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The Changing Fundamentals of US-China Relations

The US-China relationship is changing in fundamental ways. Currently, the United States and China are engaged in an intensive and costly trade war that, even if resolved through negotiations, will likely not provide the basis for long-term stability. Indeed, it may carry the seeds of future confrontation. More broadly, many of the fundamental ideas that once guided the relationship are being called into question, such as engagement, cooperation, and convergence. The institutional structure of the relationship is also being tested. The well-developed and hard-worn channels of communication have been allowed to atrophy. On both sides, and especially in China, bureaucratic processes are straining to keep up with the growing diversity and complexity of a relationship that is global in scope and consequence.

Nevertheless, the United States and China have arrived at a point—perhaps a turning point—that requires we ask and attempt to answer some fundamental questions about how we got here and where the relationship might go: what are the sources of the current tensions? Which ones will persist, and which ones may shift due to political and/or economic changes in either country? How much of this is a function of President Trump’s and/or President Xi’s decisions? What are the possible trajectories for US-China ties, and what should the United States do about it?

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To get at these questions, this article examines the changing dynamics at the heart of the US-China relationship. As this relationship enters its fifth decade and as China emerges as a global power, many of the drivers of this relationship are evolving and pushing it in a far more competitive direction while some of the relationship's traditional strengths are waning. Such periods have come and gone before. If we have witnessed anything about US-China relations over the past 40 years, it is that the relationship is both competitive and cyclical, careening from periods of relative stability and cooperation to ones of frustration and antagonism. In short, antipathy, distrust, competition, and volatility are not new to the US-China relationship, but their relative roles in it may indeed be changing.

This article examines two basic issues: the drivers as well as accelerants of competition and the buffers as well as stabilizers against it. The first and second sections survey the drivers and accelerants by dividing them into structural and cyclical to better appreciate their sources, manifestations, and implications. The third section outlines the changing nature of the buffers and stabilizers. A final section offers some general considerations for policymakers.

Structural Competition

**US-China
competition today
has a different
quality than in the
past.**

This article begins with the premise that US-China competition today has a different quality than in the past. It is developing long-term, structural drivers that have deep roots on both sides. Since at least the mid- to late-2000s, the primacy of competition has become a core feature of the US-China relationship and not a variable feature that will shift with the political and economic cycles in either country.

Asia's Rise

China is rising and challenging US interests at the same time that Asia as a continent is increasing in long-term importance to the United States and world. Asia is now home to half of the 20 fastest growing economies, generates two-thirds of global growth, and accounts for 40 percent of global GDP. Sixty percent of the world's population lives in the continent, and the size of Asia's middle class (notably including China and India) is expected to reach nearly 2.3 billion people, or 65 percent of the world's total by 2030. Indeed, Asians will constitute the largest share, some 88 percent, of the next billion people in the middle class.¹ Asia also accounts for seven of the ten largest standing militaries in the world and six of the eight declared nuclear states. The United States has five formal

treaty allies in Asia and currently deploys, including at Indo-Pacific Command in Hawaii, over 350,000 US troops in the region from across all armed services.²

Thus, in the twenty-first century, Asia no longer reflects underlying global dynamics as it did during the Cold War. Rather, Asia is setting many of those dynamics, especially those related to great power competition, the pace and scope of economic globalization (especially trade liberalization), and the role of rules, norms, and institutions to govern economic and security behavior between and among states. Given Asia's growing importance, China's behavior has assumed even greater significance for many in the United States. Not only is China's behavior intrinsically important to the United States, but it is occurring in a region that is now more meaningful to both US interests and to global order than at any time since the end of the Cold War.

Security

A second major structural force affecting US-China relations is the expanding roots of bilateral competition, which now covers security, economics, technology, and ideas about governance. The longstanding sources of US-China competition—security and economics—are deepening at the very time that new drivers of competition—such as technology and governance—are emerging.

Security competition is not new to US-China relations, but its nature and role in the overall relationship are changing. For decades, US-China conflicts of interests have been apparent on a range of security issues including Taiwan's status and security, US alliances, Chinese military modernization, nuclear and missile nonproliferation, maritime territorial disputes, and episodic regional security issues. Many of these are enduring differences: Taiwan is central to the Communist Party's legitimacy, and US alliances and security commitments are core to its regional defense strategy. In the past, Washington and Beijing found a way to manage their differing security interests through a mix of changing behavior, modifying demands as well as expectations, and/or simply tolerating differences with the hope they would disappear, or that both sides would grow past them due to common security challenges. These management strategies created space for cooperation on both traditional and nontraditional security issues, as well as growing economic ties.

Today, the situation is evolving in a new direction. With past differences becoming more acute, new areas emerging, and uncertainty on both sides about the other's long-term intentions growing, the US-China security relationship is now a complex mix of an expanding set of diverging interests combined with an intensifying security dilemma. This is in part due to China's expanding capabilities and in part due to its increased willingness to use them. The resulting security competition is a function of both US and Chinese behaviors and

perceptions. Perceptions are a particularly important part of the equation because the growing uncertainty makes these diverging security interests appear more acute.

