

# U.S.-CHINA RELATIONS: THE SEARCH FOR A NEW EQUILIBRIUM

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## EXECUTIVE SUMMARY

For over 40 years following President Richard Nixon's first tentative steps in China in 1972, the relationship between the United States and the People's Republic of China (PRC) navigated many ups and downs, but generally developed along a trajectory of deepening social, economic, people-to-people, and diplomatic ties. In recent years, that trajectory has been broken. Now, the relationship has reached what respected China scholar David M. Lampton describes as a "tipping point."<sup>1</sup> This paper will explore how the relationship reached its current moment, why the relationship has been nose-diving, and what steps the United States could take to protect its interests in its relationship with China going forward.

This paper argues that neither the United States nor China own a monopoly of responsibility for the downturn in relations. Donald Trump and Xi Jinping are more symptoms than sources of the current downturn in bilateral relations. There are deeper structural forces at work on the relationship than the personalities or specific actions of the two leaders.

The paper examines four major structural discontinuities that have put the relationship on a steep decline. First, both countries have grown dissatisfied with the previous regional security status quo. Second, China's emergence as a global rule-maker has heightened tensions. China arguably is the first non-Western power in the post-World War II era with the weight and the ambition to seek significant adjustments to international rules, norms, and institutions to better suit its interests.<sup>2</sup> (While the Soviet Union posed its own challenges to the international order,

it did not actively seek to change the existing order on a magnitude corresponding to China's ambitions today, nor did it have the capabilities to do so.) Third, China's rise from a low-wage manufacturing hub to a technology power has introduced friction into the economic relationship, as both economies increasingly move from being complementary to competitive with one another. And fourth, unresolved questions about the nature of ideological or systems competition are fueling tensions.

Looking ahead, the paper argues that Washington and Beijing each will need to take steps to allow conditions to emerge over time that would make possible the emergence of a new equilibrium for the relationship. Such an outcome would bolster each side's confidence in their ability to protect their own vital interests, prevent a mutually harmful deterioration in relations, and enable both sides to focus more on improving their own national conditions by addressing their own shortcomings.

The paper offers four recommendations for the United States in addressing challenges posed by China. First, the United States needs to right-size the risks that China presents to U.S. interests, including by considering China's abundant strengths *alongside* its considerable vulnerabilities. Second, both countries need to develop a shared understanding of the geostrategic environment in which their competition is playing out. Third, the United States will need to update its toolkit for influencing how China identifies and pursues its interests. The experiment of concentrating unilateral pressure on China and relying on tariffs to compel capitulation has generated concrete costs that exceed the benefits. And fourth, the United States needs to

get back on track in terms of nurturing its sources of strength — its alliance partnerships, its international prestige and leadership, and its ability to foster national cohesion to confront pressing challenges.

There will not be quick fixes or absolute victories in a relationship as complex and consequential as the U.S.-China relationship. Each country is too big and strong to be dominated by the other. Working toward coexistence within a state of heightened competition will not come naturally or quickly for either side. It will require statesmanship, patience, and fortitude. It will result from a shared recognition of each side's requirements for coexistence over conflict or ceaseless confrontation. The relationship is not pointed there yet, but that is the direction it is likely to head, not out of amity or goodwill, but rather out of shared necessity.

## THE PATH TO THE PRESENT

Despite their sharp ideological differences at the time, the United States and China originally were brought together by a common geostrategic purpose — limiting the Soviet Union's expansion of influence. The relationship exceeded even the most ambitious aims of its original architects. The thaw begun under Richard Nixon and Mao Zedong succeeded in placing stress on the Soviet Union, driving a wedge in the communist bloc, forcing Moscow to divert resources and focus from Europe to the Asian theater, and eventually contributing to the collapse of the Soviet empire.

Although it weakened the foundation of the relationship, the downfall of the Soviet Union did not disrupt the overall trend of deepening U.S.-China relations. After a nadir following the Tiananmen Square tragedy of June 4, 1989, both countries steadily developed ties across a wide range of issues, from nonproliferation to academia, the arts, business, science, the environment, health research, and so on. As China's economy took off, many U.S. firms shifted supply chains to China, Chinese companies manufactured low-cost goods and sold them to the United States, and then China took the foreign reserve holdings it had generated from exports and plowed a significant portion of them into U.S. Treasury securities. This circularity afforded China safe harbor for its growing currency reserves, strengthened purchasing power for American citizens, and kept American inflation and interest rates low.

At the same time, the expansion of U.S. trade relations with China also had downside effects. The exact number of manufacturing job losses owing to trade with China is a subject of debate, as is the offsetting job gains in the services sector. Nevertheless, it is widely accepted that there were concentrated job losses in regions where labor-intensive manufacturing was located, and that the United States government underperformed in providing trade adjustment assistance for those displaced by trade with China.

Proponents of the relationship often argued that strategic dividends would outweigh short-term economic dislocation pains caused by deepening trade ties with China. One view was that a more prosperous China would have higher demand for quality imported products, which would benefit Western companies and workers. There also was widespread hope in the United States, including in public statements by elected leaders, that as China rose the economic ladder, its political system would converge and begin to assume characteristics of Western governance models. Even though changing China's political system from the outside never was the animating focus of U.S. strategy, the absence of liberalizing political reform in China has been a source of disappointment.

