U.S. policy toward China since the end of the Cold War has been premised on the assumption that expanding trade and investment would have beneficial effects beyond promoting economic growth, both on that country’s external behavior and on the evolution of its domestic economic and political institutions. China’s deepening relationship with the United States and its broader integration into the global economy would, it was hoped, give Beijing a strong interest in stability and encourage it to see itself as a “responsible stakeholder” in the existing international system. In this view, as China developed, it would move away from state-directed economic planning and place greater reliance on market mechanisms. In the long run, growth would create a new middle class and with it would come irresistible pressures for political liberalization.

These expectations have, unfortunately, not been borne out by events; nor is it likely that they will be any time soon. To the contrary, the prevailing trends are now running strongly in the opposite direction. China has grown richer, to be sure; by some estimates, the total size of its economy will soon exceed that of the United States. In the past decade, however, the Beijing regime has become more repressive as well as more militantly nationalistic at home and more assertive, even aggressive, abroad. Meanwhile, the Chinese party-state continues its use of quasi-mercantilist policy tools, and in certain respects has expanded them.

Even if China were a liberal democracy with a full market economy, the prospect of it surpassing the United States, in terms of total GDP, would be disconcerting to many Americans. And because it is not a full market economy, even
if the two nations were not engaged in an intensifying military and geopolitical rivalry, there would be reasons for concern about the impact of Beijing’s trade and industrial policies on the future prospects of the U.S. economy.

But, of course, China is all three things at once: it is big, it deploys a unique and thus far successful blend of market-driven and state-directed economic policies and it is an increasingly ambitious and capable strategic competitor. The challenge posed by China is thus unlike any that the United States has previously faced. Over the course of the past decade, a growing awareness of this fact has begun to drive shifts in U.S. military doctrine, force posture, and diplomacy. For a variety of reasons, however, the economic aspects of existing U.S. strategy have remained essentially fixed.

Now things seem set to change. Even before the 2016 presidential campaign, a serious discussion had begun over whether, and if so how, the United States should adjust its existing policies for interacting economically with China. With the election of Donald Trump, this issue has been elevated to the very top of the policy agenda. Should Washington seek to reduce or eliminate the longstanding U.S. trade deficit with China, as candidate Trump promised to do? Should it respond to subsidies, theft of intellectual property and other alleged unfair trading practices by imposing tariffs on Chinese exports? Should it tighten restrictions on investments by Chinese firms in the United States? How (if at all) should it react to Beijing’s proposed regional trade agreements and infrastructure investment plans?

The primary purpose of this essay is to map the contours of the debate over these questions by identifying the main alternative approaches to them and examining the logic, assumptions and evidence that underpin them. A concluding section will consider how this debate appears to be playing out and the possible implications for future U.S. policy.

**Three Distinctions, Four Schools of Thought**

As a first step, it is possible to distinguish between two broad approaches to economic policy in general, and China policy in particular (see Figure 1). On one hand, there are those who prefer to place the greatest possible reliance on market forces and to minimize intervention by the state. On the other are analysts who believe that, in addition to its basic functions (ensuring domestic political stability, enforcing the rule of law, regulating the money supply, collecting
taxes), government must at times be prepared to do more in order to advance the fortunes of particular social groups, economic sectors and even, at times, of specific firms.

Advocates of intervention can be further divided into two groups: those who focus on maximizing national economic welfare and those whose primary concern is national security. In the broadest sense, welfare refers to the present and future prosperity of the nation as a whole. Security is a more amorphous concept involving, at a minimum, the safety of a nation’s people and its territory from conquest, attack or coercion.

While there is some overlap between them, the proponents of intervention for purposes of increasing national welfare can be divided yet again into two distinct subgroups. Advocates of what might be called aggregate intervention concentrate on broad measures of current national economic performance, in particular the size of the trade deficit and the level of employment in the manufacturing sector as a whole. Those who favor targeted intervention are primarily concerned with the viability and possible future performance of U.S.-based companies in newer, high technology, high value-added industries such as IT, semiconductors, advanced manufacturing and robotics.

