Disorderly Conduct
How U.S.-China Competition Upended the International Economic Order and What the United States Can Do to Fix It

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About this Report

This report is the culmination of a two-year project designed to generate new strategic thinking on U.S. approaches to manage the merging of economic and security interests within the bilateral economic relationship with China. Additional commentary generated by the project is available at on the CNAS website.

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Acknowledgments

The authors are grateful to Liza Tobin and Rick Waters for their peer review of this report. Emily Jin, Michael Frazer, Rowan Scarpino, Andrew Spafford, Geoffrey Gertz, and John Hughes, invaluable colleagues, supported the research and analysis in numerous ways. We also thank the experts who took the time to be interviewed, participate in working group sessions, or provide feedback on our recommendations. The research is all the richer for this engagement. Thank you as well to CNAS colleagues Maura McCarthy, Melody Cook, Rin Rothback, Caroline Steel, and Anna Pederson for their roles in the review, production, and design of this report. Any errors that remain are the responsibility of the authors alone. The report was made possible with the generous support of the Carnegie Corporation of New York.

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Executive Summary

To gauge the health of the U.S.-China economic relationship, one can turn to the words of Chinese Foreign Minister Wang Yi, who remarked in March 2024 that U.S. “tactics to suppress China . . . [were] reaching a bewildering level of unfathomable absurdity.” Rhetorical flourishes may be the one bright spot in the relationship. As tensions rise over economic restrictions and policies on both sides, economic relations have become a worrisome source of instability in the overall geopolitical relationship. The economic relationship has become increasingly dominated by security concerns, and integration is seen as not an opportunity but a risk to U.S. interests and values. The United States must develop a strong, pragmatic strategy for advancing its economic and security interests within the U.S.-China economic relationship, accounting for the fact that the security competition is now playing out across the economic landscape.

To inform the development of an effective U.S. strategy for the economic relationship with China in the context of rising securitization, the United States must learn from its past attempts to advance its economic and security interests in the relationship. The first section of this report, “Where have we been?” examines past U.S. approaches, along with the challenges of pursuing similar policies in today’s geopolitical context. The second section, “Where are we going?” distills lessons from these past approaches and defines a new strategy for the United States, offering recommendations to implement it.

Broadly speaking, prior U.S. strategies can be divided into two camps. First, the United States sought to bring the People’s Republic of China (PRC) into the rules-based order and incentivize it to be a responsible stakeholder. When that failed, U.S. strategy pivoted to one of imposing costs on the PRC and taking actions to constrain behaviors that threatened U.S. economic security interests. Within those broad strategies, U.S. policymakers have pursued four main approaches, in differing combinations and intensity, all of which involve associated challenges. They are:

Play by the rules: The intention of bringing the PRC into the rules-based international system was to create external pressure that would align PRC actions with U.S. economic and security interests. Key efforts under this approach included the U.S. support for the PRC’s accession to the World Trade Organization (WTO) and the later U.S. attempts to negotiate a bilateral investment treaty. Challenges for the approach include the fact that rules have a weak ability to constrain state behavior in a geopolitically contested environment where national security risks arise from economic integration.

* A note on terminology used in this report: “PRC” refers to the Chinese state. The “party” refers to the Chinese Communist Party (CCP). “China” means the entire country, inclusive of nongovernment and nonparty actors. When discussing economic activity, the default term is also “China,” to encompass the range of individuals, firms, and government entities that may be involved in economic activity.
**We need to talk:** In light of increasing complexity in the bilateral relationship, U.S.-PRC dialogues were intended to identify and advance mutual interests while providing a regular forum to attempt to resolve disputes. This is seen in the Strategic Economic Dialogue (SED) in the Bush administration and the Strategic and Economic Dialogue (S&ED) in the Obama administration. In other contexts, such as ongoing talks under the Biden administration, dialogues have served primarily to communicate the rationale for U.S. policy actions in an attempt to put a floor under the bilateral relationship. Challenges to this approach include that commitments made in a dialogue process may not be enforceable, the meeting can become deliverable, and the dialogue process cannot alter underlying geopolitical shifts.

**Defense is the best offense:** Defensive approaches relied on domestic U.S. authorities to counter specific harms created by PRC practices and policies. The United States has a wide range of economic tools (e.g., tariffs and trade remedies) as well as national security-based tools (export controls and the Committee on Foreign Investment in the United States [CFIUS] process for conducting national security reviews of foreign investments), all of which have been used with greater frequency over the past decade. Challenges when using these tools include the disruptive and potentially escalatory nature of defensive approaches, and the lack of clear frameworks to assess the effectiveness of defensive policies. Additionally, relying on unilateral approaches can create friction within potential economic alliances. In the United States, defensive approaches have often suffered from a blending of economic, national security, and values concerns, eroding the legitimacy of the national security argument.

**Have more friends:** These strategies centered on efforts to shape the PRC’s external environment through the negotiation of ambitious trade and investment agreements with major trading partners, with the goal of increasing economic integration with close partners, creating indirect pressure on the PRC to level up to higher standards, and developing common approaches to address concerns with nonmarket economies. Such an approach is challenging because traditional ways of shaping the external environment have not directly addressed securitization of the U.S.-China economic relationship. U.S. domestic political realities impose a considerable constraint on the use of trade policy as a strategic tool.

**Defining U.S. Strategy and Interests**

The United States must define a new strategy for advancing U.S. economic and security interests within the bilateral economic relationship with China. The objective of this strategy should be for the United States to lead in creating and maintaining a new global economic order in which the efficiency and innovation of open markets are pursued side by side with the establishment of new norms for government interventions related to hard power and resiliency interests.

The United States should pursue this objective in varying ways, depending on the U.S. interest at stake.

- **Hard power interests:** Seek overmatch in areas of economic activity that implicate the balance of hard power between the United States and the PRC
- **Resiliency interests:** Reduce vulnerabilities in areas of economic activity with impacts on U.S. resiliency
- **Commercial interests:** Pursue a level playing field for commercial competition

The U.S. strategy should include three pillars: bilateral dialogue, norm building outside of the bilateral relationship, and institution building for economic security purposes.

**BILATERAL DIALOGUE ON THE NARROW SCOPE OF MUTUAL U.S.-PRC INTERESTS**

The United States should continue to pursue dialogue with the PRC to advance a narrow range of mutual interests. These mutual interests include managing a derisking process that avoids escalation in the overall relationship, promoting global economic stability, and maintaining mutually beneficial commercial ties that do not implicate hard power or resiliency interests. While expectations for specific outcomes from dialogues should be kept low, ongoing dialogues can serve as an important mechanism to gain insights into the PRC’s opaque political system and to maintain the upper hand in international narratives regarding who is to blame for worsening tensions.

**NORM BUILDING ON THE APPROPRIATE ROLE OF GOVERNMENT INTERVENTION IN THE ECONOMY IN PURSUIT OF HARD POWER AND RESILIENCY INTERESTS**

A central challenge of the current global economic order is the lack of clear norms for when governments should intervene in the economy in pursuit of hard power and resiliency interests, and of a consensus view on which economic activities would implicate those interests. This void risks destabilizing the global economic order, as well as leaving the United States vulnerable to accusations that it acts for protectionist rather than national security objectives. The United States cannot build global norms if it does not have a clear sense of what its own domestic practices and norms are. To build norms at home, it should:
- Make clear distinctions between hard power, resiliency, and commercial interests and the policies that are appropriate in pursuit of each;

- Establish a consistent practice of acting within the expressed norm and avoid transactional or politically motivated actions that deviate from the norm; and

- Build additional domestic policy tools related to U.S. resiliency interests to provide pathways to protect these interests without overusing the current set of national security–based tools.

The United States must also advance the norms-building process internationally. It should:

- Engage in sustained diplomatic, technical, and leader-level outreach to advance alignment with international partners and allies on the desired norms related to the appropriate role of government interventions in the economy in pursuit of hard power and resiliency interests;

- Consider the role of international organizations such as the Organization for Economic Cooperation and Development (OECD) in supporting the norms-building process; and

- Conduct robust public diplomacy to engage stakeholders beyond government counterparts on the importance of norms and to advance U.S. messaging on U.S.-PRC economic and security issues.

**INSTITUTION BUILDING FOR A NEW GLOBAL ECONOMIC ORDER**

The United States should have a long-term aim of establishing new institutions that support the emerging global economic order as it pertains to hard power, resiliency, and commercial interests. This should complement the norms-building process, or in some cases it may be the outcome of emerging agreement on and desire to institutionalize norms.

The United States must make the best of the WTO, recognizing both its limitations to address core U.S.-PRC concerns and its critical importance to countries that rely on multilateralism as the primary mechanism to protect their economic interests. To this end, the United States should:

- Advance reforms at the WTO to create “off-ramps,” or permissible deviations from WTO rules other than the essential security exception, with the aim of providing governments pathways to advance resiliency interests while minimizing the WTO’s role in disputes related to hard power interests; and

- Channel U.S.-PRC disputes into the U.S.-PRC bilateral trade agreement (a.k.a., the Phase One Agreement) as a mechanism for more effective dispute resolution outside the WTO.

To update or develop institutions that enable cooperation with likeminded countries, the United States must:

- Negotiate a new multilateral regime for cooperation on export controls and investment security policies; and

- Advance economic security agreements that promote integration of critical sectors across close partners and allies, and that involve commitments on positive (e.g., market access) and defensive (export controls) trade tools.

Finally, to reorient its bureaucracy toward economic security objectives, the United States must:

- Establish an economic security strategy; and

- Create a dedicated executive branch office or function for continually evaluating U.S. progress on this strategy, including by assessing the effectiveness of particular economic security policy actions and programs.
Introduction

Economic and national security objectives are continually in tension today. Rather than treating economic and national security issues as distinct tracks, the two areas of policy are increasingly merging. This has profound implications for the U.S.-China economic relationship, which is at once one of the most consequential economic relationships globally and also the most geopolitically complex.

When the process of engagement began in the late 1970s, the U.S.-PRC relationship was in a fundamentally different geopolitical place. At that time, an underdeveloped China was still reeling from more than a decade of internal instabilities and was considered too weak to pose a challenge to the United States. Washington needed Beijing to counterbalance the Soviet Union, and the Chinese leadership under Deng Xiaoping assessed that a sound economic relationship with the United States, combined with gradual integration into the world economy, was the path toward fast modernization. For the next 30 years, despite fluctuations in the bilateral relationship, the United States generally welcomed a growing Chinese economy connected to the established global trade and economic order, while encouraging market-oriented reforms in China.

By nearly any metric, however, the economic relationship between the United States and China has become increasingly securitized over the past decade, as U.S. policymakers have sought to address a growing range of security concerns with the PRC. The PRC’s turn toward hardening authoritarianism at home and more aggressive foreign policy along its periphery began late in former Chinese Communist Party (CCP) General Secretary Hu Jintao’s tenure. These trends—as well as a particular focus on modernization of the People’s Liberation Army, the PRC’s military-civil fusion strategy, and an industrial policy aimed at dominating advanced technologies globally—all accelerated under CCP General Secretary Xi Jinping. U.S. concerns intensified over PRC aggression toward Taiwan, in the South China Sea, and on a range of other potential flashpoints that could spark a direct confrontation.

At the same time, the bilateral economic relationship continued to grow, as U.S. firms pushed for access to the large domestic Chinese market and Chinese firms became leaders in global export markets. Security risks rose in tandem with economic ties. In response, the United States has imposed an increasing number of national security–based restrictions on the economic relationship, with the goal of ensuring that flows of U.S. technology and capital do not support China’s military modernization or otherwise enable PRC actions against U.S. national security and foreign policy interests. Alignment between the United States and key allies on the risks the PRC presents has fluctuated, as partners seek to manage their own balance of security and economic interests and hedge against perceived volatility in U.S. politics.

The shock of the pandemic and the harsh lessons learned from Russia about the risks of economic interdependence have heightened the urgency of developing new strategies for managing the risks associated with the U.S.-China economic relationship. Prior approaches were largely biased toward openness and integration, with the expectation that deviations in the name of national security would remain exceptional. That dichotomy no longer holds in a geopolitical context when derisking, resiliency, and hard power interests motivate government interventions in the economy at a greater scale. These trends are not limited to China, but it is in the bilateral U.S.-China relationship that they are most acutely felt. U.S. policy must adapt, and this paper seeks to provide a path forward to define a U.S. strategy for the U.S.-China economic relationship that is fit for today’s geopolitical turbulence.

The economic relationship between the United States and China has become increasingly securitized over the past decade, as U.S. policymakers have sought to address a growing range of security concerns with the PRC.

The contribution of this paper to current policy debates is to trace the emergence of national security concerns within the bilateral U.S.-China economic relationship, along with the development of U.S. strategies and approaches to manage the convergence of U.S. economic and security interests. The analysis is not intended to capture all aspects of the debate around trade and China, or World Trade Organization (WTO) reform, or the use and abuse of coercive economic statecraft tools. Instead, it is to portray the broader shifts in geopolitical context that have led to the rise of security interests as a defining feature in the U.S.-China economic relationship, and to examine how current trade policies, dialogues, and architecture must adjust to accommodate new geopolitical conditions. The U.S.-China relationship has global consequences, and this report accordingly develops recommendations for U.S. policy toward the PRC nested within the broader context of asserting U.S. leadership in a reimagined global economic order.
Security on the Rise in the U.S.-China Economic Relationship

INVESTMENT

U.S.-CHINA DIRECT INVESTMENT POSITION

Data Source: U.S. Bureau of Economic Analysis

CHINESE INVESTMENT FLOW INTO THE U.S.