As George W. Bush entered office, there was a brief call to check the pace of China's rise; however, discussion of treating China as a "strategic competitor" quickly dissipated after the September 11, 2001 attacks on the United States.<sup>3</sup> American focus and resources were diverted to prosecuting the "Global War on Terror" and China was viewed as a source of stability in a world of disorder.

Although there were flare-ups over Taiwan and human rights issues, by and large the relationship continued to advance during the Bush years.<sup>4</sup> U.S. policy focus shifted from integrating China into the international system toward improving the quality of China's contributions. Then-Deputy Secretary of State Robert Zoellick laid out the approach in a 2005 speech calling for China to develop into a "responsible stakeholder" in upholding the rules-based international order.<sup>5</sup> Zoellick's speech served as an authoritative policy judgment that the United States would benefit by China becoming more — not less — involved in addressing global challenges.

For its part, Beijing presented itself as pursuing a “peaceful rise.”<sup>6</sup> Led by the relentlessly uncharismatic Hu Jintao, China projected modest ambitions and remained largely restrained in its use of national power for pursuit of external ambitions. Beijing took guarded and largely uncontroversial steps to play a larger role on the world stage. These included convening Six-Party Talks on North Korean denuclearization, increasing contributions to U.N. peacekeeping, sending the People’s Liberation Army Navy to support U.N.-led anti-piracy operations off the Horn of Africa, and taking a more active role in helping to defuse tensions in Sudan.

During the 2008-2009 global financial crisis, the relative balance of the relationship shifted. The U.S. was no longer a “teacher” encouraging China to adopt market-based reforms, but found itself seeking China’s support to save the global economy.<sup>7</sup> Through coordinated economic stimulus measures, the U.S. and China played the leading roles in helping the world economy avert a depression. This unity of effort in rescuing the global economy provided confidence to both capitals about their capacity for cooperation. At the same time, it also hardened perceptions of China’s relative rise and the United States relative decline in the international system.



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A similar global leadership dynamic emerged on climate issues. After years of being at loggerheads over each side’s respective responsibilities for reducing greenhouse gases, President Barack Obama and President Xi Jinping broke the impasse during a state visit in Beijing in 2014. At the conclusion of the visit, the two leaders surprised the world by jointly announcing an ambitious plan to curb carbon emissions. They presented their agreement as part of a shared effort to spur all other countries to make their own cuts in emissions. From 2014 to 2016, Obama and Xi adopted the mantra on climate issues that if they led together,

the rest of the world would follow. And the world did. The Paris climate agreement reached in December 2015 was very much an outgrowth of the joint efforts of the United States and China to rally other countries to confront climate change.

Alongside the two countries’ joint efforts to rescue the global economy and confront climate change, though, there also were brewing frustrations in both countries during this period about the bilateral relationship. On the strategic side of the ledger, developments in the South and East China Seas and on the Korean Peninsula escalated regional tensions and aggravated U.S.-China strategic rivalry in East Asia. From an American perspective, China was underperforming in working with the United States and the rest of the international community to rein in North Korea’s nuclear and missile programs. At the same time, China was mortgaging regional stability in pursuit of greater control over its territorial claims in the South and East China Seas, and doing so in defiance of international law and the objections of its neighbors as well as the United States and many others.

On the economic front, Obama and other political and business leaders increasingly began to spotlight problems resulting from China’s mercantilist, state-led economic model. Efforts to compel China to alter policies that were advantaging Chinese firms over foreign competitors made little headway. China stubbornly insisted on maintaining market access restrictions, forced technology transfer practices, subsidization of state-owned enterprises, over-capacity production in key sectors, and lax enforcement of intellectual property protections. Chinese interlocutors routinely appeared to pay lip-service to these concerns, offering pledges of future reform, even as Beijing steadily solidified its statist economic model. Two caveats, however, are worth mentioning. First, through determined diplomacy, the United States pushed China to address its currency imbalances. As China economic expert David Dollar has explained, China over the past decade has allowed its currency to appreciate considerably in trade-weighted terms.<sup>8</sup> This has contributed to a drop in China’s current account from a surplus of nearly 10% of GDP at the outset of the global financial crisis to a surplus approaching zero. This shift has helped generate demand and trading opportunities for the United States (and the rest of

the world). Second, progress was achieved toward the end of the Obama administration in curbing state-sponsored, cyber-enabled economic espionage for commercial gain.<sup>9</sup> It does not appear that gains made in curbing Chinese state-sponsored, cyber-enabled economic espionage for commercial gain have carried over into the Trump administration, though.<sup>10</sup>