**Laissez-faire**

Members of this first group tend to focus on the broadest measures of national economic welfare: usually the absolute size and rate of growth of U.S. GDP and GDP per capita. In this view, despite the fact that the US-China trade deficit has grown to well over $300 billion, the worries expressed by others over its size are largely misplaced and the proposed cures for the supposed problem are worse than the disease. While China is undoubtedly pursuing market-distorting policies, some, such as subsidies that reduce the cost of Chinese exports, may actually benefit American consumers. In any event, trade deficits are ultimately “made in America.” For as long as Americans collectively consume more than they...
produce (and save less than they invest), the nation as a whole will run a trade deficit with the rest of the world. Taking steps to narrow the trade gap with China without addressing these underlying macroeconomic factors will simply shift some portion of the deficit to other countries.¹

The United States is able to import more than it exports because China (and other countries) have been willing to hold dollar-denominated assets including large quantities of U.S. Treasury bonds. If the Chinese government were to stop buying Treasuries, or if it began to sell off some of those it currently holds, U.S. interest rates would rise and growth would slow. While it is conceivable that Beijing might threaten to take such action in an attempt to influence American policymakers, opponents of intervention are not overly concerned about this prospect. Slower U.S. growth (and a falling dollar) would hurt Chinese exporters and might do at least as much damage to China’s economy as it did to the United States. For this reason, as former Secretary of the Treasury Larry Summers put it in 2004, a “balance of financial terror” is assumed to exist between the two countries.²

Advocates of laissez-faire also generally take a relaxed view of China’s high-tech industrial policies. In their judgment, centrally planned programs of research and investment aimed at gaining an advantage in supposedly strategic sectors of the economy are likely to be costly, ineffective and wasteful.³ As it has generally done in the past, the federal government should therefore avoid trying to pick winners and losers, concentrating instead on supporting basic science, improving education, protecting intellectual property, crafting tax and patent laws that encourage productive investment as well as immigration policies that continue to attract people of talent from around the world and, in general, creating conditions conducive to the development of new technologies by farsighted businesses and entrepreneurs.⁴

While the flow of Chinese foreign direct investment (FDI) into the United States has increased markedly in recent years, as compared either to investment by other countries or to U.S. FDI in China, the stock remains small.⁵ Although some minor adjustments may be warranted, existing mechanisms for reviewing the implications for national security of proposed foreign investments (primarily the interagency Committee on Foreign Investment in the United States or CFIUS) are adequate to the task. With a very few exceptions, foreign investment is good for the U.S. economy and, indeed, in recent years Chinese investors have helped some innovative American companies gain funding when other sources were unavailable.⁶ Increasingly stringent procedures for reviewing FDI would...
likely harm national economic welfare by disrupting mutually beneficial flows of investment between the United States and China while doing little to enhance national security.\textsuperscript{7}

Faith in markets and skepticism about the utility of intervention by government leads to a set of strong inclinations on a range of other issues. Although the Trump administration has made clear its opposition to them, in the absence of fresh rounds of global agreements lowering tariffs and non-tariff barriers, U.S.-led regional free trade pacts such as the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership (TPP) could still be helpful in promoting national economic welfare. On the other hand, the less ambitious regional free trade agreements that China favors are unlikely to divert significant quantities of trade away from the United States and should not be cause for serious concern.

Notwithstanding the ambitious rhetoric that surrounds it, advocates of laissez-faire are especially skeptical that Beijing’s big, state-driven Belt and Road Initiative (BRI) will pan out in ways that its boosters claim. Assuming that decisions about investment are in the end shaped primarily by cost-benefit calculations, many of the projects mentioned in speeches and featured in glossy brochures will never be built, and some that are will not prove commercially viable. BRI is thus unlikely to transform the economic and strategic geography of Eurasia.\textsuperscript{8}

**Aggregate Intervention**

Proponents of this second school of thought allege that China has been pursuing an economic strategy that is mercantilist, zero-sum, and designed to enhance its growth and development at the expense of its trading partners, especially the United States.\textsuperscript{9} To aggregate interventionists, America’s large and persistent bilateral trade deficit with China is the most telling symptom of the distorted and damaging economic relationship between the two countries. Reducing that imbalance is essential to restoring the health of the American economy.

