are financial institutions owned or controlled by the government that provide the capital necessary to fuel state-led development. They allow the state to direct credit toward strategic sectors and favored companies, bypassing the risk-aversion of private commercial lenders.[10]

Therefore, we would like to refer to the following definitions for State capitalism:

For **Ian Bremmer**: "*State capitalism is a system where the state functions as the leading economic actor and uses markets primarily for political gain*."[11]

For **Alami & Dixon**: "*State capitalism refers to an organizational form of capitalism where the state maintains a prominent role in the economy through various forms of ownership and intervention, blending market mechanisms with state-directed objectives*."[12]

For **Aldo Musacchio**: "it is the widespread influence of the government in the economy, either by owning majority or minority equity stakes in companies"[13]

Conclusively, it is evident that the instrumentalization of economic assets and infrastructure whether through direct state ownership or strategic interventionism, suggests the vital significance of this economic models as preparatory tactical stage necessary for the success and well-functioning of other levels, as it represents a politized model that grant the state more maneuverability to align economic momentum of the privet sector with political ends.

[9] Kurlantzick, *State Capitalism*, 9.
[10] Kurlantzick, *State Capitalism*, 9.
[11] Ian Bremmer, *The End of the Free Market: Who Wins the War Between States and Corporations?* (Portfolio / Penguin, 2010), 39.
[12] Alami and Dixon, "Theories, Tensions, Controversies."
[13] Aldo Musacchio and Sergio G. Lazzarini, *Reinventing State Capitalism: Leviathan in Business, Brazil and Beyond* (Cambridge, MA: Harvard University Press, 2014).

B- Operational Level: Foreign economic policy and Economic statecraft

In this section, we will focus more on economic statecraft and its wherewithal, as foreign economic policy does not represent a conceptual ambiguity.

1- Economic statecraft:

As already discussed in the tactical level, which consolidates and mobilizes states levers of power, comes economic statecraft as an operational dimension that interprets these latent elements of power into practical actions. Worthy to point out to the common conceptual and methodological confusion with geoeconomics, as

The word "statecraft" in general -linguistically speaking - is defined as "the art of conducting state affairs[14]", but a more strategic definition in the context of international politics, Harold and Margret Sprout argue that statecraft "*embraces all the activities by which statesmen strive to protect cherished values and to attain desired objectives vis-a-vis other nations and/or international organizations. So defined, international statecraft includes unilateral actions as well as bilateral and multilateral interactions. Statecraft also embraces actions to which there is no immediate response as well as those that evoke responses, violent or otherwise, from other nations*."[15], it is therefore **the skillful employment of influence-making techniques /instruments to reach a strategic political goal.**

Techniques of statecraft are commonly categorized under the **DIME framework**, which stands for:

- **D: diplomacy:** it represents the main technique/instrument for states to advance their interests engaging with various type of foreign entities, which includes all procedures states conduct to manage their relation short of war.

- **I: information:** Communications represent a fundamental component in creating a desired strategic environment to direct state's objectives by understanding the targeted audience perception, as the success of all efforts depends on the alignment between audience cognitive level (beliefs, behaviors…etc.) and state's means to propagate these objectives.

- **M: military:** represented in operations and wars launched against foreign entities to coerce adversaries or protect allies as well as to maintaining influence and

[14] "Definition of STATECRAFT," January 28, 2026, https://www.merriam-webster.com/dictionary/statecraft.
[15] Harold Sprout and Margret Sprout, *Toward a Politics of the Planet Earth* (Van Nostrand Reinhold Company, 1971), 149.

posture, as geostrategic options are the backstop for diplomatic efforts in achieving national interests, since military might aim mainly for 3 purposes: **deterrence**, **compellence**, and **decisive military acts.**

E: economic: a strong large economy characterized by the minimum foreign dependency possible (maintain a self-help system and strategic autonomy in the vital sectors that can cripple the economy, such as: resources, debts, logistics etc.) coupled with free access to global markets, contribute to the overall strength of the state, enabling for more strategic supremacy and influence, and more importantly, strengthening state's **economic center of gravity (ECOG)**[**], which provides the state with more leverage in the international system.[16]

A crucial point to consider, which could be the juncture between state capitalism, economic statecraft, and geoeconomics, and that is the reality of state-led economic acts. Should all economic, financial, or commercial acts be considered of a geoeconomic nature aiming for strategic and political purposes? i.e., based on what criteria should an act be categorized as political while another one should be categorized otherwise?

To address this matter, consider a scenario where state **A** and state **B** have significant bilateral relations (significant trade flows, diplomatic representation…etc.), relatively equal in the balance of power with tense strategic competition. As state **B** experiences a crisis in its wheat market (severe competition from state **A** companies which harms local producers), state **B** decides to raise tariffs on state **A** wheat imports to local markets as a *protective measure*. In response, state **A** decides to respond reciprocally, besides, due to its wealthy SWF that grants it large financial maneuverability, it decided to initiate a currency warfare against state **B** currency and instrumentalize its National Champions market shares to aggravate the ongoing crisis, as well as to incentivizing state **D** (a rival state to **B**) companies at the expenses of state **B** in the local market.

Based on this context, should both of state **A** and **B** acts be considered techniques of an economic statecraft nature?

[**] Center of gravity (CoG) -according to Carl von Clausewitz – refers to the hub of all power and movement on which everything depends, it is what keeps the entity continue to last, which is originally applied to military force, however, in this context, I suggest the economic application of this term as a response to the foundational nature of the economy as a vital element based on which other sectors depend, if compromised, state's strategic autonomy is jeopardized.

[16] Joint Chiefs of Staff, *JP 1, Doctrine for the Armed Forces of the United States*, JP 1 (U.S. Department of Defense, 2013), I-12-I–13.

In fact, the criterion is **the degree of influence and strategic intent** a state would like to project over another[17]. While state **B** act was for purely economic and protective purposes (as a response to a local crisis), state **A** acts targeted the overall economic stability of state **B** with unproportionate escalation, which took the confrontation out of a **limited trade dispute** to an open multi-fronts contest aiming to cause structural damage and strategic erosion to **B**.

Consequently, we can conclude that in order for an act to be considered as a technique of economic statecraft, decision makers need to have the willingness to strategically influence another state's posture and its relative position within the balance of power.

Economic statecraft = the economic process of projecting strategic influence by enfeebling another state's power

Deductively, we can classify state **A** reaction into:

State capitalism	Possessing strong national champions and wealthy SWF
Economic statecraft	Raising trade tariffs, currency manipulation, and alliance with state **D**
Geoeconomics	Aiming for structural and strategic erosion to state **A**

To illustrate this distinction with a real-world example, in January 2026, the U.S. imposed 127.32% tariffs on Algerian iron imports to U.S markets[18]. Earlier that time, U.S. imposed 130% tariffs on Chinese imports to America[19], however, despite the similarity in the economic measures taken, they differ fundamentally in their strategic nature.

Based on this example, which of the two cases should be considered as a technique of economic statecraft for strategic political goals?

The answer lies in the strategic intent and influence projecting attempt in both cases. While tariffs on Algerian iron might be categorized as a commercial regulatory measure to prevent

[17] David Allen Baldwin and Ethan Barnaby Kapstein, *Economic Statecraft*, New edition (Princeton university press, 2020), 32.
[18] Arab Iron and Steel Union, *US Commerce Department Initially Imposes Anti-Dumping Duties on Algerian Rebar*, December 22, 2025, https://aisusteel.org/en/38734/.
[19] Elisabeth Buchwald, "Trump Announces 130% Tariffs on China. The Global Trade War Just Came Roaring Back | CNN Business," CNN, October 10, 2025, https://www.cnn.com/2025/10/10/economy/trump-china-tariff-threats-economy.

dumping U.S. steel market and protect domestic industries, measures against China have another dimension and different considerations, as China is known to be a geopolitical rival and a competing power against the U.S., Algeria on the other hand, does not represent a strategic or geopolitical challenge to U.S. supremacy, therefore, an all-out commercial war to cripple Algerian economy will not be necessary, regardless of the fact that destabilizing such a regional pivotal country will have backlashes on the region and will strategically effect U.S. interests in the region.

For China, the situation is fundamentally different. The U.S. seeks to contain and China's emergence as a geopolitical and strategic rival. Therefore, such measures target vital sectors to hinder China's economic ascent. In this context, any act that undermines Chinese growth and preserves U.S. global supremacy is viewed as a strategic necessity. Ultimately, it is the strategic intent to maintain the balance of power that transforms these tariffs from a mere trade dispute into a decisive tool of economic statecraft

2- Foreign economic policy:

According to Jeffry Frieden, "Foreign economic policy refers to the actions governments take to manage their economic relations with the rest of the world. It includes the measures taken by a government to influence/regulate the flow of goods, services, capital, and labor across its borders."[20]

It is therefore, the set of measures and actions governments take aiming for utility maximization from their economic ties with other foreign actors. However, worthy to mention, that FEP actions are not always based on pure rational economic calculations. This is particularly evident in long-term strategic sectors that may appear purely economic but are, in fact, strategic game-changers, such as advanced technologies and sensitive raw materials. Such economic factors are subject to strategic and political considerations, where states are ready to bear massive economic losses (represented in billions of dollars) for the sake of geopolitical gains. This include preventing a rival country from emerging as a challenging power, such practice often referred to as 'friend-shoring.' In these instances, the strategic and geopolitical costs outstrip the economic costs, representing the intersection between economic utility and strategic imperatives, a concept we will further explore in the Geoeconomic Dilemma subsection.

Foreign economic policy consists of:

[20] Jeffry A. Frieden, "Foreign Economic Policy," in *Oxford Research Encyclopedia of Politics*.

1- **trade policy:** is the use of trade instruments such as tariffs, quotas, and trade agreements to regulate the flow of goods and services across borders.

2- **monetary policy:** focuses on the management of the national currency's exchange rate and its relationship with foreign currencies to influence international competitiveness.

3- **financial/investment policy:** refers to the regulations and controlling the movement of capital, foreign direct investment (FDI), and international lending or debt management.

4- **foreign aids:** is the voluntary transfer of resources (money, goods, or technical expertise) from one country to another, often used as a diplomatic tool to achieve strategic or humanitarian goals.[21]

So foreign economic policy aims primarily to greaten the economic and welfare returns from a state's relations with other international actors, but a significant question arises: what is the difference between FEP and economic statecraft? i.e. what are the borders between the two of them?

As already mentioned, FEP consists of 4 parts, and economic statecraft is the set of maneuvers a state conduct through the instrumentalization of these parts for the sake of strategic influence and power-exercising practices to achieve political goals rather than pure economic or prosperity goals.

Table 1: *Comparison between Foreign economic policy and Economic statecraft*

Aspect of comparison	Foreign economic policy (FEP)	Economic statecraft
Primary objective	Maximizing wealth, and economic welfare	Exercising influence and achieving strategic political goals
Logic	Driven by absolute gains and market efficiency	Driven by relative gains and competitive power dynamics

[21] Jeffry A. Frieden, *International Politics: Enduring Concepts and Contemporary Issues* (Pearson, 2015), 280–95.

Nature of action	Regulatory and cooperative (e.g., trade agreements)	Maneuvering and coercive (e.g., sanctions or strategic tariffs)
Example	Signing a Free Trade Agreement to lower consumer prices	Using trade dependency as a "stick" to compel a change in a rival's behavior

C- Strategic level: Geoeconomics

Overtime, there has been a dispute over the reality of geoeconomics, whether it should be viewed as a **method of analysis** or as a **form of statecraft**. The difference, is that the first one use it as a lens to best **direct** and **asses** foreign policy goals and programs and as an approach on how to systematically perceive geopolitical challenges and stakes economically, while the second one perceives it as the framework of economic means of coercion, maneuver, and a utility-maximizing tool seeking to reach a state's objectives through economic means.

Traditional understanding used to conceive geoeconomics as the focus on **domestic economic strength for power projection purposes on the international level to defend national interest**[22], in other words, economic capabilities are an asset to project and spread military might around the world. However, a more accurate thinking about geoeconomics was refined by 2 main factors:

1- *The role of international political economy:* which refers to the reciprocal interaction between economic/financial phenomena (markets) and political power (states) and the strategic implications of these interactions. This points to the **effect of financial crisis** (such as of the 2008 mortgage crisis and 2010-2015 Eurozone sovereign debt crisis) on the **geopolitical posture** of the state, by shifting the state's spending and resources priorities during the crisis to be redirected towards solving the crisis instead of maximizing its external utility resulting in weakening its geoeconomic base (the ability to impose sanctions, weak currency…etc.) and relative power in front of contesting rivals.

2- *The rise of revisionist powers:* which represented a paradoxical situation, carrying both economic and geopolitical challenges, and this clearly manifests in the rise of China as an emerging power that threatens U.S. supremacy, as China, which is

[22] Robert D. Blackwill and Jennifer M. Harris, *War by Other Means: Geoeconomics and Statecraft*, First Harvard University Press paperback edition, A Council on Foreign Relations Book (The Belknap Press of Harvard University Press, 2017).

considered a geopolitical rival that must be contained, is at the same time an indispensable trading partner. This dichotomy, constitutes the **Geoeconomic dilemma** U.S is facing.

Strikingly, the most common definition for geoeconomics todays is that one of Robert Blackwill and Jenniffer Harris: "*Geoeconomics is the use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of other nations' economic actions on a country's geopolitical goals*."[23], such a definition, intersects significantly with the concept of **Economic statecraft** we discussed previously, keeping a blurry boundary on the distinction between economic statecraft and geoeconomics.

So geoeconomics, as we can deduce, is an **interdisciplinarity** that links between geopolitics and economics, as geopolitics, according to Yves Lacoste is "the study of rivalries for power or influence over territories and the people who inhabit them"[24], and for Basil Al-Hajjar "geopolitics is the science that examines an entity's trajectories—be they political, military, or economic—alongside the grand strategies it employs to manifest the ideal state of its political geography."[25], in light of this entanglement, geoeconomics emerges to study, explain and examines how these political and strategic power dynamics (mainly of great powers) affect the international economic order, based on this understanding, the definition I would like to propose is:

Geoeconomics is the interdisciplinarity that studies the reciprocal strategic interactions between geopolitics and economics and their implications on States's grand strategy.[*]

Although it is quite challenging to set clear boundaries to determine which of the two -geopolitical or economic considerations- should be the dependent variable and which one should be the independent variable in the aforementioned definition, I believe it to be interchangeable depending on: state's grand strategy, its geopolitical ambitions and responsibilities, and its economic interests.

[23] Blackwill and Harris, *War by Other Means*.
[24] Yves Lacoste, *La géographie, ça sert, d'abord, à faire la guerre*, Édition augmentée (La Découverte, 2013), 51.
[25] Basil Al-Hajjar, *The Geopolitics of Regional Systems: Between the Limits of Legitimacy and the Hegemony of Power [In Arabic]*, First Edition (Beirut: The Publications Company for Publishing and Distribution, 2025), 23.

[*]Grand strategy -according to Saraha C.M. Paine- is the integration of multiple instruments of national power to achieve national goals.

In terms of warfare, Geoeconomics facilitates selective targeting through relatively controlled precision strike -the scope of attacks is more manageable unlike military actions - to certain sectors than others, which allows controlling the amount of coercion and destruction desired, resulting in calibrated escalation.

Subsection 3: Schools of Geoeconomic in International Relations

Geoeconomics is not a monolithic interdisciplinarity, it is shaped by two predominant paradigms that interpret the intersection of power and commerce differently, which are: the **French school** of geoeconomics, which focuses on economic intelligence in the era of informational warfare, and the **Anglo-Saxon school** of geoeconomics, which perceives economics and commerce as the geostrategy of the 21st century.

A- French school of Geoeconomics:

The French school of Geoeconomics is built on a fundamental revolutionary idea which is **Economic Intelligence in Economic Warfare**, by providing a comprehensive layout of **Information Warfare** -which is something the Anglo-Saxon lacks as we proceed- which can elevate or diminish the standing of national corporations.

By the layout presented, it provides a new approach in dealing with **strategic economic rivalries** through proactive decision-making, as the core purpose of intelligence gathering is to provide the critical input necessary for significant strategic decision-making.

In this context, the objective of intelligence is to foster corporate competitiveness which consolidates the state's geoeconomic posture. It therefore enables to maintain economic primacy and ensure that National Champions are in leading positions in international vital markets, and most importantly, protecting them from foreign takeovers -through mergers and acquisitions- or selective targeting, which carries security and political implications. This complementarity maintains economic sovereignty leading to more robust strategic autonomy.[26]

Economic Intelligence and Economic Warfare:

Economic intelligence represents the crown jewel of this school and one of the most advanced contributions in the geoeconomic field, it is the fundamental **operational tool** upon which this school is build.

Economic intelligence was conceptualized for the first time by Henri Martre, President of the European Association of Aerospace Manufacturers (AECMA) and President of "Association française de normalization" (AFNOR) (1993-2002)[27], who was summoned to come up with a way to improve the competitiveness of French enterprises in aerospace

[26] Christian Harbulot, *La guerre économique*, Que sais-je? (Presses Universitaires de France (PUF), 2006), 45–53.

[27] "Henri MARTRE," Ecole de Guerre Economique, accessed February 25, 2026, https://www.ege.fr/ecole/le-parrains-de-promotion/henri-martre.

industry. He introduced the following definition: *"Economic intelligence is the coordinated set of actions involving the research, processing, and dissemination of information useful to economic actors, and these actions are conducted in accordance with the law and are part of the company's strategies."*[28]

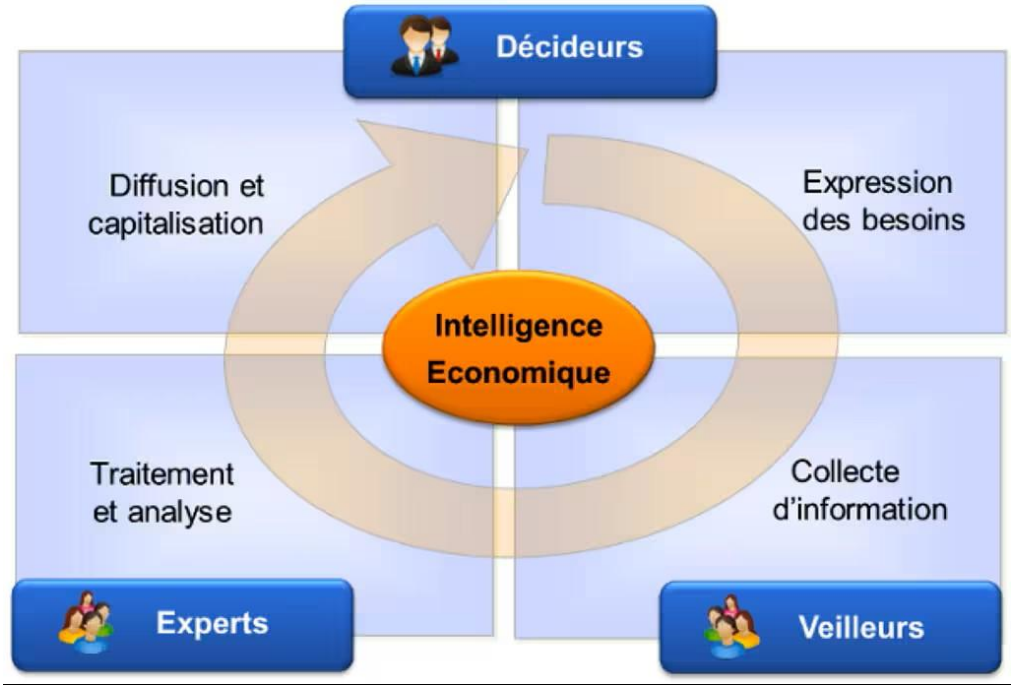
This definition is of an organizational, administrative, and managerial nature, with no geopolitical, influence-seeking or state instrumentalization purposes, put to serve the well-functioning of French enterprises. However, with the emergence of "l'École de Guerre Économique" later on in France, by its headmaster Christian Harbulot, economic intelligence became an approach of **a conflictual nature and warfare logic** especially after 2008 financial crisis, which represented a turning point in the geoeconomic field and academia.

It is therefore refined -by Christian Harbulot – to include 4 main strategic characteristics:

1- Vigilance: the continuous surveillance of strategic markets, rivals, and possible competitors to neutralize any factor that can jeopardize national economic interests.
2- Analysis: processing data and information and transform them into strategic decision-making.
3- Security: safeguarding economic resources and denying rivals from, and most importantly, protecting sensitive data from foreign espionage.
4- Influence: the practice of utilizing outputs of this process and turn them into applied policies and decisions, as this methodological process, ensure the maximum amount utility and rationality possible.[29]

[28] Henri Martre, "Rapport du Groupe « Intelligence économique et stratégie des entreprises »," *Commissariat général du Plan*, 1994, 10–12.
[29] Christian Harbulot, *L'art de La Guerre Économique: Surveiller, Analyser, Protéger, Influencer* (VA Éditions, 2018), 75–92.

Figure 2: *The Economic Intelligence Cycle*



Source: SeneNews (2019)

B- Anglo-Saxon school of Geoeconomics

Through its prominent figures Edward Luttwak, Robert Blackwill, and Jennifer Harris, the Anglo-Saxon school perceives geoeconomics mainly as an economic statecraft to achieve state's strategic goals[30],it embodies the evolution of geopolitics and mutation of economic geography into strategic rivalries, it argues that globalization has not led to the prevalence of international cooperation, but rather it formed a new order build on interdependence that was supposed to establish peace and security, however, instead of that, it created a new sort of warfare through the weaponization of this interdependence, shifting conflict from military theatres to economic spaces.[31]

Core principles:

[30] Blackwill and Harris, *War by Other Means*, 20–22.
[31] Luttwak, Edward N, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," 17–19.

1- State as the main actor:

It argues that state -statism- is the primary strategist alongside multinational corporations, it holds the responsibility of orienting these corporations to align with state's foreign policy and grand strategy, as they are inevitable means for overseas extension[32], which casts the light on the significance of state capitalism as an indispensable model due to the means, policies, institutional and ideological unconstraint it provides.

2- Relative power:

Or the zero-sum game, represents the building block in geoeconomic rationality, it means that any win/utility for state **A** represents the same amount of loss for state **B**, therefore, state **B** should not only strive for more power, but it should also weaken and deny its adversary from possessing more elements of power. Therefore, the economic success of a challenger is perceived as a looming security threat and geopolitical challenge to the hegemon.[33]

3- Politicization of commercial activities:

Unlike the early era of globalization where gains were defined based on quantitative growth , further entanglements of the international economic order characterized by the rise revisionist powers -mainly China- this marks the shift from market-driven to security-driven economic behavior, as commercial transactions are subject to political consideration, it is therefore, the securitization of economics, as symmetrical interdependence turned from a peace-making path, to a mechanism of influence and dependency.[34]

Table 2: *Comparison between the French school and Anglo-Saxon school of geoeconomics*

Aspect of comparison	French school	Anglo-Saxon school
Strategic nature	Mainly defensive + preemptive	Offensive + preventive
Actor	State (mainly through intelligence services) alongside multinational corporations	Primary: state Secondary: multinat-ional corporations

[32] Blackwill and Harris, *War by Other Means*, 25.
[33] Luttwak, Edward N, "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce," 18.
[34] Oksana Gaiduchok, "GEOECONOMIC STRATEGIES IN THE MODERN GLOBAL ECONOMIC SPACE," *EUREKA: Social and Humanities* 6 (November 2019): 5–7, https://doi.org/10.21303/2504-5571.2019.001081.

Objective	Economic supremacy and competitive advantage to protect strategic autonomy	Win international vital stakes and projecting influence in overseas territories
Type of warfare	Influence through information: economic intelligence is a tool in conducting economic warfare that aims for economic power	Influence through structure: Supply chains, infrastructures…etc.

Subsections 4: The Strategic Blueprint of Geoeconomics; Mapping Economic Tools to Geopolitical Ends:

In this part we aim to cast the light on the strategic and geopolitical instrumentalization of economic means, and how these means have been developed and taken out of their commercial profit-making framework towards political ends.

A. Economic Tools: represented in:

1. **Trade policy:** this instrument involves manipulating the flow of goods and services to achieve two main strategic ends: compel a target country to change a behavior already pursued (the stick), or luring it (carrot) to dissuade it from pursuing a certain policy by convincing it with the greater utility and returns it will obtain. Manipulation is executed through: raising tariffs, trade embargo, boycotts, selective targeting of foreign companies in local market, and trade restrictions.
   Trade here serves as weaponized interdependence rather than for pure gain and wealth purposes, creating an asymmetric dependence granting the country with larger economy more lever and leverage over the other.

2. **Investment policy:** globalization has contributed in the shift from trade-based transactions to capital-based transactions and flows between nation-states, this shift paved the way for new type of systematic soft influence especially with the emergence of new non-western financial hubs (gulf countries, east and south-east of Asia countries) through the acquisition of state capitalist means of power, notably through SFWs and State Banks which enables the wealth accumulated by states to be transformed into operative and manifest actions of influence with geopolitical and strategic dimensions, these dimensions include: controlling sovereign assets and resources, threatening to provoke a liquidity crisis by dumping assets or pulling capital in the target country, and buying shares in the decision-making process, as these type of influence-seeking practices aims for a soft integration in the target economy.