Several developments explain this intensification and diversification of security competition. China's military modernization has made great strides since the mid- to late-1990s, but for the United States, it is not just that the overall gap in

Chinese military modernization is directed at constraining US power projection in the Western Pacific.

relative capabilities has narrowed. It is also the fact that Chinese military modernization is directed at constraining US power projection capabilities in the Western Pacific, and in particular that China has made great strides in eroding traditional US military advantages in Asia. The cost for the US military in fighting a war with China has rapidly risen to the point that, according to former Deputy Defense Secretary Robert O. Work and Greg Grant, "the US Joint Force could face defeat at the hands of the Chinese military in plausible scenarios."³

China's substantial investment in emerging defense and commercial technologies—such as artificial intelligence, hypersonic weapons, and autonomous vehicles—is further accentuating its military advantages and intensifying the security dilemma.

In addition, whereas China was willing to grudgingly tolerate US alliance activities in the past, it is now more willing to raise the costs for US allies who take actions China sees as undermining its interests. China has consistently put pressure on US allies such as Japan, South Korea, the Philippines, and Australia during diplomatic disputes, including by imposing economic and diplomatic costs; examples include after Japanese actions in the East China Sea and South Korea's decision to deploy a US missile defense system in 2016.⁴ China has also started interfering in the domestic politics of some US allies and partners as a way to pressure them to alter their policies.⁵

As these challenges have grown, tensions between mainland China and Taiwan have not abated, which ensures that a possible conflict over Taiwan remains a central, motivating feature of the US-China security competition. Since 2016, China has reduced Taiwan's diplomatic allies, increased its military operations around Taiwan on the sea and in the air, and interfered in Taiwan's politics by using economic incentives to influence voter blocs at the local level. US arms sales and military coordination with Taiwan persist, much to Beijing's frustration.

Beginning in 2010, due to changing Chinese perceptions about its claims as well as the US role and enhanced Chinese capabilities to protect them, maritime territorial disputes became a new focus of US-China security competition. China took numerous steps to consolidate its territorial and

jurisdictional claims in the East and South China Seas. In response, the United States sought to play a greater role in preventing Chinese coercion, bringing both sides into direct contention. In particular, China's creation of seven quasi-military bases through land reclamation in the South China Sea (SCS), and its gradual deployment of weapons on them, has driven US and regional concerns about future armed conflict and restrictions on freedom of navigation for both military and civilian vessels. China's use of para-military capabilities below the threshold of conflict, so-called grey zone activities, has further augmented the competition. Such developments have presented the United States and its allies as well as partners with a new and difficult challenge for which they have no immediate answer.⁶

A possible conflict over Taiwan remains a central, motivating feature of US-China security competition.

Economics

Chinese economic policymaking is historically cyclical, raising the question about whether there are any truly structural sources of economic competition. When Chinese leaders decide to re-embrace market reforms, they can do so, as Deng Xiaoping did in 1992 after Tiananmen and as Premier Zhu Rongji did in the later 1990s after Jiang Zemin's successful 15th Party Congress. This time may be different: Xi flirted with market reforms after the Fall 2013 3rd Plenum (of the 18th Central Committee) but then never adopted most of them. Xi has made a variety of decisions that reveal a preference for state control over the economy and a corresponding skepticism about market forces.

As captured in his speech at the Fall 2017 19th Party Congress, Xi has embraced a greater role for the state in the economy, especially SOEs and state-led development projects, and a greater role for the Communist Party in economic governance. Xi and his top advisors justify these policies by claiming to ensure national strength and national security, implying an enduring basis to them. Several of the Trump administration's actions on technology policy have reinforced these insecurities, as addressed in the next section.⁷ To the extent Xi has opened space for the private sector and foreign investors in the economy, it has been when faced with the imminent risk of a financial sector crisis or when China needs access to foreign technology and expertise. It is reasonable to conclude that, going forward, China's relative prioritization of market forces in the reformation of the economy will remain limited.

In the context of Xi's economic decisions, there are host of structural forces and related policy choices that are intensifying bilateral economic competition. First, as China's economy rebalances and focuses on innovation-led growth, bilateral economic interactions are intrinsically becoming more competitive. The degree of complementarity in Chinese and US exports is declining as the Chinese economy produces higher value-added goods and services. Thus, the natural complementarity of the two economies is giving way to larger segments that are more competitive with each other, creating tensions. This is especially true in sectors the Chinese government has prioritized including consumer and industrial electronics, cars (especially electric vehicles), and a variety of services such as e-commerce and e-payments.⁸

To be sure, such competition is not inherently bad for bilateral relations or inherently unfair to US firms. Competition alone cannot explain the extent of the animosity and kind of policy reactions from the United States. American firms compete with those from the EU, Japan, Korea, Taiwan, and elsewhere, and the level of bilateral hostility is lower. Rather, the problem is that this intensifying economic competition is coming at a time when many in US firms believe that the field of competition is increasingly tilted to their disadvantage because of the growing role of the Chinese state in supporting domestic firms over foreign ones.

A second explanation of intensifying economic competition is China's renewed and expansive use of industrial policies, beginning in the mid-to-late 2000s. These are aimed at increasing market share for Chinese firms in sectors Beijing deemed to be critical to future growth. With a focus on fostering dominance of high-tech sectors such as semiconductors, quantum computing, and artificial intelligence, the government has allocated hundreds of billions of US dollars to Chinese companies. This approach culminated in a broad-ranging policy known as *Made in China 2025*, released in 2015. China's industrial policies undermine foreign firms operating in China, and in recent years they have also impeded them in third-country markets, as Chinese firms with government support search for international market share.⁹ A related source of friction is China's wide-spread use of discriminatory and non-transparent policy instruments (e.g., laws, regulations, and administrative actions) to assist domestic firms in order to position international rivals at a market disadvantage. A classic example of this was China's use of regulations in the late 2000s to encourage the development of its information communications technology (ICT) sector, commonly known as "Indigenous Innovation."¹⁰

In sum, US-China economic competition is structural due to a combination of Xi's priorities and ambitions, the massive spending on industrial policy, and the highly discriminatory policies used to implement the former. Indeed, the scale of China's economy means that any Chinese policy move has a huge effect on worldwide supply and demand, global financial markets, the structure of global

supply chains, and the situation of every incumbent player in the market, implying that the United States needs to care about even minor Chinese economic policy moves.