Aggregate interventionists believe the trade deficit is a direct result of unfair Chinese policies. They note that, for over two decades, Beijing has been deliberately boosting its exports to the United States while carefully restricting imports. In addition to suppressing the value of its currency, the government has deployed a mix of subsidies to reduce the cost of exports and various tariff as well as non-tariff barriers designed to protect Chinese companies from foreign competition. Since its entry into the World Trade Organization in 2001,
Beijing has found ways to evade or manipulate WTO rules, at times simply accepting penalties that often come too late to help the targets of its predatory practices.10

China’s policies have had a devastating impact on the U.S. economy. Cheap imports have accelerated trends toward deindustrialization, contributing to a dramatic drop in employment in the manufacturing sector that has taken place in the United States since 2001.11 The loss of manufacturing jobs has contributed in turn to stagnating middle and working class incomes, as well as growing inequality, and it is implicated in a variety of societal ills including increased drug abuse, rising suicide rates and declining average life expectancies.12 Because manufacturing industries have historically spent heavily on research and development, a diminished manufacturing sector is also likely to mean less research, less innovation and slower growth.13

Notwithstanding the soothing assurances of the advocates of laissez-faire, in this view the capital account surplus that accompanies the trade deficit is also dangerous. Chinese entities are using their stash of dollars to buy political influence and acquire valuable American assets, including successful businesses and new technologies. And, external indebtedness raises the risk of an eventual debt crisis when, for strategic or economic reasons, Chinese investors lose their taste for Treasury bills and other dollar-denominated assets.14

To address these actual and potential problems, aggregate interventionists argue that it is necessary for the U.S. government to take action that will shrink the nation’s trade deficit with China. This can be accomplished in a variety of ways, including actually imposing tariffs on Chinese imports or, as a first step, using the threat of tariffs and lost access to the vast U.S. market to compel Beijing to cut subsidies and reduce its own tariff as well as non-tariff barriers.

While their primary focus is on finding ways to shrink the bilateral trade deficit and boost American manufacturing, aggregate interventionists have opinions on other issues that reflect these concerns. On FDI, many would favor broadening CFIUS’s mandate, enabling it to block proposed acquisitions that might give Chinese firms access to cutting-edge manufacturing technologies, even if the American companies involved have nothing directly to do with the production of arms and military equipment. Multilateral regional free trade agreements like the TPP are viewed with suspicion. Such deals do nothing to address the problem of imbalances with China and would likely serve the interests of nominally U.S. multinationals with overseas operations at the expense of domestically based manufacturing industries and American workers. Aggregate interventionists are prepared to welcome China’s massive “Belt and Road” infrastructure development initiative, provided that it is open to participation by American construction companies and equipment manufacturers. If it is not, and if BRI is coupled with regional trade agreements that exclude the United States, it could hurt the
prospects for expanding U.S. exports into new markets across Eurasia while further strengthening the position of Chinese exporters.

**Targeted Intervention**

Targeted interventionists favor government action to promote the fortunes of American companies in high technology, high value-added sectors. In their view, continuing to obsess about traditional manufacturing industries, currency manipulation and the bilateral trade deficit is backward looking and largely beside the point.

China’s success in dominating a range of older industries from footwear and furniture to steel and consumer electronics is undeniable. But these are yesterday’s battles. Now, China’s economic planners seek to propel “national champions” up the value-added chain into positions of global leadership in semiconductors, information technology, biotechnology, artificial intelligence, robotics, and next-generation manufacturing. If they succeed, the implications will be wide-ranging. These technologies will promote productivity and fuel economic growth, and the new industries they create will generate high-paying jobs. An advantage in some of these areas could also enable China to produce superior military systems. Finally, if it can concentrate the development and production of new high-tech products on its own soil, China will be less vulnerable to supply cutoffs and might be able to gain military or commercial advantage by denying or delaying access to other countries.