3. **Economic sanctions:** economic sanctions are "the deliberate, government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations"[35] they represent a middle-ground mean of pressure that intermediates the subtlety of diplomacy and cruelty of military options, seeking to achieve foreign policy or

[35] Gary Clyde Hufbauer, *Economic Sanctions Reconsidered*, 3rd ed, with Peterson institute for international economics (Peterson Institute for international economics, 2007), 3.

national security goals[36]. Despite the fact that the effectiveness of economic sanctions has been a matter of dispute and their utility to extract the maximum geopolitical concessions possible varies, however, the success of sanctions depends on plethora of variables, mainly: target's economic vulnerability, the magnitude of the objective at which the sanctioner is aiming to achieve, domestic market size, and global market share.[37] (further details regarding this part will be covered later as we progress).

4. **Cyber warfare:** cyber space is of crucial significance in economic statecraft, particularly, cyber-attacks of geoeconomic nature, and in order for these attacks to be categorized as such, they need to meet 2 main characteristics: to be state-sponsored attacks, and to aim for economic influence. Unlike traditional military cyber-operations, geoeconomic cyber warfare targets critical financial infrastructure (banks, stock markets…etc.), energy sectors, advanced technologies, and commercial intellectual property to impose significant economic costs causing an overall paralysis for the target country. On the other hand, the strategic aims of such warfare include: **industrial espionage**, **vandalizing infrastructures**, as well as to **deterrence and retaliation,** as this new generation warfare does not aim for total annihilation of the adversary, but rather, for long-term economic havoc.[38]

5. **Foreign assistance:** Foreign aid -be they humanitarian, military, or economic- serves as a prominent geoeconomic tool for donors to exert strategic influence through asymmetrical interdependence. This leverage is primarily achieved through the "fungibility and budget displacement principle". By granting some strategic resources, the donor enables the recipient to redirect its budget toward other expenditures, however, this creates a strategic trap as the donor's "calculated generosity" targets essential sectors, encouraging the recipient to give up its self-reliance in those areas. As a result, the recipient finds it increasingly difficult and painful to restore its independent financing, eventually falling into a structural dependency where the donor holds significant geopolitical and political leverage.

6. **Financial and monetary policy:** National power is mainly a financial construct, due to the fact that financial dominance exceeds the importance of territorial expansion, as the control of currency and international financial mechanism empowers the control of the flow of goods and services in a wider scope having both political and geopolitical implication and leverage.

[36] Sarah Krulikowski, *Economic Sanctions: An Overview*, Executive Briefings on Trade, 2024, 1.
[37] Blackwill and Harris, *War by Other Means*, 58.
[38] Blackwill and Harris, *War by Other Means*, 59–68.

Geopolitical primacy through finance requires 3 main features on how financial and monetary policies are weaponized into geopolitical leverage: First is the **global footprint of a currency,** currencies such as the Euro and the Dollar with international prestige are utilized as strategic tools for defensive and offensive purposes: imposing sanctions, hedging, strategic denial…etc. exploiting the current status-quo established through the Bretton Woods system in 1944.

Second is **States' ability to mobilize low-cost financing,** which demonstrate that states borrowing capabilities are deeply affected by their political reputation and prestige and how this prestige can advantage certain states to obtain credits with low interest rates while others cannot, this attribute is reflected in the balance of power between sates especially in times of tensions and war, where mobilizing requires expeditiousness.

Third, which represents a crucial feature, it is **the capacity to manipulate the borrowing costs of other nations.** It is when dominant states extort vulnerable economies by manipulating financial markets (debt market, stock market, foreign reserves and assets…etc.) through their national means of economic influence – which we talked about in state capitalism and economic statecraft subsections- to drive policy change, jeopardizing their strategic autonomy.

7. **Energy and strategic commodities:** Energy and strategic commodities are two sides of the same coin for geopolitical influence. The new geopolitical role of energy greatens in today's globalized world, especially oil and gas, reflected in pipelines warfare and the quest to maintain and protect them as inevitable mean for both influence and survival, the importance lies as the following:

   Producing states -such as Russia- aim through their state capitalist tools mainly National Champions (Gazprom for example) and Sovereign Wealth Funds (like Russian Direct Investment Fund - RDIF) to control any emerging possible competitor financially through merger and acquisition, or politicly by redirecting the foreign policy of this possible competitor to align with its strategy and foreign policy. The goal is to prevent any actor that can break their monopoly of energy, which thus results in losing a significant mean of leverage.

   Consuming states -such as European Union- seek to guarantee their energetic security without being blackmailed or bargaining their political and strategic interests, which in fact, are mostly threatened by those producing states that seek to instrumentalize and weaponize this energy to obtain the maximum concessions and utility possible from the consumers.

On the other hand, strategic commodities such as grains, lithium, rare earths…etc. are of vital geopolitical importance, as different forms of manipulation concerning production, supply chains, and pricing of these commodities and their importance in the overall well-being of economies extends commercial logic and financial gains into global strategic calculations and national security concerns.[39]

B. Geopolitical Ends:

A deductive reading to War by Other Means by Jennifer Harris and Robert Blackwill, we conclude that geopolitical ends states questing to reach through the aforementioned economic tools above are 5 main goals, and they are as the following:

1. Strategic Compliance:

Strategic compliance represents a political situation the sender state is looking to reach through economic coercion by the deliberate use of economic instruments to push the adversary towards a specific policy change. It functions by creating a **cost-benefit imbalance** (costs of resisting > benefits of compliance) by exerting calculated pressure where the target finds it more expensive to resist than to comply with the coercing state's political demands, i.e., it is the instrumentalization of economic pain and pressure to extract political concessions.[40]

2. Territorial sovereignty:

Territorial sovereignty, is the expansion of national borders through economic infrastructure. It is about transforming commercial assets -such as drilling rigs, pipelines, strategic ports…etc. – into physical representations of sovereignty. By placing these assets in tense conflictual regions, the state creates a fait accompli situation, resulting in expanding its territorial footprint without direct use of military force or risking uncontrolled escalation.[41]

3. Structural dependency:

Structural dependency aims to limit a target state's strategic autonomy by making its economic survival dependent on the interests of the dominant power. This is conducted

[39] Blackwill and Harris, *War by Other Means*, p.p 49–87.
[40] Blackwill and Harris, *War by Other Means*, p 87.
[41] Blackwill and Harris, *War by Other Means*, p 86.

through long-term interests, such as: infrastructure projects, sovereign debt traps, or the monopolization of supply chains, which ends up in turning the target nation into a geopolitical client.[42]

4. **Strategic denial:**

Seeks to prevent the adversary from acquiring elements of power and impose their will through coercion and attrition-based strategies, rather than pure containment or direct dominance. Strategic denial strategy does not aim for immediate policy changes, however, it focuses on systematically depriving a competitor of the critical inputs, such as: high-end technology, rare earth elements, or financial liquidity, necessary for military modernization and economic dominance.[43]

5. **Strategic Insurance:**

Although seemingly financial, but in fact, it is a strategy adopted by small countries characterized with large financial capabilities but limited military potential, therefore, it seeks to entangle its interests with a superpower to ensure its security -a political parasite- through economic integration and diplomatic alignment. This strategy transforms wealth into practical policies in response to both geopolitical challenges -security concerns- and ambitions -greaten their regional influence-, resulting into systematic asymmetrical interdependence.[44]

[42] Blackwill and Harris, *War by Other Means*, 86.
[43] Elbridge A. Colby, "Defense Strategy and a Strategy of Denial?," Institute for National Strategic Studies, accessed February 22, 2026, https://inss.ndu.edu/Media/News/Article/2985907/defense-strategy-and-a-strategy-of-denial/.
[44] Blackwill and Harris, *War by Other Means*, 87.

Section Two: Theoretical approaches and interpretations of Geoeconomic decoupling

To fully understand the dynamics of geoeconomic decoupling, it is necessary to trace its theoretical foundations within international relations and global economic thought. This section examines the major conceptual frameworks that interpret how economic interdependence is increasingly being dismantled or weaponized by exploring these diverse theoretical angles, we can better understand the underlying logic driving current shifts in global strategic power

Subsection 1: International political economy in the midst of rising new mercantilism

The current global economic order is undergoing a severe transformation, deeply influenced by the emergence of nationalist economic strategies, therefore, in this subsection we analyze the intersection of international political economy and the rise of new mercantilism, where states prioritize relative gains and economic security over open integration, in which we aim to clarify that this shift is critical to contextualize how structural power is redefined in a competitive global market

1. International political economy, mercantilism and neo-mercantilism; conceptualization:

International political economy (IPE) is defined as "a field that examines the complex interplay between economics and politics on a global scale", it focuses on the influence of political decisions on economic outcomes and vice versa, shaping state-market relations.[45]

As far as mercantilism is concerned, refers to "an economic theory and practice common in Europe from the 16th to the 18th century that promoted **governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers**."[46]

[45] "International Political Economy (IPE) | Business and Management | Research Starters | EBSCO Research," EBSCO, accessed March 7, 2026, https://www.ebsco.com.
[46] "Mercantilism | Definition & Examples | Britannica Money," Encyclopedia Britannica, accessed March 7, 2026, https://www.britannica.com/money//money/mercantilism.

We can notice that classical mercantilism is an economic model built on national wealth accumulation by incentivizing exports while discouraging imports. It focuses on pure economic factors to greaten the amount of gold and silver accumulated within the state and maintain surplus in the trade balance **in relevance to other nations**, which indicates that "zero-sum games" have always been an aspect of international economic interaction, besides, the concept of power was perceived to be equivalent for wealth, such logic coupled with scarcity meant that the enrichment of a nation is the impoverishment of another, so to maintain **a nation's supremacy and economic sovereignty**, governments needed a strong interventionism in their political economy, leading to global fragmentation as no nation would like to give up its gold and silver and engage in international trade with another nation, due to a simple equation:

The more bullions a state gives up = the poorer it is = the more vulnerable it is = the more advantage another nation has over it

However, in the 21st-century international political economy, the mercantilist logic has experienced a strategic evolution, demonstrated as **Neo-mercantilism**.

After the end of the cold war, neoliberal globalization model -especially in the light of the Chicago school in economics- prevailed through **the Washington Consensus**, seeking to minimize state's role in economic life and unleash markets potential as they represent the most efficient mechanism in organizing economic affairs.

John Williamson, the very first economist who coined this term says: "*the term **Washington Consensus** was coined in 1989 to summarize what I believed to be the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989."*[47]

To put it in another way, the Washington Consensus refers to a set of 10 economic policies, mainly market-led, directed to developing countries and adopted by international financial and economic institutions such as International Monetary Fund, World Bank…etc., these reform policies were heavily politized and effected by tendencies of the American administration, which back at that time, witnesses the rise of neoconservatives, leading to accusations of attempts to ideologically Americanize the world.

However, due to structural insufficiencies such as the 2008 financial crisis that showed the failure of the "hidden-hand" theory that could jeopardize the western model,

[47] "What Should the World Bank Think about the Washington Consensus? | The World Bank Research Observer | Oxford Academic," , https://academic.oup.com/wbro/article-abstract/15/2/251/1709062?redirectedFrom=fulltext.accessed March 8, 2026

coupled with the rise of new rivals and challengers such as China, Russia…etc. with their unique methods of managing their economies and politicize them, the need for the state to step back was a must, which paved the way for the rise of **Neo-mercantilism** in international political economy.

For the definition of Neo-mercantilism two dimensions are highlighted:

A- Economic Dimension:

Neo-mercantilism is the set of political-economic practices that encourages exports ~~and~~ discourages imports, controls capital movement, and centralizes currency decisions in the hands of the government to achieve macroeconomic objectives.[48]

B- Strategic (Geoeconomic) Dimension:

Theodore H. Cohn, cites that Neo-mercantilism "refers to the application of realist logic to international political economy, where states compete for economic resources and use economic strategies to advance national power and security".[49]

For Robert Gilpin: neo-mercantilism, as a contemporary form, involves the use of *protectionist landscapes*, *industrial subsidies*, *exchange-rate manipulation*, and other instruments of state intervention -which we referred to previously as economic statecraft- to enhance the relative economic power of a nation in the global market.[50]

From a state capitalist perspective, neo-mercantilism is a strategic orientation in which the state plays a central role in directing economic development to enhance national power. It emphasizes internal growth and productivity as the primary engines that drive the redistribution of power in the international system.[51]

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[48] "International Trade: Definition, History, Benefits, Theory, & Types - Globalization, Tariffs, Protectionism | Britannica Money, https://www.britannica.com/money//money/international-trade/The-new-mercantilism" Encyclopedia Britannica, accessed March 8, 2026,.

[49] Theodore H. Cohn and Anil Hira, "Neomercantilism," in *Global Political Economy*, 8th ed. (Routledge, 2020), p.p70–71.

[50] Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton University Press, 2011), p.p.76–78

[51] Ronald L. Tammen et al., *Power Transitions: Strategies for the 21st Century* (Chatham House Publ, 2000), p.p 15–17.

Thus, in light of these definitions, neo-mercantilism is not just a trade or economic policy, but as a hybrid framework that constitutes the principle of state capitalism and the technical foundation for the economic statecraft of the state, which reflects a shift from pure liberal and neoliberal perception about interdependence and economic transactions into *a pragmatic realpolitik structure*, as boundaries between market efficiency and national security keep progressively blurring.

2. The shift from absolute globalization to constrained globalization:

In this context, the reemergence of neo-mercantilist practices in international relations signals a significant change in mechanisms of the international economic order, reflecting therefore, the interplay between economics and geopolitics.

To begin with, globalization is the growing interdependence and integration of world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investments, people, and information.[52]

The era of **absolute globalization** which prevailed after the Cold war until late 2000s, led to a fact that some countries gained more competitive advantage in exporting goods and services and foreign capital, which granted them cross borders influence through multi-national corporations and state-owned enterprises. In this phase, **market competitiveness** was the means by which states' supremacy and influence are measured, where the quest for low-costs production models and incubating countries, for instance east and south-east Asian countries, were a relentless pursuit.

These nations, particularly China, strategically opened their economies and restructured their infrastructure to create a fertile ground for foreign investments which was the building block for their emergence as global geopolitical challengers later on.[53]

This era of Western-led absolute globalization allowed many emerging nations to benefit from global trade to accumulate substantial elements of national power, with China standing as a leading example.

This economic ascent was strongly knotted with a visionary leadership that possessed clear strategic ambitions, particularly to mention is **Deng Xiaoping** who established the

[52] Melina Kolb Editor Trade and Investment Policy Watch, "What Is Globalization?," October 29, 2018, https://www.piie.com/microsites/globalization/what-is-globalization.
[53] Cohn Theodore H. and Hira Anil, *Global Political Economy: Theory and Practice*, 8th Edition (Routledge, 2020), p.p 66

foundational pillars of Chinese strategic thought, famously known as 24-Charater strategy, in which he said: “

- Observe calmly
- Secure our position
- Cope with affairs calmly
- Hide our capabilities and bide our time
- Be good at maintaining a low profile
- Never claim leadership”[54]

This international context, empowered such states to acquire the instruments of global influence, as China’s early rise began to pose a structural challenge to the Western-led order, especially the United States that sought to revise and reconsider ~~this~~ these openness policies and interdependence which generated undesired geopolitical consequences.[55] Therefore, constrained globalization was a necessity to cope with the changing geopolitical landscape, and we can say that **constrained globalization represented the very first attempt of economic decoupling**, as will be shown in coming subsections.

[54] “Deng Xiaoping’s 24-Character Strategy | PDF | Deng Xiaoping | China,” accessed March 10, 2026, https://www.scribd.com/document/348939730/Globalsecurity-org-Deng-Xiaopings-24-Character-Strategy.
[55] Henry Kissinger, *On China* (Penguin Books, 2011), p.p 420–32.

Subsection 2: Weaponized interdependence and the geoeconomic dilemma: economic decoupling within the perspective of Global Value Chain and Smiling Curve approach

As global production becomes more fragmented, economic networks are no longer just channels for trade, but strategic tools for political leverage. In this subsection, we explore the dynamic of weaponized interdependence and the strategic dilemmas it creates for states seeking to decouple, and that's examining these shifts through the lenses of Global Value Chains (GVCs) and the Smiling Curve approach, to better analyze how structural power is concentrated and exploited at critical nodes of global production.

1. Weaponized interdependence:

It is widely believed that globalization through the neoliberal approach, represented by the United States has led to a state of symmetrical profitability where all actors involved will benefit from the dissolution of borders and merger of markets, leaving zero-sum games far behind, but in fact, this shift transformed cooperation into coopetition, and interconnectedness to polarized dependency, believing that economic prosperity, growth, and more connectivity will eradicate the propensity toward wars, while this resulted into new sort of warfare by creating new type of levers that grant some countries a structural power and influence, therefore, Weaponized Interdependence is defined as "*a condition under which an actor can exploit its position in an embedded network to gain a bargaining advantage over others in a contained system*".[56]

To best demonstrate this concept, we should refer to the **Networks Model,** by Henry Farrell and Abraham L. Newman.

This model argues that power in contemporary world is no longer possessed through the acquisition of military power only, but by **the control of networks and what flows across them.** This model consists of two significant components:

1. **Hubs:** represent the centers or nodes through which global flows circulate. These flows may be financial, technological, informational, etc. The term refers to pivotal countries that possess structural control over the network and can exercise a range of actions—mainly coercive—through it.

[56] Abraham Newman et al., eds., *The Uses and Abuses of Weaponized Interdependence* (Brookings Institution Press, 2021), p 1.

2. **Spokes:** these are the remaining actors who are part of the network to be able to interact with the world.

This model has 2 mechanisms of functioning:

1- **Panopticon effect:** it means that controlling states (Hubs) have a significant ability to gather information, which represents a strategic long-term advantage in intelligence gathering and proactive acting.
2- **Choke-point effect:** it means that Hubs have the potential to utilize this network against Spokes to extract concessions from them by threats of denial or extortion.[57]

An example to embody this model, is the United States' strategic blockade on China's access to advanced semiconductors, due to the leverage U.S. possess in Electronic Design Automation (EDA) software and lithography patents, in October 2022, U.S. department of commerce issued comprehensive export controls that prevented not only American firms but also any global producers using U.S. technology from supplying China with advanced computing chips.[58]

For this reason, in contemporary world, foreign direct investments (FDI) are not seen as a pure financial and economic variable, but they carry concerns and considerations related to national security, which paves the way for the necessity of **De-risking** and the emergence of the **Geoeconomic Dilemma** as we will be demonstrating in the upcoming segments.

2.1 Economic decoupling:

Economic decoupling represents an anomaly in international economic relations. Fundamentally, these relations are built upon trust, cooperation, and the mutual benefits different actors obtain from engaging in common commercial activities as a result of a plethora of international economic drivers, such as the international division of labour, global value chains, financialization…etc.

However, as globalization has evolved, other non-economic factors that interfere in economic interactions between nations, such as new coalitions, emerging blocks, geopolitical challenges…etc. All of which contributed as well to the securitization of economics itself, which redefined global interdependence to be a liability instead of an asset. As a result, it was

[57] Newman et al., *The Uses and Abuses of Weaponized Interdependence*, 23–31.
[58] Alex W. Palmer, "'An Act of War': Inside America's Silicon Blockade Against China," Magazine, *The New York Times*, July 12, 2023, https://www.nytimes.com/2023/07/12/magazine/semiconductor-chips-us-china.html.

a necessity -especially for great powers- to find a way to diminish these vulnerabilities without causing a total collapse.

Geoeconomic decoupling refers to the structural process of reducing economic entanglement between two or more economies (mainly U.S.A and China) especially in strategic sectors, pushed with a security-driven shift into a more paralleled isolated alternative.[59]

Decoupling* does not mean a total rupture in economic ties (financial, trade, supply chains, foreign investments…etc.), but rather, it is about re-engineering interdependence and amount of influence a nation has over another for the sake of minimizing the choke-point and panopticon effects.

Decoupling = structural and strategic disengagement of economies for the purpose of self-reliance and dependency minimization

2.2 Types of decoupling through Smiling Curve and Global Value Chain approaches:

The core idea for decoupling is self-reliance and sovereignty maintains, but choosing the fields of decoupling is not random, it is built on selection and value criterion.

In this context, it is significant to refer to the **Global Value Chain Approach (GVC)** in directing how states pursue decoupling.

Global Value Chain approach is "the sequences of value-added activities involved in the conception, production, and delivery of a product to final consumers, and its ultimate disposal after use".

The production of goods and services is not in one single country in the world, but it is divided into 3 main stages: **preproduction, production, and post-production**, and these

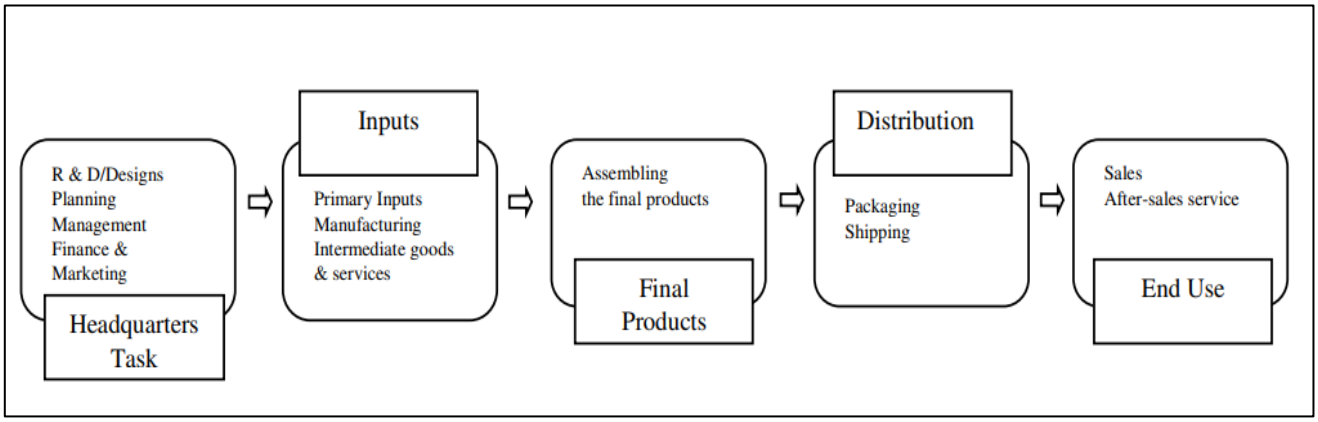
[59] abdulkarim abdullahi et al., "the weaponization of economic interdependence: sanctions, financial statecraft, and the fragmentation of the global economic order," *international journal of social sciences and management review* (abuja), 2025, p.p 1–5.

* Besides decoupling, a closely related concept is De-risking, which means is a risk management policy, it is about sustaining the contemporary economic interdependence but with partial regulatory arrangements that seek to mitigate vulnerabilities rather than radical structural measures (no restructuration), characterized by stronger tendency towards cooperation and less severeness than decoupling.

stages are divided into: **design, manufacturing, assembly, marketing, distribution (logistics), and consumption.**[60]

i.e., a state that hosts the design and manufacturing is of a greater importance then just distribution or marketing, this because of a simple approach called **"the smiling curve"**:

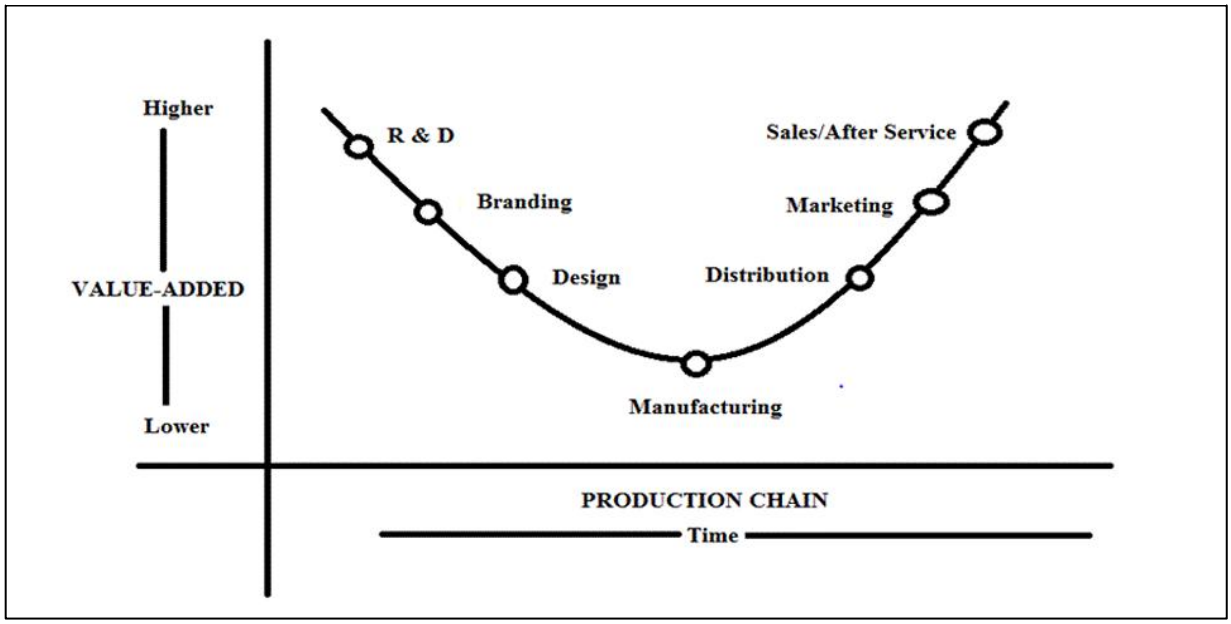
Figure 3: *The value chain*



Source: Adapted from: Munich Personal RePEc Archive; Smile Curve and its linkages with Global Value Chains (2017)

[60] Gary Gereffi, *Global Value Chains and Development: Redefining the Contours of 21st Century Capitalism* (Cambridge University Press, 2018).