U.S.-China venture capital data from the Rhodium Group is only available 2007-2020. For 2021 and 2022, CNAS replicated the Rhodium Group’s methodology using Crunchbase. Data includes all funding rounds with at least one Chinese investor. Each annual value reflects the estimated proportional shares of each funding round attributable to Chinese investors. The OECD began collecting foreign direct investment data according to its Benchmark Definition, 4th edition (BMD4), in 2014. Values prior to 2013 reflect the OECD’s 3rd edition Benchmarks (BMD3).
U.S.-CHINA TRADE BALANCE

Data Source: U.S. Bureau of Economic Analysis

Data range is limited by available information. CFIUS began issuing an annual report and publishing annual data on covered transactions in 2008 pursuant to the Foreign Investment and National Security Act of 2007. The CFIUS mandate was expanded in 2018, with final implementing regulations issued in 2020.

CFIUS REVIEWS OF CHINESE INVESTMENTS

Data Source: U.S. Department of the Treasury

CFIUS TRANSACTION NOTICES WITHDRAWN AND ABANDONED

Data Source: U.S. Department of the Treasury

TRADE
U.S. ENTITY LIST DESIGNATIONS ON PERSONS LOCATED IN CHINA

Data Source: Center for a New American Security analysis, U.S. Department of Commerce

Subsidiaries are listed separately on the Entity List and are therefore counted as discrete designations in this data. For instance, in 2020, the total number of designations to which a Foreign Direct Product Rule is applied is entirely attributable to the listing of Huawei Technologies and its 47 subsidiaries.

FINANCIAL SANCTIONS

SDN DESIGNATIONS ON PERSONS LOCATED IN CHINA

Data Source: Center for a New American Security analysis, U.S. Department of the Treasury
Where Have We Been?

Prior strategies and approaches for advancing U.S. economic and security interests within the U.S.-China economic relationship
The United States has pursued two primary strategies to manage national security interests within its economic relationship with China since China’s reform and opening. The first, broadly known as the engagement strategy, sought to create incentives for the PRC to integrate into the existing, U.S.-led rules-based order. This strategy was based on an underlying view that the PRC could and would change, due to a mix of external pressure and its own economic incentives to align more closely with rules-based, free market principles. However, over time, U.S. policymakers lost faith in the ability to change the PRC, and strategy shifted accordingly, as the United States sought to impose a high degree of constraints and costs on the PRC’s most problematic economic and security actions. Direct dialogue or negotiation with the PRC faded as unilateral U.S. actions came to the fore.

Within these two broad strategies, the United States has used a variety of supporting approaches, which can be summarized as:

1. **Play by the rules**: Bringing the PRC into the rules-based international system was intended to create external pressure to align PRC actions with U.S. economic and security interests. Examples of this are the U.S. support for the PRC’s accession to the World Trade Organization and later efforts to negotiate a bilateral investment treaty.

2. **We need to talk**: In light of increasing complexity in the bilateral relationship, dialogues were intended to identify and advance mutual interests while providing a regular forum to attempt to resolve disputes. The Strategic Economic Dialogue (SED) in the Bush administration exemplified this approach, as did the Strategic and Economic Dialogue (S&ED) in the Obama administration and, to a lesser extent, the ongoing dialogues under the Biden administration.

3. **Defense is the best offense**: Defensive strategies relied on domestic authorities to advance U.S. economic and security interests in the U.S.-China economic relationship. The United States has a wide range of economic tools including tariffs and trade remedies, as well as national security–based tools such as export controls and the Committee on Foreign Investment in the United States (CFIUS) process for conducting national security reviews of foreign investments. All of these have been used more frequently over the past decade.

4. **Have more friends**: These strategies centered on efforts to shape the PRC’s external environment through the negotiation of ambitious trade and investment agreements with major trading partners. The goals were to increase economic integration with close partners, to create indirect pressure on the PRC to level up to higher standards, and to develop common approaches to address concerns with nonmarket economies.

While this analysis presents the four approaches as distinct, in reality the United States has pursued multiple tactics simultaneously, albeit in very different balances. For example, the Obama administration’s strategy had elements of playing by the rules (such as pushing the PRC to become a responsible stakeholder), holding dialogues (the S&ED, for example), applying defensive policy (e.g., increasing the use of investment screening and export controls), and shaping the external environment (e.g., major trade negotiations with partners in Europe and the Asia-Pacific). The Trump administration’s approach was weighted heavily toward trade issues and defensive tools, with the innovation of using tariffs to increase costs on the PRC in advance of trade talks as well as developing novel uses of traditional defensive tools, such as export controls. The Biden administration is arguably heaviest on defensive measures, with rhetorical importance accorded to the rules-based system and unpersuasive efforts at shaping the external environment though initiatives such as the Indo-Pacific Economic Framework (IPEF).

**Approach 1: Play by the Rules**

Following the start of the PRC’s economic reform and opening in the late 1970s, U.S. policymakers sought to manage challenges associated with the PRC’s growing economic and geopolitical role by bringing it closer into the U.S.-led international order. Administrations of both political parties have used this approach since Nixon’s historic 1972 visit to China, which led to the lifting of a two-decade trade embargo and ultimately the normalization of political and economic relations. It was based on a strong perception of the economic logic of enhancing commercial ties with China and a keen, post–Cold War sense of U.S. unilateral power, including in the military domain. The defining economic milestone of this approach was the accession of the PRC to the WTO. While policymakers largely held economic and national security issues as separate areas, the integration of the PRC into the global order was itself seen as a core U.S. national security interest. Ultimately, the objective of this strategy was to compel the PRC to act in accordance with the U.S.-led international rules-based order and to use the external pressure of rules-based organizations such as the WTO to compel the PRC to alter its policies.
ARTICULATION OF NATIONAL SECURITY INTERESTS IN THE WTO ACCESSION DEBATE

National security interests were expressed at three levels during the U.S. policy debates leading up to the PRC’s 2001 accession to the WTO. First, proponents argued that integration of the PRC into the rules-based trading system would be beneficial for U.S. economic interests. By the late 1990s, China had the world’s largest population, and had become the world’s seventh-largest economy as well as its fastest growing, with growth rates exceeding 11 percent for much of the period. Measured in terms of purchasing power, the Chinese economy was 57 percent the size of the U.S. economy. By the late 1990s, the PRC had become the largest trader not subject to WTO rules. The United States had accorded normal trade relations (NTR) status to the PRC since the normalization of relations in the late 1970s. Supporting the PRC’s WTO accession was pitched as a one-way street of concessions, with the United States not giving anything more than it already gave under the NTR status, and the PRC agreeing to a raft of new rules and monitoring and enforcement mechanisms. Gene Sperling, then director of the National Economic Council, in the course of congressional debates about granting the PRC permanent NTR (PNTR) authorization, stated: “Rejecting PNTR is the closest thing to unilateral economic disarmament that I have ever heard of.”

Second, the integration of the PRC into the international trading system was part of broader national security interests that the United States articulated in bringing the PRC into the global rules-based order writ large. A caveated but prevalent element of the push for WTO accession was the role that market opening and reform could play in creating favorable conditions for political reform in China. The idea that economic freedom could lead to other freedoms was a cornerstone of this argument. In one aspect of this argument that has not aged particularly well, proponents viewed the internet as an unstoppable force that would support further political opening in China, including through the increased participation of foreign firms in China’s domestic telecommunications and information sectors.

Third, from a defensive point of view, the United States maintained the flexibility to take actions that would otherwise violate WTO rules if such actions were in its essential security interests. Each of the WTO agreements include exceptions that allow governments to deviate from their obligations for a prescribed set of reasons. For example, in the General Agreement on Tariffs and Trade (GATT), which governs trade in goods under the WTO framework, the essential security exception provides: “Nothing in this Agreement shall be construed . . . to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests.” Mirroring language exists in the General Agreement on Trade in Services (GATS), which governs trade in services and certain forms of investment. Clinton administration officials emphasized that “nothing in this agreement undermines our ability to . . . maintain our export control policies, or to withdraw trade benefits, including NTR itself, in case of a national security emergency.” U.S. policy has been—and is today—that the use of the essential security exception is self-judging and not a topic on which WTO dispute settlement panels should opine.

U.S. policymakers were not blind to the challenges that the PRC presented. But they did believe that the United States, supported by external pressure from the international community, could create conditions that would put the PRC on a trajectory toward a more market-oriented economy—and perhaps even a more open society—and that doing so was in the PRC’s interests as well as the United States’. In this context, the WTO was seen as providing a set of rules to ensure that the growing trade and investment relationship with China was structured in a way that advanced U.S. economic interests and contributed to the broader security interest that the United States had in bringing the PRC into alignment with global rules. The United States also had good reason to assess that U.S. and PRC interests aligned, as the WTO process provided an external source of pressure in support of domestic reforms that the PRC’s leadership believed were necessary to spur future growth.

U.S. commitment to a rules-based approach extended far beyond the initial WTO accession debate. For the subsequent 15 years, the United States regularly filed cases against the PRC at the WTO as it sought to bring the PRC into alignment with its original WTO commitments. The United States brought 27 cases against the PRC at the WTO and prevailed in all cases that were decided in this period. (The PRC, in turn, filed 18 cases against the United States.)

The U.S. belief in the continued viability of this approach is evident in the decision to launch bilateral investment treaty (BIT) talks with the PRC, negotiations for which continued until the last days of the Obama administration. In an argument strongly reminiscent of the push for WTO accession, proponents noted that the BIT would be a one-way street of concessions. China already enjoyed access to the open
U.S. investment market, and the BIT was seen as a useful tool to push for further opening in the Chinese investment market.\textsuperscript{16} WTO rules only cover certain investment issues, and the PRC maintained a restrictive investment environment, leading to unbalanced investment opportunities between the two countries. Based on the U.S. model BIT (a template for U.S. BIT negotiations), the U.S.-PRC BIT could have potentially covered a wide range of investment and other issues, including labor and environment, subject to binding dispute settlement procedures.\textsuperscript{17} Whether the BIT would have fared better than the WTO in disciplining unfair PRC practices is unknown, as the Trump administration did not continue negotiations of the BIT.

\textbf{INITIALLY FAVORABLE GEOPOLITICAL CONDITIONS FOR A RULES-BASED APPROACH}

At the time of the PRC’s WTO accession, the geopolitical balance of power was weighted more heavily in the United States’ favor, a factor that likely enhanced U.S. perceptions of its ability to set global rules that other countries would be incentivized to follow. The PRC was not viewed as a significant military threat to the United States. Prior to the 1989 Tiananmen crackdown and the resulting arms embargo, U.S. policy had been to increase security cooperation with the PRC, in part to use the PRC as a counterweight to the Soviet Union.\textsuperscript{18} The Department of Defense’s 2000 annual report to Congress on China’s military capabilities assessed that the “technological level of China’s defense industrial complex is too far behind that of the West to produce weaponry that could challenge a technologically advanced foe such as the United States . . . for an indefinite period of time.”\textsuperscript{19} The assessment was that rather than pursuing a broad modernization of its military, the PRC aimed to focus on the development of “selective pockets of excellence” and to become a “preeminent power regionally.”\textsuperscript{20} While the report noted that China’s economic growth could, over time, enable it to advance military modernization objectives, it assessed that the PRC’s leadership had a “priority emphasis on economic growth” and saw risks in prioritizing military spending, which could “complicate efforts to ensure the growth and modernization of China’s economy” and “only reinforce Washington’s efforts to contain China.”\textsuperscript{21}

The United States largely viewed economic and national security concerns with the PRC in separate spheres. Economic restrictions, when imposed, were triggered by events and centered on military or advanced dual-use items. The PRC’s brutal crackdown on peaceful protesters in Tiananmen Square in 1989 led the United States, along with allies, to impose an arms embargo and other trade restrictions on the PRC, marking an abrupt end to a period of growing security cooperation between the United States and the PRC. The United States also tightened controls on the export of satellite technology, after U.S. companies provided to the PRC controlled technical data that may have advanced PRC missile capabilities.\textsuperscript{22} However, in most other technology areas, a strict control policy was seen as less effective, due to the growing diffusion of certain technologies globally as well as the dissolution of the Coordinating Committee for Multilateral Export Controls (CoCOM), which had previously served as the coordinating entity for Cold War–era strategic trade controls.\textsuperscript{23} In this context, broad trade rules with limited national security exceptions matched well to the geopolitical conditions of the day, when national security–based economic restrictions were more limited in number and more directly linked to identifiable military applications.