Against an overall backdrop of the Chinese Communist Party (CCP) asserting a dominant role in economy and society, the U.S. business community in recent years has grown considerably more muted in its advocacy for advancing bilateral ties. And the business community is not alone in its dissatisfaction with Chinese behavior. Labor unions blame China for job losses in the manufacturing sector.<sup>11</sup> Environmental groups charge that China is not doing enough to curb emissions of greenhouse gases.<sup>12</sup> Many Americans of all political leanings, and especially human rights advocates, are outraged by China's brutal suppression of upwards of one million (and possibly more) ethnic Uighurs in Xinjiang, and China's overall efforts to harness technology to control society.<sup>13</sup> Democracy advocates are offended by Beijing's efforts to tighten control over Hong Kong, by Xi Jinping's clampdown on civil society within China, and by Beijing's attempts to control discourse on China outside of its borders.<sup>14</sup> Grand strategists increasingly are concerned that China is advancing an illiberal alternative to democracy and view the Belt and Road Initiative as a leading vector for China's expansion of influence abroad. Religious groups are upset by China's curbs on religious expression, including by its campaign to remove church crosses, control Buddhist prayer rituals, and destroy Muslim mosques across the country.<sup>15</sup> Technology companies are warning that China's state-led investment in research and development could erode their competitiveness. Defense hawks decry China's island-building in the South China Sea and warn of the potential strategic implications of China's massive investments in military hardware. A significant number of non-governmental organizations have shut down their operations in China out of concern about the lack of legal safeguards for their work. Many scholars have curtailed travel to China in response to Beijing's arbitrary detention of a Canadian academic as part of a tit-for-tat retaliation for the arrest of a Chinese businesswoman.<sup>16</sup> And many Americans are angered that China has violated their privacy with its cyber-espionage.



**Beijing has simultaneously alienated virtually every major constituency in American politics with a stake in U.S.-China relations. In so doing, China has become a rare point of bipartisan consensus.**

In other words, through its actions, Beijing has simultaneously alienated virtually every major constituency in American politics with a stake in U.S.-China relations. In so doing, China has become a rare point of bipartisan consensus. Both Democratic and Republican politicians see profit in advocating for a tougher approach toward China, even as they differ on the most effective ways to do so. There also have been rising unfavorable views of China among the American public, though not (yet) support for a strategy that requires the American people to shoulder significant costs in service of confrontation with China.<sup>17</sup>

In this environment, it has become popular in the United States to argue that the downturn in U.S.-China relations is attributable to Xi Jinping, or at a minimum, to China's shift in policy orientation under Xi. These arguments characterize problems in the relationship as being products of Xi's leadership and ignore important drivers of Chinese behavior that preceded Xi's tenure.<sup>18</sup> In the safety of quiet one-on-one conversations, many of my longtime Chinese friends and former government counterparts privately acknowledge China's contributions to the downturn in relations. While many would quibble with the apportionment of blame that is owed to China, virtually all of them privately agree that discontinuities in Beijing's overall policy orientation in recent years have contributed mightily to the downturn.<sup>19</sup>

The tune is markedly different in large meetings, academic conferences, and public commentaries, though. In those settings, Chinese counterparts argue that blame belongs almost entirely to the United States. Self-reflection on China's contributions is treated as taboo. Instead, the argument goes, the United States is acting like an anxious declining

power, grasping for opportunities to slow the rise of its foremost competitor. This is the prism through which American tariffs on Chinese products are explained to the Chinese public, and similarly how American critiques of China's actions at home and abroad are reported.

For his part, Xi has introduced the concept of “profound changes unseen in a century” into China's analytic lexicon for describing China's present strategic circumstances. The central leadership has used this narrative to warn of obstacles and challenges resulting from the re-emergence of great power competition, even as it persists toward its long-term goal of “national rejuvenation.”

Thus, just as it has become popular in Washington to blame Xi for the downturn in relations, it similarly has become convenient in Beijing to assign responsibility to American anxieties about relative decline. The common thread that ties both of these arguments together is that they represent the triumph of advocacy over analysis. In the United States, the “it's all Xi's fault” argument is used to push for a more confrontational approach toward China, just as in China the “anxious declining power” argument is used to deflect blame to the U.S., e.g., for the downturn in relations, for the decelerating economy, and for the deteriorating security environment around China.

The uncomfortable reality is that there are much deeper forces at work on the relationship than either of these superficial arguments suggest. I will highlight four of what I perceive to be the most salient examples below.

## THE FORCES DRIVING THE DOWNWARD TRAJECTORY OF RELATIONS

### *Dissatisfaction with the regional security status quo*

The first structural discontinuity is that the United States and China both now are unhappy with the regional security status quo. This was not always the case. For several decades following the formal establishment of diplomatic relations, there was a

division of labor between both countries in the Asia-Pacific region. Although it generally was not codified in writing, the understandings were largely accepted and understood among policymakers in both countries. The basic contours of these understandings were that the United States would use its predominant power to deter conflict, preserve a relatively stable security order, and push to open markets. China would defer external ambitions and focus mostly on lifting up its own people. Additionally, neither side would abandon the diplomatic framework for managing differences over Taiwan, as enumerated in three U.S.-China joint communiques. Through these negotiated texts, both sides agreed that the United States would maintain an unofficial relationship with Taiwan within the context of our “one China” policy, and in return, China would not use or threaten force to compel unification.

While both sides were skeptical of the other's commitments to these understandings, each side generally refrained from openly violating them. In instances when one side's actions visibly violated these understandings, such as China's military intimidation against Taiwan in the run-up to Taiwan's first-ever direct presidential election in 1996 and America's dispatch of two carrier strike groups in response, the United States and China ended up uncomfortably close to conflict.