An excessive focus on reducing the trade deficit obscures what is at stake in the latest stage of international economic competition. Even if trade becomes more balanced, if present trends continue, Americans could find themselves relegated to the role of “hewers of wood and drawers of water,” exporting food, fibers, minerals and waste paper to China and importing sophisticated products like supercomputers and self-driving cars. What matters most is not just the balance, but the composition of future U.S.-China trade and the evolving structure of the two national economies.

China’s “indigenous innovation” industrial policies start by using a variety of methods to gain access to cutting-edge technologies including stealing intellectual property, acquiring foreign firms, and forcing companies to transfer technology if they wish to retain access to the massive Chinese market. Technology in hand, the state then subsidizes the development of domestic production capacity. To ensure
a high level of demand at home, it uses a mix of import restrictions, procurement regulations and other rules (often ostensibly related to security) that encourage government agencies and consumers to buy from domestic producers. Chinese manufacturers are then able to sell their wares at below-market prices in foreign markets, driving competitors out of business, or forcing them to cut prices and profits to the point where they can no longer afford the investments needed to sustain innovation and maintain a competitive advantage. The ultimate aim of these policies, made clear in documents like the recently published “Made in China 2025,” is to achieve a high degree of autonomy, if not complete autarky, across a range of high-tech industries, and to capture a substantial portion of global market share, boosting the profitability of Chinese firms and increasing the dependence of foreigners on Chinese products.\(^{16}\)

Advocates of targeted intervention have proposed a number of responses to Beijing’s initiatives. Protecting against intellectual property theft, and punishing those who have profited from it by constricting their ability to sell in the U.S. market, may help to slow the illicit outflow of ideas and information that has fueled China’s development. New mechanisms are also required to monitor Chinese efforts to extract technology from U.S. companies in return for market access, and new legal authorities may be needed in order to block agreements that serve short-term corporate interests but could damage national economic welfare as well as national security. Procedures for reviewing FDI must be tightened considerably and the activities of Chinese state-owned enterprises (SOEs) should be subject to special scrutiny. As a matter of principle, the U.S. government should insist on reciprocity, permitting investments in key industries and industrial sectors only when American companies are granted equivalent access in China.\(^{17}\)

Despite their concerns about the possible effectiveness of Chinese high-tech industrial policy, most advocates of targeted intervention stop short of proposing that Washington adopt a similar approach. Funneling taxpayer dollars to one industry or firm at the expense of others would be controversial, expensive and unlikely to prove effective, especially in the face of the resources that the Chinese government, unconstrained by similar inhibitions, could mobilize in response. The advocates of laissez-faire are right that the federal government should do more to strengthen the domestic environment for innovation. But it will also be necessary to devise (or revive) other mechanisms for encouraging domestic development of cutting-edge technologies. For example, as it did during the Cold War, Washington may need to invest in what one recent report calls “moonshots” – large speculative projects that could provide an early market for advanced, innovative products for which commercial demand is initially weak.\(^{18}\)

Cooperation with other industrial countries would also be desirable. Especially where Beijing’s actions can be shown to clearly violate its WTO commitments, a joint response may have a better chance of success. As China seeks to expand its
investments and acquire technologies in the advanced economies, their governments should share information, review national regulations and coordinate policies in order to present a united front. More broadly, by setting high standards and excluding countries that do not yet meet them, free trade agreements such as TPP could serve as an additional inducement for China to change its ways. The ultimate objective of all these measures should not be to imitate China or simply to punish it, but rather to encourage its leaders to abandon their statist policies, embrace the market, and become more fully integrated into a truly open global economy.19

**Intervention for National Security**

Those who analyze economic policy from the standpoint of national security begin by noting that a state with a big GDP will generally have an easier time generating military power and sustaining a protracted conflict or peacetime arms competition than a nation with a smaller one. America’s rise to global preponderance at the turn of the twentieth century was driven by its emergence as the world’s largest economy. Even if it is destined to lose that place to China eventually, for strategic reasons U.S. leaders should try to retain this advantage in aggregate resources for as long as possible. The most obvious way of doing this would be to boost growth in the United States. Taking steps deliberately designed to slow China’s growth would be more problematic and controversial. Still, because what matters most in the strategic domain are relative gains in national power potential, as opposed to absolute improvements in national welfare, such policies could be justified on strategic grounds, and this could be true even if they led to some, but relatively less, reduction in U.S. growth.20