\textbf{Broad trade rules with limited national security exceptions matched well to the geopolitical conditions of the day.}

Similarly, the structure of China’s economy and its trade with the United States did not present compelling national security concerns. China’s exports to global markets, including the United States, were growing rapidly, but were concentrated in lower-value goods such as toys and apparel, which relied on labor-intensive manufacture. To the extent that China’s exports were in capital-intensive sectors, Chinese production was concentrated in the lower-value parts of the production process, such as final assembly.\textsuperscript{24} China’s investment into the United States was negligible. It had yet to produce the sort of national champion that could outcompete U.S. firms in sensitive global markets. Huawei, for example, was just beginning to emerge as a competitive player in Western markets by the early 2000s, and it was not until 2012 that national security concerns associated with the use of Huawei telecommunications equipment rose to the fore of U.S. policy debates.\textsuperscript{25} Put bluntly, at the time of WTO accession, the PRC did not have sufficient leverage to weaponize its economic ties with the United States.
While anticipating the scale and scope of China’s future advances in sensitive sectors may have been difficult, the United States also had a plausible strategy for addressing the national security risks associated with China’s growing economic heft. The U.S. strategy for technology leadership centered on a “run faster” approach, based on the premise that U.S. companies could out-innovate and outcompete any other when given a level playing field. Government’s role was to advance policies that supported the level playing field, including through the WTO and the spate of other free trade agreements (FTAs) that marked this period, including the North American Free Trade Agreement, better known as NAFTA. Where necessary, export controls served as a backstop against transfers of sensitive technology, but these sorts of defensive tools were supporting rather than leading foreign policy instruments. In this context, the PRC’s WTO accession reinforced U.S. strategy by providing another tool to advance the objective of a level playing field.

**CHALLENGES WITH A RULES-BASED APPROACH**

A rules-based approach was defensible at the time of the PRC’s WTO accession, given the structure of the U.S.-China economic relationship and the underlying balance of geopolitical power that favored the United States. Apart from the bilateral relationship with China, the United States still retains an interest in a rules-based system for its trade and investment relations with the rest of the world—with the important caveat that the current form of the rules as enshrined in the WTO now requires reform. However, as the U.S.-China economic relationship has become more securitized, a rules-based strategy has become less tenable for addressing the intersection of security and economic concerns within that relationship.

*Alignment on rules is weaker than originally assessed*

The initial project of bringing the PRC into the rules-based system was based on the assessment that the PRC had a strong economic interest in aligning with WTO rules. However, U.S. and PRC perceptions of PRC interests and alignment differed in important ways. The United States saw compliance with WTO rules as the first step in a broader process of economic, and hopefully political, reform that would result in a Chinese economy much closer to free market principles. The PRC, however, took a more nuanced view of its objectives, seeing reform as a means to achieve a stronger “socialist market economy.” The external pressure from WTO-pushed reform was a helpful tool to enhance market mechanisms and productivity within China, but was not viewed as inconsistent with a strong state role in the economy, even in the early years after WTO accession. China’s domestic economic reform debates also played a key role. At the time of WTO accession, Jiang Zemin was extending an olive branch to the private sector and embracing external sources of pressure to advance internal reform (by the Chinese definition) in the face of strong inertia and vested interests within the Chinese political system.

Over time, this divergence between the PRC and the United States became more pronounced. The PRC pivoted away from a tentative embrace of the private sector back toward an aggressive industrial policy and prioritized other policies such as military-civil fusion, which raised both economic and national security concerns in the United States. China’s response to the 2007–9 financial crisis reoriented its growth model toward state investment–led growth and recast its political debates around a hubris that it had gone from “student to teacher,” in the words of the then Vice Premier Wang Qishan. Massive increases in industrial subsidies via opaque government guidance funds and state-supported intellectual property theft for commercial gain followed.

The rules of the WTO were largely unable to constrain these PRC behaviors. Almost immediately after the PRC’s accession, the United States expressed concern about the PRC’s failure to fully implement its obligations. In following years, the United States sought to force compliance through a mixture of WTO litigation and diplomatic cajoling, with limited success. Negotiation of new rules, in addition to enforcement of existing ones, has also been stymied. The consensus-based WTO has been unable to develop new rules to cover all elements of the PRC’s distortive industrial policies, such as the use of ostensibly private investment vehicles to flow massive amounts of funding into chips and other strategic technologies. The WTO has also struggled to negotiate new rules to keep pace with global changes, notably related to climate change and digital trade. Rules become less meaningful if they do not cover fundamental elements of the bilateral economic relationship.
The exception swallows the rule
A rules-based approach does not—and was never intended to—constrain actions that a state takes in its own national security interest. No government would sign up to trade rules that constrained its sovereign right to act in its own national defense or security interests. Essential security exceptions in the WTO are intended to strengthen adherence to WTO rules by allowing a necessary safety valve for governments to take actions in their own security interests that would otherwise be prohibited. In the United States, the use of implicit or explicit national security exceptions takes place in the context of the otherwise open nature of its markets. In contrast, the PRC’s starting point is one of restrictive market access and protection of its strategic sectors, making the use of national security exceptions inherently less relevant.

As the U.S.-China economic relationship has become more securitized, the balance between the rule and the exception has tilted, such that much more of the relationship is in the ungoverned space of the exception. This includes actions that governments have explicitly justified under essential security exceptions during WTO litigation, for example U.S. steel and aluminum tariffs or likely the U.S. export controls; as well as actions that have not been litigated but would generally be understood to be taken on the basis of essential security interests, such as CFIUS actions on Chinese investments in the United States. As governments increasingly take actions that are either explicitly or implicitly falling under the rules exceptions, they do so based on unilateral judgments of their own national interests and in the absence of clear norms to guide them.

Chinese investment in the United States presents a useful case study on the limits of a rules-based approach to manage differing U.S. and PRC interests. Under the WTO, the United States has obligations to maintain an open market for certain investments covered under WTO rules. Had the BIT negotiations been concluded, the United States would have made additional commitments to cover a much broader swath of Chinese investments in the United States involving both goods and services sectors. However, at the same time as the BIT was being negotiated, CFIUS action to clamp down on Chinese investments that presented national security risks was ramping up (see chart on page 6). U.S. commitments under the BIT, all of which would have been subject to the national security exception, would not have precluded CFIUS action, and the increasingly securitized investment environment would likely still have led to the same precipitous decline in Chinese foreign direct investment (FDI) in the United States that has been seen over the past several years.

Geopolitics weakens the credibility of rules-based economic commitments
The strength of the rules-based approach rests on the degree to which states feels constrained to act within the rules, due to a fear of sanctions or reputational costs for deviating from them. The more states feel constrained by rules, the more credible are their commitments when they agree to be bound by them. However, as geopolitical conditions between the United States and the PRC have shifted, the constraining nature of rules has weakened, along with the credibility of existing or future commitments made under rules.

This tension is evident in the spate of recent policy actions the United States has taken in the name of boosting resiliency of critical supply chains, derisking from economic dependencies on China, and protecting national security. The objective and scope of U.S. policy instruments such as export controls and investment screening have expanded, impacting both commercial and military technology development in China. Tariffs to protect sensitive U.S. domestic industries have been justified on national security grounds. Reinvigorated U.S. industrial policy seeks to rebuild domestic manufacturing capacity in critical technologies, namely chips and clean energy. This resurgence in geopolitics also affects relations beyond China. For example, in 2022, the United States and allies revoked Russia’s trade benefits under the WTO as part of a broader sanctioning response to the invasion of Ukraine.

The PRC’s trade coercion practices raise similar tensions. While U.S. actions are intended to address national security concerns with a particular commercial transaction or activity, PRC actions instead have been aimed at punishing countries for taking political actions against the PRC’s interests. Instances of PRC trade coercion are well documented, including notable cases involving the restriction of rare earth exports to Japan after a disputed fishing vessel collision, restriction of tourism exports, informal boycotts of South Korea consumer brands after the Korean government announced plans for the installation of Terminal High Altitude Area Defense missile systems in South Korea, and import bans on Australian wine and barley following the Australian government’s request for an investigation into the origins of COVID-19. In recent years there has been an uptick in the use of trade coercion practices in response to U.S. government actions, including sham cybersecurity investigations of a U.S. chip firm and the imposition of export controls on certain critical minerals in response to U.S. export control actions. While the WTO has ruled against the
PRC’s practices in some of these instances, such as the rare earth export ban, an unfavorable ruling in a multilateral trade system currently in retreat is unlikely to compel the PRC to fundamentally shift its economic statecraft toward smaller economies.

Rules have weak ability to constrain U.S. or PRC government actions in the context of a securitized, geopolitically contested relationship. Rules have weak ability to constrain U.S. or PRC government actions in the context of a securitized, geopolitically contested relationship. When litigated at the WTO, the United States has invoked the essential security exception, reiterating its view that the use of such exceptions is self-judging and that there is no role for the WTO to second-guess sovereign determinations of national security interests. Should a WTO case be decided against the United States even when it invokes the self-judging essential security exception, the United States will simply ignore the judgment—indeed, as it indicates it intends to do regarding the adverse ruling in the dispute over U.S. steel and aluminum tariffs. These dynamics would persist even if the WTO appellate body, the final level of review of WTO disputes, were fully staffed and functioning. The net effect of this is to erode the effectiveness of existing rules in constraining U.S., PRC, or other state behavior.

Approach 2: We Need to Talk
In the decades following the PRC’s WTO accession, the United States faced an increasingly complicated economic and national security environment with the PRC. Dialogues were used to manage more complex political, economic, and security dynamics associated with the PRC’s rise, with varying degrees of emphasis and ambition across administrations.

Dialogue to Pressure the PRC into Being a Responsible Stakeholder
Problems with the PRC’s WTO compliance arose almost immediately, leading to the United States bringing a long string of cases against the PRC at the WTO. Concerns arose about the economic downsides of trade with China, including the “China shock” impact on jobs in import-exposed communities, which eroded the economic rationale and political support for closer integration with China. The PRC’s military modernization began to pick up speed and the PRC became more assertive in its foreign policy, increasing the use of military coercion in flashpoint areas such as Taiwan and the South China Sea. As economic ties between the United States and China grew, officials on both sides started to assess national security risks associated with economic entanglement.

High-level, comprehensive dialogues between the United States and the PRC were intended to manage these complex economic and national security dynamics. The U.S.-China Joint Commission on Commerce and Trade (JCCT) was launched in 1983, elevated in 2003, and credited with some early successes in prompting PRC compliance with WTO obligations. The SED process kicked off in 2006 and was rebooted in 2009 as the S&ED, under U.S. President Obama and PRC President Hu Jintao. The SED/S&ED goals were to provide a high-level forum, supported by regular working-level engagement, to advance a “positive, constructive and comprehensive relationship.”

U.S. objectives in the dialogues were to continue the push to integrate the PRC into the rules-based system. In a milestone 2005 speech, Ambassador Robert Zoellick, U.S. deputy secretary of state, remarked that the policy of simply welcoming China into the international system was past, and that “we need to urge China to become a responsible stakeholder in that system. . . . China has a responsibility to strengthen the international system that has enabled its success.” The U.S. strategy sought to use the dialogues to maintain pressure on the PRC, while also identifying and advancing areas of mutual interest.

At the same time, the dialogue process was not intended to prevent the United States from taking actions to enforce its economic or national security interests. The United States signaled that it would not “negotiate indefinitely where U.S. rights are concerned” and continued to bring enforcement cases against the PRC at the WTO. It also began to expand the use of national security–based economic restrictions, such as export controls on the sale of sensitive technologies to China and screening of Chinese investments into the United States (see graphs on pages 6–7). The dialogues could serve as a forum to communicate the U.S. rationale for such actions, and the fact of disagreements was taken as an indication of a “mature” economic relationship that could withstand the inevitable disputes that would arise within a complex and large economic relationship.
PRC VIEWS ON ENGAGEMENT VIA DIALOGUES
Initially, the PRC viewed continued engagement with the United States as critical for its strategic interests. The engagement process, including the SED/S&ED, aligned with the PRC’s long-term pursuit to bind its strategic interests with those of the United States, primarily through economic interactions. In 2006, Chinese state media proclaimed that the SED was a testament to U.S.-China interdependence, at least in economic terms. With China’s economic rise, the PRC assessed that the United States would ultimately have to pay more heed to the PRC’s strategic interests. The PRC viewed the high-level nature of the dialogues as a reflection of its peer status with the United States, an important dynamic as the PRC sought to enhance its standing as a global power.43 As the United States expanded its use of export controls and investment screening, the PRC consistently used the dialogue process to surface concerns and push the United States to limit the scope of these measures.44

The 2007–9 financial crisis reinforced the necessity of U.S.-PRC economic cooperation and built confidence that the two major economies could work together on issues of global significance. The crisis originated in the U.S. financial system as a result of U.S. banks’ risky lending practices. The United States saw the PRC as a critical partner in managing the resulting risks to global financial stability, and U.S. officials credited the PRC’s cooperative response for dampening the effects of the crisis.45 Both sides stated a need for broader economic rebalancing, with the United States addressing its debt issues and the PRC encouraging more consumption and less dependence on exports for future growth (issues that remain as relevant and stubborn today as they were coming out of the financial crisis).46 Yet, while the crisis necessitated cooperation, the PRC also emerged from the experience with reinforced doubts about the viability of the U.S. economic system, a factor that would further contribute to its divergence from free market principles over time.