The stability that these understandings afforded the relationship, and the broader region, were positive. China benefitted from a benign external environment, which allowed it to focus resources on its own domestic development. Other countries in the region — with the exception of North Korea — achieved progress in social, economic, and political modernization. And the United States preserved its leadership position in Asia and profited from the region's economic rise.

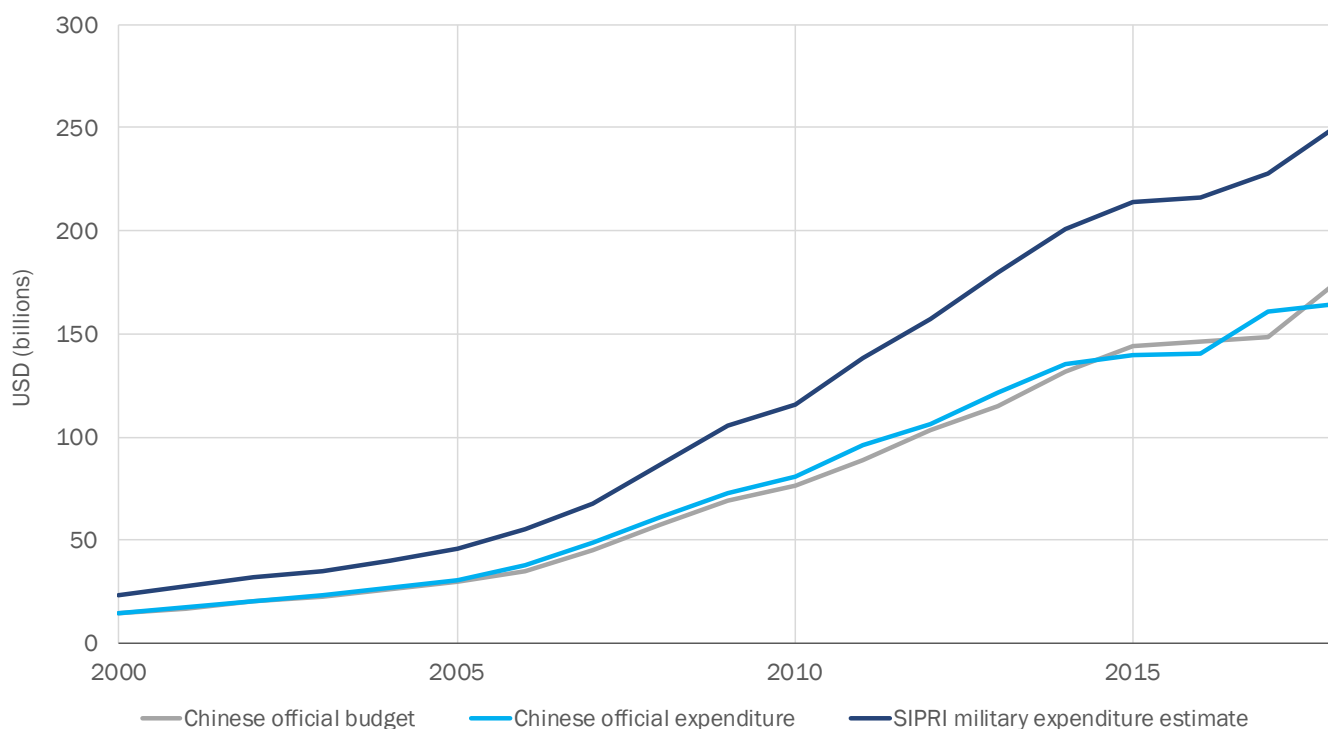
That period is over. Now, both the United States and China hold each other in open violation of these understandings and show no interest in working to update them. The United States increasingly is pursuing a more formal relationship with Taiwan as a counter to China's tightening squeeze there. Many in the U.S. strategic community also are alarmed by the erosion of American military primacy in East Asia. They worry that China's rise is causing America's military primacy to fade, and that the longer this trend persists, the more

inhibited the United States will become in its ability to check China's pursuit of greater influence over its near-periphery. Meanwhile, Chinese leaders extol a racially-infused civilizational view of international relations, call for "Asian solutions to Asian problems," seek to undermine America's relationships with its security allies, and make little effort to hide their ambition to diminish American influence in the region.<sup>20</sup>

China is matching rhetoric with action. It is investing massive sums in military modernization and is deploying its growing capabilities in ways that suggest

it seeks to push out its defense perimeter to the first island chain – a group of islands extending from Japan through Taiwan and the Philippines. China's push for greater control of its periphery is manifesting in increased operational activity and incursions around the Senkaku Islands and Taiwan and throughout the South China Sea. Beijing appears to be signaling to America's closest allies and partners in Northeast Asia that it always will be nearby and active, and that there is rising risk in crossing China and then counting upon the United States for security.

**FIGURE 1: CHINA'S MILITARY SPENDING**



Sources: Stockholm International Peace Research Institute (SIPRI), National Bureau of Statistics, Ministry of National Defense of the People's Republic of China.<sup>21</sup>

### ***China's emergence as a global rule-maker***

As my Brookings colleague Bruce Jones discusses in his piece for this series,<sup>22</sup> China is becoming the first non-Western power in the modern international system with the weight and ambition to re-shape the rules of the international order. While the Soviet Union posed its own challenges to the international order, it did not actively seek to build global institutional order in the way China has sought, nor did it have the capabilities to do so. Since its inception at the end of World War II, the modern system of rules, norms, and institutions has never been static, but it also has never come up for broad-scale re-evaluation. While there has been continuous tinkering to the system, it has mostly occurred on the margins, and the tinkerers by and large have been like-minded Western countries. Key multilateral institutions such as the United Nations, the World Trade Organization, the International Monetary Fund, and the International Atomic Energy Association have played constructive roles in helping avert crises and mitigate risks of a return of great power conflict.