Perhaps the most worrisome new driver of US-China economic competition is a phenomenon which can be called the “securitization” of bilateral economic relations. This refers to economic challenges—some new and some old—that have now assumed a national security identity (i.e., Chinese economic practices that pose a security threat to the United States). For example, China’s efforts (both legitimate and illicit) to acquire technological superiority in civilian sectors of its economy such as artificial intelligence, robotics, quantum computing, and autonomous vehicles may erode the US ability to maintain military superiority. Many of the technologies that give the US military its advantage have their roots in global commercial markets, not ones controlled by governments. Thus, the deep integration of US and Chinese technology production supply chains could be a source of vulnerability for the US defense industrial base, which relies on some of these supply chains.¹¹

Perhaps the most worrisome new economic driver is the “securitization” of bilateral economic relations.

As a 2019 Asia Society Task Force report argued, this securitization of economic competition “also extends to China’s growing global activism as a foreign investor and aid donor on every continent.”¹² Xi Jinping’s Belt and Road Initiative (BRI) is seen by many in the United States, Europe, and Asia as way to leverage economic statecraft to gain a military presence and expand diplomatic influence. The report notes, “Chinese investments in ports in Burma, Sri Lanka, and Pakistan, and in a naval base in Djibouti, as well as large infrastructure investment projects in Africa, Latin America, Europe, and the Pacific Island nations, appear to be parts of a long-term plan to extend Chinese military access beyond Asia to the rest of the world.”¹³

Technology

Policymakers and business leaders in both the United States and China see themselves as locked in a long-term competition to dominate the foundational technologies critical to future innovation, including semiconductors, supercomputers, quantum computing, autonomous vehicles, artificial intelligence, robotics, 5G and next generation communications, and biotechnology and genetics. Both US and Chinese policymakers believe these technologies are essential to innovation, productivity, and national security and, thus, will control the global economy in the twenty-first century.

For the United States, US-China technology competition has a broad national security dimension as well. The 2017 National Security Strategy (NSS) put forward the idea of a National Security Innovation Base (NSIB), which comprises companies involved in the R&D and production of these foundational technologies.¹⁴ The NSS argues that US companies in these sectors are a strategic asset that need to be protected from rivals like China, and China is a special concern because it employs a variety of legal and illicit means to acquire US technology. The US business community shares these concerns about the escalating technology competition and the importance of American companies being leaders in these high-tech sectors.

While technology is not new to Chinese national strategies, Xi Jinping has placed a renewed emphasis on it. Previous reform-era leaders mainly viewed technology as a way to catch up with the West, build human capital and generate prestige. By contrast, Xi has a vision for China to be a global technology leader, putting technology at the center of his “China Dream” of national rejuvenation and economic modernization. Beginning in 2014, Xi made several seminal speeches calling for China to be a “cyber superpower,” which is a broad term that involves leadership in several high-tech sectors.¹⁵ This idea was important because it unified ideas and initiatives, and it emerged at a time when Chinese private firms had already made great strides in some high tech sectors, especially information and communication technology (ICT). Xi’s ideas quickly manifested into the expansion of industrial policies, as detailed above.

As the US-China technology competition has unfolded, Chinese policymakers are now focused on US efforts to hinder this vision, especially following US

A broader US debate has been sparked about China using technology to export a “China model.”

actions against Chinese ICT firms ZTE and Huawei. Based on these concerns, Xi and other top Chinese officials have doubled down on emphasizing the importance of technology self-reliance in the face of various Trump policy actions directed at Chinese tech companies.¹⁶

For many in the United States, technology competition is not just about who will dominate these critical high-tech sectors; it is also the fear that China is using these technologies in nefarious ways. This includes China’s use of technology, such as facial recognition and online monitoring, to improve the effectiveness of domestic political control and/or to export these technologies to enable other governments to build or maintain authoritarian regimes. This has sparked a

broader debate in the United States about China using technology to export a “China model,” which is both anti-democratic and anti-free market, to other countries, a concern that partially motivated recent US actions against Huawei.¹⁷

A third US concern is how China conducts technology development. China’s use of industrial policies in the form of direct subsidies to public and private firms, as well as other mercantilist and protectionist policies, gives Chinese firms an advantage in this technology competition. US policymakers and business leaders are especially incensed by China’s use of industrial espionage, both conventional and cyber-enabled, to steal US technologies that give Chinese firms an advantage in the technology development process. These concerns drove recent US legal actions against Fujian-Jianhua for stealing secrets related to US semiconductor technology.¹⁸

A fourth concern is about technology control. A growing number of US policymakers, analysts and investors argue that China has exploited loopholes in the US legal and regulatory controls to gain access to high-tech advances. They have pointed to weaknesses of both US export control laws as well as the CFIUS investment review process, which until recently did not cover greenfield or portfolio investments.¹⁹ The recent case of Advanced Micro Devices (AMD) is a classic example. The struggling company sold its unique chip design technology to a Chinese firm that can now design and produce chips on its own, presenting a major challenge for American companies such as Intel. Recent legislative changes to CFIUS and exports control laws are meant to preclude similar transfers in the future.²⁰