SHIFTS IN THE GOALS OF DIALOGUES
Under the Trump administration, dialogue has again picked up with somewhat regular contacts at the presidential and cabinet levels, though the goal has shifted. The engagements are not as systematic of an effort as those under the SED/S&ED processes, and expectations for concrete outcomes are held deliberately and substantially lower than in prior attempts. Instead, the goals of these meetings seem to be to signal clearly U.S. policy actions and their underlying rationale, to raise U.S. concerns with PRC practices, and to gather information on the PRC’s intentions as it seeks to manage its economic downturn.

CHALLENGES WITH A DIALOGUE-BASED APPROACH
Dialogues can provide important mechanisms to raise concerns and clearly communicate U.S. policies to PRC counterparts. On their own, however, they are unlikely to lead to significant shifts in PRC policy, as commitments made in the context of dialogues are not necessarily enforceable without other sources of bilateral or multilateral leverage to motivate compliance or impose costs for noncompliance. Additionally, commitment to a dialogue process can run the risk of becoming the deliverable itself, rather than a means to an end.

Dialogues can address symptoms of shifting geopolitical conditions, but will not resolve root causes
Early in SED/S&ED dialogue processes, U.S. and PRC interests began to diverge sharply. The PRC sought to improve its place in global value chains and took an increasingly dim view of the U.S. economic model after the 2007–9 financial crisis. It also faced reform fatigue within its own political system.47 These factors reinforced the original divergence of interests in the WTO accession process, in that for the PRC, reform was less about moving to a free market and more about using market mechanisms to enhance productivity and growth within its socialist market economy. The dialogue process could make progress in areas where the PRC continued to articulate its own independent interest in further opening (e.g., financial services) but could not budge the PRC on its core view of the viability of its economic model.

The dialogues also struggled to overcome the merging of economic and security interests on both sides of the relationship. On the PRC side, this took the form of domestic policies that leveraged economic strengths to advance its national security capabilities. The PRC’s military-civil fusion strategy, which had roots in decades-old efforts to “overcome serious and persistent deficiencies in military procurement
and research and development,” blurred the lines between commercial and military actors in China. PRC industrial policy, which was previously an economic irritant for the United States, become a U.S. national security concern as it focused on building dominant global market share for Chinese companies in dual-use technologies of strategic importance, such as semiconductors, artificial intelligence (AI), and robotics. The 2015 release of the PRC’s Made in China 2025 plan to advance Chinese manufacturing across a range of sectors sparked concerns about a zero-sum competition with the United States for global leadership in critical technology areas. While the PRC has altered its messaging on these policies in response to pushback from the United States, the core policies remain.

In turn, the United States stepped up its use of national security–based economic restrictions, as explored further in this report’s analysis of defensive strategies, and dialogue was unable to overcome fundamental concerns about the potential for the PRC to use Western technology in pursuit of its military modernization objectives. For example, the consensus in China was that U.S. export control measures, many of which were established during the Cold War, were woefully outdated and did not serve U.S. interests in a much-reconfigured global trade architecture with China present.

Interestingly, this was not entirely inconsistent with U.S. perceptions, as the United States was undergoing a massive effort to reform its export control system over this period, with the objective of decontrolling technologies that had become widely available and enhancing the ability of U.S. firms to export controlled goods more readily, particularly to U.S. allies. The catch, however, was that the United States was simultaneously enhancing its ability to impose controls on China, including on a unilateral basis where needed, due to growing concerns over China’s military modernization. As the S&ED progressed, Beijing realized that the United States was unlikely to consider export controls through the prism of trade, as it was increasingly worried about China’s military modernization, and it became hard to conceive of anything beyond incremental shifts in export control measures through the dialogue process.

**U.S. policymakers supportive of defensive approaches express deep skepticism about the ability to change the PRC’s behavior through external pressure.**

**Process can become the outcome**

Regularized dialogues can be critical to build relationships at the leader level and the working level and to set a tempo of expected deliverables. However, regularized dialogues run the risk that the meeting itself becomes the subject of negotiation or the ultimate outcome. The PRC has a practice of canceling meetings to express displeasure, creating a dynamic where the United States’ first ask is to simply have a meeting, or the United States may feel compelled to exercise restraint on certain actions that it knows will create frictions to avoid a canceled meeting. Critics of engagement, such as the former representative Mike Gallagher, note these dynamics of “zombie engagement” and argue that the “siren song of engagement invariably leads to appeasement in the face of foreign aggression.”

**Commitments are weak**

U.S. and PRC commitments made during a dialogue process should be seen as political commitments, rather than binding agreements. The dialogues were not negotiations over binding trade rules, and as such did not include enforcement mechanisms, making it relatively easy for either side to exit from its commitments with lower costs. The credibility of commitments was grounded in the assessment of genuinely mutual interest in abiding by a commitment, as well as the political costs to the overall relationship from failing to uphold a commitment.

**Approach 3: Defense is the Best Offense**

The United States also tried to manage economic and security concerns with the PRC through the use of defensive policies grounded in domestic U.S. authorities rather than international processes. This strategy prioritizes domestic trade tools, rather than the WTO, to address economic concerns with the PRC. It has also led to dramatic evolution in the use and purpose of the economic security toolkit. U.S. policymakers supportive of defensive approaches express deep skepticism about the ability to change the PRC’s behavior through external pressure. In 2018, leading Asia hands Kurt Campbell and Ely Ratner, both of whom would later take on important China-related roles in the Biden administration, wrote, “The United States has always had an outsized sense of its ability to determine China’s course. Again and again, its ambitions have come up short. . . . Neither carrots nor sticks have swayed China as predicted. . . . China has instead
pursued its own course, belying a range of American expectations in the process.”\textsuperscript{55} This geopolitical pessimism underlies the shift away from efforts to engage bilaterally with the PRC and a preference in U.S. policy to center on actions that the United States can take, either unilaterally or with a small group of allies, to defend its economic and security interests.

**DEFENDING U.S. ECONOMIC INTERESTS**

The WTO remained the main legal framework for the trade and investment relationship between the United States and China through the Obama administration. At the same time, U.S. policymakers across both political parties were increasingly frustrated by the WTO’s inability to guide the PRC toward market principles, even with the United States and other WTO members regularly bringing WTO cases against the PRC. Rather than attempting to reinvigorate attempts to enforce U.S. rights under the WTO, as had been the response of prior administrations, the Trump administration instead decided to revert back to domestic trade authorities that would allow the United States to unilaterally address the PRC’s unfair trade practices.

The primary mechanism to achieve this was section 301 of the Trade Act of 1974, which allows the United States to address “an act, policy, or practice of a foreign country that is unreasonable or discriminatory and burdens or restricts United States commerce.”\textsuperscript{56} In 2018, the United States released the results of a lengthy investigation into the PRC’s technology transfer, intellectual property, and innovation policies, raising many of the same concerns in these areas that had persisted since the WTO accession negotiations.

The United States then took a series of actions pursuant to section 301 to address the concerns identified in the investigation. It filed one case at the WTO to address concerns raised in the investigation that were assessed to violate WTO rules. To address the PRC’s direction of outbound Chinese investment targeting strategic companies and sectors, the United States implemented new investment restrictions by updating CFIUS authorities. In the action that garnered the most attention and controversy, the United States imposed a series of tariffs on Chinese imports to address PRC acts, policies, and practices that were not addressed by the WTO agreements.\textsuperscript{57} As U.S. Trade Representative Robert Lighthizer, who led the 301 process, noted, the tariffs “would have the effect of counteracting China’s unfair trading practices, putting economic pressure on the Chinese government to make a deal, and in the meantime discouraging corporate investment in and supply chain integration with China.”\textsuperscript{58} The PRC responded with retaliatory tariffs.

Subsequently, the United States and the PRC negotiated the Phase One Agreement, formally named the Economic and Trade Agreement between the Government of the United States and the Government of the People’s Republic of China.\textsuperscript{59} It deviated in important ways from the structure of prior trade agreements and consisted of three parts. First, the PRC would purchase defined levels of U.S. goods and services over two years, with the aim of rebalancing the trade relationship. Second, the PRC committed to a series of obligations addressing core structural issues, such as forced technology transfer, intellectual property protection, and agricultural market access. Certain of these commitments were made on a bilateral basis, with the United States affirming its intent to maintain its existing rules in related areas. Third, the United States and the PRC created a new method for resolving disputes between them, based not on independent arbitration panels but instead on government-to-government consultations and the right of either side to unilaterally take a “remedial measure in a proportionate way that it considers appropriate.”\textsuperscript{60}

In a new precedent, the agreement did not include any exceptions for national security purposes, because of concerns that the PRC could abuse such exceptions, instead relying on government-to-government consultation to resolve disagreements. The net effect was to create a mechanism entirely outside of the WTO process to address U.S. concerns.\textsuperscript{61} The United States agreed to halt further tariff escalation, but the bulk of the tariffs remained in place, using the logic that the Phase One Agreement covered only a portion of the core U.S. concerns, thus further tariff reductions would be contingent on making additional progress in other areas not yet addressed.\textsuperscript{62}

The 301 process broke new ground in the U.S. approach to the PRC, but was not without controversy over its reliance on tariffs. The U.S. International Trade Commission found that the burden of tariffs fell almost entirely on U.S. importers of the tarifed Chinese goods rather than on Chinese exporters.\textsuperscript{63} Third-party countries raised concerns about collateral damage on their trade.\textsuperscript{64} The Trump administration was, in parallel, imposing a separate set of tariffs on steel and aluminum imports from any country, using a separate, national security–based authority (section 232 tariffs). It was also blocking the seating of new members of the WTO appellate body, causing the WTO’s litigation function to freeze as cases could not reach final decision. The combined effect of these actions led key partners to charge the United States with undermining the rules-based trading system.
The Biden administration largely maintained the China trade policies of the Trump administration. The steel and aluminum tariffs, for countries other than China, were converted into quota-based restrictions aligned with historical levels of imports. The 301 tariffs have been maintained and expanded. In May 2024, the Biden administration imposed additional tariffs on a range of Chinese imports with strategic importance, including legacy semiconductors, steel and aluminum, batteries, electric vehicles (EVs), solar cells, cranes, and medical products. Notably, the new tariff rate on EVs is 100 percent, indicating a policy objective of shutting Chinese producers out of the U.S. market rather than the more modest goal of countering the impact of distortive PRC subsidies. The tariff restructuring did not include any reduction in tariffs.

To this defensive toolkit, the Biden administration has added an emphasis on domestic investments and working with allies under its “invest, align, compete” strategy for dealing with the PRC. Building economic strength domestically, including through industrial policy initiatives such as the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, is seen as increasing U.S. economic leverage to deal with the PRC. It also, in a reflection of blending economic and security interests, addresses specific national security vulnerabilities arising from a lack of domestic manufacturing capacity for critical technologies. The Biden administration has prioritized working with allies to create alignment with likeminded countries on China policy, tapping into an area of historic U.S. advantage. The work with allies, however, has been complicated by disagreements over the appropriate use of defensive tools to address China-related issues, perceptions of some allies that the United States may be invoking national security to justify actions motivated by economic protectionism, and hedging behaviors driven by third-country views of the durability of U.S. commitments between administrations.

DEFENDING U.S. NATIONAL SECURITY INTERESTS

U.S. defensive strategies emphasize the use of national security–based economic restrictions to address the range of national security risks that arise from economic interconnection with the PRC. While such defensive tools have always been an element of U.S. strategy, their use has increased to the extent that they have become a major characteristic of the economic relationship. This has resulted from the expansion and novel use of a range of security tools, including investment controls and export controls.

Chinese investment in the United States rapidly increased in the post–financial crisis period, but by the early 2010s, the United States had started to block or impose harsh conditions on Chinese investments due to national security concerns. The number of CFIUS reviews of Chinese investments has risen steadily over this period and has remained high despite falling levels of Chinese FDI (see graphs on pages 5–6). Transactions blocked, mitigated, or voluntarily abandoned due to CFIUS concerns have been similarly high. The CFIUS process remains bound by a national security mandate, limiting its ability to take action for economic reasons and leading to frustration of some policymakers who would have preferred to see a broader approach to restricting Chinese investment. However, the concept of what constitutes a national security risk has expanded, and CFIUS has increasingly taken action on a broad range of risks that were not traditionally considered national security issues, including those related to sensitive personal data and venture capital investments. Chinese investment in the United States has largely dried up today, after booming in the 2012–17 period.