Figure 4: *The smiling curve*



Source: Munich Personal RePEc Archive; Smile Curve and its linkages with Global Value Chains (2017), p17

The smiling curve is a model that demonstrates how value is distributed and added to a product within each step, the sides of the chain (pre-production and post-production) are of higher value, while the medium part is of a lower value. This is because:

- **For pre-production:** (such as R&D, design, patents) it includes activities based on innovation and knowledge, such activities require high, brilliant, and complex skills which are subject to scarcity.
- **For post-production:** (such as marketing and branding) where the value comes from the reputation in the market and clients' perception to the product.[61]

Geoeconomically, the importance (influence) of a state comes from which of the stages it hosts within its sovereignty, given the asymmetrical value added across these stages, the importance of decoupling emerges as to undermine rival's relative influence and their positioning in the value chain, affecting the leverage the have and the balance of power.

[61] Sakshi Aggarwal, *Smile Curve and Its Linkages with Global Value Chains*, May 14, 2017, https://mpra.ub.uni-muenchen.de/79324/.

The more technologically complicated + intellectual intense the stage = the greater its importance and added-value in chain

So, complexity "advanced technologies, precise industries…etc." is the key, as this sensitivity and vitality is what drives states to choose decoupling -especially with rivals- in certain fields while not in others.

Let's give the example with Apple company. iPhone, for example, is an American product, however, the process of making it includes many countries, which are:

- **Design:** U.S.A
- **Manufacturing:** Taiwan, South Korea, Japan, and China
- **Assembly:** China, India
- **Marketing:** U.S.A
- **Distribution:** China, Singapore
- **Consumption:** World wide -mainly in U.S.A, Europe, India-[62]

A thorough look at the list, we can notice that activities (stages) of high value are mainly concentrated in U.S.A. and China, which illustrates the logic mentioned above. For this reason, as China is perceived as a geopolitical rival that has reached a level of peer competitor with U.S.A. **selective decoupling** emerges as inevitable necessity to target specific chokepoints in the Smiling Curve for China.

Types of decoupling:

1. **Technological decoupling:**

It is the fortification of national technical and innovative systems, by which every state adopts local-isolated systems, such as: local internet, patents, advanced technologies, armaments…etc. It is the process of fragmenting global chains of value to build an independent closed system, this also includes attempts to deny a rival from possessing specific technologies.[63]

2. **Financial/investment decoupling:**

[62] أرقام, "ببساطة ودون تعقيد.. لماذا لا تستطيع آبل تصنيع أيفون في الولايات المتحدة؟," أرقام, accessed March 2, 2026, https://www.argaam.com/ar/article/articledetail/id/1808504.
[63] abdullahi et al., "the weaponization of economic interdependence: sanctions, financial statecraft, and the fragmentation of the global economic order," p 8.

Which involves reducing dependency on foreign currencies in international trade (import/export activities) to isolate national economies from potential sanctions and global fluctuations, as well as on foreign capital to build a local-capital-based economy, seeking to protect national financial stability, especially from hot money and influence-seeking investments.[64]

3. Supply chains decoupling:

This strategy includes both **Friend-shoring** and **Reshoring**, it is the relocation of supply chains from a potential rival country to a friend or an ally country (friend-shoring), or domestic market (reshoring), despite the fact that maintaining manufacturing activities in a rival country carries significant economic utility -such as low manufacturing costs, affordable

raw material, market access…etc.-, however, for hedging and security purposes, rational countries tend to sacrifices these benefits for the sake of long-term interests. Therefore, traditional understanding of proximity has shifted from geographical proximity to political trust and alignment. [65]

3. Geoeconomic dilemma:

Based on the aforementioned analysis and concepts, a fundamental question arises: **why great powers do not pursue a full decoupling from their strategic rivals?**

In fact, this dilemma is a complex synthesis of economic interests and geopolitical challenges/ambitions, in which a state attempts to balance both considerations without compromising one for the sake of the other.

Geoeconomic dilemma is therefore defined as *the structural tension caused by the contradiction between economic logic, based on efficiency and interdependence, and geopolitical logic based on influence and security.*

This dilemma is manifest especially in great powers politics by which a state finds itself obliged to engage in economic interdependence with a strategic rival, which turns this economic advantage into security vulnerability that could be instrumentalized for influence and pressure.[66]

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[64] Ibid,p.6.
[65] "What's the Difference between 'Friendshoring' and Other Global Trade Buzzwords?," World Economic Forum, February 17, 2023, https://www.weforum.org/stories/2023/02/friendshoring-global-trade-buzzwords/.
[66] Anthea Roberts et al., *The Geoeconomic World Order*, 22, no. 4 (2019):p.p 655–693.

Due to complex realities of globalization, marked by markets integration, entanglement of economies and escalating geopolitical challenges around the world have resulted into, great powers' -mainly U.S.A. and China- tendency to adopt a selective decoupling (de-risking) with minimum risks possible to the overall structural fragmentation, not necessarily out of concern for the public interest, but because a radical shift would lead to further fragmentation, which reflects a structural transformation of the global economic order. It is therefore the reconfiguration of commerce, financialization, supply chains, and technology on geopolitical bases rather than economic efficiency.[67]

Geoeconomic dilemma = the intersection between economic interests and security imperatives, i.e. how to achieve balance between an economy that requires openness, and security that needs closure

[67] Shekhar Aiyar et al., "Geo-Economic Fragmentation and the Future of Multilateralism," *Staff Discussion Notes* 2023, no. 001 (2023): 1, https://doi.org/10.5089/9798400229046.006.

Subsection 3: Assessing economic decoupling within the perspective of Power Transition theory

Power transition theory is a structural framework that focuses on the cyclical nature of peace and conflict in the international system. It was published in 1958 by A.F.K. Organski in his work "World Politics".

PTT assumes that stability is maintained through a hierarchical distribution of power among states in the international system, in which a dominant state holds a preponderance of power and establishes the status quo. Conflict is likely to emerge when a dissatisfied revisionist state seeks power parity with the dominant state, thereby provoking war.[68]

What Power Transition actually means?

Power transition refers to the switch in roles and positions between a dominant and great power in the pyramid of power, followed with rearrangements (radical change) or modifications in the way global order and affairs function: institutionalism, international commerce and trade, monetary and financial (world reserve currencies, methods of payment…etc.). Therefore, a power transition does not mean the disappearance of the dominant power,

Core principles:

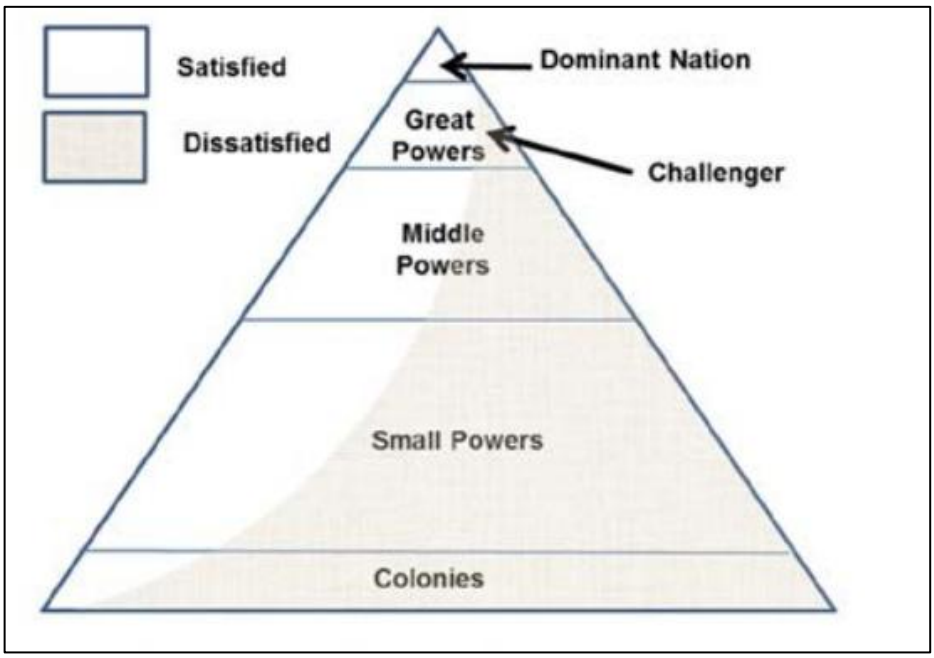
1. International hierarchy:

The above-mentioned theory argues that the international system is not anarchic, but ratheran orchestrated system led by a dominant power that sets the rules and maintains the status quo, which reflects the unequal distribution of power among states.[69]

[68] Jonathan M. DiCicco, "Power Transition Theory and the Essence of Revisionism," in *Oxford Research Encyclopedia of Politics*, by Jonathan M. DiCicco (Oxford University Press, 2017), p.p 1–3, https://doi.org/10.1093/acrefore/9780190228637.013.311.

[69] Robert C. Grass, "Power Transition and United States-China Relations" (Master's Thesis, Marine Corps University, USMC Command and Staff College, 2016), p.p 6–8.

Figure 5: *Organski's Hierarchical Pyramid of Power*



Source: Ronald L. Tammen et al., Power Transitions: Strategies for the 21st Century, p.p 33

2. Internal growth as an engine for power distribution:

Unlike classical realism, which focuses on alliances and the balance of power, Power Transition Theory highlights the importance of national power elements such as **population, economic productivity, and political capacity**. These elements constitute the foundation of power accumulation, particularly economic growth and productive development, which refer to the state's ability to produce more advanced and complex goods and services while maintaining a higher growth rate relative to other nations.[70]

3. The parity condition:

Parity refers to a stage at which a rising challenger approaches the power level of the dominant state. It is often described through the "80–120 percent rule," which suggests that a zone of heightened danger emerges when the challenger's capabilities reach approximately

[70] Grass, "Power Transition and United States-China Relations," 10–11.

80 percent of the dominant state's total power. Within this range—up to around 120 percent—the probability of transition wars increases, as intense competition is triggered and the structural stability of the international hierarchy becomes more volatile.[71]

For further clarity and analysis, this dynamic may be conceptualized through the following stages:

0%< challenger capacity < 40% (Stability phase): stable international system, the challenger is not yet a systemic threat as no sufficient capabilities are yet acquired.

40%≤ challenger capacity < 80% (Early Indicators): triggers indicators to dominant power for a growing potential rival (high GDP rates, technological development, increasing engagement and influence in world politics…etc.)

80%≤ challenger capacity ≤120% (The Alert Zone): the challenger is viewed as a competing rival that needs to be contained as soon as possible within this percentage spectrum of power, with adequate amount of capacity to dare the dominant power for supremacy and revisionism

120%< challenger capacity (Transition): the challenger has the ability to displace the old hegemon, impose new status quo, and establish new international order

4. <u>The Satisfaction and Dissatisfaction Variable:</u>

The rise of a challenger does not necessarily lead to a potential war; however, the decisive factor is **the degree of satisfaction or dissatisfaction of the rising challenger with the existing international norms and order.**

A challenger becomes dissatisfied when it perceives that the existing status quo constrains the realization of its interests. In other words, the state believes that its growing capabilities could generate greater utility under a different international order; however, within the current system, this appears unlikely. Consequently, a propensity toward revisionist policies emerges.[72]

In the context of geoeconomics -especially Sino-American power dynamics- **decoupling** represents an instrument for slowing the rise of the challenger and achieve maximum containment. But why "slow" and not prevent?

[71] A. F. K. Organski and Jacek Kugler, *The War Ledger* (Chicago: University of Chicago Press, 1980), 18–22.
[72] Organski and Kugler, *The War Ledger*, p.p 22–24.

In fact, at this point the challenger has reached and possessed an adequate amount of power and self-reliance, coupled with cunning strategic vision, that any attempt for total blockade or systemic exclusion will seem impossible or even cause backfires on the dominant itself.

Consequently, economic decoupling functions as a redistribution mechanism and moderating tool a dominant power utilizes to rearrange international interactions of power, since internal economic growth and productivity as well as to technological advancement represent the building block for PTT, it intersects with GCV and Smiling Curve approaches in the importance of engineering interdependence and positioning of powers in the global chain of value, at the same time, perusing selective-decoupling (de-risking) strategy appears to be more rational and pragmatic, taking into consideration the connectedness both economies have -American and Chinese- that would be hard to pursue total decoupling due to the high economic and fragmentation costs, therefore, U.S.A. tends to decouple in strategic high value sectors that grant China supremacy or shift the balance of power is its favor such as semiconductors, AI, quantum computing, complex technologies….etc., conversely, a de-risking strategy in low value sectors such as electronics, garments, and basic consumption industries that do not represent a threat or strategic challenge to the U.S.A.

Chapter Two: American geoeconomics

Section One: From engagement to strategic competition: the historical evolution of Sino-American relations

Subsection 1: Triangular diplomacy and the opening of China in 1972: a geopolitical gambit with economic consequences

1. What is triangular diplomacy?

Triangular diplomacy is the use of relations with one country to extract concessions from another. It is built upon a simple logic: the **duality of cooperation and tension**. This implies that cooperation between A and B creates tension with C due to the structural rivalry between B and C, and vice versa, as both seek to achieve maximum gain from **A**, either by providing more concessions than the other does or denying the other party access to **A**. Simultaneously, **A** exploits this rivalry between them to advance its interests.

Thus, the entire mechanism of this strategy is about **creating and regulating balance** between competing rivals, considering the power of one side in relation to the other.[73]

2. The U.S. opening to China in 1972:

The U.S. rapprochement with China in 1972 was not merely a conventional diplomatic or political gesture, but rather a turning point.

At the beginning of the 1960s, Sino-Soviet relations witnessed a remarkable deterioration as a result of ideological accusations, where each side blamed the other for doctrinal revisionism and ideological treason. In 1969, tensions and animosity augmented to a degree that was embodied in a bloody military confrontation on Zhenbao Island on the Ussuri River (Sino-Soviet border conflict).

In this context, the United States identified the changing dynamics in Asia and decided to initiate one of the most unprecedented geopolitical maneuvers that would reshape the entire world **the normalization of relations with China in 1972.**

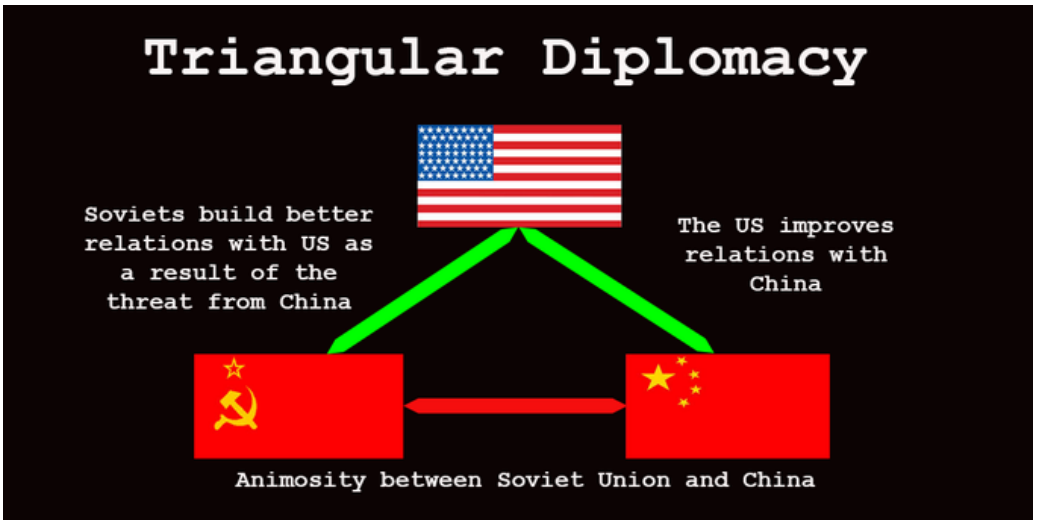
The U.S.A. had a primary geopolitical goal, which was to contain the Soviet Union, establish a détente, and regulate the regional balance of power in Asia, especially in light of its

[73] "Historical Documents - Office of the Historian," accessed March 13, 2026, https://history.state.gov//historicaldocuments/frus1969-76v01/summary?utm_source=chatgpt.com.

involvement in Vietnam; therefore, the Sino-Soviet dispute represented an unprecedented opportunity to achieve this goal, and that's through the **Triangular Diplomacy,** indicating a shift from pure containment to balance-of-power diplomacy.[74]

Following his secret visit to China in 1971, Henry Kissinger, alongside President Richard Nixon, decided to exploit this dispute to advance American interests in the region.

Figure 6*: Schema demonstrates trilateral relation between U.S.A, U.S.S.R, and China*



Source: X SouthAsia71[75]

The core idea is that the U.S. believed that China was terrified enough of the USSR and alarmed by a potential invasion that any **cooperation** with it would create enough **tension** for the Soviets to worry about a possible Sino-American alignment that will jeopardize USSR's geopolitical sphere of influence and strategic position, forcing them therefore to approach the U.S. as well and provide more concessions. Eventually, this maneuver resulted in the Strategic Arms Limitation Treaty (SALT 1) on May 26, 1972, with the USSR alongside trade agreements and cooperation in space exploration.[76]

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[74] Kissinger, *On China*, 217–26.

[75] South Asia 71 [@SouthAsia71], "British are unaware of Nixon's desire to improve relations with China through 'Triangular Diplomacy' #coldwarhist http://t.co/T1swyzhqWW," Tweet, Twitter, February 20, 2015, https://x.com/SouthAsia71/status/568702610791796737.

[76] "Triangular Diplomacy: U.S., USSR, and China [Ushistory.Org]," accessed March 20, 2026, https://www.ushistory.org/us/56g.asp?srsltid=AfmBOooVhiQS7ybQQBc02EyGuszNHXcl77pTirkZJ2XwzGk5R1PPyxAf.

On the other hand, although the fact this strategy achieved its objectives towards the Soviets, the opening to China represented the seed for today's rivalry, as this rapprochement carried out -later on following the arrival of Deng Xiaoping in 1978- enormous economic benefits for China, benefits which the U.S. overlooked at the time. America's strategic underestimation was rooted in the belief that China was economically fragile and politically unstable to emerge as a challenger. This view on China's internal chaos and vulnerabilities, led to a profound miscalculation, which is that China would remain a secondary dependent power rather than a rising global competitor.

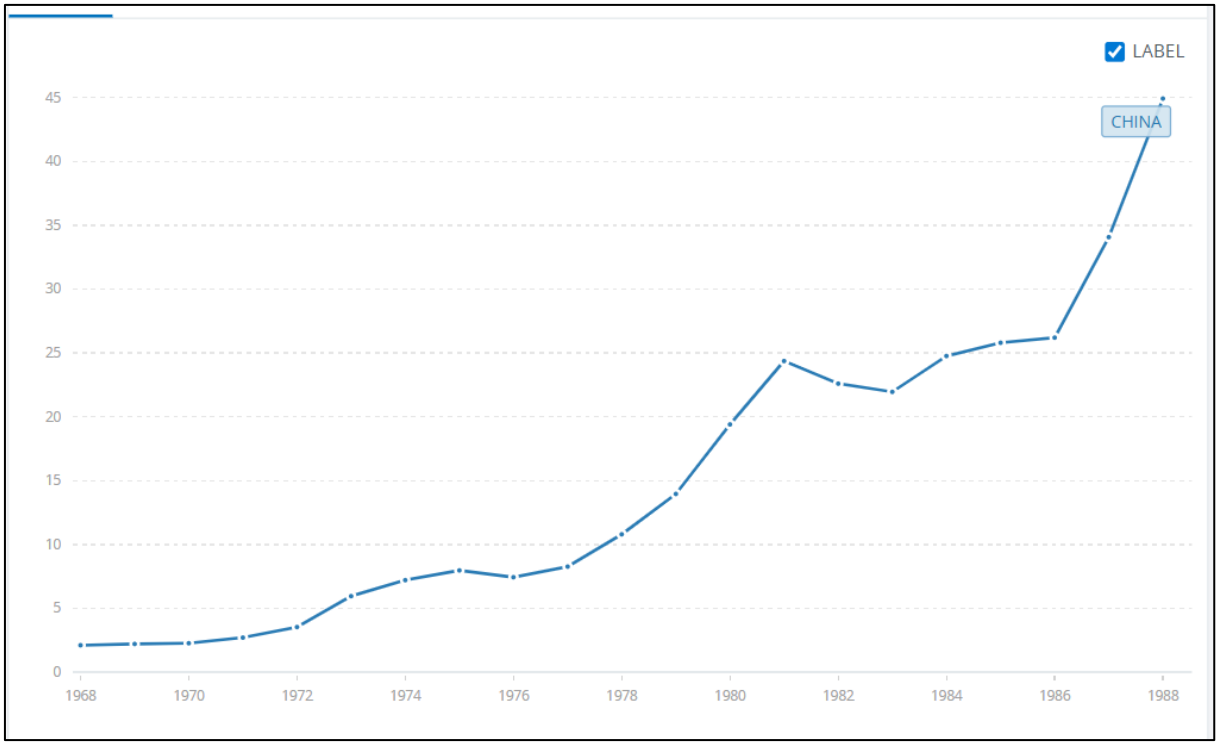
In fact, normalizing relations did not just mean improving diplomatic representation and diminish political hostility, but more economic openness in contrast to before. Western restrictions on technology transfers to China remove, joint ventures, foreign investments and capital started flowing in the country and foreign corporations started operating inside, these allowed China to develop its infrastructure, industrial and agricultural capabilities, and most importantly the **Transfer of know-how** and **technical expertise** which equipped it with means of power and self-reliance, necessary to become an emerging power.

However, this is where miscalculations emerge. The U.S. "carrot" strategy aimed at encouraging China to diverge from the Soviet Union ultimately backfired, as the United States underestimated China's capacity to absorb and transform these advantages into a state-led *fait accompli*.[77]

To put it into a quantified framework, consider the following charts:

[77] Michael Pillsbury, *The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower* (Henry Holt and Company, 2015), p.p 60–86.

Figure 7: *Annual GPD growth of China 1968 – 1988*



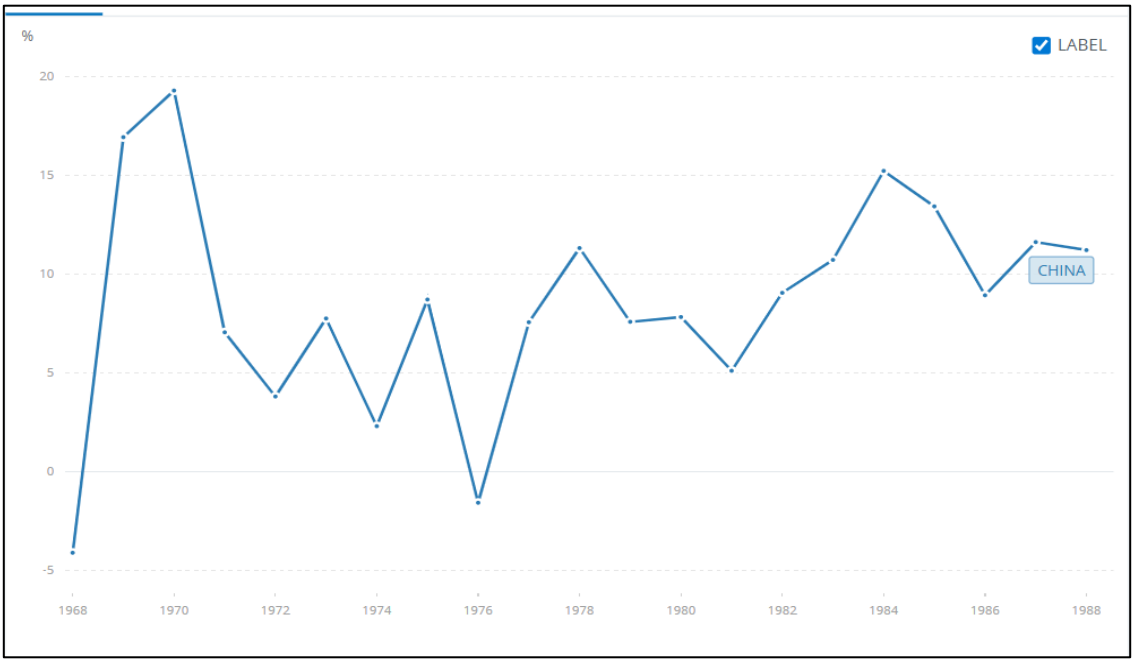
Source: World Bank Group[78]

Figure 7 illustrates the above-mentioned transformation, as Chinese exports of goods and services began to increase sharply.

The synergy between those two indicators suggests that U.S. openness provided the essential external environment and incentives for China to develop its contemporary geoeconomic power by integrating into the global economy.

[78] "World Bank Open Data," World Bank Open Data, accessed March 20, 2026, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=1988&locations=CN&start=1968.

Figure 8: *China's annual exports of goods and services 1968 - 1988*



Source: World Bank Group[79]

As can be observed, the recovery in China's macroeconomic indicators in the years following the Sino-American rapprochement in 1972 reflects the economic utility and returns of what initially appeared to be merely a geopolitical maneuver. China transitioned from a communist autarkic system to an export-led growth economy.

As shown in Figure 8, although annual GDP growth exhibited significant fluctuations during the Cultural Revolution—particularly between 1968 and 1972—it eventually stabilized and entered a sustained upward trajectory following the 1978 reforms.

[79] "World Bank Open Data," World Bank Open Data, accessed March 20, 2026, https://data.worldbank.org/indicator/NE.EXP.GNFS.CD?end=1988&locations=CN&start=1968.