A final driver of technology competition relates to supply chains. Many in the United States are concerned that some companies, especially in the ICT sector, have supply chains that are too reliant on Chinese manufacturers. This creates several potential vulnerabilities: Chinese intelligence could exploit these supply chains to gain access to US civilian or military equipment and/or the Chinese government could cut off supply as a source of leverage during a US-China crisis. This concern informed the Trump administration’s effort to use tariffs and other tools to encourage US companies to move their supply chains out of China to reduce such vulnerabilities.²¹

Governance

A final emerging area of US-China competition is ideas about governance: global governance and the domestic governance choices of states. Xi’s variant of Chinese nationalism, which accentuates China’s exceptionalism, is important in this regard, given that he may be a key figure in elite politics, either formally or informally, for at least another decade. Xi’s ambitions for China to be a leader internationally and for the Chinese Communist Party (CCP) to lead political, economic and social governance at home are feeding a bilateral competition of ideas. Xi is on track to do more to remake China’s role in the world and the

Party-state-society than any previous reform-era leader, and he is doing so quickly and efficiently. Much of the Western world, especially the United States, is taking notice, and some see it as an emerging competition between systems and ideologies.

To be fair, this comes at a time when US foreign policy is challenged by its own identity crisis. Trump is deeply skeptical of the traditional internationalism of US foreign policy, allies, international institutions, and multilateral agreements, and many of the world's leaders are already starting to discount the US role as a result. Among mainstream US strategists of Asia, there is an emerging debate about whether the US should continue to pursue hegemony and primacy in Asia or switch to a strategy premised more on strategic balance among the major powers.²²

Xi has been more vocal and active about China shaping international order than his predecessors, though they articulated similar aspirations. Beginning in 2013, Xi pushed for an expanded role in existing institutions, started new ones, sought to reenergize existing regional ones, and initiated an effort to draft rules on emerging security issues like cybersecurity and the Arctic. He started land reclamation in the SCS, with the goal of securing Chinese maritime claims by creating seven quasi-military bases within just a few years. His decision to initiate this project involved assuming substantial risk of US and regional blowback, which he was willing to tolerate. Similarly, in fall 2013, Xi deployed an air defense identification zone in and around the East China Sea as a means of asserting Chinese claims over the disputed Senkaku/Diaoyu islands. This move generated strong reactions from Japan, the United States, and South Korea and raised lingering questions about whether China would make a similar move in the SCS. Xi then summarily rejected the 2016 ruling of the International Tribunal for the Law of the Sea, an independent judicial body established by the United Nations Convention on the Law of the Sea to adjudicate disputes, when the tribunal decided in the favor of the Philippines on several technical issues that directly impacted China's claims in the SCS. Beginning in 2014, China created a new regional lending bank called the Asia Infrastructure Investment Bank (AIIB) as part of an effort to position China as a leader of global economic governance. Around the same time, Xi launched the One Belt One Road initiative of infrastructure investment, with signature speeches in Central and Southeast Asia. Xi gradually expanded this into a global venture renamed the Belt and Road Initiative (BRI) and then hosted large and well attended global conferences on BRI in 2017 and 2019.

During his speech to the 19th Party Congress, he stated that China seeks to “become a global leader in terms of composite national strength and international influence,” and to have developed a “world class military force” by 2050.²³ The following year, at an important internal conference on foreign affairs, Xi reportedly stated for the first time that China should “take an active part in leading the reform of the global governance system,” a further reflection

of his ambitions for China.²⁴ Even before these very public statements, Xi's actions effectively ended adherence to Deng's low-profile external posture as captured in the aphorism "hiding your capabilities and biding your time" (*tao guang yang hui*) and promoted in both word and deed a more active and assertive role for China on the world stage as well as on issues and in regions where China previously showed limited interest.²⁵ China also actively contested international rules and norms, such as those on maritime disputes and human rights.²⁶

To be sure, Xi Jinping's efforts to realize his ambitions have not been unrelenting. He has recalibrated in the face of resistance and pressure. In late 2018, he received very public pushback from private sector business leaders for his privileging of SOEs and state actors over private companies, especially in their access to capital and overall operating environment. In response, Xi pivoted. He met with them, listened to these concerns and subsequently adopted policies to address some of them. Externally, Xi did the same in the face of global criticism of the BRI. In his speech at the 2019 BRI international summit in Beijing, Xi explicitly acknowledged the shortcomings of existing BRI efforts, such as the problems with debt sustainability, and committed China to adopt new practices to avoid this and other problems linked to large overseas infrastructure projects.²⁷ As an indication of Xi's commitment, after the summit, IMF managing director Christine Lagarde publicly praised Xi's new pledges and promised to collaborate with China to improve the quality of its lending practices.²⁸

The core global governance challenge for US-China relations is that both countries are selective revisionists. Neither are status quo powers interested in maintaining the current international system, and both want to reform it, but for different reasons and in different ways. China's core concern is that the current post-World War II system was created without its input and, while it benefits from some attributes, China is unhappy with the predominate role of the United States in areas that impact China's economic and security interests. As analyst Robert Kagan argues, US foreign policy also seeks constant change but not out of a sense of disenfranchisement and entitlement. Rather it is due to a combination of missionary zeal, evolving global interests, and changing US capabilities (especially military ones). He argues this has been a constant since the birth of the United States and will likely continue.²⁹ The resulting competition about the shape and contours of global order is unlikely to change anytime soon, given that both see

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the other's actions as inherently threatening and destabilizing to their vision for the international system.