The use of export controls also evolved significantly over the past decade, from a limited tool targeted at exports with distinctly identifiable military applications to one that is used broadly to manage strategic competition with the PRC. In the aughts and 2010s, export control policy was marked by growing concerns over China’s military modernization but equally by attempts to keep controls narrowly targeted on technologies that had a direct application for military purposes, or on exports to military end users. U.S. officials assessed that the diffusion of most technologies on a global basis limited the ability to use a defensive, control-based strategy to advance U.S. technology leadership. Further, U.S. defense programs relied heavily on the commercial sector, because the military no longer produced most of its own technology, nor did it drive global markets. The United States relied on a run-faster strategy aimed at strengthening the competitiveness of U.S. firms in global markets, which led to efforts to lessen controls on a wide range of technologies for which the United States was no longer a dominant producer. This was paired with strict controls on the small number of technologies for which the United States maintained an important advantage (i.e., a “small yard, high fence” approach). For example, the “China rule” promulgated in 2007 heightened U.S. unilateral controls on a set of sensitive dual-use goods destined for military end users, while also putting in place procedures to expedite exports to trusted commercial end users. The Export Control Reform Initiative of the Obama administration prioritized reducing controls on exports to allies, with similar goals of enhancing U.S. competitiveness.
From the late 2010s through today, the use of export controls has been expanded to become a leading tool to manage technology competition with the PRC, and in some cases values-based concerns, with the PRC. To note a few indicators, Entity List designations, which prohibited designated entities from receiving U.S.-origin technology or goods, rose from approximately 5 to 30 designations annually to more than 150 in 2023. The United States innovated new export controls, such as the Foreign Direct Product Rules, which allow the United States to assert extraterritorial controls on chips made anywhere in the world if they are produced using U.S. machinery or software. Controls were tightened across the board, notably in the rules first released on October 7, 2022, related to chips, supercomputing, and AI, which sought to freeze Chinese capabilities in these key technology ecosystems. U.S. export control policy evolved from preserving one to two generations of technological advantage to keeping the United States “as far ahead as possible” in the key “force multiplier technologies” of chips and computing. The United States assessed that in the context of the PRC’s military-civil fusion policies, any advances of Chinese indigenous capabilities in these technology areas was a de facto national security risk. While export controls had always been an element of U.S. policy toward the PRC, the expansion of controls to cover a broad swath of commercial activity—not just military end uses or users—marked a significant shift in U.S. policy.

The use of export controls also evolved significantly over the past decade, from a limited tool targeted at exports with distinctly identifiable military applications to one that is used broadly to manage strategic competition with the PRC.

A range of other initiatives has advanced to derisk U.S.-China economic ties. The United States is considering options to regulate U.S. investment in China because of concern that certain investments may fuel China’s indigenous development of national security–relevant technologies, such as chips, AI, or quantum technologies. Under the Chinese Military-Industrial Complex sanctions program, the United States imposed limited financial sanctions on companies identified as operating in the PRC’s defense or related material sectors, or as supporting PRC surveillance programs. Financial sanctions (e.g., full blocking measures and assets freezes) were increasingly used, including the prominent 2017 case of the Bank of Dandong, which facilitated North Korean sanctions evasion. The Uyghur Forced Labor Prevention Act imposed stricter requirements to ensure that U.S. imports did not involve products made with forced labor from the Xinjiang Autonomous Region, where the U.S. State Department determined that the PRC was committing genocide against ethnic and religious minority groups. Several congressional and executive attempts were made to address national security risks arising from the digital economy, including efforts to regulate the importation of information and communications technology goods and services and the sale of bulk data to foreign adversaries, as well as efforts to ban the Chinese social media application TikTok from the U.S. market.

CHALLENGES WITH A DEFENSIVE APPROACH
Defensive strategies present a range of difficulties, even as they are increasingly used in the absence of an ability to work directly with the PRC to resolve economic and security differences. Foremost is the blending of economic and security interests, as more economic restrictions are justified on national security grounds. Defensive actions can be disruptive, leading to political pushback from domestic constituencies or international partners. Defensive actions also tend to be unilateral, as they are based on domestic legal authorities rather than international agreements. Despite these challenges, a perceived lack of better options has led to intensified use of defensive tools.

Economic security is national security? The increased use of defensive policies combined with the expanding concept of national security has blurred the lines between policies based on genuine national security concerns and those established for economic competitiveness reasons. To varying degrees, both the Trump and Biden administrations have articulated the view that economic security is national security, but the precise meaning of this remains unclear. At a high level, it can be understood to convey a strategic truth, which is that a strong national defense depends on a robust economy to support it. As the United States pushes to build resiliency in critical supply chains after the pandemic and the war in Ukraine, economic security can also be taken to mean a freedom from overreliance on potential adversaries for key economic goods and a diversification of supply. Yet there are not clear international norms on what policy actions governments can legitimately justify on economic security grounds, and...
what is instead just blatant protectionism. Further, the United States has yet to articulate its vision of an economic security strategy, including how it would delineate between national security, economic security, and economic competitiveness concerns and the appropriate policy responses to use in each of these areas.

Economic security is a gray area under existing trade architecture. The WTO and most U.S. trade agreements include essential security exceptions, not economic security ones. The temptation to justify vaguely defined economic security actions on national security grounds is therefore high, as that provides the highest degree of flexibility and autonomy under current trade architecture. At the same time, however, overuse of essential security justifications erodes the validity of this argument, as more aspects of the economic relationship become at least superficially securitized and the use of the exception loses its exceptional nature.

**Reliance on unilateral approaches complicates economic alliances**

Defensive actions tend to be unilateral, as they are based on domestic U.S. authorities rather than multilateral frameworks, a factor that has both advantages and disadvantages. Use of domestic authorities allows the United States broader flexibility and nimbleness in developing new policies or actions to address problematic PRC behaviors. It also avoids the stagnation in bodies such as the WTO, which has struggled to craft new rules to address the challenges associated with China's state-directed economy.

On the other hand, unilateral approaches are less likely to be coordinated with close U.S. allies in advance, as that sort of negotiation process is not strictly necessary for the implementation of the measure. This may reduce the amount of buy-in from allies for U.S. strategy or particular policies, as can be seen in reactions from partners such as the European Union (EU) to U.S. tariff measures. A common refrain from countries that trade heavily with both the United States and China is a plea to not make them choose between the two. Yet that is increasingly becoming the objective of U.S. policy in certain supply chains. Secretary of Commerce Gina Raimondo recently stated, “When it comes to emerging technology, you cannot be both in China’s camp and our camp.”

An overreliance on unilateral approaches may also erode the effectiveness of U.S. measures over time. For example, export controls are most effective over the longer term if implemented among all producer nations, such that other countries cannot simply backfill for U.S. technology exports in the China market.

**Defensive actions can create short-term friction**

Successful use of defensive approaches requires U.S. policymakers to adeptly manage the inevitable pushback from the business community and international partners, while anticipating potential retaliation from the PRC. The use of defensive actions can be disruptive, as they rely heavily on the imposition of new trade and investment restrictions, upending established patterns of economic activity between the United States and China. This disruption can lead to political pushback from impacted domestic constituencies. For example, U.S. automakers objected to the steel and aluminum tariffs, because they increased the price of a key input for automobile manufacturing. Similarly, certain chip makers reportedly lobbied heavily against additional export controls.

The disruptive nature of defensive measures can also negatively shape perceptions of the United States in third-party countries. While the United States frames its defensive actions as a response to PRC policies, third-party countries may view the United States as the provocateur. They may also view all defensive measures as being motivated by economic competitiveness, rather than national security reasons, as economic and security concerns are increasingly blended. The United States is arguably one of the most forward-leaning countries in using defensive measures against the PRC. These factors combine to present a difficult diplomatic challenge for the United States to justify its use of a defensive strategy to a wide range of international partners, many of whom do not share the same strategic threat assessment of the PRC.

**While the United States frames its defensive actions as a response to PRC policies, third-party countries may view the United States as the provocateur.**

Unsurprisingly, defensive measures are not popular with the PRC. To be clear, this is not a reason to refrain from a defensive strategy, because the difficulty of working directly with the PRC is the primary reason for which the United States has leaned more heavily on defensive measures in recent years. That the PRC does not have to agree to U.S. defensive measures is a feature, not a bug, of the defensive strategy. U.S. policymakers should be aware of the framework the PRC uses to develop responses to U.S. defensive actions, so they can assess the potential for defensive measures to escalate, rather than de-escalate, tensions with the PRC. For example, the PRC has called recent U.S. export control measures acts
of “containment” and, in response, has curtailed the market access of certain U.S. firms in China. \(^{85}\) Beijing has also unfurled an architecture of countersanctions policies, many borrowed from U.S. regimes, that it has not fully deployed at present. \(^{86}\) To date, PRC responses to U.S. defensive policies have been of a tit-for-tat nature, with retaliation mostly taking symbolic or limited forms rather than serving to further escalate tensions. Certain actions, such as the arrest of two Canadian citizens in retaliation for law enforcement actions against Huawei, indicate the potential for more damaging measures, and Chinese retaliation remains an area for U.S. policymakers to watch carefully. \(^{87}\)

The friction caused by defensive actions is not necessarily an argument against their use. A certain level of disruption, and Chinese retaliation, is inevitable as the United States endeavors to reshape global supply chains and derisk its economic relationship with China. Rather than shying away from this friction, the United States should be clear-eyed in anticipating it, in assessing the costs and benefits of its actions, and in developing approaches to mitigate or blunt the economic costs or political pushback associated with defensive approaches.

**Defensive strategies reinforce PRC incentives toward indigenization**

Defensive strategies have contributed to intensified PRC efforts to develop technological self-sufficiency in areas where they lag behind the United States, and to enhance their capacity (or overcapacity, in many instances) in areas where they lead. The designation of Huawei, a large commercial telecommunications equipment provider, on the Entity List and the flurry of U.S. export controls that followed was China’s so-called Sputnik moment. Huawei’s commercial success was seen in China as the evidence of the country’s graduation from the lower end of the global supply chain. But the growing technology competition, and associated export controls, heightened Beijing’s sense of vulnerability to chokepoint technologies and reinforced its determination to achieve self-reliance in these areas. In a 2020 speech, Xi called for “further development in industries where China leads globally . . . striving to deepen other countries’ reliance on our supply, so that our ability to cut the supply would be a deterrent.” \(^{88}\) Indeed, the PRC’s dual-circulation strategy does not suggest an intention to boost private domestic demand; rather it signals at attempt to enhance national security by turning the economy inward when necessary.

A slowing productivity growth rate in the Chinese economy over the past decade, combined with Western embargos of high-end chips, has created a fixation among Chinese leaders on technology in their pursuit of a new economic development model. Conscious of the need to pivot away from the investment-led growth model, which fueled China’s rapid development for nearly 30 years but has been increasingly wasteful, Beijing is steering resources into advanced manufacturing. Since late 2023, Chinese leaders have been advocating “new quality productive forces,” a development concept that calls for more productive growth methods through technological breakthroughs. \(^{89}\) In practice, this approach suggests continued state investment in sectors such as EVs, renewable energies, and other emerging technologies where China is near or has the leading edge. Further state support in these industries will exacerbate over-capacity in China, deepening its trade tensions with the United States and Europe. But because it perceives a broadening Western containment, Beijing—at least in the short term—appears willing to bear the geopolitical fallout of the resulting trade frictions. In doing so, it is also directing China further away from the consumer-led growth model built on a robust private sector, which once seemed attainable.

**The U.S. government lacks the frameworks and capacity to assess the effectiveness of defensive approaches**

The U.S. government is relying on economic restrictions of many flavors to reset the economic relationship with China, yet it does not have a consistent framework for assessing the relative costs and benefits of these measures. Large-scale efforts to restructure global supply chains will create some losers, even as the end goal is to strengthen the security and resiliency of the U.S. economy overall. The U.S. government has been notoriously shortsighted in identifying and mitigating the negative impacts of prior trade policies, as seen in the China shock experience. Derisking will cause some economic dislocations, at least in the short term, and effective U.S. policy must anticipate and address these disruptions.

A related issue is that of institutional capacity within the U.S. government to assess the effectiveness of its defensive policies. Tools such as export controls are being used at an unprecedented scale and for a range of novel policy purposes. These tools have also become more complex and are used to assert U.S. control over a range of global goods, as seen for
notably, the PRC), launched negotiations in 2009.

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efforts to reset global trade architecture

The PRC did not sit idly by as the United States

THE PRC’S RESPONSE

The PRC also made significant progress in advancing

options in extraterritorial export controls such as the

Foreign Direct Product Rules. Yet the budget for the

agency responsible for administering export controls

has remained flat in real terms for a decade. Economic

agencies lack dedicated staff to evaluate the effect of

defensive policies on long-term U.S. competitiveness, as

well as to engage in robust strategic planning. Defensive
tools have become leading instruments of U.S. policy
toward the PRC, yet the bureaucratic capacity to assess
their effectiveness has lagged behind.90

Approach 4: Have More Friends

The United States has tried to shape the PRC’s external

environment, primarily by advancing U.S. trade and

investment relations with other partners in the Indo-

Pacific region or globally. These efforts have multiple

objectives. They serve to advance economic integration

with important trading partners, outside the cumber-

some WTO process. They allow for the negotiation of

new standards, in the hopes of setting a higher global bar

and indirectly putting pressure on the PRC to increase

its alignment with such standards or risk becoming a
global outlier. Finally, they provide an economic aspect

in broader U.S. efforts to increase strategic alignment and

cooperation with key international partners.