Now, questions abound about the continuing efficacy of the international system. Some of the questions result from President Trump's well-known antipathy for international institutions, which he views as limiting America's ability to exercise power advantages over all other countries on the world stage. There also are questions about the scale of China's ambition to alter the existing international system, though there is now consensus that Beijing seeks adjustments to better suit its interests.<sup>23</sup> Already, China is seeking to attract international support for its normative approach on issues such as internet governance, the relative importance of social stability over individual liberties, as well as the limited role for international institutions in addressing human rights issues within countries. More broadly, China is working to secure international acceptance (or non-hostility toward) its state-led economic model and Leninist political model.

As China's national power grows and its ability to place its officials in leadership positions in international institutions improves, there are reasonable grounds for concern that China may become more ambitious in its revisionism. Even so, there remain few credible indicators that China has the capacity or the ambition to flip the table on the entire rules-based international

system. China is more likely to become, as Evan Feigenbaum argues, a "revisionist power but not a revolutionary one."<sup>24</sup>

### ***The growing centrality of technology competition in U.S.-China relations***

In the span of recent decades, China has transformed itself from a low-wage assembly line for the manufacture of American-engineered products to a near-peer competitor of the United States at the innovation frontier. By some accounts, China will soon be one of the leading powers in technologies such as artificial intelligence, robotics, energy storage, fifth generation cellular networks (5G), quantum information systems, and possibly biotechnology.<sup>25</sup>

In addition to intensifying economic competition, China's technological progress also is placing stress on American national security. Even though many of China's technological breakthroughs are being advanced by its private sector, much of the R&D funding for those breakthroughs is state-backed. There are growing concerns in the American strategic community that Beijing will leverage technological breakthroughs in foundational technologies such as machine learning to gain advantages over U.S. forces.<sup>26</sup> These concerns have informed efforts by the Trump administration to increase scrutiny on the flow of capital, people, hardware, software, and know-how to China.<sup>27</sup>

### ***Intensifying ideological and systems competition***

Previously, the absence of sharp ideological rivalry was one of the differentiating characteristics of the U.S.-China relationship from the Cold War rivalry between the United States and the Soviet Union. Even though China's leaders remained dedicated Leninists, they studiously avoided repeating the Soviet "mistake" of becoming embroiled in a direct confrontation with the United States. China abandoned its earlier efforts under Mao to export ideology, focusing instead on reforming its economy and opening itself up to the outside world.

Now, however, there are growing questions in the United States about whether China remains content nurturing its governance system at home, or whether it has begun broadening its ambitions to include encouraging other

countries to replicate its governance model. President Xi fanned this debate when he told the 19th Party Congress in 2017 that “China offers a new option for other countries and nations who want to speed up their development while preserving their independence.” Occurring amidst a global democratic recession, Xi’s statement sparked a wave of commentary in the United States about the re-emergence of ideological competition, i.e., Beijing promoting a “China model” to compete against the spread of liberal democracy.<sup>28</sup> The U.S. intelligence community similarly sounded the alarm, writing in the 2019 Worldwide Threat Assessment that “China’s leaders will increasingly seek to assert China’s model of authoritarian capitalism as an alternative — and implicitly superior — development path abroad, exacerbating great-power competition that could threaten international support for democracy, human rights, and rule of law.”<sup>29</sup>

Perhaps recognizing the speed and strength of the American reaction, Beijing later attempted to tamp down perceptions that it was pursuing ideological competition with the United States. For example, Xi told a high-level gathering of foreign leaders in Beijing that “managing our own affairs well is China’s biggest contribution to building a community with a shared future for humanity... We will not import a foreign model. Nor will we export a China model, nor ask others to copy Chinese methods.”<sup>30</sup> In reiterating China’s desire to steer clear of ideological competition, Xi reaffirmed longstanding PRC policy.<sup>31</sup> This clarification did little to assuage the concerns of many politicians and commentators in the United States, however.

Even if China does not seek to export its governance model, its practices nevertheless offer an example for other countries to emulate, especially at a time when the “U.S. model” is underperforming. In recent years, Beijing has promulgated measures to limit civil society and curb dissent, including the foreign Non-Governmental Organization Management Law, the Cybersecurity Law, the National Intelligence Law, and the National Security Law. Chinese firms also have made technologically advanced surveillance and monitoring platforms commercially available to the highest bidder. These cutting-edge platforms have penetrated markets around the world, including in parts of the world where the United States traditionally has enjoyed preponderant influence, such as Europe,

Latin America, and the Middle East. As more countries embrace Chinese laws and technologies for the purpose of strengthening social control, the effect is to “normalize” China’s domestic social stability practices. This has led my Brookings colleague Tarun Chhabra to warn of the spread of “digital authoritarianism.”<sup>32</sup>

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Taken together, these four discontinuities in the U.S.-China relationship suggest that the relationship is not merely navigating another cyclical downswing, as it did in 1989, 1996, 1999, or 2001,<sup>33</sup> in the wake of unanticipated events. Rather, the relationship is encountering deeper structural stresses, as both countries adjust to shifts in the relative power dynamics between them. When viewed in this light, actions undertaken by Trump and Xi appear to be more symptoms than sources of ongoing adjustments in the relationship.