Subsection 2: The shift in the American geopolitical compass; the U.S. pivot to Asia in light of Offshore balancing and selective engagement grand strategies:

1. Offshore balancing and selective engagement grand strategies:

Geopolitically speaking, what determines the geopolitical orientations and interests of a state towards a certain region are 2 main factors:

1. Partnership opportunities: a strategic alignment with an actor to foster the state's alliance and sphere of influence
2. Threat epicenters: the emergence of primary indicators for a threat that needs to be neutralized, or a competitor to be contained

In light of this logic, it is important to highlight a common premise upon which both grand strategies are built. Both agree that there are three vital regions in the world that are critical to American supremacy: Europe, the Middle East, and East Asia. However, they differ in the mechanisms through which these regions should be approached and managed in practice.

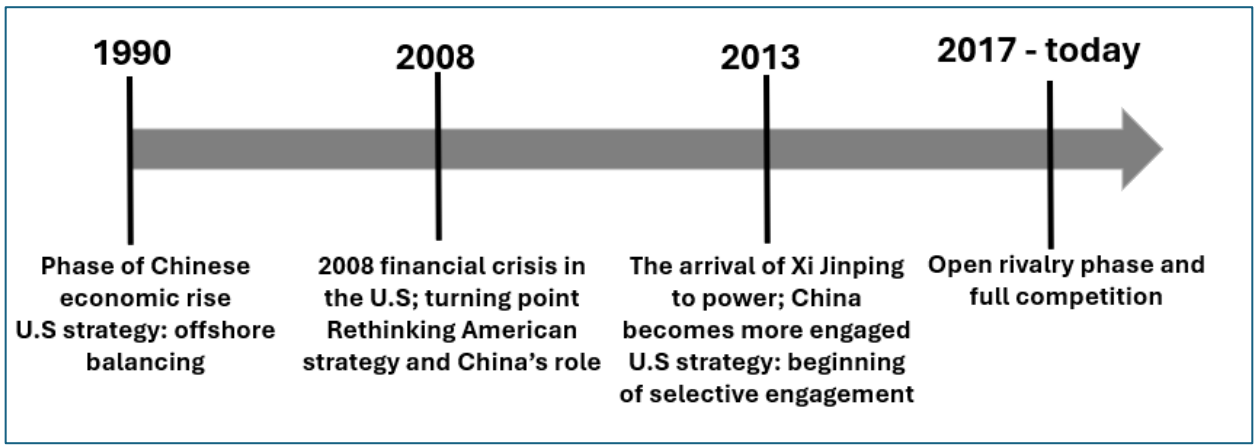
Offshore balancing argues that the United States should not maintain a constant military presence in these regions. Instead, its primary objective is to prevent the emergence of a regional hegemon that could threaten its interests. To achieve this, the United States should rely on local allies—so-called "regional balancers"—to assume this role on its behalf. Direct American engagement should occur only when these local actors fail to contain the rise of such a hegemon.

Selective engagement, on the other hand, accepts the same foundational premise but advocates a different approach. It argues that the United States should maintain a continuous presence in these key regions as a "peacekeeper." In this context, peacekeeping does not refer to a normative or humanitarian effort to end conflicts; rather, it denotes the role of a power-balancing actor that ensures stability among great powers within the region. The objective, therefore, is to maintain a sustained presence to prevent instability, rather than to preempt the emergence of a regional hegemon.[80]

[80] International Relations & Politics, *"FOUR" Grand Strategies, John Mearsheimer |Isolationism,Offshore Balance,Selective,Global Domination*, 2022, 17:55, https://www.youtube.com/watch?v=EH-kY0Z-wLk.

2. The shift in the American geopolitical compass towards Asia:

Figure 9: *The rise of China and US strategic shift*



Source: prepared by the student.*

During the 90_s and the beginning of the century, China maintained stable economic growth rates, a growth that did not represent any alarming indicator for the United State, especially with the prevailing belief that after China's accession to the World Trade Organization in 2001 would make it a **responsible stakeholder**, believing that the more liberal and capitalist the Chinese economy is, the more democratic the political regime becomes, the more friendly and integrated China will be[81], therefore, and with the growing American interventions in other parts of the world such as in Iraq 2003, Afghanistan 2001, it sought to adopt an offshore balancing strategy towards the Asian region, believing that its regional allies -Japan, South Korea…etc.- have the necessary capabilities to maintain balance against China, while avoiding further attrition to the United States.

In the midst of this optimism, the 2008 financial crisis hits, which represented the turning point in American strategy towards China. While the United States experienced a severe economic downturn that undermined confidence in the Western capitalist model and exposed structural vulnerabilities in its global leadership, as well as to its strategic

* This diagram is synthesized the student's cumulative academic lectures and coursework.

[81] Hillary Clinton, "America's Pacific Century," *Foreign Policy* (Washington, D.C), November 2011, 7–12.

implications on the American geopolitical posture, the Chinese economy through its state capitalist model, maintained not only healthy and stable growing rates, but also casted the light on the Chinese model as a parallel peer, able to resist and expand its geoeconomic influence.

To put it in other words, while the United States was experiencing an economic decline, China witnessed an expansion in its capabilities. This divergence translated into a relative shift in the balance of power, which implied that China's advancement is a retreat for the U.S., thereby requiring a reassessment of American grand strategy and its perception towards Asia.[82]

With the rise of Xi Jinping in 2012, and through his transformative vision articulated in *The Chinese Dream*, China's strategic orientation shifted away from the traditionally cautious approach associated with Deng Xiaoping's principle of "keeping a low profile." Instead, China adopted a more assertive posture, reflected in its expanding geopolitical role—particularly through maritime activities in the South China Sea, including the construction of artificial islands and increased pressure on neighboring states such as Japan and Vietnam.

In this context, China has advanced what is commonly referred to as the Anti-Access/Area Denial (A2/AD) strategy. According to the United States Department of Defense, "Anti-access refers to those actions and capabilities, usually long-range, designed to prevent an opposing force from entering an operational area, while area denial refers to those actions and capabilities, usually of shorter range, designed not to keep an opposing force out, but to limit its freedom of action within the operational area."[83]

This unprecedented strategic shift raised significant concerns for the United States, as it signaled China's growing ability to challenge U.S. influence and potentially becomes a regional hegemon that threatens to deprive US from its influence in the Asian sphere.

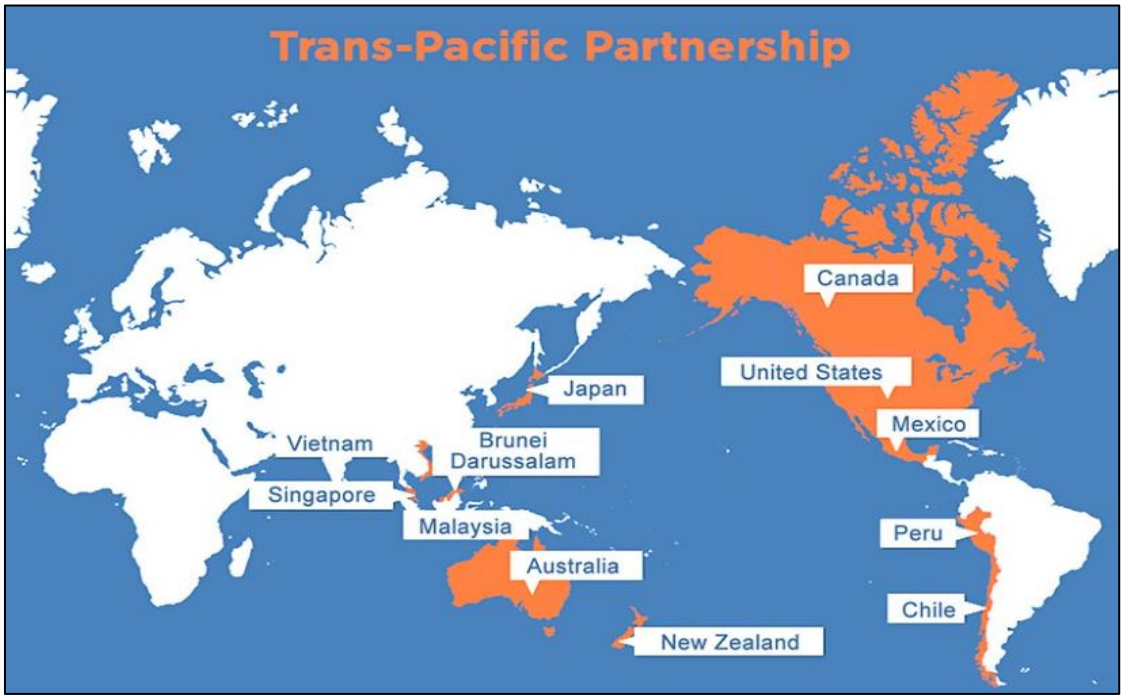
As a result, the U.S. questioned the effectiveness of offshore strategy in achieving its objectives, a reassessment that led to a strategic reorientation of U.S. grand strategy in the Asia-Pacific along two main axes:

- **Military axis:** initiating **Selective engagemen**t as a new grand strategy to face the changing geopolitical dynamic and consolidate American presence in the region
- **Economic axis:** promoting the **Trans-Pacific Partnership** (TPP) to reinforce American geoeconomic influence by forming trans-pacific economic alliances to contain China and prevent it from setting global economic standards, as the American

[82] Clinton, "America's Pacific Century," 9–11.
[83] G. D. I. Staff, "What Is Anti-Access Area Denial Strategy," *Global Defense Insight*, November 6, 2022, https://defensetalks.com/what-is-anti-access-area-denial-strategy/.

president Barack Obama openly acknowledged: *"we can't let countries like China write the rules of the global economy. We should write those rules, opening new markets to American products while setting high standards for protecting workers and preserving our environment."*.[84]

Map 1: *Member States of the Trans-Pacific Partnership (TPP)*



Source: China US Focus.[85]

Building upon the earlier strategic shift toward Asia, the period following 2017 marked a significant transformation in U.S. grand strategy toward China. With the election of Donald Trump, the new administration adopted a more confrontational approach, primarily through trade warfare, strategic denial, high-tech restrictions, the reshoring of

[84] "Statement by the President on the Trans-Pacific Partnership," Whitehouse.Gov, October 5, 2015, https://obamawhitehouse.archives.gov/the-press-office/2015/10/05/statement-president-trans-pacific-partnership.
[85] "The TPP That No One Seems Behind," China-US Focus, accessed March 23, 2026, https://www.chinausfocus.com/finance-economy/the-tpp-that-no-one-seems-behind.

corporations, and the targeting of major Chinese firms such as ByteDance (owner of TikTok), Huawei, Alibaba, and CATL. Within this framework, China was formally identified as a "strategic competitor."

However, another critical concern arises: the deep economic interdependence and entanglement that both economies have developed over the past decades. China, for instance, holds approximately $775–800 billion in U.S. Treasury securities[86], while the United States depends heavily on China as a global manufacturing hub, particularly for the assembly of high-tech products. This level of interconnectedness suggests that U.S. efforts to target the Chinese economy may generate unintended consequences and potentially backfire. As a result, a paradox emerges between geopolitical ambitions and economic realities.

Consequently, this tension has led to the emergence of a "de-risking" approach rather than full economic decoupling. The United States thus seeks to reduce strategic vulnerabilities while avoiding the complete severance of its deeply embedded economic ties with China.

[86] "Ticdata.Treasury.Gov/Resource-Center/Data-Chart-Center/Tic/Documents/Mfh.Txt," accessed March 23, 2026, https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt.

Subsection 3: The eclipse of Chimerica

The concept of 'Chimerica' was first introduced by British economic historian Niall Ferguson in his well-known article "Chimerica and the Global Asset Market Boom" in 2007, which consists of two parts: "Chi" from China, and "merica" from America.

"Chimerica" refers to an integrated and symbiotic economic system between China and the United States. It describes a deep level of interdependence and entanglement between the two economies, in which both actors perform complementary roles that support the functioning of the global economy as well as their own domestic systems. Within this division of labor, China has acted as a global hub of production, surplus savings, and credit provision, while the United States has served as a center of consumption and technological deployment. This economic complementarity contributed to a relatively stable international economic order.[87]

Following China's opening to the world economy and its accession to the World Trade Organization in 2001, it adopted a scalable export-led growth model. This model refers to an economic strategy in which growth is driven by integration into international trade, particularly through the promotion of exports. Such economies seek to gain a competitive advantage through large-scale production of goods and services that exceeds domestic demand, combined with relatively low production costs, thereby enhancing their competitiveness in global markets.[88]

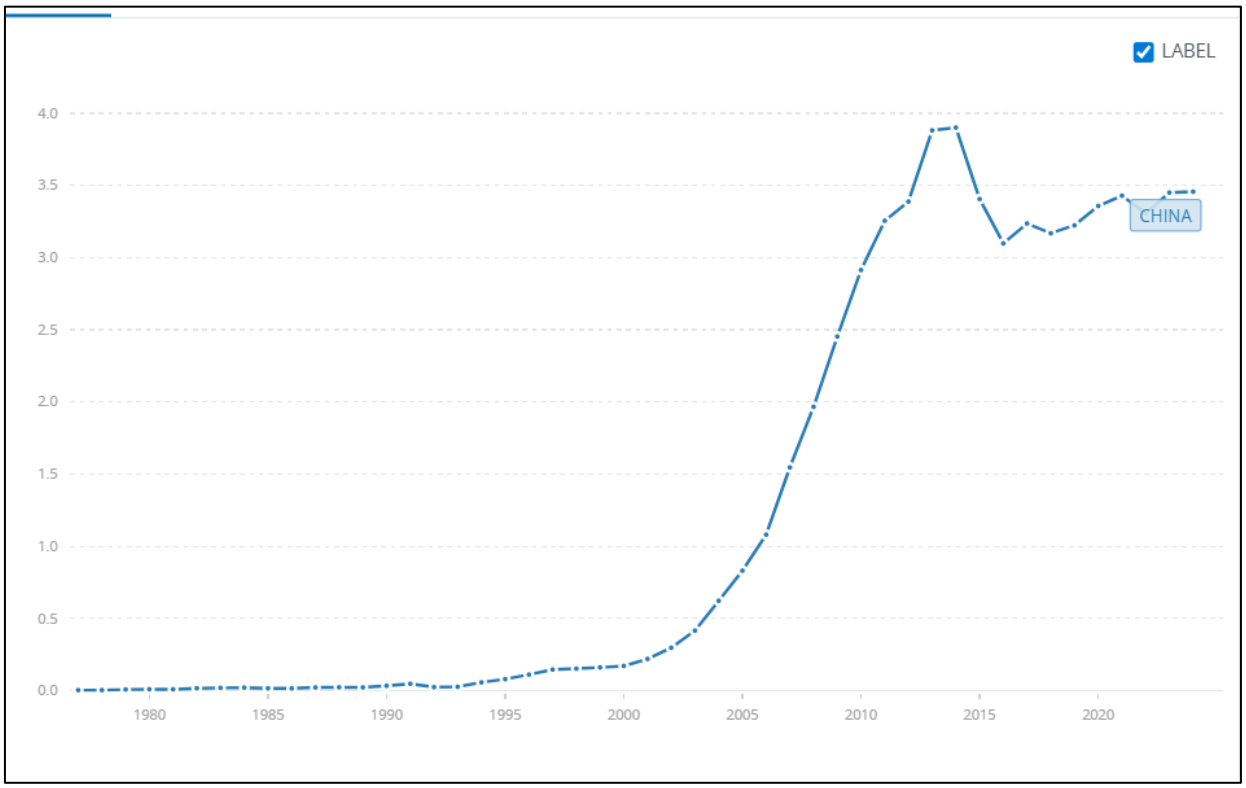
China capitalized on the opportunities created by the normalization of relations with the United States following the 1972 rapprochement. This process enabled China to emerge as the second-largest trading partner of the United States during the period 2007–2014 [89], and subsequently as its largest trading partner between 2015 and 2018 [90].

This export capacity—supported in part by policies aimed at maintaining a relatively undervalued currency—allowed China to accumulate a substantial volume of foreign

[87] "What 'Chimerica' Hath Wrought | The Belfer Center for Science and International Affairs," January 24, 2024, https://www.belfercenter.org/publication/what-chimerica-hath-wrought.
[88] "Understanding Export-Led Growth: History and Impact on Economies," Investopedia, accessed March 26, 2026, https://www.investopedia.com/articles/investing/011416/exportled-growth-strategies-through-history.asp.
[89] "FTD - Top Trading Partners," accessed March 26, 2026, https://www.census.gov/foreign-trade/statistics/highlights/top/top0712.html.
[90] US Census Bureau Foreign Trade Division, "Foreign Trade: Data," accessed March 26, 2026, https://www.census.gov/foreign-trade/statistics/highlights/top/top1512yr.html.

exchange reserves. These reserves, in turn, strengthened China's savings capacity and positioned it as the largest foreign holder of U.S. Treasury securities, as illustrated below:

Figure 10: *China's Total Reserves (Include Gold and Foreign Currencies), 2001–2024 (In Trillions of USD)*



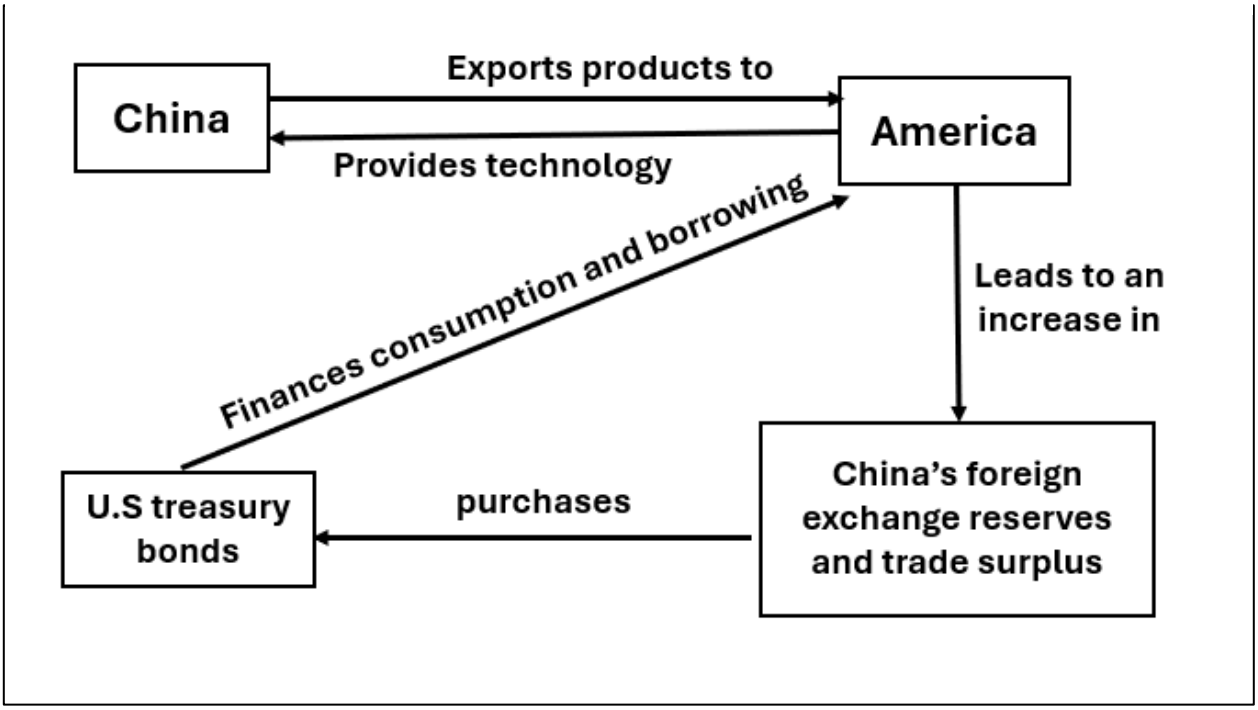
Source: World Bank[91]

America on the other hand, benefited from affordable imports and loans with low interests' rates. This economic harmony led to a relative stability in the international economic order, considering the fact that China's geopolitical role was relatively limited

To put it in other words, the mechanism of this system could be represented as the following:

[91] "World Bank Open Data Reserves," World Bank Open Data, accessed March 26, 2026, https://data.worldbank.org.

Figure 11: *A diagram that shows the circular mechanism of Chimerica*



. Source: prepared by the student based on a deductive reasoning of Niall Ferguson article "Chimerica and the Global Asset Market Boom".

The diagram illustrates the circular mechanism of "Chimerica," in which China's exports finance U.S. consumption. In turn, this consumption increases China's trade surplus and foreign exchange reserves, which are then reinvested into U.S. financial assets, thereby sustaining American consumption and deepening bilateral economic interdependence.

Despite these mutual benefits, significant structural imbalances gradually undermined this stability, primarily driven by the asymmetrical interdependence between the two economies. The 2008 subprime mortgage crisis severely affected the U.S. economy, exposing the consequences of prolonged expansionary fiscal and monetary policies, fueled in part by abundant liquidity and low-interest borrowing. These conditions—combined with China's role as a major creditor and its policy of maintaining an undervalued currency to enhance export competitiveness—enabled financial institutions to engage in increasingly risky behavior.

Together, these dynamics revealed the depth of U.S. economic dependence on China, as well as the financial leverage China had accumulated. This realization prompted a process of strategic reassessment in Sino-American economic relations, particularly under the administrations of Barack Obama (from 2009) and Donald Trump (from 2017), alongside China's growing geopolitical assertiveness.

The post-2008 period thus marked a fundamental shift from economic partnership toward strategic competition and rivalry, both countries began to reassess the costs and risks of interdependence, signaling the gradual erosion of the "Chimerica" model.

In response, the United States initiated a series of "de-risking" strategies aimed at reducing strategic vulnerabilities and limiting China's technological advancement. These measures are often encapsulated in the "small yard, high fence" approach, which focuses on restricting access to critical and high-value sectors while maintaining broader economic ties.

Accordingly, the United States placed major Chinese technology firms—such as Huawei and HiSilicon (2019), as well as Inspur Group and several affiliated companies (2023)—on export control lists. These measures prohibit American companies from supplying advanced components and technologies to these entities without government authorization, particularly in strategic sectors such as semiconductors, artificial intelligence, and other dual-use technologies.[92]

These actions serve two primary objectives: slowing China's development of advanced AI that has the potential to change the future of warfare, and impairing the China's development of an indigenous semiconductor ecosystem – an ecosystem built at the expense of U.S. and allied national security.[93]

Moreover, a trade warfare by manipulating tariffs on Chinese goods and services to US markets.

On February 4, 2025, the Trump administration imposed 10% tariffs on all Chinese goods and services, which was raised later on up to 20%. China's response was by imposing reciprocal tariffs on US agricultural products, which pushed the American administration on

[92] Anniek Bao, "U.S. Blacklists over 50 Chinese Companies in Bid to Curb Beijing's AI, Chip Capabilities," CNBC, March 26, 2025, https://www.cnbc.com/2025/03/26/us-blacklists-50-chinese-companies-in-bid-to-curb-beijings-ai-chip-capabilities.html.

[93] "Bis.Gov/Press-Release/Commerce-Strengthens-Export-Controls-Restrict-Chinas-Capability-Produce-Advanced-Semiconductors-Military," accessed March 27, 2026, https://www.bis.gov/press-release/commerce-strengthens-export-controls-restrict-chinas-capability-produce-advanced-semiconductors-military.

April 9, 2025 to impose further, unprecedented sky-rocketing tariffs up to 125 % on Chinese products. [94]

These tariffs aimed to rebalance the US balance of payments as well as to extract political concessions from China as a retaliatory measure on the Chinese rare earth exports restriction to the US, besides accusing China of "drowning US society" with Fentanyl.

Amid these American efforts to constrain and recalibrate China's economic rise, China, in turn, adopted a complementary strategic adjustment aimed at reducing its dependence on an export-led growth model. This shift reflected a growing awareness of its vulnerability to external pressure, particularly from the United States. This approach is known as **the Dual Circulation Strategy**.

The Dual Circulation Strategy refers to a Chinese self-reliance policy under which China prioritizes "internal circulation"—the domestic cycle of production, distribution, and consumption—as the main driver of development, supported by innovation and structural upgrading of the economy, while remaining open to international trade through "external circulation.[95]

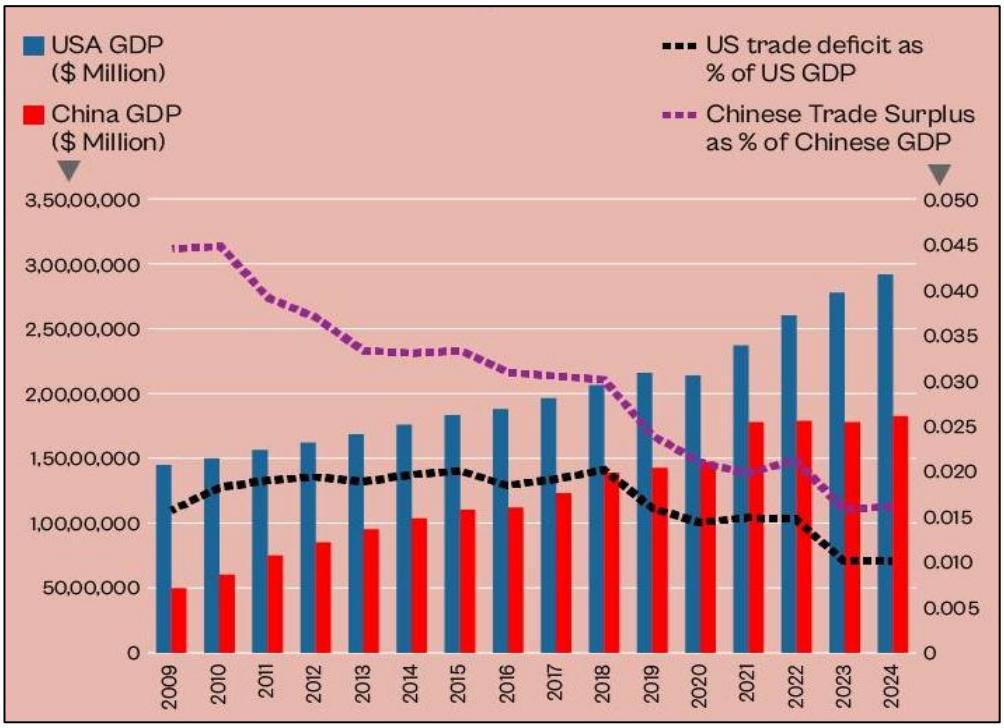
China has historically been characterized as "the world's factory" due to its export-led growth model. This model has positioned China's economic center of gravity as highly exposed to external conditions, as it relies significantly on foreign demand, technological inputs, global supply chains, and broader geopolitical stability. As a result, any disruption in external consumption markets or access to critical technologies can generate significant systemic vulnerabilities, potentially constraining China's core economic interests and exposing them to external shocks.