Beyond global governance, US-China differences about China's political and economic choices are nothing new. However, Xi's turn toward greater CCP control, combined with an active effort to legitimize, if not promote, these beliefs internationally, has opened a more competitive chapter in US-China debates about democracy and markets. Xi consolidated power faster than either of his two immediate predecessors and used that process to centralize decision-making authority within the CCP apparatus, disempowering the State Council. His anti-corruption campaign among civilians and the military caused perhaps the most disruptive political change since Mao Zedong's death, leading to major turnover in the party, the government, and the military. He used this situation to expand the CCP's influence over economic and social life in China, which led to regression in both market-based reforms as well as in liberalization of political and civil rights, drawing an even greater contrast between US and Chinese ideas of domestic governance. Xi's empowerment of the CCP in social, political, and economic life, his step back from market reforms, his abolition of term limits, and his campaigns against ethnic and religious minorities, among other actions, are driving heightened US concerns.³⁰

US concerns about these domestic trends and Xi's foreign policy approach are now converging, largely due to two actions. Both became more apparent after Xi's speech at the 19th Party Congress, in which he talked for the first time about promoting the "China alternative" for countries seeking development and political independence. The first involve actions by CCP-backed entities, such as the United Front Department, to intervene in the politics of democratic countries to promote views favorable to China and undercut those criticizing it. The best examples, to date, are Chinese actions to shape domestic political debates in New Zealand and Australia in recent years, including by funding politicians that supported pro-China positions and funding pro-China media in those countries.³¹

A second US concern involves perceived Chinese efforts to promote overseas its preferences for authoritarian governance and state-directed development. China has reportedly done so through its economic and technological support for governments in Africa, Eastern Europe, and even Latin America (e.g., Venezuela). For example, the technological support Chinese firms provide to the internal security services of these governments has improved their ability to monitor, control, and eliminate political dissent.³² Some US scholars counter that Xi is neither promoting an authoritarian model nor undermining democracy but rather is seeking to make the CCP and China's governance choices just as legitimate as Western democracies. In other words, it is less about spreading a model than about validating China's own experience.³³ Nonetheless, the Trump administration, some Democratic and

Republican Party leaders, and a growing number of US scholars and analysts see this as an emerging global competition of ideas, if not ideology.³⁴ At a minimum, many questions are being asked in the United States that do not lend themselves to definitive answers about Chinese behavior, which further fuels anxiety about the nature of the challenge to US interests and values presented by China.

Changing Time Horizons

As David Edelstein argued in his pathbreaking work on the value of time horizons in understanding great power dynamics, the time horizons—the period needed to identify and respond to a possible threat from a major power—for both US and Chinese policymakers (about each other) have changed.³⁵ Neither Washington nor Beijing now believe that time is on their side to adjust to the threats posed by the other. This mutual perception has driven both to move away from hedging strategies and toward more explicitly competitive ones.

For at least the first three decades after normalization, the challenges to the United States posed by China were either bilateral or regional, and most US policymakers treated them as manageable. Even as China grew and modernized, US policymakers, on balance, did not believe China's rise represented an immediate threat. Accordingly, they believed the United States would have time to adjust if China's strategy shifted; and in the interim, the United States was benefitting from China's growing economy. However, in recent years this basic US risk-benefit calculation has shifted and many in the United States have adopted more negative views of China's intentions and capabilities. Many now argue that the economic costs to US businesses (in terms of lost intellectual property and declining market share) and workers (lost jobs) weigh heavily against the economic benefits, which are declining in some sectors. At the same time, the threats to US security interests in Asia and globally are growing, as discussed above. Intense US debates about China continue, but a sense of urgency has driven a swift shift in US policy and thinking about China. It has been met with bipartisan embrace among policymakers, business leaders and analysts alike.³⁶

Chinese policymakers and strategists appear to have made a related calculation, though the evidence is still fragmentary given the closed nature of the system. For China, beginning in the early 1980s, it needed time to grow its economy, modernize its military, and, in Chinese terms, accumulate comprehensive national power. Adopting a low-profile and basically cooperative approach to China's major external relationships served these goals. Even when faced with highly disruptive events that could have derailed this strategy—such as the 1989 Tiananmen massacre, the collapse of the Soviet Union in 1991, the 1999 Belgrade bombing, and the 2001 EP-3 incident—China's essential response (putting aside the initial rhetoric and posturing) was to stabilize its periphery and its most important

relationships; rebuild and expand its image, reputation and influence; and double down on expanding its economy and modernizing its military. In this sense, Deng's dictums about taking a low-profile approach served China's broader strategic goals, even though it required China to defer on asserting its interests. An important corollary to this view was that as much as China feared the US sought to contain its rise, the United States was also critical to China's rejuvenation. China's US policy reflected its efforts to balance these opposing imperatives.