This analysis is not meant to absolve either leader of responsibility for the downturn in relations. They each have contributed to sharpening the decline of the relationship. Rather, it is meant to highlight that even if Trump and Xi exited office tomorrow, the relationship would remain under considerable stress. Larger forces than the two leaders’ personalities and actions are driving the relationship downward.

## RECOMMENDATIONS FOR THE UNITED STATES

The work of rebalancing the U.S.-China relationship toward a more durable equilibrium will require reciprocal actions from both countries. Since I am a former American policy practitioner working at an American think tank, I will focus my comments on the U.S. side of the ledger. I would be remiss if I did not stress, however, that until and unless China moderates the way it is approaching issues that are aggravating key American constituencies, there likely will be very limited political space for future American leaders to chart a more constructive path for the relationship.

Taking this as a given, here are four broad thoughts for how the United States could manage the relationship going forward in a manner that protects American interests and fortifies the likelihood of non-war.



### ***Right-size the risk that China poses to U.S. interests***

China is America's foremost strategic competitor. Its abundant strengths are well-documented. Beijing harbors an ambition of reclaiming what it views as its rightful historical place as the central power in Asia and a great power globally. With its dynamic economy, technologically advanced military, geographic positioning, and sizeable national goals, China poses the most significant challenge to American leadership in the 21st century.

At the same time, China also faces significant challenges. These include but are not limited to: energy and food insecurity; demographic headwinds; a heavy debt overhang; declining rates of productivity growth; acute ethnic and social divisions; and a sclerotic political system. China's economy is experiencing a long-term declining growth rate. Under Xi, China may be gambling its future for greater control in the present by having the state direct innovation while suppressing freedom of inquiry.

Diplomatically, China's recent actions have done more to repel than to attract international support. Beijing's heavy-handed suppression in Hong Kong and Xinjiang has been ugly, to say nothing of its bullying of countries that deign to pursue interests independent of China's designs. Unsurprisingly, China does not enjoy considerable attraction on the world stage. Recent Pew Research polling shows that majorities or pluralities in nearly every country surveyed say the future would be better if the United States rather than China remains the world's leading power.<sup>34</sup>

From a strategic perspective, China's military has amassed formidable anti-access/area denial capabilities. At the same time, it remains relatively constrained in its ability to project force beyond its immediate periphery. Given these challenges, it should not be taken as a given that China will successfully marry power projection with political and economic influence on a global scale — definitional features of a global superpower. While such an outcome remains a possibility, it is not a foregone conclusion.

Additionally, China likely will encounter more budgetary constraints on giant overseas initiatives going forward.

With an aging society, an underdeveloped social safety net, a cooling economy, an ongoing rebalancing of distribution of tax revenues between central and local governments, and an end to its era of current account surpluses, there will be intensifying competition for central government resources. If China decides to continue shoveling vast sums into ambitious overseas initiatives, it increasingly will have to do so by borrowing on international capital markets, adding a spread, and lending to clients with uneven records of governance and adherence to rule of law.<sup>35</sup> Perpetuating this practice on a large scale would amount to a high-stakes bet for Beijing.

Finally, there is ongoing debate in the United States about the proper response to Chinese efforts to influence American public discourse, engage in espionage, and steal intellectual property. I take very seriously the threat posed by such actions. I believe the United States government should enhance its investment in — and prioritization of — counter-espionage work and use all available lawful tools to defend itself. At the same time, I am convinced that an absolute attempt to restrict or severely limit the numbers of Chinese students or workers from entering the United States to conduct study/work/research would do immense harm to the United States. Openness is one of America's core advantages; it fosters innovation and helps attract the best minds from around the world to America's shores. Openness comes with risks, but in my judgment, the benefits outweighs the risks. The Federal Bureau of Investigation and others must make all possible efforts to protect against malign Chinese efforts inside the United States but do so in a way that guards against any resurgence of "Yellow Peril" attitudes.

### ***Develop new shared framework for understanding the U.S.-China relationship***

Both sides need to rediscover a new shared logic for the relationship. They no longer are brought together by a shared enemy in the form of the Soviet Union. The shared challenge from climate change is insufficient to override the many areas of friction in the relationship. Bereft of a common logic, enmity and anxiety have come to define the relationship.

Amidst this deterioration in relations, a broader trend has gone largely underappreciated. While competition between the United States and China is intensifying, both countries simultaneously are expanding the distance between themselves and every other country in the world in terms of economic size, pace of innovation, and overall national power.<sup>36</sup> As of 2018, the United States and China are the only two countries whose GDPs have ever surpassed \$10 trillion in nominal terms. Put together, their two economies now account for nearly 40% of global GDP.