Consequently, the cumulative effect of these dynamics has contributed to a gradual fragmentation of the international economic order. This fragmentation is reflected in the weakening of multilateral trade relations, the rise of protectionist policies, and the increasing division of global markets into competing economic blocs.

To further illustrate these dynamics in a more systematic framework, the following charts provide a quantitative representation of these trends:

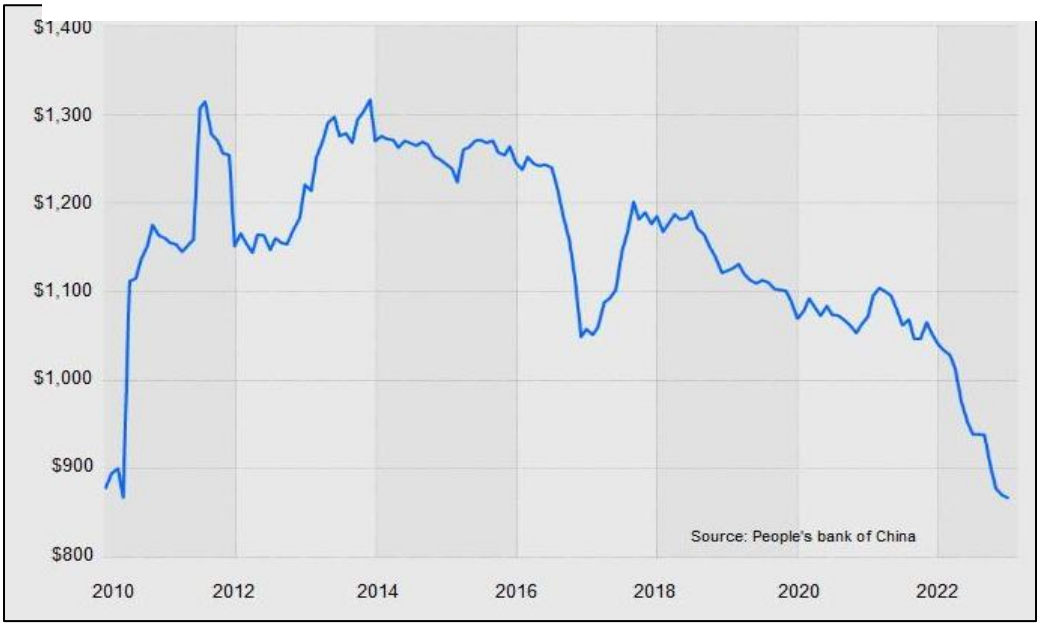
[94] Chad de Guzman, "A Timeline of the U.S.-China Trade War During Trump's Second Term," TIME, June 9, 2025, https://time.com/7292207/us-china-trade-war-trump-tariffs-timeline/.
[95] "Explainer: What We Know about China's 'dual Circulation' Economic Strategy," World Economic Forum, September 14, 2020, https://www.weforum.org/stories/2020/09/chinas-dual-circulation-economic-strategy/.

. ***Figure 12:*** *USA-China trade dependency*



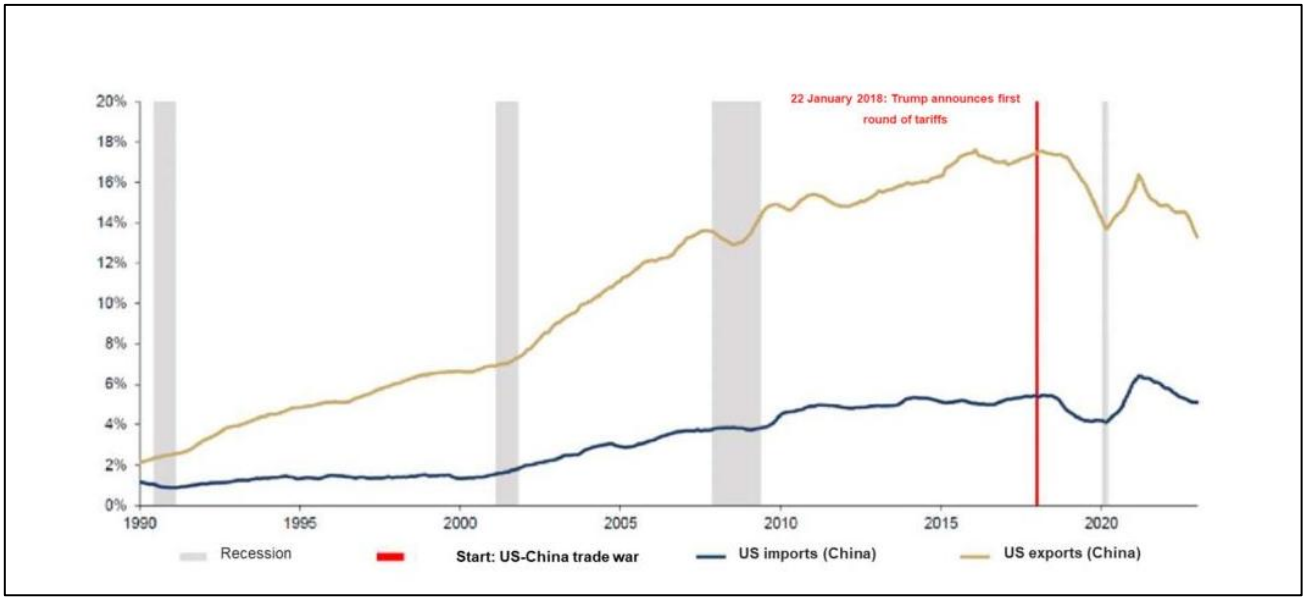
Source: United States Census Bureau.

Figure 13: *China's hooldings of US treasuries as part of foreign reserves*



Source: FT, Reuters Eikon.

Figure 14: *economic relationship between the United States and China; imports and exports as a percentage of US GDP (1990 - 2024)*



Source: People's bank of China.

A closer examination of these quantitative indicators reveals that the Sino-American economic relationship is no longer characterized by deepening interdependence, but rather, a gradual deliberate process of strategic disengagement. As the declining trade intensity between the two economies, as well as to the steady reduction of China's holdings of U.S. Treasury securities, reflects an attempt to reduce direct exposure and a dependency that may at some point be weaponized, aiming to mitigate systemic vulnerabilities.

The shift to a zero-sum reality confirms that the interaction between the American "Small Yard, High Fence" strategy and China's "Dual Circulation" model has redefined the global order, prioritizing national security and self-reliance over economic efficiency.

Section Two: Instruments of American geoeconomic power

Subsection 1: U.S. economic statecraft strategies

U.S. economic statecraft in great power competition is not uniform, but hybrid and selective, as the duality of **competition** or **containment** towards US rivals are the core strategic aim and conduct, is based upon 2 main criteria:

- The geoeconomic capabilities/potentials of the rival and;
- The type of national security threat they represent

I. Determinants of strategy:

1. **Geoeconomic capabilities:**

They are divided into 2 types of capabilities:

2. *Aggregate capabilities:* These refer to general indicators of wealth, resources, and industrial power. They can be measured through quantitative variables such as GDP, market size, and foreign exchange reserves. The importance of these capabilities lies in their ability to signal how a state can finance and sustain the development of its political and military power over time.

3. *Specific capabilities:* These refer to strategic instruments or "game-changing" assets that provide a state with qualitative advantages. Such capabilities may enable coercion and strategic positioning—particularly within networked structures of power, as discussed in the "panopticon effect" of the networks model—or, more importantly, include dual-use technologies. These are civilian innovations that can be adapted for military purposes, such as 5G infrastructure, advanced artificial intelligence, and similar emerging technologies.

A. Types of national security threat: and there are two types of threats:

1. Direct threat: This refers to a rival's acquisition of capabilities that enable immediate and direct coercion or destructive action, without reliance on intermediaries or proxy actors. Examples include hypersonic missile systems or advanced espionage technologies. It also incorporates the notion of "causal proximity," which refers to the degree to which a rival's current capabilities place it close to being able to inflict such damage in practice. For instance, a state investing

in the training of specialized engineers to develop semiconductors that can later be used in the production of military drones illustrates a pathway of increasing causal proximity between civilian technological development and military application.

2. Indirect threat: It refers to situations in which a rival's capabilities do not necessarily constitute an immediate threat, but still contribute to a long-term shift in the balance of power. It is characterized by the continuous accumulation of power resources—mainly economic and technological—that may later translate into the emergence of a geopolitical challenger.

II. Strategic frameworks:

A. Containment:

1. *Economic containment:* is defined as an offensive, non-military strategic approach used by a leading power to weaken an adversary's economic capacity, thereby reducing its ability to sustain military aggression or expand geopolitical influence. It involves the use of economic instruments such as sanctions, export controls, and investment restrictions to constrain a rival's growth. Economic containment is typically applied when a rival is perceived as a direct threat, particularly when it possesses substantial aggregate capabilities, and is therefore denied access to critical resources and strategic technologies. The United States applied a comprehensive form of economic containment against the USSR during the Cold War, as it represented an existential, zero-sum ideological and strategic threat aimed at the elimination of capitalism. In that context, limited economic interdependence between the two blocs reduced the risk of significant "boomerang effects."
By contrast, the contemporary U.S.–China relationship is characterized by deep economic interdependence. As a result, the United States has adopted more selective forms of restriction, targeting specific sectors and firms rather than pursuing full-scale containment. These measures aim to slow Chinese technological and financial advancement by constraining key firms and limiting access to U.S. capital markets. For example, the Holding Foreign Companies Accountable Act (2020) requires foreign companies—particularly Chinese firms—to allow U.S. audit inspections. If a company fails to comply, it may be delisted from U.S. stock exchanges. This

strategy is designed to generate financial pressure on Chinese firms and restrict their access to American capital markets.[96]

Technological containment : This refers to a strategy applied when a rival possesses specific advanced capabilities while also constituting a direct strategic threat. Its objective is not merely to economically constrain the rival, but to prevent it from achieving qualitative superiority by preserving an existing technological gap and restricting access to critical inputs such as rare earth elements, advanced semiconductors, and related strategic technologies. For example, the U.S. CHIPS and Science Act (2022) provides substantial subsidies to the domestic semiconductor industry while restricting supported firms from expanding advanced manufacturing capacities in China. This policy is designed to strengthen domestic technological leadership while limiting China's access to cutting-edge semiconductor production capabilities.[97]

B. Competition:

1. *National economic competition:* This refers to a defensive strategy adopted when a rival possesses significant aggregate capabilities and represents an indirect challenge rather than an immediate threat. Unlike economic containment—which seeks to constrain or weaken the adversary—this strategy does not aim to undermine or eliminate the rival's capabilities. Instead, it focuses on enhancing domestic wealth and sustaining national supremacy in the international system without directly damaging the adversary.

   In practice, the United States may combine both approaches depending on the sector. For example, it applies economic containment to strategic technologies such as semiconductors, given their role in enabling advanced capabilities like drones, defense systems, and quantum computing. At the same time, it engages in national economic competition in less strategically sensitive goods such as electric vehicles and basic electronics.

[96] "SEC.Gov | Holding Foreign Companies Accountable Act," accessed April 3, 2026, https://www.sec.gov/rules-regulations/holding-foreign-companies-accountable-act.
[97] Tim [D-OH-13 Rep. Ryan, "H.R.4346 - 117th Congress (2021-2022): CHIPS and Science Act," legislation, August 9, 2022, 2021-07-01, https://www.congress.gov/bill/117th-congress/house-bill/4346.

2. *National technological competition:* This strategy is applied when a rival possesses specific advanced capabilities and represents an indirect but growing strategic challenge. It is a preemptive approach that shifts the focus from constraining the adversary to out-innovating it. This is achieved through large-scale governmental subsidies to domestic firms (such as Intel and Nvidia), significant investments in scientific infrastructure—including research laboratories and universities—and strategic reshoring policies aimed at securing supply chains and technological autonomy.

Subsection 2: China in American national security strategies

In this subsection we examine the paradigm shift in the US perception towards China, from an economic partner to a strategic competitor. This transformation is analyzed through the lens of U.S. national security strategies, starting from 2017 national security strategy, up to 2025.

1. Prior 2017:

U.S. strategic behavior toward China prior to 2017 was characterized by "strategic engagement," a doctrine based on the idea of integrating an emerging rival into an international system largely shaped and institutionalized by the United States, with the expectation that such integration would align China's behavior with U.S. interests. Accordingly, the United States sought to transform China into a "responsible stakeholder," as discussed in Subsection 2, through its incorporation into the global liberal order. Since the 2002 National Security Strategy, U.S. policy aimed to channel potential competition with China into economic cooperation, driven by two main factors:

A- **Geopolitical preoccupation:** Following the 9/11 attacks, U.S. strategic priorities shifted toward the "Global War on Terror," concentrating political, military, and intelligence resources in the Middle East.

B- **Economic utility:** Policymakers broadly assumed that a prosperous China would be more predictable and easier to integrate into global value chains. As a result, the United States perceived greater benefit in facilitating China's integration and growth than in pursuing containment strategies.

Consequently, this approach dominated U.S. foreign policy for more than a decade, until the strategic shift that emerged in 2017. [98]

[98] The White House, *The National Security Strategy of the United States of America 2002* (The White House, 2002), 27–31, https://2009-2017.state.gov/documents/organization/63562.pdf.

2. The 2017 strategic rupture (Trump's first presidential term):

Following the ascension of the Trump administration in 2017, U.S. foreign policy and strategic security doctrine toward China underwent a paradigm shift. Rather than viewing China as a responsible international stakeholder, Washington began treating it as a dissatisfied revisionist power challenging the established status quo.[99]

This shift indicates an explicit American confession that by integrating China in international institutions and liberal order would make it "more cooperative than a challenger" was a wrong assumption, reflecting therefore the new American interpretation for threats, security, and rivals, from conventional military actors, such as rogue states and terrorist organizations to unprecedented sort of actors, actors that possess specific capabilities and able to challenge the current status quo.

The new administration viewed China as a geoeconomic rival more than a military threat, a rival that sought to undermine US strategic, high-politics interests by targeting its industrial capabilities, technological superiority and intellectual espionage, which are the pillars that founded todays US supremacy.[100] This reconceptualization led to the securitization of economic fields, fields that are supposed to be subject to market forces and free exchange, coupled with the conservative ideological tendencies of the Trump administration through "Make America Great Again" slogan resulted into series of geoeconomic strategies, mainly and most importantly an extreme attempt to separate the American economy from the Chinese economy through hard decoupling policies.

These policies included:

- *The "made in China 2025" threat:* as state subsidies to Chinese firms to improve their manufacturing capabilities and competitive advantage, especially in critical sectors such as AI and heigh-tech -which represent a threatening specific capability- seek to reduce China's dependence on foreign technology and promote Chinese high-tech, leading to unfair competition by prioritizing political considerations over economic incentive.[101]

[99] The White House, "National Security Strategy of The United States of America 2017," Washington, D.C, December 2017, 20–23, https://trumpwhitehouse.archives.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf.
[100] The White House, "National Security Strategy of The United States of America 2017," 17–21.
[101] "Is 'Made in China 2025' a Threat to Global Trade? | Council on Foreign Relations," May 13, 2019, https://www.cfr.org/backgrounders/made-china-2025-threat-global-trade.

- *Trade imbalance:* trade deficit in favor for China was not perceived as pure commercial matter, but as a strategic attrition that finances the rise of China at the expense of US, as current mercantilist policies continue to harm US economic base.[102]

3. Strategic recalibration under the Biden administration:

The arrival of the new administration did not mean a radical shift in American foreign policy and security strategy -especially towards China- but a recalibration of previous security concerns and accumulation of strategic objectives in an institutionalized way. Unlike the Trump administration, the Biden administration worked on setting a legal framework for this competition, through acts and executive orders -as mentioned in the previous subsection- reaffirming that China is "the only competitor with both the intent and the capability to reshape the international order"[103], therefore advancing national security interests overpass bipartisan conflicts.

Moreover, a tendency towards multilateralism by depending upon US allies, especially the European Union, India, and Japan, represents a preferable choice rather than unilateralism as the previous administration sought to adopt [104]. In addition, the Biden administration deepened the securitization of economic relations by prioritizing supply chain resilience and the protection of critical technologies, suggesting "de-risking" policies instead of total decoupling.[105]

The political economy of the Biden administration differed from that of its predecessor. While the Trump administration preferred a mercantilist and aggressive approach, adopting "America First" as a foreign policy driver, the Biden administration adopted a modern industrial strategy. This approach broke traditional market-driven conceptions and preferred a state-led investment model, prioritizing economic resilience and national security over immediate market efficiency.

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[102] "2018-USTR-Report-to-Congress-on-China's-WTO-Compliance.Pdf," n.d., 15–17, accessed April 14, 2026, https://ustr.gov/sites/default/files/2018-USTR-Report-to-Congress-on-China%27s-WTO-Compliance.pdf.
[103] The White House, *National Security Strategy 2022* (Office of the President of the United States, 2022), 8, https://bidenwhitehouse.archives.gov/wp-content/uploads/2022/10/Biden-Harris-Administrations-National-Security-Strategy-10.2022.pdf.
[104] The White House, *National Security Strategy 2022*, 11–12.
[105] The White House, *National Security Strategy 2022*, 24–25.

The importance of this divergence is crucial because it reflects a strategic shift from unilateral economic nationalism (Trump's administration) to a multilateral geoeconomic strategy (Biden's administration), determining the fate of the global economic order between fragmentation or tense competition.

Ultimately, we can say that the difference between the administrations is not about the core reality and fundamental national interests of the United States of America, but in the style and types of strategies adopted, policies implemented, and instruments utilized to achieve that goal, which is **to maintain US strategic supremacy.**

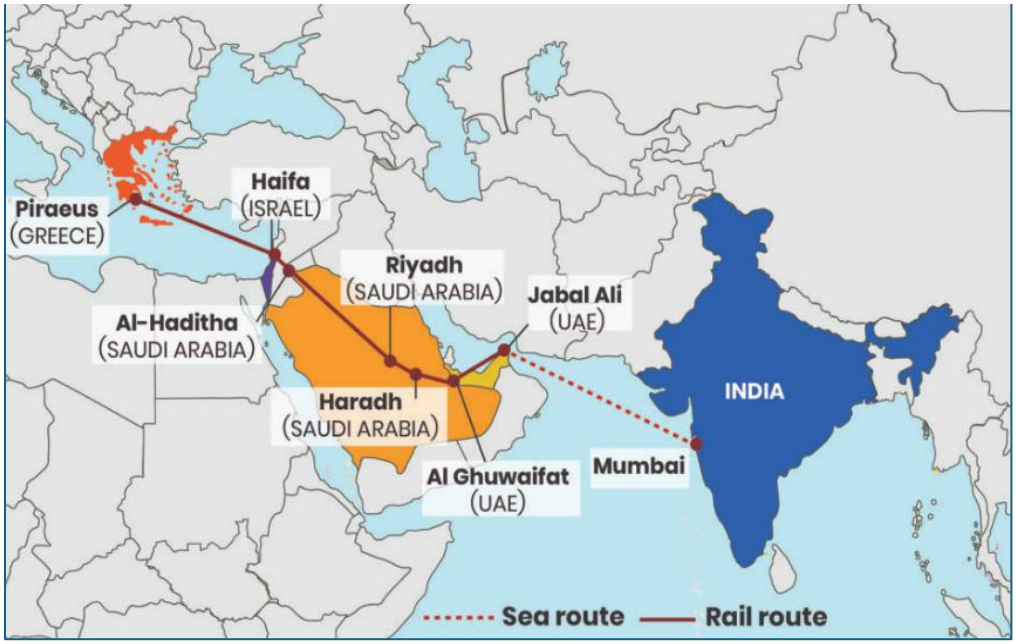
Subsection 3: IMEC economic corridor as a strategic counterweight to BRI

1. What is IMEC economic corridor?

Economic corridors are geographically entangled networks of infrastructure connecting economic agents and activities -regionally or internationally- to overcome frictions and unleash efficiencies.[106]

In this context, **IMEC** stands for **I**ndia–**M**iddle **E**ast–**E**urope, which refers to a strategic, logistical, and multimodal (maritime and land) project that seeks to connect south Asia with the Arab gulf and Europe, that aims to achieve maximum connectivity – by reducing the cost of intra-trade by 40%- and economic integration.[107]

Map 2: *IMEC economic corridor map*



Source: IMEC international[108]

[106] Theophile Bougna et al., *Economic Corridors: Springboard for International Connectivity* (World Bank Group, 2020), https://thedocs.worldbank.org/en/doc/148001588854905473-0050022020/original/SpringboardieConnectCorridorSession.pdf.
[107] "Project-Gateway-Multilateral-MOU.Pdf," n.d., accessed April 7, 2026, https://www.mea.gov.in/Images/CPV/Project-Gateway-Multilateral-MOU.pdf.
[108] *About – India-Middle East-Europe Economic Corridor (IMEC)*, n.d., accessed April 7, 2026, https://www.imec.international/about/.

The IMEC initiative, led by the US, was officially announced during the 2023 G20 summit in New Delhi, which represented a strategic shift in U.S. foreign policy, taking into consideration the geopolitical weight of the member nations, which are: India, the United Arab Emirates, Saudi Arabia, the European Union, France, Germany, Italy, and the United States.[109]

2. The Geopolitical logic behind IMEC:

The emergence of IMEC extends **far beyond** basic commercial objectives, encompassing advanced strategic goals embedded within the broader framework of the contemporary Sino-American geoeconomic rivalry. This economic corridor reflects an attempt to reshape **the international balance of power** by manipulating global connectivity to **counterbalance China's geoeconomic expansion**. This logic can be summarized in the following points:

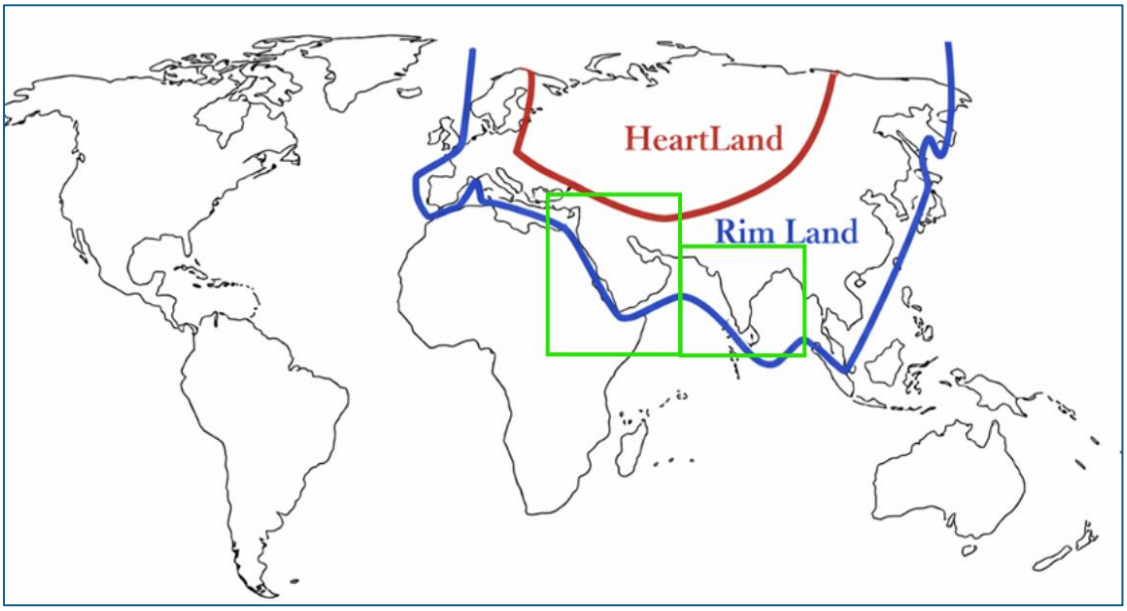
- *Containing the Rimland:*

Originally formulated by **Nicholas J. Spykman** in the 1940s, the Rimland theory highlights the critical strategic value of Eurasia's maritime fringes as corridors to the **Heartland**, summarized in his seminal maxim: "...who controls the Rimland rules Eurasia; who rules Eurasia controls the destinies of the world..." [110]. **In the contemporary geoeconomic landscape, the significance of the southwestern Rimland lies in preventing its integration into a Chinese-centric sphere of influence.** A failure to secure this maritime and terrestrial pivot could **result in** the consolidation of a formidable **tellurocratic bloc**. Such a structural shift would effectively **deny U.S. power projection across the core landmass** and trigger a destabilizing domino effect throughout adjacent regional architectures.