These observations have implications for thinking about the impact of trade and trade deficits on national security. As the advocates of laissez-faire point out, imposing tariffs or taking other steps to reduce the imbalance with China alone, without adjusting underlying macroeconomic policies, would simply shift the deficit to other nations. However, if some of these were U.S. security partners, such a development might be desirable for strategic reasons. If expanded exports to the United States led to faster growth in India, Indonesia, and Vietnam, for example, it would be easier for those countries to afford bigger defense budgets, thereby helping to maintain a favorable balance of power with China. Conversely, a constriction of the American market for its exports could lead to slower growth and higher defense burdens in China.

The possible impact of trade with China on the U.S. industrial base is another potential cause for concern. Over time, competition from low-cost imports may have reduced domestic capacity for producing some of the metals, materials, and components necessary to manufacture weapons and other military equipment.
In a crisis or possible future conflict, a lack of domestic suppliers could make it difficult for the United States to sustain or increase arms production. The globalization of supply chains also raises the risk that China or another hostile foreign power could more easily introduce contaminated components or sub-assemblies into U.S. weapons systems, potentially threatening their performance in wartime.21

Proponents of laissez-faire point out that claims of defense essentiality can all too easily be abused by protection-seeking industries (and by politicians looking to score points with domestic constituencies). Notwithstanding this concern, national security interventionists argue that the federal government should provide relief to domestic industries under pressure from foreign competition if their products can be shown to be necessary for national defense.

Like their aggregate interventionist cousins, national security interventionists believe that the risks associated with capital account imbalances accompanying the trade deficit are a legitimate cause for strategic concern. To those who remember Cold War history, the thought that a “balance of financial terror” now exists between the United States and China is not reassuring. Such balances can break down, whether by accident, miscalculation or as the result of a deliberate decision by one side or the other that the costs of the ensuing catastrophe would be greater for its opponent than for itself. Other things equal, it would be preferable for the United States not to be deeply indebted to its primary strategic competitor.

Since the Second World War, the United States has sought to maintain a technological edge over potential military rivals. Current efforts to counter China’s anti-access/area denial capabilities (the so-called “third offset strategy”) rely on acquiring such advantages, yet this could turn out to be harder in the future than it was in the past. As was true in the 1970s and 1980s, many strategically relevant technologies are today being developed first in the commercial sector.22 In marked contrast to the Soviet Union during the latter stages of the Cold War, however, China will have ready access to most of these technologies, whether through the efforts of its own enterprises or via technology transfer through a variety of open and covert channels.

Maintaining a qualitative advantage will necessitate accelerating the pace at which the United States develops and applies relevant technologies, while slowing the rate at which they diffuse to China. This will require measures designed to promote the general climate for U.S. innovation similar to those supported by advocates of laissez-faire and targeted interventionism. As during the Cold War, the federal government will also have to support the development of specific technologies deemed critical to national security, but where the incentives for private sector investment may be inadequate or where China’s own targeted industrial policies threaten to give it a decisive lead. In addition, the U.S.
Defense Department and other government agencies will need to devise new mechanisms for identifying and accelerating the adoption of technologies developed initially for commercial use that can enhance the performance of military systems.\(^\text{23}\) In a world in which the technologies themselves are more widely available, the advantage may go to the side that can identify and exploit their strategic potential better and faster than its potential rivals.\(^\text{24}\)

Slowing the diffusion of strategically relevant technologies to China will be more difficult than in the past, but that does not mean that it is impossible. The United States and its key allies still have important and strategically significant advantages that they should seek to protect. This will require a number of steps including: bolstering cybersecurity,\(^\text{25}\) strengthening protection against more traditional forms of scientific and commercial espionage, monitoring research and educational exchanges,\(^\text{26}\) broadening the scope of CFIUS investigations to include activities other than mergers and acquisitions,\(^\text{27}\) considering new laws to limit the ability of U.S. firms to submit to Chinese demands for compulsory technology transfer,\(^\text{28}\) and working with friendly countries to devise a new and more focused system of export controls.\(^\text{29}\)