THE TRANS-PACIFIC PARTNERSHIP AND OTHER U.S.

efforts to reset global trade architecture

The most prominent of U.S. partnership efforts has been

the Trans-Pacific Partnership (TPP), for which the United

States, along with 11 other Asia-Pacific nations (excluding, notably, the PRC), launched negotiations in 2009.91

Recognizing the economic importance of this region, which

accounted for 40 percent of global gross domestic product (GDP), the TPP was intended to be a high-standards trade

agreement that further integrated TPP markets while also

setting a new global bar in key areas such as state-owned enterprises, labor and environment, and digital trade.92

The TPP had both economic and strategic implications for

the United States, and provided the economic pillar of the

Obama administration’s broader pivot to Asia.93 In the 2015 National Security Strategy, President Obama stated plainly,

“We believe trade agreements have economic and strategic benefits for the United States. We will . . . advance a trade

agenda that brings jobs to our shores, increases standards of living, strengthens our partners and allies, and promotes

stability in critical regions.”90

The United States never ratified the TPP, with President Trump pulling out of the agreement in one of his first official acts, citing concerns about possible domestic job losses.95 The remaining TPP

countries proceeded to finalize the deal, renaming it the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Negotiations with

Europe on a major trade deal (the Transatlantic Trade

and Investment Partnership, T-TIP) also began in the

Obama administration but were not finalized.96 The

combined efforts of negotiating the TPP and the T-TIP,

while simultaneously negotiating the BIT with the PRC,

represented an ambitious—if ultimately unrealized—
effort to rewrite the trade architecture that governed

U.S. economic relations with its major trading partners.

U.S.-PRC engagement took on a new dimension as TPP negotiations advanced, because the TPP was broadly

seen in China as a serious challenge to its economic and

security interests. Viewed from Beijing, the TPP was an

attempt by the United States to reshape international

trade rules in its own interest outside the WTO architec-

ture. Chinese state media noted that the PRC’s exclusion

from negotiations that led to the creation of new rules

with a number of its key trade partners presented a

significant problem for China’s economic interests.97

A prevalent view in China was that as a high-standard

multilateral trade agreement, the TPP would cause

significant trade diversion from China. Joining the TPP,

however, was seen as unrealistic at the time, given the

extensive reforms that would have required.98 (The PRC

eventually filed CPTPP accession papers in 2021).

THE PRC’S RESPONSE

The PRC did not sit idly by as the United States

embarked on its quest to rejigger global trade architec-
ture. In 2012, the PRC and 14 other countries (including

many that also participated in the TPP) launched

negotiations for the Regional Comprehensive Economic

Partnership (RCEP). When the RCEP entered into force in

2022, it was the largest trade agreement outside of the

WTO, covering 30 percent of global GDP.99 Today, the

United States, which is part of neither the CPTPP nor the

RCEP, sits outside the growing trade architecture for the

Indo-Pacific region.

The PRC also made significant progress in advancing

negotiations with Europe as recently as 2020. Toward the

end of 2020, then president-elect Biden’s inclination to

coordinate its China strategy under a strengthened trans-

atlantic partnership unsettled Beijing. In response, the

PRC fast-tracked its final negotiations with the European

Union for the Comprehensive Agreement on Investment

(CAI), with Xi’s last-minute personal intervention

ensuring that the PRC’s market entry concessions

would clear the way for the accord.100 The finalization

of the CAI negotiations allowed Beijing to preempt the
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incoming Biden administration by exploiting the EU’s proclivity to maintain strategic autonomy from the United States. Wu Xinbo, director of the Center for American Studies at Fudan University in Shanghai, hailed the CAI as putting China in an “invulnerable position,” and as helping to “insulate it from U.S. efforts to exclude it from global trade and investment.” In addition, Wu said this would “also thwart the U.S.’s plan to join hands with Europe and isolate China from the future of globalization.”

Beijing’s geopolitical coup, however, was short-lived. Less than three months after the conclusion of the seven-year-long CAI negotiation, the EU suspended the CAI process in response to the PRC’s retaliatory sanctions imposed on members of the European Parliament and European entities.

**POLICY THROUGH OMISSION**

The Biden administration is primarily creating trade policy through omission. It has largely stepped back from efforts to reshape global trading architecture, which had marked nearly every prior administration—including the Trump administration, which concluded major trade deals with the PRC, as well as with Canada and Mexico, and was actively negotiating with the United Kingdom, in addition to pushing forward smaller deals on digital trade. The signature trade initiative of the Biden administration has been the IPEF, which stalled after the administration failed to secure domestic political support for its trade provisions. Other processes, such as the U.S.-EU Trade and Technology Council (TTC), have enhanced relations but not led to major breakthroughs on long-standing trade irritants or resulted in common approaches toward the PRC (or, in TTC speak, nonmarket economies).

**CHALLENGES WITH EFFORTS TO SHAPE THE EXTERNAL ENVIRONMENT**

Traditionally, efforts to shape the external economic environment have not directly addressed security-related issues. In addition to this challenge, domestic political constraints in the United States also have presented a formidable hurdle in the use of traditional trade agreements for strategic objectives.

**Traditional approaches to shaping the external environment (i.e., trade negotiations) have not directly addressed securitization of the U.S.-China economic relationship**

Traditional trade agreement negotiations or dialogues primarily focus on reducing barriers to trade and investment. To the extent that security issues are considered, it is in the context of exceptions to the core rules intended to promote further integration. There is little to no discussion about the appropriate use of security-based economic restrictions, nor of aligning approaches between likeminded countries, though these issues are discussed in separate fora between governments. This separation of traditional trade issues from national security-based economic tools has become an insufficient approach as defensive policies have taken on a more prominent role in U.S. foreign policy and economic security strategy.

**U.S. domestic political considerations constrain the use of trade policy as a strategic policy tool**

A common thread across the Trump and Biden administrations is a step back from neoliberal support for open trade. Traditional trade deals, such as the TPP, are viewed as politically toxic due to concerns around concentrated job losses similar to what was experienced during the China shock. Additional concerns have emerged around the possibility that trade deals may constrain domestic regulators from acting in the public interest. Oddly, bipartisan consensus has not emerged around the U.S.-Mexico-Canada Agreement (USMCA) as a model for future trade negotiations, despite the fact that the USMCA received historically high levels of support in Congress and the endorsement of both the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) and the U.S. Chamber of Commerce. This retreat from a proactive trade policy is evident not just in U.S.-China relations but across the U.S. trade landscape, reflecting a deeper political skepticism about the benefits of free trade for U.S. workers and the U.S. economy.
Where Are We Going?

Imagining a new global economic order to advance U.S. hard power, resiliency, and commercial interests
The U.S.-China economic relationship today is characterized by high levels of uncertainty and securitization, and these features are likely to persist for the foreseeable future. In the United States, leaders in both political parties are strongly committed to derisking the economic relationship, albeit with important differences in views on the degree and speed of derisking necessary to protect U.S. economic and national security interests. Close U.S. allies and partners are engaged in a similar rethinking of the security vulnerabilities presented by economic ties with China, many driven by the recent experience of painfully and abruptly breaking ties with Russia after its 2022 invasion of Ukraine. Geopolitical flashpoints, including Taiwan and the South China Sea, have not abated and remain likely drivers of tension as the United States seeks to remain the primary guarantor of international peace and security in the Indo-Pacific. The United States and allies are increasingly concerned over the PRC’s support for Russia, which potentially could lead to additional sanctions against Chinese entities.

Prospects are no rosier on the Chinese side of the equation. Xi Jinping’s consolidation of power and efforts to expand the reach of the party within the private sector will continue to push China’s economy further from free market principles. China’s economic slowdown should prompt long-overdue structural reforms to push the country onto a more sustainable growth path, though there is little indication that the PRC intends to pursue, or is capable of achieving, such reforms. Instead, the PRC is doubling down on policies that will increase, rather than decrease, tensions with its trading partners, including state-led investments leading to over-capacity in manufacturing sectors that will, in turn, lead to the export of underpriced goods to foreign markets. The United States and EU have started to take action to counter Chinese looming overcapacity in EVs, including the introduction of new tariffs on U.S. and EU imports of Chinese-made EVs. To address these challenges, the United States must clearly articulate a pragmatic and realistic vision for its economic relationship with China, in the context of decreasing trust and increasing geopolitical hostility between the two states, as well as the global significance of the bilateral relationship.

**Defining U.S. Strategy and Interests**

Current U.S. strategy on China has been criticized as focusing on verbs rather than end states. Today’s strategy is to “responsibly compete” and “compete without conflict,” both important guideposts but ultimately unsatisfactory in defining the desired contours of the economic relationship in the context of rising securitization. The Biden administration has noted that it will take actions where necessary to defend U.S. national security interests, pursue a “healthy economic relationship” with China, and cooperate on global challenges. While reasonable goals, they do not address core tensions, including that the promotion of U.S. interests has blurred the line between economic and security concerns, and that the securitization of many aspects of the economic relationship presents challenges for stability and cooperation elsewhere.

The paradox is that the use of these defensive policies may be undermining the economic order at the same time as they are intended to reinforce the security order.

A key theme in this paper’s analysis is that the international economic order is changing dramatically as a result of intensified U.S.-PRC geopolitical competition. Certain actions that the United States takes in the economic sphere, such as export controls, are often motivated by a desire to constrain the PRC’s ability to challenge the international order in other spheres. The paradox is that the use of these defensive policies may be undermining the economic order at the same time as they are intended to reinforce the security order. As rules-based institutions such as the WTO decline in prominence, and as governments lean more heavily on domestic instruments of economic leverage, it is unclear exactly what sort of order the United States is upholding. In addition to using economic measures to address China’s military modernization and aggressive foreign policy, prior assumptions about the predominance of openness and efficiency have given way to themes of resiliency, derisking, and equity. The United States faces the generational challenge of redefining the international economic order, while also seeking to have this new order constrain PRC behaviors that would undermine it.

A further complication is the raw truth that the United States, in certain critical technology areas that are viewed as central to future military capabilities, does have zero-sum objectives. It is hard to read anything but zero-sum logic into statements such as “remain as far ahead as possible” or “China’s camp or our camp.” While the Biden administration largely confines such rhetoric to advanced technology competition, other leading voices express this view more broadly, noting that the
United States must “win” the competition with the PRC. A lack of political consensus on the scope of the derisking or decoupling necessary to counter the PRC introduces ambiguity into U.S. strategy, as the extent of the relationship covered by the zero-sum logic remains debated. This can lead to views in China or internationally that the United States sees the entire relationship as zero-sum and thus has entered into a starkly new economic order based on state-driven economic competition unbound by international rules or norms. Overcoming this requires not only articulating a clear U.S. strategy that clarifies the zero-sum aspects of the economic relationship, but also building U.S. credibility through actions taken consistently within the frame of that strategy.

A pragmatic, forward-looking strategy for advancing U.S. interests and values within the U.S.-China economic relationship will center on the following objective: that the United States is the leader in creating and maintaining a new global economic order in which the efficiency and innovation of open markets are pursued side by side with the establishment of new norms for government interventions in the economy related to hard power and resiliency interests. The U.S.-China competition is of global consequence, and it is this competition that is demanding a rethink of existing global economic norms, rules, and institutions. Advancing U.S. interests and values within the bilateral relationship will therefore require a global perspective that encompasses but is not confined to the bilateral U.S.-China relationship.

Within this broader objective, the United States should pursue a varied approach based on its differing interests and objectives in various types of economic activity, differentiating between its hard power, resiliency, and commercial interests. The United States should:

**Seek overmatch in areas of economic activity that implicate the balance of hard power between the United States and the PRC (hard power interests).** The United States has, and should be candid that it has, discarded level playing field objectives in areas of critical technology seen as fundamental to the balance of hard power in a potential military confrontation with the PRC. In these areas, the United States is not looking for fair competition and hoping that its capabilities come out on top. Instead, these technology areas should be framed similarly to military capabilities, where the United States seeks a dominant overmatch. Its policies should follow from this logic, with export controls and related policies (e.g., outbound investment controls) seeking to constrain China’s domestic capabilities and industrial policies while bolstering those of the United States.

**Reduce vulnerabilities in areas of economic activity that impact U.S. resiliency (resiliency interests).** Resiliency interests, including supply chain security, are often (correctly) characterized as national security interests, but differ from the hard power interests in important ways. Objectives related to resiliency are for the U.S. economy and society as a whole to withstand negative shocks, including but not limited to those that may arise from coercive PRC practices or a conflict. For example, the COVID-19 pandemic has driven many governments to emphasize resiliency objectives, and there is legitimate space for a broader range of government interventions in the economy to pursue these interests. U.S. resiliency objectives need not be zero-sum, and U.S. resiliency, based on a diverse source of supply for critical goods and services, need not make China less resilient. Instead, goals should be to avoid an overreliance on any one source for critical goods and services, and to particularly reduce dependencies on China for sensitive goods and services. Notably, level playing field solutions are not well suited to address

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**U.S. STRATEGIC OBJECTIVE AND INTERESTS**

The objective of U.S. economic policy toward China should be that the United States is the leader in creating and maintaining a new global economic order in which the efficiency and innovation of open markets are pursued side by side with the establishment of new norms for government interventions in the economy related to hard power and resiliency interests.

The United States should pursue this objective in varying ways, depending on the U.S. interest at stake:

- **Hard power interests:** Seek overmatch in areas of economic activity that implicate the balance of hard power between the United States and the PRC
- **Resiliency interests:** Reduce vulnerabilities in areas of economic activity that impact U.S. resiliency
- **Commercial interests:** Pursue a level playing field for commercial competition
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resiliency objectives; no one will care if competition was fair if the United States runs out of personal protective equipment (PPE) or pharmaceuticals in a future pandemic. Resiliency interests, like hard power interests, are defined by outcome, not process.