[109] "Les dirigeants mondiaux lancent un corridor économique historique entre l'Inde, le Moyen-Orient et l'Europe," *United States Department of State*, n.d., accessed April 7, 2026, https://2021-2025.state.gov/translations/french/les-dirigeants-mondiaux-lancent-un-corridor-economique-historique-entre-linde-le-moyen-orient-et-leurope/.

[110] J. Spykman Nicholas, *The Geography of the Peace*, ed. Nicholl Helen R. (Harcourt, Brace and Company, 1944), 43.

Map 3: *Spykman's Rimland Theory, modified*



Source: CDH IAS.[111]

Consequently, the United States seeks to consolidate its geopolitical influence across this pivotal segment of the **Rimland**, recognizing it as a critical energy, trade, and logistical crossroads vital to the grand strategies of both Washington and Beijing. **By orchestrating economic coalitions and infrastructure hubs, the U.S. aims to establish robust geoeconomic bulwarks designed to contain China's expanding structural power and prevent its projection outward from East Asia.**

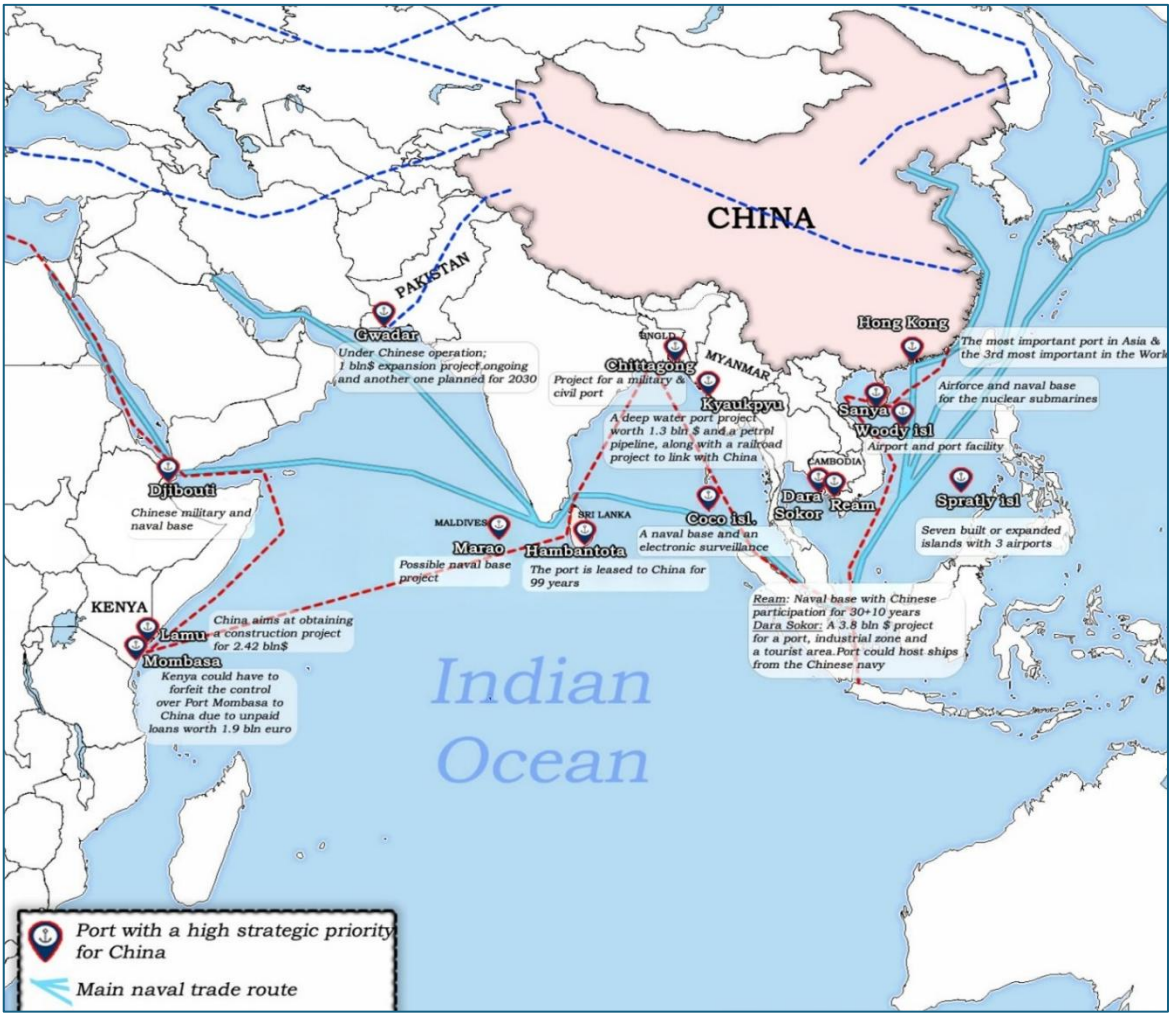
- *Neutralize the "string of pearls" strategy:*

This concept refers to the Chinese 'String of Pearls' strategy, which seeks to build a network of maritime infrastructure—including ports and shipyards—in key locations across the Indian Ocean to secure Beijing's maritime influence, trade routes, and geostrategic positioning near critical chokepoints such as Djibouti, Sri Lanka, and Gwadar in Pakistan. This strategy aims primarily to encircle India, a prominent ally of the U.S. that serves as the

[111] *Spykman's Rimland Theory – 1944 - CDH IAS*, Geography, January 29, 2026, https://claritydeskhub.com/spykmans-rimland-theory-1944-upsc/.

primary economic alternative to China within Washington's efforts to 'friend-shore' American industries

Map 4: *Map of China's string of pearls strategy*



Source: DE RE MILITARI.[112]

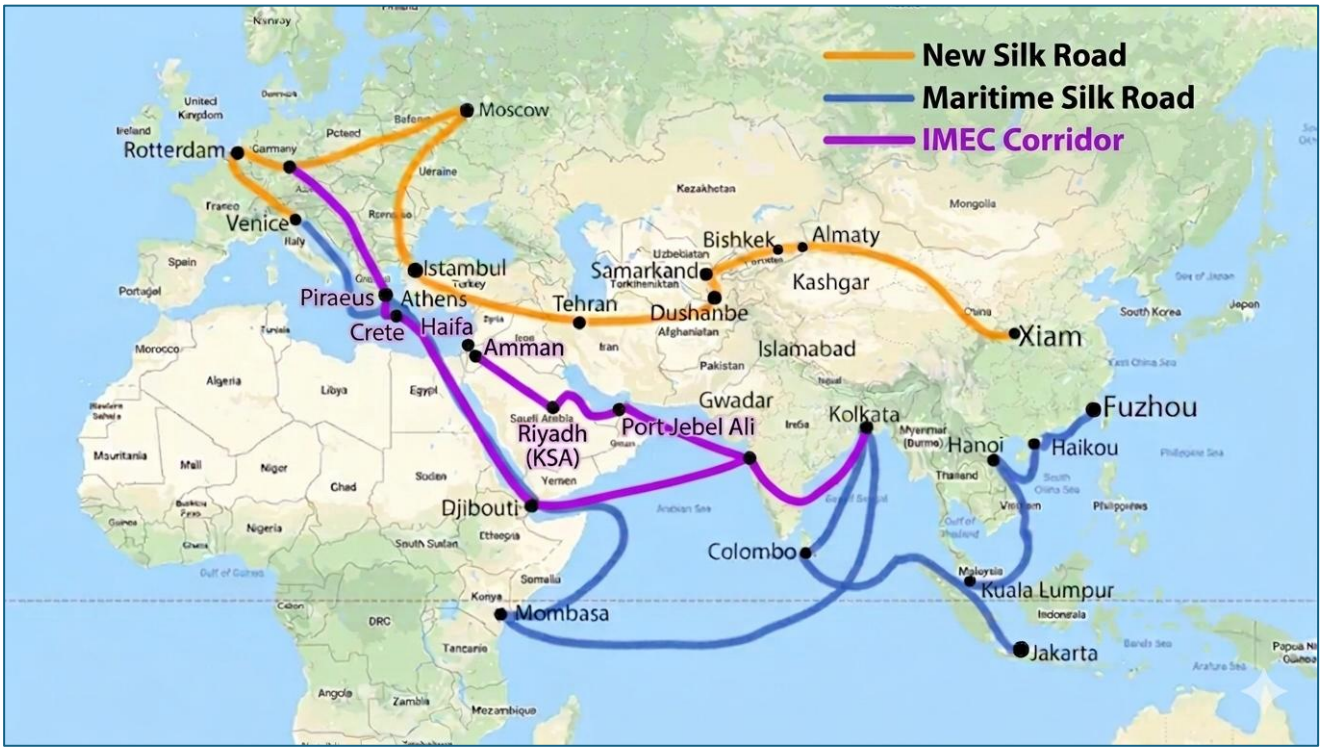
- *<u>An alternative to counterweight the Belt and Road Initiative:</u>*

[112] "The Chinese String of Pearls or How Beijing is Conquering the Sea," *De Re Militari*, August 26, 2019, https://drmjournal.org/2019/08/26/the-chinese-string-of-pearls-or-how-beijing-is-conquering-the-sea/.

Which is the most significant objective of this corridor, by reducing dependency over Chinese logistics (especially maritime shipping) as well as to redesign global supply chains and global chain of value -as we discussed in chapter 1-.

Furthermore, it offers an alternative framework of connectivity relying on the functional role of each participating member, for example: India as the primary manufacturing alternative of China, Saudi Arabia and the UAE as financial capital providers and political alleys, which aims to weaken China's connectivity monopoly through the Belt and Road Initiatives by presenting IMEC as geoeconomic counterweight.

Map 5: *Comparative mapping of IMEC and BRI*



Source: FOX NEWS modified.[113]

[113] Bradford Betz, "What Is China's Belt and Road Initiative?," Text. Article, Fox News, Fox News, April 30, 2020, https://www.foxnews.com/world/what-is-chinas-belt-road-initiative.

Chapter Three: Chinese geoeconomics

Section One: Foundations of Chinese geoeconomics

To understand China's role in the global arena, it is necessary to examine the framework that drives its economic strategy. This section explores the fundamental pillars of Chinese geoeconomics, focusing on how Beijing aligns state power with market mechanisms to achieve national objectives, by analyzing these core foundations, we can trace how China successfully converted domestic economic growth into structural global influence

Subsection 1: State capitalism and the economic rise of China:

China's economic rise represents an unprecedented phenomenon in the economic history through its unique hybrid state capitalism system.

Within this system -as discussed in chapter 1-, Chinese public sector maintained strong control over key sensitive sectors that represent the economic jugular vein of any country, which are: finance, energy, industry, and infrastructure, as these sectors -within a liberal system- would be subject to market forces, therefore consolidating the role and influence of corporations within the economy, while gradually neutralizing any strategic engagement for the state.

In the Chinese case, this system is characterized by a mixture between market mechanism alongside state direction to best achieve long term objectives, such as:

- Sustained economic growth and social stability
- Self-sufficiency
- Reduce the possibility of external pressure
- Enhance state's ability to project power and exert influence

Thus, since the launch of the pragmatic "reform and opening-up" policy by Deng Xiaoping in 1978, China gained a gradual integration into the world economy without affecting or yielding state's authority, which as a result, China did not only achieve high growth rates, but also developed a structurally embedded capacity to direct economic outcomes in line with long term national objectives.

Moreover, its accession to the WTO in 2001, allowed it to become an **emerging hub** with significant **panopticon effect** by hosting a plethora of world industries and companies on its

land, this granted it the ability to possess and initiate its first geoeconomic assets, SEOs and National Champions.[114]

China's state capitalism lies in its ability to convert economic capabilities into instruments of influence and control, as **State Owned Enterprises** (SOEs) like Sinopec, China North Industries Corporation (NORINCO), and **National Champions** such as Alibaba, Huawei, SHEIN, which serve as the primary executive tool for this ascent, are not simply companies but extensions of China's national power, with roughly 363,000 firms are wholly state-owned, contributing approximately to 20% of the GDP.[115] This suggests that these entities are far more than just commercial players; they function as the strategic vanguards of China, by blurring lines between the public sector and private enterprises, turning economic capacity into a flexible, multitask instrument of national willpower. However, this advanced synergy did not emerge overnight, It is the result of a calculated, long-term evolution of policy shifts that allowed China to grow without losing its grip on the steering wheel.

Therefore, in order to understand the rise of China, we must look at the four transformative stages that defined China's geoeconomic trajectory:

1- Gradualism and the "Dual-track" system:

From 1978 to 1990s, China avoided "the shock doctrine" as a preferable transition therapy, instead, it adopted a **Dual-track system**.

A dual-track system refers to an economic framework where planned economy alongside market economy coexists simultaneously. Within this system, producers are required to fulfill a specific quota determined by the state at a fixed price, while any surplus production could

[114] Pearson Margaret M. et al., *China's State Capitalism: Diagnosis and Prognosis* (Cambridge University Press (Elements in the Economics of Emerging Markets), 2021), p.p 9–24.
[115] Paul Nantulya, "Chinese State-Owned Enterprises and Market Capture in Africa," *Africa Center*, n.d., accessed April 29, 2026, https://africacenter.org/spotlight/chinese-state-owned-enterprises-market-capture-africa/.

be sold freely in the market at market driven prices[116], as this system, in general, aims to prevent economic collapse and provide incentives.

Under this system, the Chinese government maintained control over critical resources and industries without putting an end to competition spirit, which eventually resulted into huge capital accumulation in the hand of political leadership which was eventually instrumentalized for strategic purposes.[117]

2- The "Grasp the Large, Let Go of the Small" Policy:

This policy aimed to restructure the public sector through the reorganization of state-owned enterprises (SOEs). It involved withdrawing from small-scale industries ("letting go of the small"), such as textiles and household appliances, while maintaining a strong presence in strategic sectors, including defense technology and energy. As a result, this approach contributed to the emergence of some of China's first national champions, such as Sinopec (China Petroleum and Chemical Corporation) and Norinco (China North Industries Group Corporation).[118]

A- The "Going out" policy and global integration:

By joining the WTO in 2001, China not only sought greater access to global markets but also repositioned itself within global value chains by encouraging domestic enterprises to expand abroad. This step represented a major transformation in China's geoeconomic trajectory, as it enabled the country to host a significant share of international industries and attract foreign investment, thereby channeling additional financial resources and expertise into the hands of the state. This process contributed to the consolidation of China's geopolitical ambitions, as economic openness facilitated the expansion of its national

[116] Rongsheng Tang, *Dual Track System in China's Transition*, 2016, 2.
[117] Barry Naughton, *Growing out of the Plan: Chinese Economic Reform, 1978-1993*, (Cambridge), 1995, 17–21.
[118] Lin Yi-min, *Grasping the Large, Letting Go of the Small: The Transformation of the State Sector in China*, 2017, 408–14.

champions, allowing them not only to capture substantial shares of foreign markets but also to establish a soft foothold in developing countries.

A prominent example is the Democratic Republic of Congo (DRC), which holds over 70% of the world's cobalt reserves—a mineral essential for the production of lithium-ion batteries. Through its national champions, such as China Molybdenum (CMOC) and Zijin Mining, as well as through loans provided by state-owned banks, China has come to dominate more than 80% of the cobalt industry in the country. This dominance has strengthened China's position in the global electric vehicle and battery production sectors, in addition to enhancing its political influence in Africa.[119]

B- Strategic State Steering and the Pursuit of Technological Supremacy:

This strategy refers to a form of state intervention in which the government transcends its traditional regulatory role to become an active mobilizer of resources—primarily through financial instruments such as Government Guidance Funds. Through this approach, state intervention aims to steer the market-based economy toward achieving long-term strategic objectives defined by the state, rather than being driven solely by market signals.

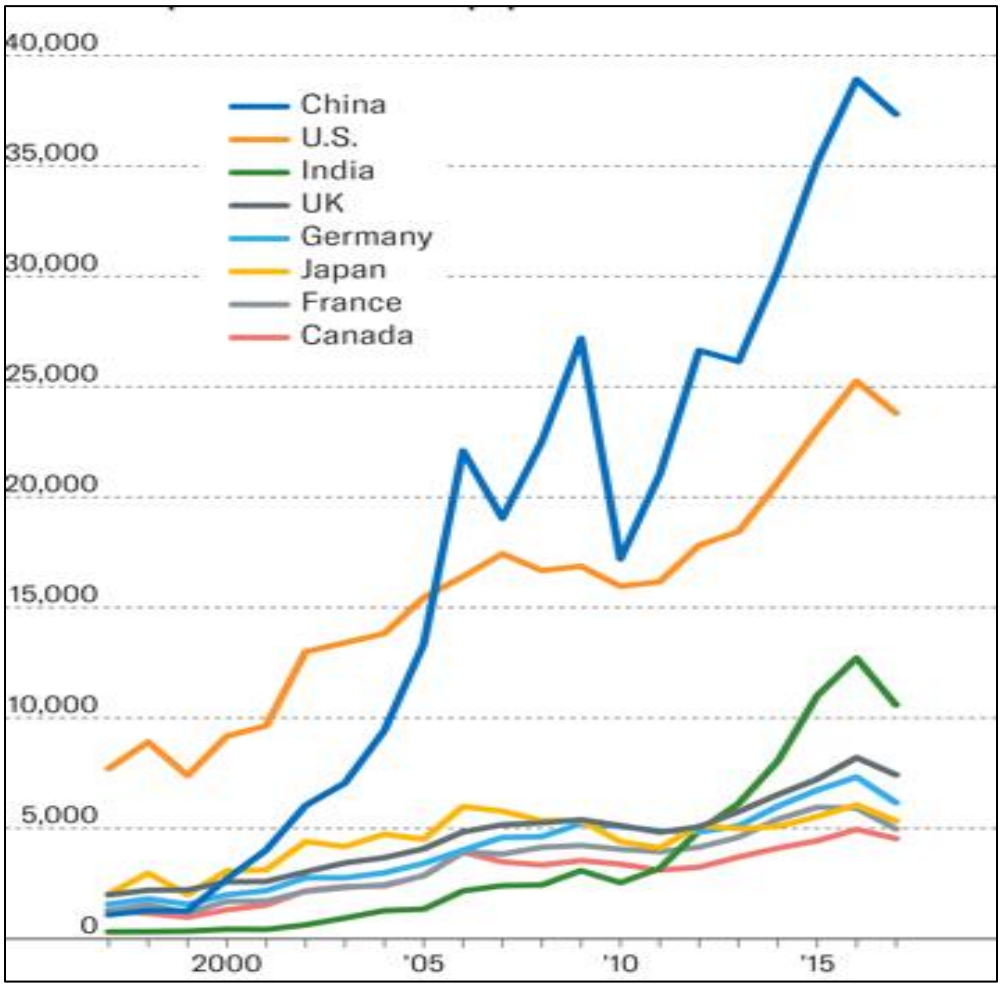
Building on this logic, and particularly since 2012, China's economic model has undergone a significant transformation from high-speed growth to high-quality development. This shift has been driven by a series of strategic steering policies, through which China has redirected its focus from scale-based economic expansion toward advanced technological industries. This transition has taken place in the context of growing geopolitical competition, especially following the U.S. strategic pivot to Asia, which underscored the urgency of reducing dependence on Western technologies.[120]

[119] "China in the Democratic Republic of the Congo: A New Dynamic in Critical Mineral Procureme," US Army War College - Strategic Studies Institute, accessed April 21, 2026, https://ssi.armywarcollege.edu/SSI-Media/Recent-Publications/Article/3938204/china-in-the-democratic-republic-of-the-congo-a-new-dynamic-in-critical-mineral/.

[120] Ma Ngok and Chen Catherine S, *Government Guidance Funds and the Rise of the Venture Capital State in China*, 2022, 142–46.

Moreover, initiatives such as "Made in China 2025" have effectively positioned China as a "venture capitalist state," deploying massive financial resources toward innovation and high-tech sectors, including artificial intelligence and semiconductor industries. The outcomes of these efforts are increasingly visible, as demonstrated by the development of advanced AI models such as DeepSeek, which can be interpreted as a geoeconomic response to U.S. technological dominance, exemplified by OpenAI's ChatGPT.

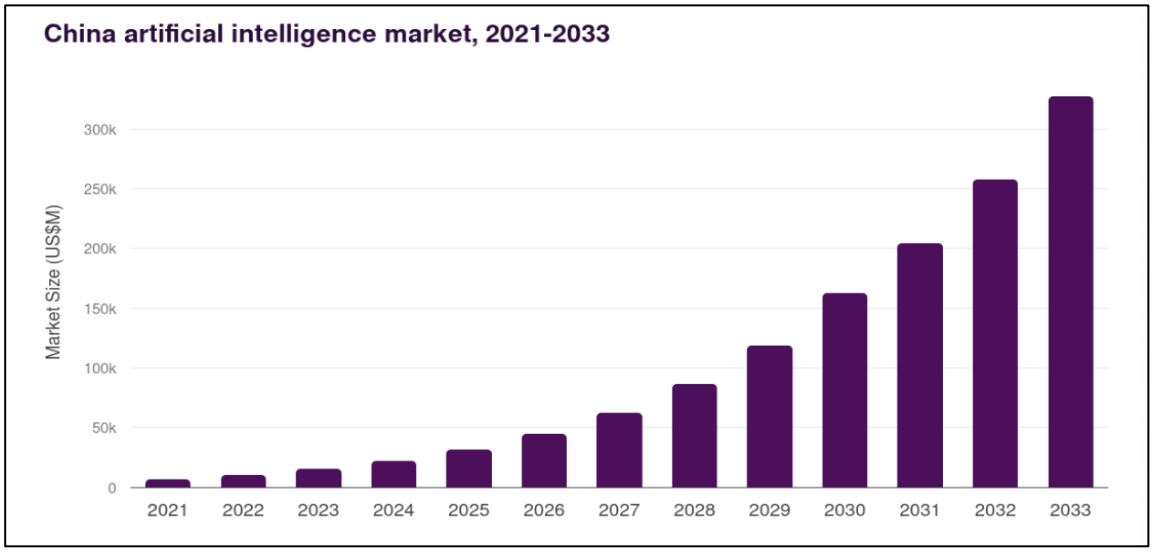
Figure 15: *Global output of AI scientific papers*



Source: HARVARD business review.[121]

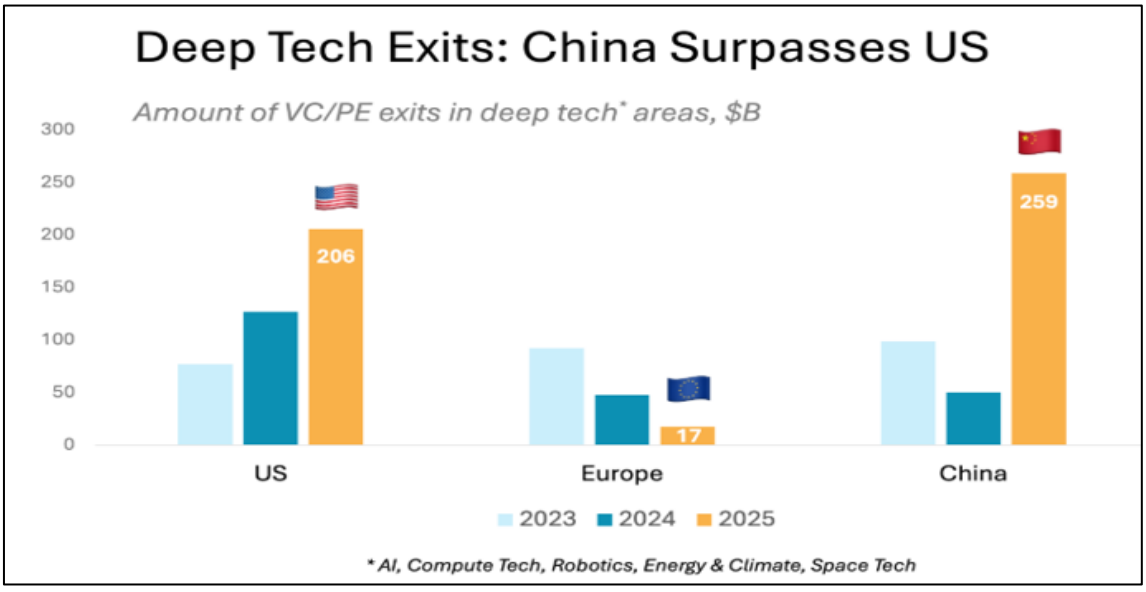
[121] Daitian Li et al., "Is China Emerging as the Global Leader in AI?," International Business, *Harvard Business Review*, February 18, 2021, https://hbr.org/2021/02/is-china-emerging-as-the-global-leader-in-ai.

Figure 16: *China Artificial Intelligence market size and outlook (2021 - 2033)*



Source: Grand view horizon.[122]

Figure 17: *China's rise in deep tech exits compared to the United States and Europe*



[122] "China Artificial Intelligence Market Size & Outlook, 2033," accessed April 28, 2026, https://www.grandviewresearch.com/horizon/outlook/artificial-intelligence-market/china.

Source: Deeptech Asia.[123]

From the figures above, we can notice that Chinese interest in AI and high-tech as a critical stake grows exponentially, which is demonstrated by the huge amount of scientific contribution (research and development) and government investments directed into this sector, as well as to a capability to convert these elements into tangible geoeconomic outcomes, which indicates the Chinese shift from capacity-building to value creation, thereby strengthening its position in the global geoeconomic competition.