From the vantage point of national security, there are a number of reasons to favor regional free trade pacts and to be wary of China’s Belt and Road Initiative. Economic costs and benefits aside, FTAs can serve as tokens of U.S. commitment to the welfare as well as the security of its friends and allies. Reducing remaining barriers to trade and investment with friendly Asian nations can help limit their economic dependence on China. As Ashley Tellis of the Carnegie Endowment for International Peace has argued, regional free trade agreements that exclude China, such as the now-defunct TPP, can also generate strategically significant relative gains, increasing growth rates for the United States and its friends and allies, but not China.\(^\text{30}\)

Whatever its economic motivations, BRI is also driven by geopolitical considerations, including a desire to reduce vulnerability to maritime interdiction of energy and resource supplies, stabilize China’s authoritarian neighbors, and foster closer ties to Central Europe and the Middle East.\(^\text{31}\) If Beijing can achieve these ends, it would be better situated to compete for influence on a global scale with the United States. If it ends up wasting vast sums on failed projects, however, or is forced to defend its far-flung projects and personnel, China’s strategic position could be significantly weakened. For these reasons, the United States and its allies should avoid doing anything that would make it easier and less costly for China to fulfill its ambitious plans for a new Eurasian order.

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**Slowing the diffusion of strategically relevant technologies to China will be difficult but not impossible.**
Conclusion

After a year in office, the Trump administration remains divided at the highest levels between those who can best be described as advocates of aggregate interventionism (including Secretary of Commerce Wilbur Ross, U.S. Trade Representative Robert Lighthizer, Director of the National Trade Council Peter Navarro and the president himself) and those who lean toward laissez-faire (including Treasury Secretary Steven Mnuchin and Director of the National Economic Council Gary Cohn). At least for the moment, these two sets of countervailing influences appear to have balanced each other out, eliminating from serious consideration the options of either doing nothing while preserving the status quo toward China, or of unleashing a full-on trade war with across-the-board restrictions on imports and investments.

The administration has chosen instead to explore a number of possibilities for more narrowly focused actions that can be justified on national security or targeted interventionist grounds. Thus, in April 2017 the Commerce Department launched investigations into the possible national security implications of low-cost steel and aluminum imports, and in July it ordered the Department of Defense to lead an interagency study aimed at “assessing and strengthening the manufacturing and defense industrial base and supply chain resiliency of the United States.” CFIUS has evidently been taking a tougher stance on proposed Chinese investments, including in semiconductors and other industries deemed sensitive on national security grounds. In September 2017, President Trump took the unusual step of issuing an order blocking the sale of a U.S.-based chipmaker to a venture capital firm with links to China, endorsing a CFIUS recommendation that had been challenged by the parties to the deal. The administration is reportedly contemplating including China on a list of countries whose proposed investments would be subjected to additional scrutiny. Finally, in a move that could have wide-ranging consequences, the U.S. Trade Representative has begun an investigation into Beijing’s “acts, policies and practices related to technology transfer, intellectual property, and innovation,” including its alleged theft and forced transfer of IP, government-backed FDI, and unfair treatment of U.S. companies in China.

It is unclear at this writing what will emerge from these initiatives, but three broad possibilities present themselves:

Regardless of the findings of the various studies now underway, and despite the apparent impulses and inclinations of the president himself, the White House may decide in the end to do very little, perhaps continuing to scrutinize proposed Chinese investments more closely on a case-by-case basis, but refraining from imposing protective or punitive tariffs on Chinese imports. Such an outcome might result from concern over the impact of more forceful measures on the
United States and other friendly economies, or from uncertainty over the likely response from China, or because the administration still hopes to obtain valuable concessions from Beijing on a variety of non-economic issues, perhaps including the North Korean nuclear standoff.  