Pursue a level playing field for commercial competition (commercial interests). Outside of hard power and resiliency interests, U.S. objectives should center on a level playing field to advance U.S. commercial interests. The U.S. government should not hesitate to intervene to protect commercial interests, but interventions should focus on those necessary to neutralize the effect of distortive trade practices from the PRC, including those related to excessive subsidization and overcapacity, as well as long-standing concerns about labor and environment policies. Policymakers will also need to recall that competitive pressure is good for competitiveness, and that excessive intervention can be counterproductive.

Three Pillars of a New U.S. Strategy
As the United States pursues its hard power, resiliency, and commercial interests within the economic relationship with China, it should draw on each of the four approaches employed previously, but with important changes to reflect current geopolitical realities and a rebalancing of the prioritization of each strategy. Moving forward, an effective strategy must bring these various elements together into a more integrated whole. Defensive issues are colliding headfirst with the rules-based system, and a China strategy that treats these issues as separate spheres will struggle to advance U.S. economic and security interests. A pragmatic policy for the next decade will include:

- Dialogue with the PRC to advance a narrow range of mutual interests;
- Norm building outside the bilateral relationship on the use of economic measures to pursue hard power and resiliency interests; and
- Institution building with U.S. allies to align approaches on hard power, resiliency, and commercial interests.

Dialogue with the PRC
The United States should continue to pursue dialogue with the PRC to advance a narrow range of mutual interests. These mutual interests include managing the derisking process to mitigate the potential for escalation in the overall relationship, promoting global economic stability, and maintaining mutually beneficial commercial ties that do not undermine U.S. hard power or resiliency interests. Unlike the engagement period, dialogues should not be oriented toward greater market integration or efforts to compel the PRC to act as a responsible stakeholder in the international system. Instead, the objectives of dialogues now should be to gain insights into PRC economic decision-making to the greatest extent possible, and to manage risks that economic tensions can cause in the overall relationship.

U.S. and PRC actions to derisk the economic relationship are likely to lead to uncertainty in the commercial space and to the potential for negative spillover effects on the larger relationship. To manage these risks, the United States must communicate with the PRC about the measures it intends to impose and the underlying rationale, recognizing that the United States will continue to take actions it views as necessary to advance its interests, even if such actions raise tensions. Dialogues can be a critical mechanism to ensure that the U.S. message is injected directly into an opaque PRC policy process without distortion. There should be little expectation that the United States and the PRC will agree on derisking actions, and the United States should not define the goal of these channels as negotiations or transactional in nature. Instead, the objective should be to have no surprises in this aspect of the relationship, and to communicate clearly the intent of U.S. policy. Dialogue also provides a mechanism for the United States to lodge complaints about unjustified measures that the PRC takes under a national security guise. While it is important to continue highlighting concerns, the United States should maintain low expectations that dialogues will resolve these issues—while hoping they support a managed derisking process. This can mitigate the otherwise destabilizing effect that derisking actions can potentially have on the overall relationship.

Dialogue on managed derisking is important to shape narratives within the Chinese system about the true objectives of U.S. policy. While most official government statements suggest Beijing sees derisking as decoupling in disguise, and the state media continues to denounce the “generalization of national security” in the United States, analyses by some state-affiliated researchers reveal a more nuanced perception. For example, researchers at the China Institute of Contemporary International Relations, a think tank with deep ties to the Ministry of State Security, argue that the rhetorical shift to derisking signals a limited but meaningful measure of openness toward China, though subsequent U.S. actions to tighten semiconductor restrictions and launch an investigation into EV data concerns have eroded this rhetorical advantage.

Still, derisking is an advantageous framing for U.S.-PRC discussions (where it suggests the United States does not oppose China’s overall development) and those with allies and partners, who would not align with a full decoupling of the economies.
Shifts in U.S. policy between administrations have also complicated Chinese views on U.S. strategy. Wang Jisi, a Peking University professor whose advice is regularly sought by PRC leadership, argued in 2020 that the seismic change during the Trump administration in the U.S. approach to its relationship with China sowed deep confusion in Beijing. And indeed some level of confusion about consistency may be warranted, as U.S. policy proposals range from a push to engage more with China to recommendations to unilaterally revoke China’s PNTR status and impose massive tariffs, despite common elements in targeted areas such as export controls.

On the more positive side of the ledger, the United States and the PRC share a strong interest in promoting global financial and economic stability. U.S.-China cooperation related to the 1990s Asian Financial Crisis and the 2007–9 financial crisis are proof points that the two major economies can collaborate when the stability of the global financial system is at risk. These examples show the advantages of developing channels of trust between empowered interlocutors in both systems. Keeping an open door for dialogue on global financial stability takes on heightened importance as China manages its own economic slowdown, with indications suggesting that it will continue to delay critical structural reforms to put its economy on a more sustainable growth path. Dialogues can support U.S. efforts to gain insights into how the PRC intends to manage the slowdown, including aspects that will likely lead to continued overcapacity of Chinese manufactured goods on global markets (e.g., EVs). Additionally, as Rhodium Group experts have noted, the United States should not allow itself to become a scapegoat for China’s economic woes, either within China or in the international community. Maintaining a collaborative posture on global financial stability issues mitigates this risk.

The United States and the PRC also share an interest in maintaining mutually beneficial commercial ties that do not implicate the hard power or resiliency interests of either nation. While discussion of advanced technologies tends to dominate debates, much of the bilateral economic relationship involves nonsensitive goods and services, including the many U.S. firms that are present in China to sell into the Chinese market. With a low-expectation mindset, the United States should look for opportunities to stabilize the environment for commercial interests. The inclusion of a positive agenda item such as mutually beneficial commercial interests is also an important signaling point to demonstrate that U.S. policy can envision benefits from the economic relationship with China, and that the derisking agenda will not extend to all commercial engagement.

Dialogue with the PRC is likely to remain contested and difficult. But dialogue serves an important role beyond the tactical advancement of particular issues within the U.S.-PRC relationship, in that it contributes to the international narrative over whether it is the United States or the PRC that should be blamed for deteriorating relations. Most other countries would prefer to see tensions decreasing rather than increasing. In the context of continued U.S. defensive policies, U.S. efforts to work directly with the PRC are an important counterbalance to demonstrate to the rest of the world that the United States is acting responsibly to manage geopolitical tensions. The legitimacy of U.S. efforts will be critical as the United States seeks to undertake the massive project of building a new global economic order and new norms to guide state interventions in the economy in pursuit of its hard power and resiliency interests.

**NORM BUILDING OUTSIDE OF THE BILATERAL RELATIONSHIP**

Prospects are dim that the United States and the PRC will work together to develop new norms in support of the emerging economic order, which holds national security and resiliency interests on par with the goal of promoting open markets. However, the United States can—and indeed, must—work with other international partners to develop new norms in the gray zones of the current economic order. Specifically, it must push for new norms on the appropriate use of and policy objectives for economic restrictions imposed in the pursuit of hard power and resiliency interests, the exact areas that are causing old norms to erode. Doing so builds on prior efforts to use defensive tools and shape the external environment by directly combining these two strategies in an intentional project to create normative expectations around the use of defensive strategies that are agreed to by most major economies outside of China.

**Norm building starts at home**

The clearest articulation of where the United States would like to push economic norms related to its hard power interests was in a 2022 speech by National Security Advisor Jake Sullivan, who identified “force multiplier” technologies in which the United States sought to maintain “as large a lead as possible.”

This applied to advances in China regardless of whether they were for commercial or military purposes, in effect declaring any advancement a de facto national security risk. The United States followed this up with reiteration of the small yard, high fence rhetoric, indicating that only the most crucial, militarily relevant...
technologies would be subject to this new policy of keeping China as far behind as possible. The approach has not quite landed, however, as the U.S. policy of slowing even commercial growth has outpaced where most close allies were initially willing to go, and the broader sweep of restrictions that the United States has imposed on China has undermined U.S. arguments that the specific export controls were purely based on national security interests.

**The United States must clearly distinguish between hard power, resiliency, and commercial interests, and clarify which types of policies are appropriate for which set of interests.**

To overcome these challenges and make real progress toward new norms, the United States must clearly distinguish between hard power, resiliency, and commercial interests, and clarify which types of policies are appropriate for which set of interests. Hard power interests, which have a more zero-sum nature, should be defended with a robust range of defensive tools, including those that may negatively impact China’s commercial development in technology areas with significant dual-use applications. In contrast, the United States should establish a practice of not using hard power tools, for example the most aggressive export controls, to advance its resiliency or commercial interests, instead prioritizing diversification and level-playing-field policy tools. On a related front, it should clarify which sectors and technologies it views as implicating hard power interests and which may be the subject of government intervention in support of resiliency interests, with a corresponding difference in what U.S. policy support entails in each area. This includes differentiation within sectors, as needed. For example, the United States has a hard power interest in maintaining technological leadership in advanced chips, but a resiliency interest in ensuring a reliable, secure supply of commoditized chips, including those that China already can manufacture. Articulation of economic statecraft doctrine, such as that suggested by White House Advisor Daleep Singh, would go a long way toward meeting these objectives.\(^{115}\)

The United States must also establish a consistent practice of acting within the stated rationale for policy actions, for both China and non-China issues. Frequent use of national security restrictions risks eroding the credibility of the national security justification, particularly in an “economic security is national security” framing that sweeps in large parts of the U.S. economy. This is exacerbated when officials view national security as either transactional or politically beneficial, and officials on both sides of the aisle are guilty of this. Then president Trump reportedly offered to show leniency to ZTE and Huawei, major Chinese firms under U.S. sanctions, during ongoing trade negotiations with the PRC.\(^{116}\) Opining about a transaction under a CFIUS national security review, President Biden has expressed his opposition to the sale of U.S. Steel, an “iconic” American company, to a Japanese company, stating simply that it must stay in American hands.\(^ {117}\) That he reiterated his opposition in front of a political audience in a key electoral state and did not articulate a national security rationale for blocking the deal speaks volumes. (Former president Trump also opposed the deal.)\(^ {118}\)

Building out a domestic policy toolkit to advance resiliency objectives should be part of the effort to rebuild norms. Oftentimes, U.S. policymakers reach for national security tools simply because they are the only tools available to impose economic restrictions in the otherwise open U.S. market. Rather than force all actions through a national security framing, the United States will be better served by developing new policy instruments designed with resiliency objectives in mind, and by subjecting any new tools to a robust public debate about whether they are in the national interest, including appropriate parameters for their use. To again note the U.S. Steel example, an FDI screening process that makes a national interest determination, rather than a more limited national security determination, would provide more flexibility to address the kinds of jobs- and labor-related concerns that policymakers have raised. Other countries, including close partners such as Canada and Australia, use the broader national interest test, which enables the consideration of economic factors in addition to national security ones. Without necessarily endorsing such a change to the CFIUS process, it may be worth considering whether such ideas could enhance the U.S. norms-building process by taking pressure off the national security toolkit, or whether they would simply open the floodgates to a bevy of protectionist actions.
### WHAT POLICY TOOLS FOR WHAT PURPOSE?

<table>
<thead>
<tr>
<th>U.S. Interests</th>
<th>Policy Objective</th>
<th>Sectors</th>
<th>Possible Policy Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hard power</strong></td>
<td>Seek absolute U.S. advantage over the PRC</td>
<td>Military goods, force-multiplier technologies (e.g., advanced chips), emerging technologies with likely military relevance (AI)</td>
<td>Export controls, Investment controls, Sanctions, Industrial policy, R&amp;D investments, Economic security agreements with likeminded partners, Access to markets in likeminded countries</td>
</tr>
<tr>
<td><strong>Resiliency</strong></td>
<td>Reduce vulnerabilities to disruption of supply of critical goods and services</td>
<td>Goods and services essential for the functioning of the U.S. economy and society, including critical infrastructure (legacy chips, automobiles, clean energy, PPE)</td>
<td>Industrial policy, Government procurement, Tariff protection, Import restrictions, Economic security agreements with likeminded partners, Access to markets in likeminded countries</td>
</tr>
<tr>
<td><strong>Commercial</strong></td>
<td>Advance a level playing field</td>
<td>Nonessential goods and services</td>
<td>Trade remedies, Trade litigation, Access to global markets</td>
</tr>
</tbody>
</table>

*Norm building requires international cooperation*

Norms must also be developed in the international community, again focusing on building clarity and expectations around how governments should intervene in the economy in pursuit of their hard power and resiliency objectives. The United States and close international partners have made progress in aligning conceptually on the broad concepts of economic security and resiliency, including through initiatives such as the 2023 G7 leaders’ statement on these themes.\(^{119}\) Similarly, initiatives such as the EU’s economic security strategy, Germany’s China strategy, and Japan’s economic security legislation demonstrate the increasing focus of Western governments on these issues.\(^{120}\) This conceptual alignment has not yet translated into new regimes or joint measures, including the creation of legal and regulatory authorities for these countries to act in concert where required. For example, the ongoing discussions related to regulating outbound investments has been slowed, by both the lack of a clear U.S. approach and skepticism in partner countries about the security benefits of or need for such policies.