Technological innovation + scientific research and development + state support = invincible geoeconomic power

[123] Denis Kalinin, "2025: Renaissance of China's Deep Tech VC," January 22, 2026, https://www.deeptech.asia/p/2025-renaissance-of-chinas-deep-tech.

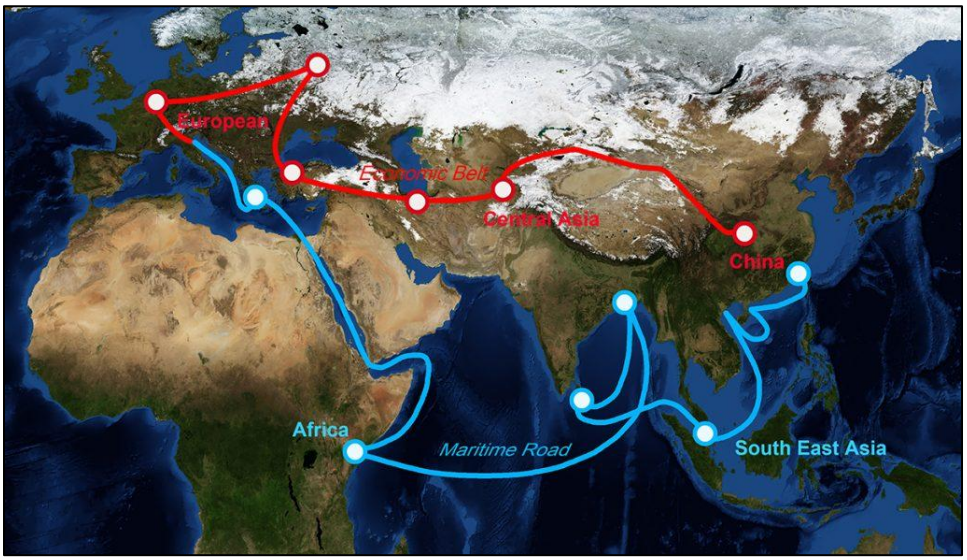
Subsection 2: Instruments of Chinese geoeconomics: The Belt and Road Initiative

1. What is the Belt and Road Initiative (BRI)?

The belt and road initiative refers to a Chinese transcontinental project launched by president Xi Jinping in 2013 for connectivity and integration purposes, to connect Asia with Africa and Europe via land and maritime networks along six corridors with the aim of improving regional integration, increasing infrastructures, trade, and stimulating economic growth.[124]

Worthy to mention, that the BRI is the modern version of the ancient **Silk Road**, which refers to an ancient decentralized network of trade and cultural exchange in the old world, while the Belt and Road Initiative represents a state-driven geoeconomic strategy, where history and commerce are mobilized as a legitimizing narrative to support China's contemporary global ambitions.

Map 6: *The Belt and Road Initiative*



Source: Trends research & advisory.[125]

[124] "World Bank Document Bri," n.d., accessed April 30, 2026, https://documents1.worldbank.org/curated/en/715511560787699851/pdf/Main-Report.pdf.
[125] "Mapping the Belt and Road Initiative Geography and Architecture," accessed April 30, 2026, https://trendsresearch.org/insight/mapping-the-belt-and-road-initiative-geography-and-architecture/.

2. The geopolitics behind BRI:

A. Structural Power and the Redefinition of the Balance of Power:

Structural power refers to the ability to shape the framework within which macro-level elements of power interact, by setting the rules, norms, and standards that govern these interactions. In this sense, China seeks to gradually redesign global economic geography through long-term strategies of wealth redistribution, primarily via economic corridors and connectivity projects linking Asia and Africa—particularly among marginalized or developing countries. These initiatives aim to facilitate value transfer, strengthen economic autonomy, and enhance integration into global value chains. In doing so, they contribute to the emergence of a network of economically dependent "satellite" states, capable of redirecting flows of trade, investment, and commercial activity away from traditional Western hubs toward Asia.[126]

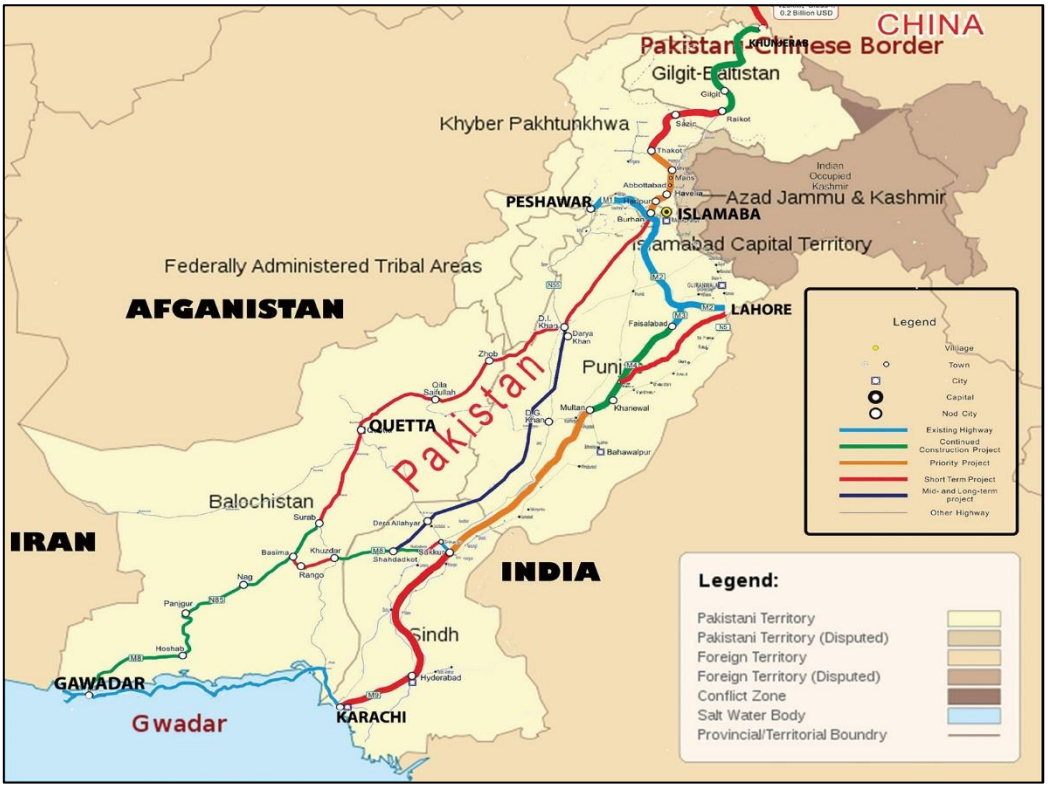
A prominent example of this strategy is the China–Pakistan Economic Corridor (CPEC), a $60 billion initiative that connects China's Xinjiang region to the port of Gwadar through an extensive network of infrastructure projects. Through CPEC, China secures alternative trade routes that bypass strategic chokepoints such as the Strait of Malacca, while simultaneously reshaping patterns of regional interdependence. Notably, the corridor is largely financed, constructed, and operated by Chinese state-backed institutions and firms, enabling China to exert significant influence over the direction of investments and trade flows.

However, despite its contribution to improving Pakistan's infrastructure and energy capacity, CPEC also generates a form of asymmetric interdependence. Economic gains remain closely tied to Chinese capital, technology, and expertise, thereby reinforcing China's structural influence. This dynamic illustrates how development and value transfer function not merely

[126] "Mapping the Belt and Road Initiative Geography and Architecture."

as economic tools, but as integral components of a broader strategy aimed at long-term geopolitical positioning.[127]

Map 7: *Mapping the China–Pakistan economic corridor (CPEC)*



Source: The China story.[128]

B. <u>Bilateral engagement and alternative institutional framework:</u>

The Belt and Road Initiative (BRI) reflects a significant shift in the way global influence is constructed, particularly through expansion based on bilateral agreements and the creation

[127] "The China–Pakistan Economic Corridor (CPEC)," *The China Story*, n.d., accessed May 5, 2026, https://www.thechinastory.org/yearbooks/yearbook-2017/chapter-2-the-belt-and-road-initiative-how-to-win-friends-and-influence-people/the-china-pakistan-economic-corridor-cpec/.
[128] "The China–Pakistan Economic Corridor (CPEC)."

of parallel institutions to those established under the Bretton Woods system, notably the International Monetary Fund (IMF) and the World Bank.

On the one hand, China has significantly increased its engagement with a wide range of non-Western countries—such as Angola and Nigeria—particularly those in early stages of development. These contexts provide China with greater opportunities to expand its influence compared to already saturated Western markets, where competition is more intense and decision-making processes are shaped by multiple established actors. On the other hand, this expansion is supported by alternative financial and development institutions, such as the Asian Infrastructure Investment Bank (AIIB), thereby reducing reliance on the Western-led neoliberal financial order.

In this context, the concept of "debt-trap diplomacy" is often invoked, referring to a situation in which a creditor state extends loans to a borrowing country with the intention of increasing its political leverage. The case of the Hambantota Port in Sri Lanka is frequently cited as an illustrative example. Following the accumulation of substantial Chinese loans for infrastructure projects that proved financially unviable, Sri Lanka faced a severe fiscal crisis that limited its ability to meet repayment obligations. Consequently, in 2017, the Sri Lankan government agreed to lease the port and approximately 15,000 acres of surrounding land to a Chinese company for 99 years.

While interpretations of this case remain debated in the academic literature, it nonetheless illustrates how financial dependency and economic vulnerability can translate into strategic leverage. More broadly, it highlights how economic instruments—such as loans, infrastructure investment, and development assistance—can be mobilized within a geoeconomic framework to advance long-term geopolitical objectives.[129]

C. <u>Digital silk road and geo-technological positioning:</u>

[129] Deviana Senanayake-Anand, *Sri Lanka, China and Debt Trap Diplomacy - Groundviews*, September 1, 2025, https://groundviews.org/2025/09/01/sri-lanka-china-and-debt-trap-diplomacy/.

Beyond physical infrastructure, a digital dimension is also embedded within the Belt and Road Initiative through the Digital Silk Road (DSR). With investments exceeding $80 billion, China is positioning itself to play a leading role in the global digital arena, leveraging its national champions—such as Huawei and ZTE—to achieve two key strategic objectives:

- ***Setting Technical Standards and Technological Infrastructure:***

This is achieved by creating a "lock-in effect" for developing countries, whereby the gradual adoption of Chinese technologies evolves into a form of structural dependency. This process is facilitated through the affordable provision of digital infrastructure and services, including cloud computing, cybersecurity systems, and 5G networks. Over time, such integration enables China to promote and potentially impose its own technological standards globally, thereby positioning itself in direct competition with U.S. technological dominance.

- **Data Control and Digital Hegemony:**

By gaining control over data flows, China enhances its capacity for data analysis and strategic intelligence, enabling it to promote its technological models and platforms as viable alternatives to Western systems. This dynamic strengthens its competitive position in the global digital economy. Moreover, the diffusion of these technologies may be accompanied by governance models that emphasize centralized control, surveillance capabilities, and content regulation. In this sense, the expansion of China's digital infrastructure abroad has the potential to challenge prevailing Western liberal norms—such as democracy and market openness—by contributing to the emergence of alternative models of digital governance that blend technological development with elements of political control.[130]

[130] "China's Digital Aid: The Risks and Rewards," Council on Foreign Relations, accessed May 7, 2026, https://www.cfr.org/china-digital-silk-road.

Subsection 3: Weaponized trade and strategic vulnerability; China's weaponized interdependence

"…*The idea of globalization was that rich countries would move further up the value chain, while the poor countries made the simpler things.*"[131]said JD Vance, the American vice president in the American Dynamism Summit of 2025.

This statement reflects a traditional assumption underpinning the liberal narrative of globalization, namely its hierarchical and expansionist nature, in which advanced economies maintain dominance in high-value, capital-intensive industries, while developing countries are largely confined to low-cost manufacturing activities.

However, China's experience challenges this logic by transforming its economic capacities into leverage within global value chains, thereby repositioning itself in the international economic order. In this sense, China's trajectory has evolved beyond defensive strategies of self-sufficiency toward more offensive approaches, enabled by its growing structural weight in the global system.

This shift from economic integration to strategic competition will be examined in the following analysis.

1. China and the Strategic Trade Policy (STP):

In contrast to traditional trade theories and policies based on comparative advantage and pure commercial logic, strategic trade policy (STP) emerges as a model that challenges these foundations.

STP posits that the expansion of globalized markets increases the potential for economies of scale to be exploited by dominant firms and states. Consequently, government intervention

[131] "JD Vance: Address at the American Dynamism Summit (Transcript-Audio-Video)," accessed May 10, 2026, https://www.americanrhetoric.com/speeches/jdvanceamericandynamismsummit.htm.

through the public sector is considered a necessary tool to support and strengthen domestic firms—particularly those operating in high-value and strategic sectors—in order to enhance their competitive advantage and outmaneuver foreign rivals, especially within international oligopolistic markets dominated by a limited number of large firms.[132]

In this context, and building on the previous subsections, China's rise cannot be understood as the mere outcome of free-market competition, but rather as a strategic application of STP principles. For instance, in 2019 Huawei reportedly received substantial state support estimated at around $75 billion, including tax incentives, credit facilities, and regulatory assistance. This support enabled the company to offer more competitive pricing—approximately 30% lower than rivals such as Nokia and Ericsson—and to capture a significant share of global markets.[133]

Similarly, the Semiconductor Manufacturing International Corporation (SMIC) received a $2.2 billion equity injection in 2020 to strengthen domestic semiconductor production, with the aim of enhancing China's technological self-sufficiency and reducing dependence on Western technology.

2. Trade Weaponization and Economic Coercion:

Trade weaponization refers to the use of trade as a tool of coercion and instrument of foreign policy to achieve strategic influence and political concessions, and that's by leveraging and exploiting the goods and services dependency, especially supply chains that other states have on China to support goals of Chinese foreign policy.[134]

These means of coercion verry as the following:

A. *Non-Tariff barriers:* which refers to administrative complexities and discriminatory bureaucracy China imposes over other states to restrict their access to Chinese

[132] Paul R. Krugman, "Introduction to 'Empirical Studies of Strategic Trade Policy,'" in *Empirical Studies of Strategic Trade Policy* (University of Chicago Press, 1994), 2–3, https://www.nber.org/books-and-chapters/empirical-studies-strategic-trade-policy/introduction-empirical-studies-strategic-trade-policy.
[133] *Measuring Distortions in International Markets: The Semiconductor Value Chain*, OECD Trade Policy Papers no. 234, OECD Trade Policy Papers (2019), 234:9–11, https://doi.org/10.1787/8fe4491d-en.
[134] Dr Sriparna Pathak, "From Strategic Trade to Weaponization of Trade," *IndraStra Global* 4, no. 5 (n.d.): 2–3.

market, for example: the "health and safety" pretext against Indian agricultural imports (non-basmati rice) and replacing them with imports from its ally Pakistan, which created a trade deficit in China's favor, causing massive losses to India.

B. *Punitive economic sanctions and trade embargoes:* which is the sudden suspension of certain critical Chinese exports to another country in response to diplomatic disputes. In 2010, a maritime incident where a Chinese fishing boat crashed with Japanese coastguards' ships pushed China to informally ban rare earths exports to Japan, which triggered significant tension and economic fluctuation in Japanese electric and mechanical industry.

C. *Informal consumer boycotts:* a technique China uses to exert pressure without formally or politically issuing sanctions. It works by targeting or "harassing" foreign firms' activities on Chinese territory by inflicting series of public and informal reactions against these entities, and that's through social engineering mechanisms, which includes giving the green light to local media and the "50-Cent Army" -a group of state-backed internet commenters to launch disinformation campaigns- to defame a certain brand and instigate public opinion against it. To illustrate that, we consider the THAAD incident as an example. In 2017, South Korea decided to deploy the missile defense system THAAD in its territory on a land that was given up by Lotte Group. This move was considered as a violation to Chinese security depth, therefore, China launched a series of informal boycotting campaigns against Lotte branches in China by inciting nationalist sentiments, and the result was jeopardizing a 6.8 billion US dollars business[135], as well as to banning K-pop and other South Korean cultural products from being displayed in China.

D. *Digital erasure and regulations manipulation:* China uses its digital infrastructure and customs system to commercially exclude countries by deleting them from digital customs clearance system. In 2021, Lithuania opened a representation office for Taiwan, which was perceived by China a violation to the "One China principle", as response, China -with no direct formal or explicit response- excluded Lithuania from its customs system, which meant that goods and services that were meant to be delivered to Lithuania are now stuck in China. For further pressure, economic coercion was extended to include secondary sanctions by targeting any party that deals with Lithuania to be subject to restrictions as well[136]. Such procedure aims to

[135] "Chinese Lotte Boycott Could Put Business Worth 7.8 Trillion Won at Risk - CGTN," accessed May 11, 2026, https://news.cgtn.com/news/3d63444e33596a4d/share_p.html?t=1488459524587.
[136] Matthew Reynolds and Matthew P. Goodman, *China's Economic Coercion: Lessons from Lithuania*, May 6, 2022, https://www.csis.org/analysis/chinas-economic-coercion-lessons-lithuania.

create a state of uncertainty and supply chains fluctuations for the target state to drive other corporations and intuitions away from dealing with this state.

Section Two: Geoecono-metrics of Sino-American rivalry

The strategic competition between the United States and China is redefinable through both structural power and shifting economic dynamics. This section analyzes the core dimensions of this bilateral rivalry, shifting the focus toward how both superpowers navigate economic conflict while remaining deeply interconnected. By exploring these structural elements, we can establish a clearer baseline for examining their strategic behaviors and geopolitical choices

Subsection 1: Modeling US-China geoeconomic co-opetition through game theory

In this subsection, we aim to visualize Sino-American geoeconomic interactions using game theory, a formal analytical framework by which we attempt to quantify the strategic co-petition that characterizes current global order.

We will adopt the **payoff matrix** to model the logic, strategies, and outcomes of China and the United States as it allows us to simplify the complex Sino-American rivalry into a structured interaction, trying to interpret the logical/mathematical visualization into a descriptive, predictive geoeconomic language.

1. Why game theory?

Game theory is a mathematical framework that studies and analyzes how players (actors) strategize and make decisions in competitive environments, by modeling situations where the choices and results of a player are dependent and effected by others' actions.[137]

In our context, relations and interactions between states can either take a **cooperative form** (non-zero-sum game where cooperation represents the best approach that enables players to maximize their utility) or **conflict form** (zero-sum game where conflict and aggression is what enables players to achieve maximum utility), however, our case is categorized -as I may assume- under the **co-petition form**, which refers to a mixed-motive game where players are not in an absolute state of conflict, nor cooperation, but, in a situation where despite the rivalry between them, there is always a middle ground where cooperation is a must for the

[137] David Rubin Full Bio David is comprehensively experienced in many facets of financial et al., "Ultimate Guide to Game Theory: Principles and Applications," Investopedia, accessed May 8, 2026, https://www.investopedia.com/terms/g/gametheory.asp.

best interest of both of them as unilateral and selfish moves/actions have high possibility for destructive payoff for both parties.

2. Between zero-sum and non-zero-sum-game, why a mixed-motive game?

A **zero-sum game** (or a no win-win situation) refers to a situation where both parties seek to achieve the same outcome where any win for A represents the same amount of loss for B, and vice-versa. It is an absolute competition/hostility environment with no possibility for cooperation.[138]

A **non-zero-sum game**, on the other hand, is a situation where A's gain does not necessarily mean a loss for B, and vice-versa. It is a situation where cooperation and mutual agreement are possible, in which players believe that the utility/benefit can be shared.[139]

A **mixed-motive game**, is a co-opetition situation where both competition and cooperation entangle. In this situation, players' primary posture is competition, but are rationally obliged to cooperate -accept the reality that they have to share the cake- not out of trust, but to ensure the stability of their mutual interests.[140]

Therefore, our study is built upon the assumption that Sino-American geoeconomic interactions are of a mixed-motive logic due to the following reasons:

- The significant goods trade between US and China estimated at $414.7 billion in 2025.[141]
- China holds $693.3 billion worth of US treasury securities, which makes it the third largest creditor to the United States.[142]
- 286 Chinese companies listed on U.S. stock exchanges with a total market capitalization of $1.1 trillion.[143]

[138] Yarilet Perez Full Bio Yarilet Perez is an experienced multimedia journalist et al., "Zero-Sum Game Definition in Finance, With Examples," Investopedia, accessed May 8, 2026, https://www.investopedia.com/terms/z/zero-sumgame.asp.
[139] "Non-Zero-Sum Games," accessed May 8, 2026, https://cs.stanford.edu/people/eroberts/courses/soco/projects/1998-99/game-theory/nonzero.html.
[140] "Mixed-Motive Game," Oxford Reference, https://doi.org/10.1093/oi/authority.20110803100202395.
[141] "The People's Republic of China," United States Trade Representative, accessed May 8, 2026, https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china.
[142] "Ticdata.Treasury.Gov/Resource-Center/Data-Chart-Center/Tic/Documents/Slt_table5.Html," accessed May 8, 2026, https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html.
[143] "Chinese Companies Listed on U.S. Stock Exchanges," February 28, 2023, https://www.uscc.gov/research/chinese-companies-listed-major-us-stock-exchanges.

- Through the **Revenue Exposure index**, U.S companies generated $1.1 trillion in revenue just from the Chinese market.[144]

These data indicate -despite the decline in recent years- an undeniable interdependence between the American and Chinese economies that would make a zero-sum game an invalid consideration if we were to describe the nature of strategic interactions between China and the United States.

However, this economic harmony does not mean a total strategic alignment. Under the surface of this economic stability, major geopolitical friction and concerns take place, where national security imperatives drive another logic and rationality, such as chips warfare, Taiwan…etc. This combination of cooperation and tension at the same time, is what makes our argument about considering these dynamics a game of mixed-motives.

3. The geoeconomic payoff matrix:

To model this matrix, we identify 2 players: China and the United States with 2 strategic moves where the outcome is based on the square where intersection of players' choices takes place.

Figure26: Hypothetical geoeconomic payoff matrix between China and USA.

		China	
		entangle	decouple
USA	entangle	(10, 10)	(0, 12)
	decouple	(12, 0)	(5, 5)

Source: student's hypothesis.

- Entangle: increase cooperation, maintain free trade, and engage in further technological interdependence…etc.
- Decouple (de-risk): decrease cooperation, diversify supply chains, restrict investments…etc.

[144] "Post | LinkedIn," accessed May 8, 2026, https://www.linkedin.com/posts/alvinfsc_us-companies-generated-11-trillion-in-revenue-share-7322259684525047809-5iDp/.

Analyzing players' behaviors and dominant strategies:

A. U.S.'s behavior:

If China chooses to **entangle**, the United States faces two available options: to entangle, yielding a payoff of 10, or to decouple, yielding a payoff of 12. Rationally, it will select the option that maximizes its utility—namely, decoupling (12).

If China chooses to **decouple**, the United States can either entangle, which yields a payoff of 0, or decouple, which results in a payoff of 5. Again, the United States will choose to decouple, as it provides the higher payoff.

In conclusion, **decoupling constitutes the dominant strategy for the United States**, regardless of China's choice.

2- China's behavior:

If the United States chooses to **entangle**, China faces two options: to entangle as well, yielding a payoff of 10, or to decouple, yielding a higher payoff of 12. Therefore, China will rationally choose to decouple.

If the United States chooses to **decouple**, China can either entangle, resulting in a payoff of 0, or decouple, yielding a payoff of 5. Once again, decoupling is the preferable option. In conclusion, **decoupling is also the dominant strategy for China**.

4. Overall conclusions:

Thus, decoupling emerges as the dominant strategy for both players in a context characterized by high tensions and increasing distrust, despite the deep economic interdependence between the two countries. Although mutual entanglement would produce a mutually beneficial (win–win) outcome, this outcome corresponds to a situation of **Pareto**

efficiency, in which no player can be made better off without making the other worse off. However, each player retains a strong incentive to defect in order to improve its individual payoff. For instance, if both players initially agree to remain in a state of entanglement (each receiving a payoff of 10), unilateral deviation creates strong incentives: if the United States defects by decoupling, China's payoff drops from 10 to 0; conversely, if China defects, its payoff increases from 10 to 12, while the United States' payoff falls from 10 to 0. Therefore, **individual rationality undermines the stability of full economic entanglement**, making sustained cooperation difficult to achieve. The outcome (5, 5), in which both players choose to decouple, constitutes **the Nash equilibrium of the game**. A Nash equilibrium refers to a situation in which no player has an incentive to unilaterally deviate from their chosen strategy, given the strategy of the other player. In this equilibrium, each player's strategy remains optimal in response to the other's choice. Accordingly, the (5, 5) outcome can be interpreted as a critical inflection point in the current international economic order. More specifically, it signals a potential shift away from a globalization-based system toward an emerging structure characterized by economic bifurcation. In this scenario, the international system evolves into two competing blocs: one led by the United States and the other by China. This equilibrium may also be understood as a point of no return. As demonstrated in the payoff matrix, any unilateral attempt to restore the previous state of mutual entanglement would expose the initiating player to significant strategic vulnerability, potentially resulting in severe economic losses. Consequently, both players remain locked in the decoupling equilibrium despite its suboptimal collective outcome.

Such strategic behavior reinforces persistent rivalry rather than constructive competition. It undermines mutual trust and weakens the prospects for cooperation, thereby increasing the likelihood of economic shocks and accelerating systemic fragmentation within the global economy.