This trend is likely to accelerate in the coming years, as both countries benefit from first-mover advantages and clustering effects around innovation. According to a widely cited study by PricewaterhouseCoopers, the United States and China are set to capture 70% of the \$15.7 trillion windfall that artificial intelligence is expected to add to the global economy by 2030.<sup>37</sup> Further illustrating this point, the Atlantic Council predicts that by 2030, there will be a hierarchical order of technology innovation, with only the United States and China at the pinnacle, other advanced economies lagging behind, and everyone else cast to the background.<sup>38</sup>

This dynamic suggests that both countries will remain central actors in the international system for the foreseeable future. Neither side will be able to impose its will on the other, short of risking catastrophic conflict, and at the same time, neither side will have the resources or focus needed to achieve its national ambitions if it is engaged in an outright hostile relationship with the other. In present circumstances, with both countries serving as the twin engines of the global economy and simultaneously trading over \$700 billion in goods and services between them, it defies imagination to conceive of a scenario whereby one country rises while the other one falls, even as both countries presently strive to secure their own supply chains for sensitive technologies.<sup>39</sup> By the same token, it also defies imagination to conceive of progress being achieved on any of the most pressing transnational challenges — e.g., climate change, nonproliferation, public health, refugee flows, closing the development gap — if the world's two largest actors are out of synch with each other in their responses. As time goes by, many of these global challenges likely will grow too acute to ignore.

Arguments that assume American muscularity can deliver Chinese capitulation or collapse treat the relationship as unidirectional rather than dynamic, and willfully disregard the myriad ways in which both sides are capable of imposing strategic or economic pain on the other. Instead of pursuing policies built on false assumptions, both countries will need to rediscover how to coexist and manage the relationship. As leading foreign policy thinkers Kurt Campbell and Jake Sullivan have aptly captured, “coexistence means accepting competition as a condition to be managed rather than a problem to be solved.”<sup>40</sup> Put differently, both countries will need to find ways to bound competition within a shared understanding of their interdependence.

### ***Revive efforts to influence China's behavior***

I expect the U.S.-China relationship will be headed in a more competitive direction for the foreseeable future. I also expect future U.S. administrations will harvest valuable lessons from the Trump administration's experiment in seeking to influence China's decisions through unilateral exertion of pressure, with a heavy reliance on tariffs. To date, this approach has not resulted in significant progress in Chinese reforms on economic issues the United States prioritized, compelled Beijing to moderate its actions at home or abroad, or elicited more or better cooperation with China on any of Washington's foreign policy priorities.<sup>41</sup> This approach has, however, generated significant costs, not least the \$28 billion in farm subsidies U.S. taxpayers have spent to partially offset the losses to the U.S. agricultural industry from tit-for-tat tariffs with China, to say nothing of the permanent loss of China as a reliable agricultural export market, or the growing number of American high-tech firms that are offshoring research and development so as to avoid *de minimis* product origin requirements that could limit their ability to sell products to China in the future.<sup>42</sup>

The United States has influenced Chinese behavior in the past. Persistent and focused American diplomacy helped persuade China to abandon a role as the world's leading proliferator of weapons of mass destruction and instead work with other major powers to halt proliferation. At American urging, China cut its current account surplus, which helped fuel global economic expansion over the past decade. The U.S. also helped nudge China from being a problem to a partner in spurring global action on climate change.



**The United States will have limited influence on China's decisions if it makes every Chinese action everywhere in the world a cause of concern.**

Given China's growing strategic weight in the international system, it likely will require even greater focused exertion by the United States to push China in its preferred direction on key issues going forward. This will require discipline in narrowing down and prioritizing areas where the United States believes it needs to affect China's calculus. Washington also will need to become more rigorous in matching aspirations with capabilities, or means to ends, on where it holds leverage to influence Beijing's decision-making. The United States will have limited influence on China's decisions if it makes every Chinese action everywhere in the world a cause of concern. One way to tighten the focus on areas meriting pushback would be to concentrate on Chinese actions that undermine international rules and/or implicate vital American interests.

Influencing China's calculus also will require dexterity to be able to compete and cooperate in tandem. Washington must demonstrate through word and deed that it will not allow U.S.-China cooperation in areas of mutual interest to dampen tolerance for friction in areas of contested interests, and vice versa. The U.S. also will need to resist impulses to bundle disparate issues together into tangled webs, as President Trump did when suggesting that he would go softer on China on trade issues if it partnered more with the United States on North Korea.<sup>43</sup> Weaving unrelated issues together in the U.S.-China context is a formula for frustration.

The U.S. also will need to elevate the importance of working with allies and partners to influence China's decisions. Previous administrations have worked through the G-7, with Association of Southeast Asian

Nations (ASEAN), and with other issue-based groupings to shape China's incentives for reform.<sup>44</sup> Had the United States proceeded with entering into the Trans-Pacific Partnership, for example, it would have placed greater stress on China's leaders to address economic irritants than unilateral pressure has to date.