Under Xi, China may be reassessing this basic strategic calculation about the United States. His statements and actions suggest a reexamination along the following lines: a confidence in China's accumulating economic and military

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capabilities; a greater emphasis on self-reliance, economically, technologically, and militarily; a desire for China to do more in Asia and globally; a growing concern about US actions that seek to constrain, if not derail, China's revitalization; a belief China can withstand tension and friction with the United States (especially given China's global links and profile); and a diminishing belief that China can or should be so reliant on the United States.³⁷

To be sure, it is not certain that China's fundamental strategy toward the United States has changed, even as Xi has been more willing to compete openly and in ways that generate friction. Xi has not responded to Trump's NSS proclamations and the trade war with an overt shift to a more confrontational strategy. Rather, his approach has involved steps to negotiate, communicate, and avoid escalation. Xi and other top leaders still talk about the persistence of "the period of strategic opportunity" during which China can pursue revitalization without distraction, and Chinese scholars still talk about maintaining the approach of "*dou er bu pu*" (struggle but not break) as a guide to US-China relations.³⁸ Nonetheless, it is uncertain how long this Chinese restraint will last. In recent years and in general, Chinese statements and actions indicate that China is now less focused on playing for time, as Deng did, and more on leveraging Chinese capabilities to advance its external interests, albeit without provoking a confrontation with other major powers like the United States.

Cyclical Drivers

There is also a set of cyclical or short-term forces that stem largely from the policies of the Trump administration; as argued above, there has been more consistency than change in China's US policy in the face of Trump's confrontational

approach. These drivers are cyclical in the sense that they stem from the political and economic cycles in both countries, but especially in the United States. Since normalization in 1979, every president and administration has pursued their own flavor of China policy, and the Trump team is no different. The distinguishing feature of Trump's China policy is the degree of difference from past administrations, and how it is only accentuating the arenas of competition while diminishing the role of cooperation.

First, the Trump administration has built up and then relied on the personal relationship between presidents Trump and Xi to manage the US-China relationship. While presidential ties have always been important, they are now the main mechanism for managing relations. Trump and Xi dictate and drive the bilateral agenda. This may have been by design on the part of Trump as a way to further burnish his status and image. As reflected in his public comments, he believes that his personal ties to Xi are a ballast in the relationship, and he seeks to use his personal relationship as a source of leverage, with limited effect to date. Historically, bilateral momentum emanated not just from presidential-level communications, but from a broad bilateral agenda and communication at multiple levels across both governments. These latter features provided the relationship with a degree of stability because they could be leveraged to manage disagreements and solve problems.

Second is that the Trump administration has allowed the main channels in the relationship to atrophy. The four cabinet-level dialogues that were set up at the April 2017 Mar-a-Lago meeting—covering economics, diplomacy and security, cyber affairs, and cultural ties—have all atrophied. Very few met in 2018, and none convened in 2019. The one obvious exception is the regular meetings in 2019 between US Trade Representative Robert Lighthizer and Vice Premier Liu He to negotiate a trade deal, but even they didn't start meeting until January 2019, almost two years into the first term and after Trump personally directed Lighthizer to be the US lead. As a result, the phone calls, letters, and meetings between Trump and Xi are not only the most important mechanism for managing relations; they are becoming the only ones.

Third, the Trump team lacks a coherent strategy and policy toward China. There is no clear set of priorities in Trump's China policy and, reportedly, little internal process to develop one. Trump's 2017 NSS called China a "strategic competitor" and a "revisionist state" but then, in June 2019 following his meeting with Xi at the G-20, Trump publicly said, "I think we're going to be strategic partners. I think we can help each other."³⁹ Trump's China trade policy has rightly focused on serious problems such as market access, IP protection, and forced technology transfer. But Trump never mentions these challenges and instead focuses on reducing the bilateral trade deficit. It is

unclear how the extensive tariffs on China are meant to incentivize China to make costly and difficult structural changes in its economy.

Fourth, the Trump administration does not see much value in cooperating with China and believes that pressure is the best way to elicit change in Chinese behavior. The US withdrawal from the Paris accord on climate change and the Iran nuclear deal removed natural arenas to cooperate, and the White House's general disdain for multilateral organizations has further limited such opportunities. In my discussions with current administration officials, it is clear that some see attempts to cooperate as signaling weakness and handing leverage to China, even when it is in both sides' interest to do so. To date, the public statements on China from senior US officials seldom, if ever, mention cooperation. The administration is more focused on using broad based pressure in the form of public criticism, tariffs, military threats, export controls, and investment restrictions as the main tool to change China's behavior. There is little talk of a common agenda or the value of incentives as tools to manage problems in the relationship.⁴⁰

Buffers and Stabilizers: The Fading Saviors?

As the drivers of competition deepen, broaden, and intensify, it is important to analyze the buffers and stabilizers to assess the overall trajectory of this complex relationship. These are the forces in the US-China relationship—some related to policymaking as well as communication and some related to policy actions—which either dampen the differences or offset them. Such forces play a role in most bilateral relationships, but buffers and stabilizers have always been a particularly important part of the US-China relationship due to the persistence of differences and volatility. My assessment of the buffers and stabilizers is that most are now of limited value, have fading relevance, or are inoperative.

Fading Buffers

Political leadership in both Washington and Beijing has been essential to the stability of the US-China relationship from its inception in 1971. Historically, the two leaders have served as key sources of crisis management and a firebreak on escalating tensions. At different times and to differing degrees, US and Chinese leaders have stepped in to steady the relationship during and after difficult periods. Prominent examples include in 1979 to complete normalization, in 1982 to negotiate the Taiwan arms sales communique, in 1989 following Tiananmen, in 1994 when President Clinton de-linked MFN from human rights, in the mid-1990s after the Taiwan Straits crisis, in 1999 after the Belgrade bombing, in the late 1990s and early 2000s in negotiating

China's WTO accession, in spring 2001 during the EP-3 spy plane collision crisis, and in 2014 to negotiate the US-China climate deal. In all these instances, actions by the top leaders on either side (and sometimes both sides) were critical to preserving the relationship and figuring out how to rebuild ties. This leadership role is especially important on the Chinese side, given that few Chinese policymakers beyond the president have the credibility or authority to make the hard decisions necessary to recalibrate relations with the United States, especially in a crisis.