Subsection 2: Quantitative assessment of US-China geoeconomic interactions

This subsection presents a quantitative approach to analyzing Sino–American geoeconomic rivalry on a statistical basis. It aims to examine the relationship between geopolitical dynamics and their implications for economic decoupling over the period 2016–2023.

The analysis is based on the premise that economic decoupling operates across three levels: technological, financial, and commercial. Each of these dimensions is operationalized through corresponding dependent variables:

- China's holdings of U.S. Treasury securities, which measure financial exposure and hedging behavior;
- The U.S. trade deficit with China, which captures bilateral trade imbalance and the degree of U.S. dependence on Chinese goods and services;
- U.S. semiconductor export restrictions on China, which serve as an indicator of the intensity and escalation of technological decoupling.

In contrast, the independent variables are geopolitical in nature and include:

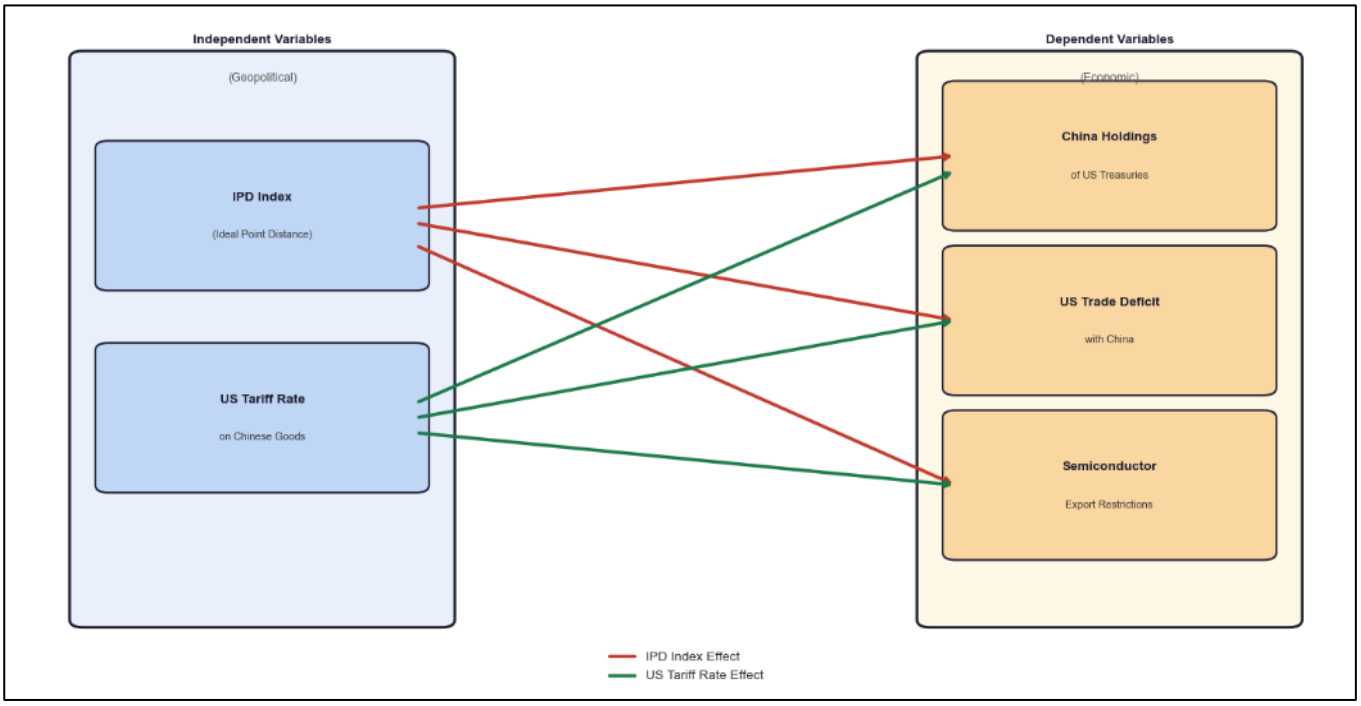
- The Ideal Point Distance (IPD) index, which measures the degree of geopolitical divergence or convergence between two states based on their voting alignment in the United Nations General Assembly—here, specifically between China and the United States;
- U.S. tariffs on Chinese goods, which reflect the use of trade policy as a coercive instrument.

The empirical analysis proceeds in four stages: descriptive statistics, correlation analysis, ordinary least squares (OLS) regression with confidence intervals, and the Granger causality

test. The objective is to assess whether geopolitical interactions generate measurable economic effects.

Note: All statistical calculations and visualizations were performed using Python 3 in a Jupyter Notebook environment, using Pandas for data manipulation, Scipy and Statsmodels for statistical testing, and Matplotlib for data visualization.

Figure 18: *Analytical framework of US-China geoeconomic interactions (for demonstration purposes)*



Source: prepared by the student using Python.

- **Variables and data source:**

Table 3: *table of variables and data sources of the statistical analysis*

Variable	Type	Measurement	Source
IPD index	Independent	IPD score (from 0 to 4)	Bailey, Strezhnev & Voeten
US tariff rates on Chinese goods	Independent	Tariff rate (%)	Peterson Institute for International Economics
China holdings of US treasuries	Dependent	Billion USD	US treasury TIC data
US trade deficit with China	Dependent	Billion USD	US census bureau
US semiconductors export restrictions on China	Dependent	Annual count	Bureau of Industry and Security (BIS)

- **Descriptive statistics of the data and variables (2016 – 2023):**

Table 4: *Statistical parameters*

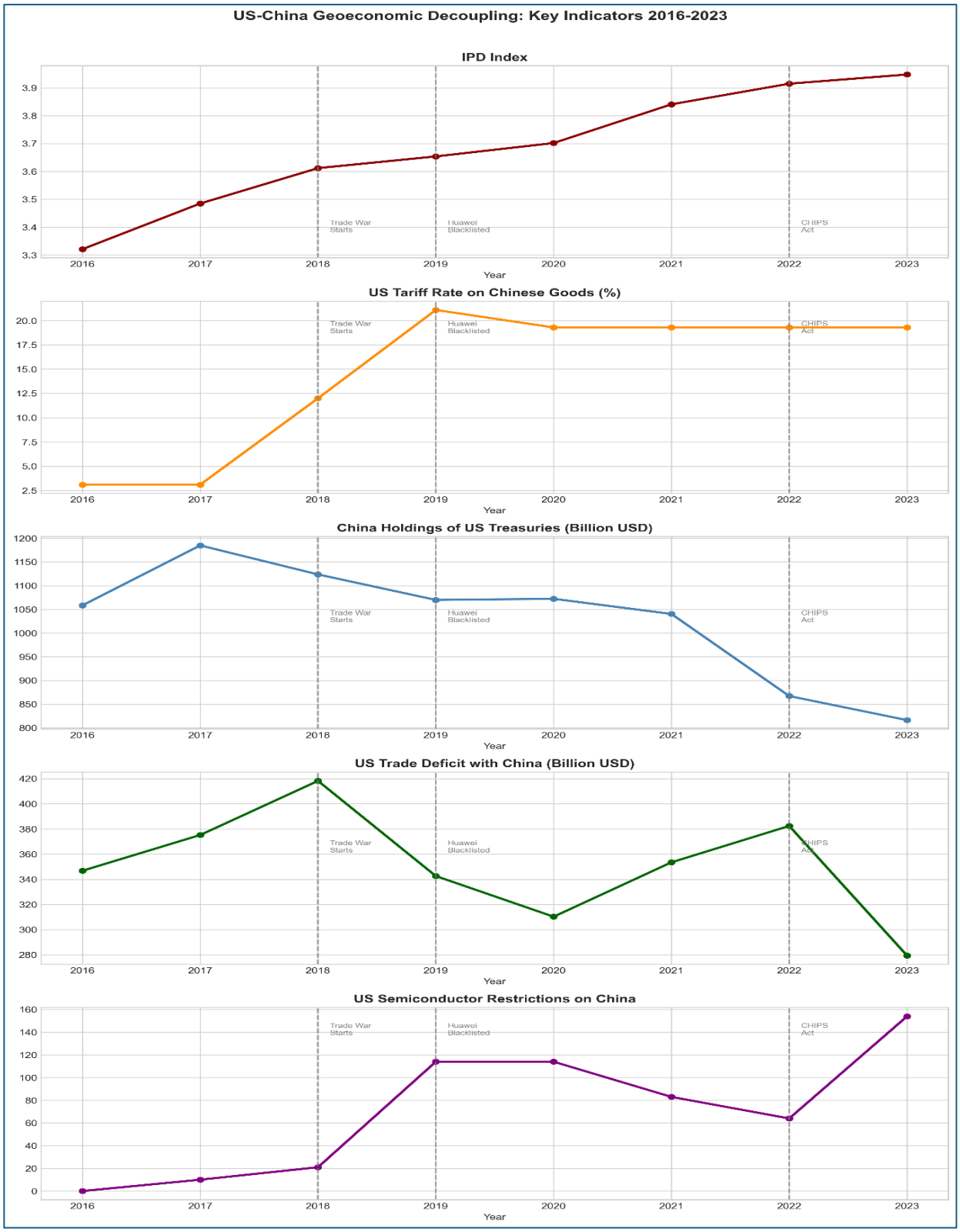
Variable	N	Mean	Std Dev	Min	Max
IPD index	8	3.685	0.216	3.321	3.948
US tariff rates on Chinese goods	8	14.562	7.577	3.100	21.100
China holdings of US treasuries	8	1029.113	124.937	816.300	1184.900
US trade deficit with China	8	351.050	43.036	279.400	418.200
US semiconductors export restrictions on China	8	70.000	56.104	0.000	154.000

The descriptive statistics shows that "IPD index", which ranges from 0 to 4 (the closer it is to 0 the more geopolitically and ideologically aligned the countries are, and the closer it is to 4, the more contended and opposed they are) indicates a growing divergence between China and The US through a steady increase in its value with stability in its standard deviation.

"Tariffs" on the other hand, exhibits a high standard deviation, especially after the 2018 trade war, alongside a stable mean for "the trade deficit" despite geopolitical tensions, which indicates a deep trade and commercial dependence. However, "semiconductors restriction" shows the highest dispersion relative to the mean, which indicates an uneven escalation in regard to its mean.

- **Time series analysis:**

Figure 19: *US-China geoeconomic decoupling time series (2016 - 2023)*



Source: prepared by the student using Python.

Interpretation:

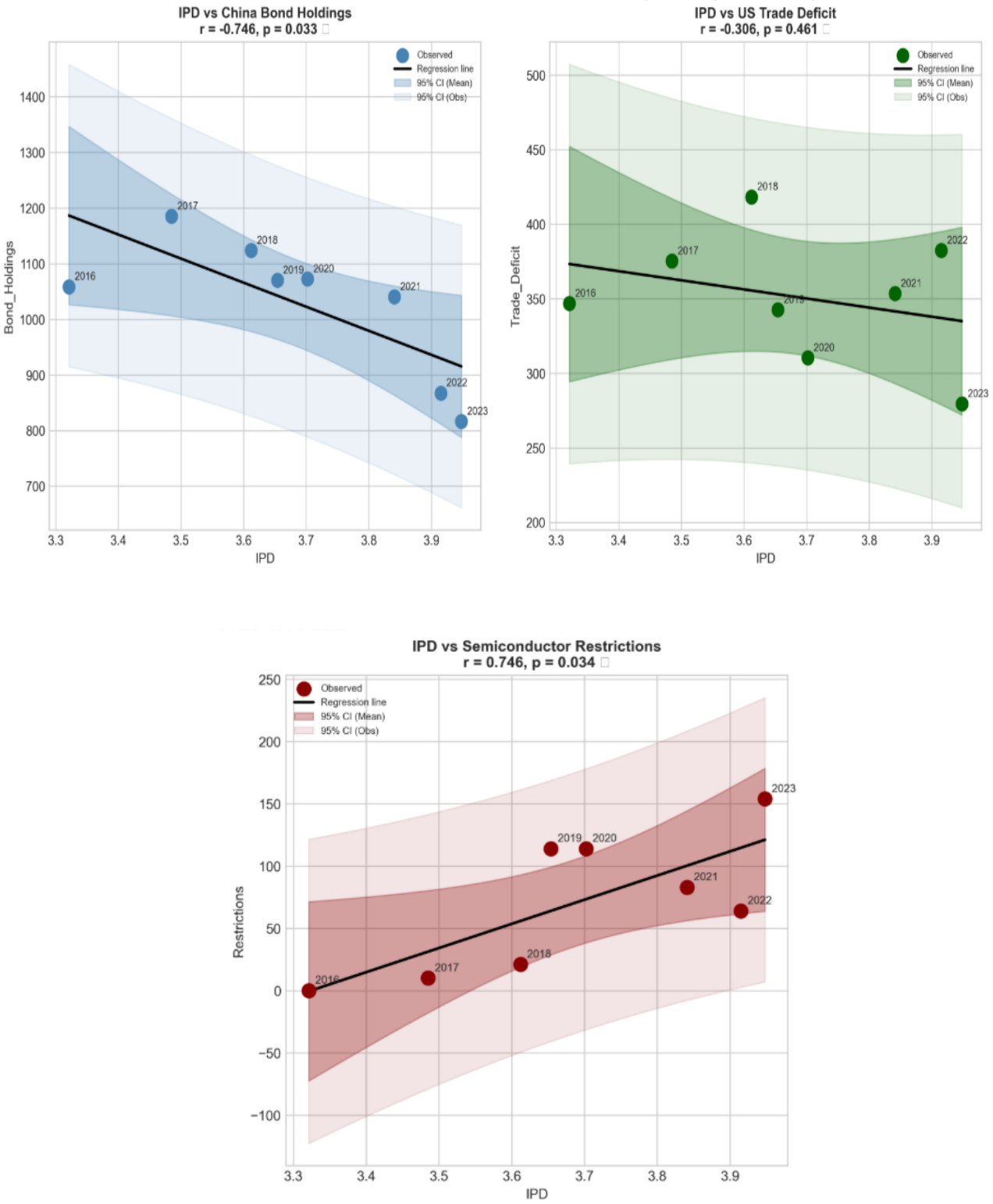
The first phase (2016 - 2017) indicates a pre-escalation stage, where trade relations, tariff rates, and Chinese ownership of US treasury securities are relatively stable, which clearly demonstrates a deep economic entanglement.

The second phase starts with the 2018 structural break of the Trade war between China and the United States, where a series of offensive strategies including high tariffs, currency manipulation and also legislative measures represented in semiconductors exports ban were implemented, coupled with a hedging behavior from China demonstrated in de-dollarization efforts as a response to rising geopolitical and commercial tensions.

The third phase (2020 - 2023) characterized by a more rigorous US efforts through the institutionalization of this rivalry, and that's by issuing the 2022 CHIPS and Science act, which resulted in significant rise in chips and semiconductors restrictions to China during the entire timeframe, and more importantly, the reshoring policies such as the "Silicon desert" which is a 165 billion USD advanced semiconductors investment project by TSMC in Arizona.

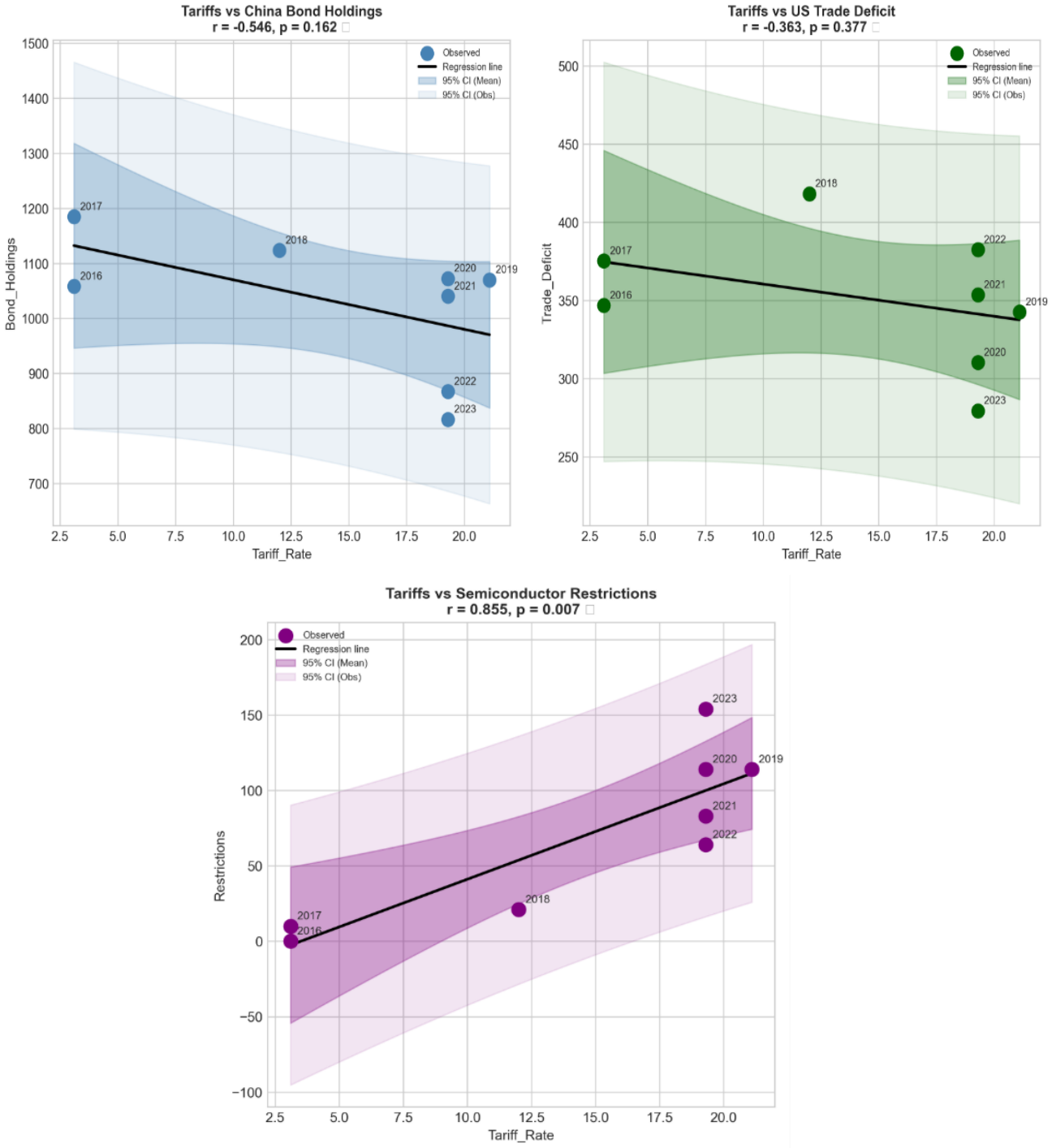
- **Correlation analysis with regression lines and confidence intervals:**

Figure 20: *IPD vs China bonds holdings, US trade deficit, and semiconductors restrictions Correlation analysis with regression lines and confidence intervals*



Source: prepared by the student using Python.

Figure 21: *Tariffs vs China bonds holdings, US trade deficit, and semiconductors restrictions Correlation analysis with regression lines and confidence intervals*



Source: prepared by the student using Python.

Interpretation:

The correlation and regression analysis with confidence intervals examines six bivariate relationships between the two geopolitical independent variables and the three economic dependent variables, and resulted into 3 statistically significant results:

- For the IPD index:

We notice a strong negative correlation with Chinese holdings of US treasury securities (**r = -0.746, p = 0.033**) with an **R-squared of 0.579** -it means that the independent variable "IPD index" explains 57.9% of the variance in the dependent variable "Chinese bond holdings"-, indicating that the more geopolitically divergent the two countries are, the less Chinese possession of US securities it is, in order to reduce its financial exposure, while the regression coefficient of -566 billion USD per unit increase in IPD emphasizes the financial magnitude of this geopolitically driven decoupling.

On the other hand, the IPD demonstrated a strong positive correlation with semiconductors restrictions **(r = 0.746, p = 0.034)** with an **R-squared of 0.733 -**meaning that the IPD explains 73.3% of variance in semiconductors restrictions- which means that the higher the IPD gets, the more restrictions are imposed on semiconductors esports, which demonstrates the importance of the technological factor in strategic supremacy.

However, the relationship between IPD and the trade deficit proved statistically insignificant **(r = -0.306, p = 0.461)** with an **R-squared of 0.132 -**IPD explains only 13.2% of the variance in the trade deficit **-**, confirming that commercial interdependence is much deeper and rooted between the economies to be easily affected by geopolitical dynamics.

- For the US tariff rates:

We observe a very strong result in regard to semiconductors restrictions **(r = 0.855, p = 0.007)** with an **R-squared of 0.733 -**meaning that US tariffs explain 73.3% of variance in semiconductors restriction**-** and a high value for the correlation coefficient, indicating a direct positive relation and linkage between these two interactions – approximately every one percentage point increase in tariffs corresponding to approximately 6 additional

semiconductor restrictions- which shows the selective and carefully calculated tendency of US administration to specifically target this sensitive sector.

However, the relationships between tariffs and bond holdings **(r = -0.546, p = 0.162)** and tariffs and the trade deficit **(r = -0.363, p = 0.377)** also proved to be statistically insignificant as a result to the weak response of financial decoupling to direct trade coercion, while the trade deficit also maintained a relative stability.

Finally, the confidence interval bands validate these result and interpretation through its narrowness especially in: *tariffs vs semiconductors*, *IPD vs semiconductors*, and *IPD vs China bonds holdings*, indicating a high predictive reliability and confirming that these relationships are not driven by chance or statistical noise.

- **Granger causality test:**

Table 5: *Granger causality test for IPD, Tariffs rate, and economic variables*

Causal relation	P-value	Result
IPD with China bonds holding	0.009	Granger causes
IPD with trade deficit	0.247	Does not granger causes
IPD with semiconductors restriction	0.159	Does not granger causes
Tariffs rate with China bonds holding	0.279	Does not granger causes
Tariffs rate with trade deficit	0.104	Does not granger causes
Tariffs rate with semiconductors restriction	0.035	Granger causes

Interpretation:

The Granger causality test established two notable causal relationships of statistical significance:

First is the IPD index Granger-causes variations in Chinese bond holdings (p = 0.009), which confirms that major geopolitical differences causally lead and forecast China's choice to

diminish its financial reliance on the United States. Second, tariff rates also Granger-cause restrictions on semiconductors ($p = 0.035$), confirming that trade conflicts causally intensify technological conflicts as a unified decoupling approach.

The other four non-significant relationships, especially the lack of causality between geopolitical factors and the trade deficit, supports the idea that commercial interdependence follows a separate structural logic unaffected by state-led geopolitical influences, where other mediator variables such as consumer demand and production costs in some average non-sensitive industries such as textile, agricultural products, electronics…. etc. play a significant role in determine the effect and relation between the independent and dependent variables in this study, which makes the pursuit of any decoupling in these domains counterproductive.

Note that, the constrained timeframe of 8 observations is a methodological limitation on the statistical strength of this test, so the two established causal relationships should be viewed as important indicators of geopolitically-driven decoupling mechanisms.

Conclusion

- **Restatement of the Research Focus**

This study explored the structural and geoeconomic transformation of the relationship between the United States and China as they navigate a shift from deep economic interdependence toward strategic decoupling. The research aimed to investigate the tension between the two powers as they struggle for strategic supremacy in an increasingly polarized international system. Specifically, the study addressed the question of the extent to which economic decoupling has become a central instrument within this rivalry and how this shift affects their respective international standings. By analyzing this transition, the study reaffirmed the research problem: the challenge of moving from a state of symbiotic "Chimerica" to a security-driven model where economic tools are weaponized for geopolitical ends.

- **Summary of Key Findings**

The investigation identified that **complete economic decoupling is an impractical and excessively costly option** for both the United States and China due to the dense interconnectedness of global value chains. Instead, the study discovered a pattern of **"selective decoupling" or "de-risking,"** where efforts to separate are concentrated in high-value strategic sectors rather than a total rupture of the commercial relationship. Quantitatively, the research identified a strong correlation between **geopolitical divergence (as measured by the Ideal Point Distance index) and financial and technological restrictions**, whereas general commercial trade proved to be more resilient to geopolitical tensions. Ultimately, the study found that both nations now view decoupling as a dominant strategic choice to mitigate structural vulnerabilities, even if it leads to a less efficient global economic order.

- **Answer to the Research Question**

The research concludes that **economic decoupling has become a central, sector-specific instrument of Sino-American geoeconomic rivalry**, functioning primarily as a hedging strategy against structural vulnerabilities. It is not a total separation of economies but a **deliberate re-engineering of interdependence** intended to reduce "choke-point" and "panopticon" effects. The "final position" of this thesis is that the relationship has reached a **Nash equilibrium of "decouple-decouple,"** where national security imperatives have fundamentally eclipsed the liberal pursuit of market efficiency, signaling a structural fragmentation of the global economic order into competing blocs.

- **Theoretical Implications**

The findings of this study provide significant support for **Power Transition Theory**, illustrating how a dominant power (the U.S.) utilizes economic instruments to slow the rise of an unsatisfied challenger (China). The study extends the theory of **weaponized interdependence** by demonstrating how structural positions in global networks—particularly in advanced semiconductors and finance—are exploited for strategic denial. Furthermore, the research suggests a new conceptual understanding through the **"Geoeconomic Dilemma,"** which highlights the modern state's struggle to balance the contradictory needs for economic openness to ensure prosperity and strategic closure to ensure security. Finally, the findings challenge classical liberal assumptions that interdependence naturally leads to peace, instead supporting a **neo-mercantilist framework** where commerce is treated as a primary "war theatre" of the 21st century.

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