Notwithstanding all these considerations, and warnings from the advocates of laissez-faire, President Trump and some of his top advisers clearly want to reduce the U.S.-China trade deficit, and more generally, to adjust bilateral flows of trade and investment between the two countries in ways that will make them appear “fairer” and more evenly balanced. After much hesitation, the administration may therefore proceed to impose tariffs on a range of Chinese imports and to formalize new rules and procedures that would make it significantly more difficult for Chinese companies to invest in the United States. Beijing would likely respond with punitive measures of its own, perhaps leading to a series of tit-for-tat exchanges.  

Assuming that it wants to avoid the costs and risks associated with such a scenario, having ratcheted up the pressure with a series of threats and demands, the Trump administration could decide eventually to accept Chinese proposals for compensatory steps that would reduce current imbalances. The president has reportedly already rejected a Chinese offer to cut excess steel production capacity, but this could simply be a bargaining maneuver intended to induce bigger concessions. Given its ability to control its national economy, Beijing could plausibly promise to go further, perhaps offering to restrict the volume or value of exports of certain commodities to the U.S. market, pledging to import more from the United States (including from Chinese-owned production facilities on U.S. soil that would employ American workers), or seeming to satisfy demands for greater reciprocity in investment by relaxing restrictions on the ability of American firms to buy assets and establish operations in China. Eager to win Washington’s endorsement of their Belt and Road Initiative, Chinese officials may also hold out the prospect of greater U.S. participation in some of the projects to be launched under its auspices. A “grand bargain” on economic issues with China might be appealing to an administration eager for “wins” and anxious to deliver at least the appearance of results for hard-pressed domestic constituencies. But, its benefits would be limited and, because of inevitable difficulties in enforcement, it would likely prove short-lived.  

Regardless of how the present process plays out, a comprehensive economic strategy for dealing with China will require much more than a series of moves intended to change bilateral patterns of trade and investment. The United States can enhance its leverage by working closely with other like-minded countries. Yet, in keeping with its declared intention to put “America first,” the A “grand bargain” on economic issues with China might be appealing to this administration.
administration has thus far shown no interest in joining forces with U.S. allies in Asia and Europe to devise a joint approach for confronting China’s predatory trade practices, slowing its drive to acquire cutting-edge technologies and dominate emerging industries, and countering its efforts to build a Sino-centric regional order. To the contrary, through its abandonment of the TPP and apparent determination to renegotiate the Korea-U.S. trade agreement, among other gestures, Washington has sent a very strong signal that, in economic matters at least, its friends are on their own. Beijing is already working hard to exploit the resulting divisions to its benefit. It is also taking advantage of American passivity and uncertainty to stampede others into backing BRI.

A successful U.S. strategy must also have a domestic dimension. Here too, the administration’s approach to date is, at best, incomplete. Its budget proposals offer little assurance that they will reduce the gap between government spending and taxation, the “massive and continuing act of dissaving”\(^\text{41}\) that is helping to drive the trade deficit. Nor is it clear how, in itself, imposing retroactive punishment for the theft or extortion of intellectual property will help American companies gain and hold an edge in the next generation of critical technologies. That will also require policies toward education, basic research, and immigration that are very different from those the federal government now seems set to pursue.\(^\text{42}\)

The Trump administration deserves credit for raising awareness of the challenge China’s economic policies pose to the welfare and security of the United States. Whether it can formulate a sustainable and effective response to that challenge—one that synthesizes and balances aspects of each of the four schools of thought—remains to be seen.

Endnotes:

4. Regarding the possible benefits of increased spending on basic research see: MIT Committee to Evaluate the Innovation Deficit, “The Future Postponed: Why Declining


21. Among the areas identified as critical to the third offset strategy are artificial intelligence, autonomous systems and human-machine collaboration, all of obvious potential

23. For a discussion of one such organization, the Defense Innovation Unit Experimental (DIUx) see: Fred Kaplan, “The Pentagon’s Innovation Experiment,” MIT Technology Review, December 19, 2016.


27. Critics note that the current CFIUS process does not cover “greenfield” investments in new ventures or investments in small start-up companies that may be developing strategically relevant innovations in fields like artificial intelligence, robotics and bio-technology. See: Matthew P. Goodman and David A. Parker, “The China Challenge and CFIUS Reform,” Global Economics Monthly VI, issue 3 (March 2017).