Sustained diplomatic and technical engagement, paired with leader-level attention, can advance alignment on new norms within like-minded coalitions. U.S. efforts to encourage international partners to implement robust FDI screening mechanisms during the Trump administration, for example, were successful, leading to dozens of new national security–based screening mechanisms in partner countries. Similarly, the United States was able to secure partial alignment on new and aggressive export controls on semiconductor manufacturing equipment with the Dutch and Japanese, the other two major producers, after a concerted political and technical push. The U.S.-G7 experience with sanctions on Russia has also strengthened the ability to coordinate, though whether this transfers to increased alignment on PRC issues remains to be seen. In certain cases, the United States may need to act first to demonstrate U.S. commitment to and the viability of a policy, leading by example while continuing diplomatic efforts to push for greater alignment with likeminded countries.
Regularized dialogue with international partners will be an important element of the norm-building process. Of the ongoing dialogues, the TTC comes closest to serving as a template, because it includes discussion across a range of hard power, resiliency, and commercial interests in its work on issues such as export controls and investment screening, global trade challenges (i.e., nonmarket economies), and supply chain security. The TTC has resulted in important expression of principles related to the use of export controls in the context of strategic competition. The challenge with the TTC, or any other dialogue process, is to force the development of concrete deliverables, going beyond information exchanges and common rhetoric. Additionally, the TTC may suffer from an overly expansive mandate, leading to the prioritization of everything and therefore nothing. To realize the potential of such fora, leaders must push for a targeted set of actionable commitments on set timelines. The security partnership between Australia, the United Kingdom, and the United States (AUKUS) is a helpful counterpoint, in that it sets a clear, measurable, and specific goal of getting nuclear submarines to Australia in a set timeframe, with a host of additional actions flowing from that overarching objective.

The United States should also consider the role of international organizations in setting new norms. The OECD, for example, has done good work in tracking the development of FDI screening mechanisms, facilitating information sharing among members, and developing a durable set of principles for implementation of FDI screening mechanisms. Its membership is broad, but not too broad, allowing for the United States to advance discussions among a cross section of middle income and advanced economies while avoiding the stagnation that plagues the WTO. As Rhodium Group analysis notes, the OECD is the “next most inclusive body” and has existing work that can be strengthened in a range of relevant areas, including industrial policy, subsidies, and global value chains.

Finally, public diplomacy will play an important role in building support for new norms in partner countries. U.S. actions are often misunderstood, and PRC disinformation is becoming a more widespread concern. U.S. officials must actively engage in public outreach across a range of traditional and nontraditional communication channels to advance U.S. messaging and counter misleading PRC narratives.

**INSTITUTION BUILDING**

Building on and complementing the norm-setting efforts, the United States must work with likeminded countries to develop new institutions in support of the emerging global order, or make necessary reforms to existing institutions both internationally and at home.

**Make lemonade at the WTO**

Despite its flaws, the WTO remains an essential institution for many countries in the world. Smaller countries in particular rely on WTO rules specifically and the concept of multilateralism more generally, to defend their economic interests. They have significantly less leverage to engage in unilateral, defensive strategies, unlike major economies such as the United States. But in the United States, the WTO will continue to lose traction if it is seen as impeding U.S. actions taken to advance hard power or resiliency interests. Adverse rulings by WTO panels on matters in which the United States has invoked essential security justifications, followed by a strong U.S. response, are one indicator of this tension.

Legal scholars have suggested creating off-ramps, or alternative pathways for states to take actions that would otherwise violate WTO rules in the absence of invoking the essential security exception. For example, states clearly have a demonstrated reason to pursue resiliency interests, but not all efforts to diversify supply chains are unambiguously defensible under the essential security exception. Recalibrating the rules to allow for permissible deviations is intended to maintain exceptions as truly exceptional, reinforcing the validity of both the rules and the exceptions. Reforming the WTO along these lines, in combination with addressing fundamental issues in its ability to create new rules and settle disputes, is admittedly a stretch goal. But to maintain support for and legitimacy of U.S. efforts outside the WTO, it will nonetheless be critical for the United States to be seen as a responsible steward of the existing rules-based institution.

However, even if the United States is wildly and unexpectedly successful in achieving reforms, it remains unlikely that the rules-based process of the WTO will serve as a meaningful constraint on PRC nonmarket practices, including those that negatively impact U.S. hard power and resiliency interests. The United States
should therefore seek to move its disputes with the PRC outside of the WTO and into the enforcement framework established under the Phase One Agreement, whenever disputes involve actions covered by the obligations of the agreement. The Phase One Agreement provides a bilateral, political process for dispute resolution, one that can theoretically proceed more quickly and nimbly than WTO processes, which often extend for years. The United States has yet to test the viability of this approach, as the Phase One enforcement mechanism has not yet been used. Rather than weakening the WTO, channeling U.S.-PRC disputes into the Phase One Agreement could provide a needed safety valve for the pressure that U.S.-PRC tensions build at the WTO.

**Update institutions for defensive policies**

Efforts at the WTO to revise rules geared toward openness must be paired with efforts to build new institutions to set rules related to restrictions. The existing multilateral process for coordinating export controls is not designed to deal with the strategic challenge presented by the PRC. The Wassenaar Arrangement coordinates policy among its 42 members on dual-use export controls with the aim of preventing destabilizing accumulations of conventional weapons. It is an incomplete mechanism that does not facilitate controls related to country-specific concerns. Progress on new controls has also been stymied by the continued presence of Russia, even after most Wassenaar members imposed sweeping export controls on Russia after its 2022 invasion of Ukraine.

The United States should advance a new multilateral regime to coordinate export controls, investment controls, and related policies, as recommended in previous CNAS work. The new system should include the following objectives:

- “Promoting international security and common security of the member nations;

- Preventing the destabilizing accumulations of conventional or emerging weapons globally and preventing the transfer of dual-use technologies important for such weapons to countries of concern;

- Promoting technological leadership in science, technology, engineering, and manufacturing sectors, including in foundational and emerging technology areas, that are material to the national security and foreign policy of the member states; and

- Supporting the protection of human rights and democratic institutions.”

The core work of the new regime should be to identify technologies of shared strategic importance to the members, and to align all national instruments to protect these technologies. This includes the ability to set new export controls in line with the regime’s objectives, as well as coordination and information sharing related to investment security and data security programs. Establishing political support for a new regime will require significant time and political capital. In the meantime, the United States should continue to seek more ad hoc alignment on defensive policies.

**Advance economic security agreements**

Last but certainly not least, the United States should pursue economic security agreements with close trading partners. These agreements should not be traditional FTAs, as the goal of such agreements would not be to engage in a comprehensive negotiation on all areas of economic activity. They would also differ from FTAs in that they would directly address hard power and resiliency interests, rather than carving out anything to do with national security from the scope of negotiation. Instead, the economic security agreements should identify sectors or areas of economic activity that are essential for the partners’ hard power and resiliency interests. They should seek to use all policy levers to enhance integration and interoperability between partners and strengthen their combined leverage and resiliency in the context of global markets.

Policy instruments on the table in these agreements should include defensive tools, such as export controls, investment controls, and imposition of tariffs on third-party countries, as well as proactive tools, such as market access and addressing nontariff barriers to integration between partners. For example, commitments on export controls could include alignment of controls and licensing policies for advanced technology exports to China, while also addressing unnecessary barriers that export controls may present to the development of an integrated industrial base that could otherwise enhance both partners’ competitiveness.

In sectors targeted for industrial policy support, the agreements should align best practices on subsidization of domestic manufacturing and broker agreement to not litigate against one other’s subsidies at the WTO. These agreements should also develop and implement shared approaches to challenging the PRC’s subsidization and overcapacity. Where appropriate and consistent with domestic economic priorities, the agreements could consider traditional market access tools, such as tariff reductions. Critically, these agreements must include
specific, actionable commitments, to avoid the fate of never-ending dialogues that simply result in more talking than concrete outcomes.

Economic security agreements should be bespoke to the economic and security priorities of the negotiating partners, rather than resulting from a one-size-fits-all template. For advanced economies and close allies, the agreements should center on aligning defensive policies, increasing market access or pooling demand for critical technologies, and developing shared approaches to counter harmful PRC practices. Where possible, the agreements can build on existing modes of cooperation. For example, an agreement with Australia could expand on the existing bilateral FTA, ongoing cooperation related to investment screening, and recent AUKUS actions to reduce trade barriers associated with export controls, with the aim of incorporating traditional trade issues such as market access, emerging trade priorities such as digital trade, and defensive policies such as investment screening and export controls.

Five Eyes partners and G7 economies are natural partners for advancing economic security alignment, given shared values and security interests and ongoing dialogues in a range of fora involving these countries. However, the United States will also need to strengthen alignment with key countries outside these groupings, including Singapore, South Korea, and India, which can be important partners for U.S. derisking efforts.

Build domestic institutional capacity
The U.S. government is not currently structured to realize the recommendations of this paper. Economic security programs are siloed across a range of different government agencies. The ability to engage in sustained, long-term strategic planning is largely nonexistent, as economic security officials are too often consumed with day-to-day program implementation and constrained by legacy bureaucratic structures that were not designed with today’s challenges in mind. The United States should consider establishing a new function within the executive branch that is tasked with integrating economic security tools across disparate agencies and authorities, setting and continually updating a U.S. economic security strategy, and evaluating the effectiveness of U.S. economic security programs.

Conclusion
Establishing a new global economic order is a generational challenge, and the United States must view it as such, taking concerted steps each day and year to build the legitimacy and credibility of the effort. While it is difficult to imagine near-term changes for the better in the strategic competition with the PRC, U.S. strategists must also take care to not preclude the possibility of better relations 10 or 20 years down the road. A primarily defensive strategy, even one based on shared norms and institutions with allies and grounded in urgent security concerns, still carries a risk of hardening attitudes against the United States in China. A generation of Chinese people raised on narratives of America as the suppressor, rather than the land of opportunity, will be that much more difficult to find common ground with in the future. While this paper does not speak directly to this risk, it should always be in the back of policymakers’ minds.

This paper lays the intellectual groundwork for resetting the global economic order to align with the geopolitical realities of U.S.-PRC strategic competition, but the hard work remains of filling in the details. Future work, including that from CNAS, can extend the analysis in important ways, including developing the specific substance and structure of economic security agreements with likeminded partners, filling out the U.S. toolkit for resiliency interests, and developing a game plan to build the new institutions necessary to support international cooperation on the emerging global economic order. As it proceeds, the United States must keep a watchful eye on the mundane yet essential aspects of economic security governance, namely the bureaucratic capacity to effectively implement an ambitious restructuring of the global economic order. The U.S. government must also remain clear-eyed in its assessment of whether this new approach is more successful in advancing economic and security interests than what came before.

In all sincerity to the U.S. and PRC officials tasked with steering the economic and security relationship through these turbulent waters: Good luck with that. Nothing less than the prosperity and stability of the world depends on it.


9. Then-U.S. trade representative Charlene Barshefsky, in a speech at West Point, asserted: “The WTO accession . . . has potential beyond economics and trade. It can serve as a foundation for the rule of law; and as precedent for willingness to accept international standards of behavior in other fields. That is why many Hong Kong and Chinese activists for democracy and human rights . . . see WTO accession as China’s most important reform in twenty years. . . . No trade agreement will ever solve all our disagreements, but this will address many of them; and if we turn down a comprehensive set of one-way concessions, we make a very dark statement about the future possibility of a stable, mutually beneficial relationship with the world’s largest country. Such a statement would threaten our work on all the specific issues in our China policy agenda today — from non-proliferation and arms control, to reducing tensions in Korea and South Asia and in Taiwan Straits.” Charlene Barshefsky, “Trade and American National Security: The Case of China’s WTO Accession” (public event, West Point, New York, April 12, 2008), https://awpc.cattcenter.iastate.edu/2017/03/21/trade-and-american-national-security-the-case-of-chinas-wto-accession-april-12-2000.


33. The appellate body cannot currently hear cases, as the United States has blocked the seating of a full slate of members due to concerns that the appellate body has exceeded its mandate. “U.S. Views on the Functioning of the WTO Dispute Settlement System,” Office of the U.S. Trade Representative, accessed May 25, 2024, https://ustr.gov/issue-areas/enforcement/us-views-functioning-wto-dispute-settlement-system.


44. Paulson, Jr., Dealing with China, 208.


58. Lighthizer, No Trade is Free: Change Course, Taking on China, and Helping America’s Workers, 177.


62. Lighthizer, No Trade is Free: Change Course, Taking on China, and Helping America’s Workers, 190.


64. Research interviews conducted by the Center for a New American Security research team in 2024 with counterparts in third-party markets.


69. Lighthizer, No Trade is Free: Change Course, Taking on China, and Helping America’s Workers, 207–208.


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125. Insights from a private working group convened by the Center for a New American Security and the Atlantic Council in 2024.


129. An earlier iteration of this idea was included in: Emily Kilcrease, No Winners in This Game: Assessing the U.S. Playbook for Sanctioning China (Washington, DC: Center for a New American Security, December 2023), https://www.cnas.org/publications/reports/no-winners-in-this-game.


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