Leaders can also damage relations. Trump's penchant for tariffs, actions against Huawei, and expansive trade demands have collectively made reaching a negotiated solution harder and have destabilized the broader relationship. Also, if Trump were to reach a trade deal with Xi, he may then step back from US-China ties; in this scenario, his advisors may execute a more comprehensive strategy of "strategic competition." Meanwhile, as mentioned above, Xi's desire to pursue China's global and regional interests through more activist policies is bumping up against US interests. China's ongoing efforts to coerce Taiwan and SCS claimants offer recent examples. As noted above, Xi's crackdown at home, especially against minorities in Xinjiang and possibly in Hong Kong, is being seen in the United States as further evidence of the ideological differences between the two countries.

Second, the US-China relationship may be losing one of its strongest sources of ballast and momentum: economic ties and the US business community. Since the first US tariffs were adopted in summer 2018, bilateral trade has contracted about 13 percent; for the first half of 2019, China dropped to be the third largest trading partner after Canada and Mexico.⁴¹ According to the Rhodium group, two-way foreign direct investment (FDI) flows dropped nearly 60 percent year-over-year in 2018 and 70 percent when compared to 2016.⁴²

Moreover, the US business community has gone from broadly supportive and vocal about bilateral economic ties to being mixed and largely silent (with some vocal critics). US firms have become increasingly frustrated with doing business in China due to declining market access, persistent loss of IP, and expanding industrial policies. US technology firms in sectors effectively banned from China (such as social media and online streaming) are exasperated. While many US firms still enjoy revenue growth in China, others' market share and profitability are declining. As a result, the business community is no longer united in its defense of economic relations, and many members have become

The relationship may be losing one of its strongest sources of ballast: the US business community.

advocates for enhanced investment controls and export controls. Even long-time supporters of US-China economic ties, such as former Secretary of Treasury Henry M. Paulson, have been very critical of China's business environment and Xi's economic choices.⁴³

Based on a 2019 survey of the business climate, the American Chamber of Commerce based in Beijing concluded that "the overall outlook has shifted from cautious optimism to cautious pessimism, as many longstanding concerns—especially inconsistent regulations and uneven enforcement—persist, even as new challenges—namely bilateral US-China tensions—take center stage."⁴⁴ Similar trends are apparent for European companies. According to the European Union's survey data, "Optimism on growth over the next two years dropped from 62 percent in 2018 to 45 percent in 2019."⁴⁵ This frustration and pessimism may be mirrored on the Chinese side given the major decline in Chinese investment into the United States. According to Rhodium group data, in 2018 there was an 80 percent decline in Chinese FDI in the United States to just US\$5.4 billion (from \$29 billion in 2017 and \$46.5 billion in 2016).⁴⁶

As a cyclical phenomenon, however, this may change. US firms' views of the China market are a function of the structure of their operations in China. Some firms sourcing low-end manufactured goods in China are moving their supply chains, and others are staying in China but diversifying sources of supply. Even then, technology firms cannot easily replicate the supply-cluster synergies that exist in China. For those firms in capital-intensive industries who produce in and sell into China, the costs are far too high to move.⁴⁷ In fact, some firms, such as Boeing, Tesla, and Exxon, are actually expanding their investments. Notably, projections of a massive shift in supply chains due to US tariffs and longstanding US concerns have not materialized.

Third, a common narrative at the heart of US-China relations, especially in the 1980s, has been that shared threats and common challenges have always kept US and Chinese security interests sufficiently aligned. Prominent examples include the Soviet Union during the 1980s, counterterrorism after 9/11 (and through the bulk of the 2000s), the global financial crisis in the late 2000s, and climate change during this decade. It is debatable whether these common interests served this lofty function, especially in recent years. Going forward, it is less likely that one will emerge to serve this function. That is not to argue that there are not common challenges the two can work on including global financial stability, climate change, humanitarian disasters, global health and pandemic diseases, and nonproliferation (but probably not including North Korea). Rather, the argument is that the United States and China have mixed interests on many of these, and none of them are likely—individually or collectively—to create a new binding force in the relationship. As the sources of competition grow, it will be more difficult for the remaining areas of bilateral

cooperation to compensate for the competitive forces, especially when the cooperation is hard to elicit and of limited value to the United States.

A fourth traditional stabilizer of possible declining value is nuclear weapons. Unlike with the Soviet Union during the Cold War, nuclear weapons have never been at the foreground of US-China relations; in fact, they have been decidedly in the background. That is a function of the traditionally limited role China has assigned to its nuclear weapons and China's focus on building up its conventional capabilities in its regional military competition with the United States. However, this could be changing. As China reaches its goals for building a credible nuclear retaliatory capability and as US-China military competition in the Western Pacific intensifies, China might begin to contemplate acquiring nuclear capabilities to give it damage limitation options above and beyond possessing a credible deterrent.⁴⁸ Nuclear weapons may also begin to play a larger role in US defense planning if it falls behind in the competition for conventional military superiority.⁴⁹

It is less likely that a common interest will emerge to create a binding force in the relationship.