The United States is not alone in wanting to see an East Asian order that respects rules, promotes prosperity, protects fundamental freedoms, and enables each country to pursue its interests as it identifies them. It would behoove the United States to prioritize coordination with partners such as South Korea, Japan, Taiwan, Australia, and India, all of whom are advancing strategies designed to deepen their respective relationships with countries across the region as a hedge against overreliance on China. At the same time, the European Union, as well as many of its key members, increasingly share similar objectives in East Asia with Washington. Through creative diplomacy with and among partners, the United States can influence the strategic environment in which China pursues its interests without needing to directly confront China. At the same time, Washington must bear in mind that each of these partners has its own unique interests with, and perceptions of, China. A consultative and flexible approach toward coordinating actions in support of common objectives will be more effective than any attempt to build a bloc to counter China.

This menu of recommendations is more illustrative than exhaustive. It is intended to highlight that the United States maintains many tools for influencing China's behavior. But doing so requires an acceptance that China's future course is not already predetermined, that the goal of American strategy need not be to seek to compel the collapse of China, that incremental progress with China is better than outright confrontation, and that the United States can co-exist with an ambitious China that does not undermine the international rules-based order. If these conditions no longer are tenable, then future U.S. leaders may need to prepare the American public to embrace the considerable risks and sacrifices that would accompany intensification of rivalry with China.

***Focus on restoring sources of comparative advantage in competition with China***

In recent years, the United States has been undermining many of its own strengths in its competition with China. First, Washington has been treating its security alliances as areas of unrealized profit, instead of as platforms for addressing 21st century challenges. Under the flawed logic that allies contribute little to our security, have nowhere else to turn, and thus will not abandon the United States, Washington has sought to squeeze partners for more favorable trade terms, increased defense budgets (e.g., NATO countries), and much greater host nation support (e.g., South Korea and Japan). In so doing, the United States has been withdrawing goodwill from its most important relationships. The longer this trend continues, the greater the risk that U.S. allies will grow more inattentive to American concerns and more focused on achieving strategic autonomy for themselves. If this occurs, the United States will degrade one of its greatest sources of strength in its competition with China, its historically unparalleled global network of alliance relationships.

Second, the United States also has been bleeding international prestige and leadership. While there always has been tension between values and interests in American foreign policy, that tension has mostly dissipated in favor of interests in recent years. President Trump's seeming indifference to human rights violations, combined with his administration's abandonment of promotion of democracy and the rule of law and its appeasement of dictators, has undermined America's claim to be the champion of justice and fairness.

Third, the United States has been experiencing an erosion of national cohesion and accompanying political gridlock. The twin shocks of a demographic transition and a fourth industrial revolution have provided fertile ground for populism and nationalism to sprout. In this environment, the U.S. political system at the national level has become polarized to the point of becoming incapable of addressing glaring problems like decaying infrastructure, an immigration system in need of reform, insufficient funding for basic research, and unequal access to opportunity. Even as state and local level governments across the country have proven resilient and adaptive, the national government has reliably underperformed.

Neither political party and no single politician owns exclusive blame for these shortcomings. The national callouses hobbling the United States today have built up over time. The current era of hyper-partisanship is the source of much of the current dysfunction in America's political system. America's national-level political system simply is not solving problems, even when problems are obvious and the solutions are known.

While the prescriptions for re-investing in alliance relationships, restoring America's international prestige, and overcoming domestic political divisions are beyond the scope of this paper, the upshot is that all these challenges are self-induced, and all of them are fixable. There already is broad public consensus on the social, economic, and foreign problems facing the United States. At the same time, the American public is largely split in its support for political parties. There is a low likelihood that one political party will run the table in any upcoming election and establish domination over the other. Instead, future American leaders steadily will need to advance efforts to restore the practical, problem-solving center of the political spectrum.

**CONCLUSION**

A key challenge for the United States is regaining confidence that if it lives up to its own potential, it can protect its vital interests in its competition with China. The United States does not need to defeat China, but it does need to maintain the capability to deter China, constrain the export of the more malign aspects of its system, and strengthen its own global competitiveness and attractiveness.

Although the circumstances of America's current competition with China differ markedly from the conduct of relations between the United States and the Soviet Union during the Cold War, the prescription that George Kennan proposed then remains applicable today. Kennan concluded his famous X article in *Foreign Affairs* by writing, "Thus the decision will really fall in large measure on this country itself. The issue of Soviet-American relations is in essence a test of the overall worth of the United States as a nation among nations. To avoid destruction the United States need only measure up to its own best traditions and prove

itself worthy of preservation as a great nation.”<sup>45</sup> This same outlook should continue to guide the United States in its competition with China today.

China's behavior does — and will continue to — pose significant challenges to American interests. Tensions are being aggravated by structural shifts in the relationship that predate — and likely will outlast — both President Trump and President Xi. There will not be a return to the pre-2016 status quo. At the same time, there need not be a perpetual deterioration in the bilateral relationship, with all of its attendant risks in the forms of alienation, miscalculation, and enmity. If both countries accept that their national destinies are linked, exercise restraint in how they

address challenges with each other, understand the geostrategic environment in which their competition is playing out, and concentrate on strengthening themselves by addressing their own shortcomings, they each will gain confidence in their ability to manage with competition with the other. Over time, space will reemerge for both sides to work toward developing a new equilibrium that allows them to coexist within a state of heightened competition. This process will require firmness, candor, and mutual acceptance of the considerable risks to both of ceaseless confrontation. Establishing a new equilibrium will not come quickly and will not be easy for either side to accept. But it will remain vastly preferable to the available alternatives.

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