Deliberate US policy actions could also bring nuclear weapons forward in US-China relations, prompting China to revise its limited views on the roles and missions of nuclear weapons. A future decision to re-deploy low-yield nuclear weapons in Asia could prompt China to do so. In addition, the US withdrawal from the INF treaty now raises the prospect of the United States deploying INF-capable missiles to East Asia. Assuming Washington can find a host for them, this action could prompt China to rethink its nuclear doctrine and force structure. Also, a more brazen nuclear-capable North Korea could lead Japan and South Korea to rethink their nuclear postures—both within and outside the US alliance. This, in turn, would trigger a considerable Chinese response, possibly including active consideration of damage limitation strategies. Any of these possibilities could bring nuclear weapons to the foreground of the US-China agenda, and not in a stabilizing manner.

Stabilizing Forces?

When evaluating the effectiveness of bilateral buffers and stabilizers, it may not be all bad news. The role of public opinion in the United States and in China may serve as a stabilizing force, but the evidence is mixed, and we may be in a transition moment on this variable. According to Pew Research Center data, between 2005 and 2018, *unfavorable* views of China stayed consistently between 29 and 55 percent, suggesting the US public may not support a highly competitive and

costly US strategy. During this period, *favorable* views of China similarly vacillated between 35 and 52 percent. Yet, the most recent August 2019 poll marked a sharp turn in US perceptions: 60 percent of Americans have an unfavorable view of China, up from 47 percent in 2018. Despite this big shift, in this round of the poll more Americans said China's growing economy is good for the United States than bad (50 percent versus 41 percent, respectively) even though over 50 percent see US-China economic ties as bad. A notable feature of this poll—acknowledged by Pew—is that current trade tensions likely colored negative views toward China. As the Pew analysis states, “Those in the U.S. who see economic ties with China as bad are much more likely than those who think the nations have good economic ties to have overall unfavorable views of China (71 percent versus 47 percent).”⁵⁰

When it comes to views of the United States, most Chinese are not particularly positive. Based on 2016 Pew data, only 44 percent of the Chinese public give the United States a positive rating, which is a notable contrast with the global median of 69 percent.⁵¹ Indeed, 67 percent of Chinese think China has already displaced the United States or will in the future. Accordingly, 54 percent say the United States is trying to prevent China from becoming as powerful as America. Age matters in Chinese public opinion: 59 percent of Chinese adults under 30 give the United States a positive rating, compared with 29 percent of those 50 and older. Interestingly, among this younger age group in Pew's 2012 poll, 59 percent said they like American ideas about democracy compared with 40 percent of the 50 and older group.

A final potential buffer is the views of US allies and partners in Asia, who fear having to choose between Washington and Beijing and thus may seek to ease tensions and lessen the competition. As Trump's China policy has evolved, some Asian leaders have stepped forward and publicly shared their concerns about the confrontational tone and actions on both sides. Singapore's prime minister and foreign minister both stressed the need for Washington and Beijing to understand the costs of permanent long-term conflict.⁵² Even stalwart US allies like Australia are feeling the pressure of US-China friction. In a June speech by the newly re-elected Prime Minister Scott Morrison, he cautioned both Washington and Beijing to find a less confrontational way to solve the current trade dispute: “It is therefore important that US-China trade tensions are resolved in the broader context of their special power responsibilities in a way that is WTO-consistent and does not undermine the interests of other parties, including Australia ... It is in no-one's interest in the Indo-Pacific to see an inevitably more competitive US-China relationship become adversarial in character.”⁵³ These words are the diplomatic equivalent of raising a yellow flag of caution for Washington and Beijing.

Troubled Times Ahead

There is a unique and worrisome convergence in the longer-term structural drivers and the short-term cyclical ones at the heart of US-China relations. Both are pushing this relationship in a more competitive direction, and the resulting competition is on a broader range of issues and involving more actors. This is occurring at the same time that the classic buffers and stabilizers to competition are diminished, if not inoperative. It is uncertain that a new US president would or could fundamentally change this dynamic or that Xi Jinping would radically change course in the coming years. Many of these drivers are tied to the identities, material interests, and capabilities of both countries, suggesting, but not guaranteeing, their perpetuity. Thus, we appear to be entering a new phase of the relationship unlike past ones; this one will be characterized by the primacy of competition and an augmented risk of conflict and confrontation.

This sobering conclusion raises several general considerations for policymakers. First, competition, as defined in this article, is more of a condition than a strategy. It is not enough for policymakers to call for more competition with China—they need to

debate how the United States competes: with what tools, on what issues, and at what costs. The intensifying competition, with its structural roots, will require US policymakers to think more creatively about strategies to address the challenge, including those that seek to constrain and/or blunt Chinese power as it grows and diversifies.

Second, many analysts talk about finding a balance in US-China relations between competition and cooperation, but it will be increasingly hard to do so as the latter become more prominent and the former remains narrow and of limited value. To be sure, US and Chinese policymakers will always be able to find areas of cooperation, but whether these are strategic in value and can offset diverging interests is an open question.

Third, US strategy and policy going forward will require a higher degree of integration at home and abroad. The United States needs to coordinate more among government, business, and academia; internationally, coalitions of like-minded countries will have the greatest chance of shaping China's choices on economics, security, technology, and governance. Lastly, given the scope of the structural competition, policymakers should refresh US thinking about the applicability of past concepts used to manage US-China relations. These

It is uncertain that a new US president would or could fundamentally change this competitive dynamic.

include the relative value of strategic dialogue, the effectiveness of reassurance, the payoff from cooperation, and the value of seeking stability in the overall relationship.

Notes

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