What Strategic Competition Looks Like

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China's approach is well-formed, while the US struggles to satisfy competing interests

The first diplomatic meeting between China and the US under the Biden administration, held last week in Anchorage, Alaska, was marked by unusually harsh rhetoric. The Biden team conveyed to Beijing that the new administration did not intend to reverse the basic Trump-era stance towards China, and both sides used the event to signal toughness to their home audiences. The more substantive question is what policy tools Beijing and Washington will deploy in their intensifying rivalry. China's approach is well-formed, in part because its ultimate aims are narrower and better defined. The US is still struggling because of the complexity of interests it must satisfy.

China's response to the Trump Administration curbs on trade and technology is clear: double down on a heavily-funded drive for technological self-sufficiency in key sectors such as semiconductors, while at the same time encouraging multinational firms, including American ones, to become even more tied to the China market (see **This Time Is Different For Industrial Policy**). Even if the US dropped all of the Trump-era restrictions tomorrow, China would pursue this strategy for reasons of prudence and risk management.

The Trump administration shifted the frame of China policy from "constructive engagement" to "strategic competition"

The US strategy under Biden has not yet coalesced. The Trump administration's achievement was to shift the frame of China policy from "constructive engagement" to "strategic competition." The Biden team has accepted this new framing, as does Congress. The question is what specific policies get put inside that frame.

Under Trump, the policy mix was confusing, because his administration had so many warring factions and Trump himself lurched wildly from a desire to do deals to an urge to inflict maximum pressure. Biden has said he wants to replace Trump's mishmash with a single strategy, and coordinate more with allies. He has stocked his administration with experienced China hands, and foreign policy is being re-oriented.

The National Security Council's largest directorate is the new Indo-Pacific team, led by Kurt Campbell, the architect of the Obama-era "pivot to Asia." That initiative was criticized for being more rhetoric than substance, but today the pivot is real.

Reviewing Trump's China policies should take six to eight months, so Trump-era measures are likely to stay in place for now

The first task of this team is to review all of Trump's China policies, a job that is expected to take six to eight months. The length of this review—whose practical consequence is that most Trump-era measures will stay in place for a while—suggests the difficulty of squaring all the interests at stake. These interests can be grouped into four main baskets: the national security state, the business community, economic nationalists, and what one might call a "values" coalition concerned about human-rights issues and the growing influence of China's authoritarian political system.

US defense strategists want to ensure US military and technological superiority over China, and in most cases this means finding ways to limit flows of technology and capital to China. It sometimes gets complicated, though, since the tech firms the Defense Department relies on for its own supply chains in turn rely on revenues from China to fund their R&D (see **Tech War, Meet Trade Deal**).

Beijing has increased market access in sectors of interest to the US such as finance and pharmaceuticals

American businesses do have concerns about China's discriminatory regulations and intellectual property theft, but fundamentally they see it as an indispensable growth market and hub for global production chains. Despite the trade war, their sales in China continue to grow rapidly and few companies are talking about materially scaling back their presence there. Moreover, Beijing has increased market access in sectors of interest to the US, notably finance and pharmaceuticals, and at the height of the trade war threw hundreds of millions of dollars in tax breaks and subsidies at Tesla to set up a major electric-vehicle plant in Shanghai. Restrictive US trade and technology policies will meet continued pushback from business.

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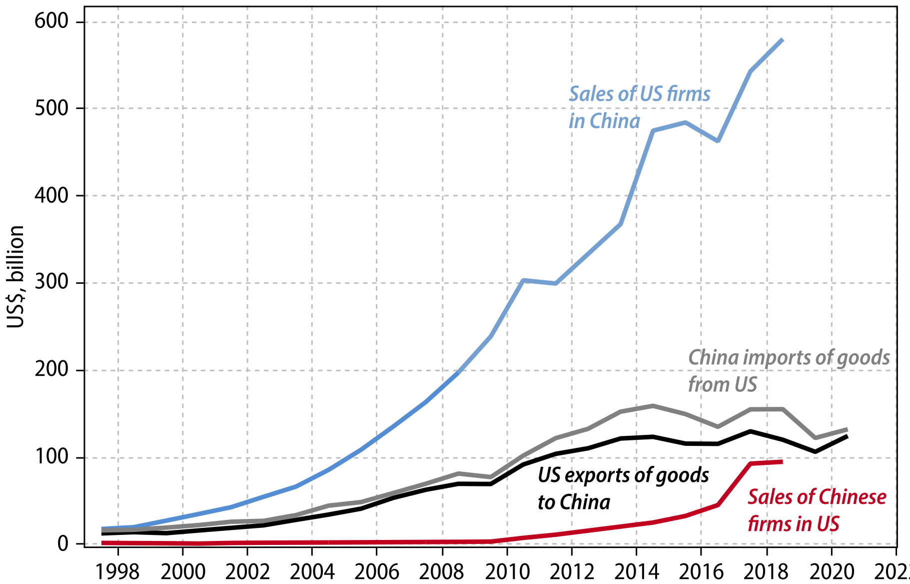
The US-China economic relationship is much bigger than trade



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The economic nationalist or "America first" lobby, with its focus on unilateral trade action and restoring the US's manufacturing base, was in many ways dominant under Trump. Its achievements are visible in the new administration's talk of a "foreign policy for the middle class." Biden knows that for the Democrats to stay in power they need to show that their policies benefit not just the multinational business elite but also American workers, especially in manufacturing. Under his administration, this economic nationalism will most likely be satisfied not through aggressive trade politics but by domestic policies to build infrastructure and encourage manufacturing investment, which can be packaged as "standing up to China."

Finally, there is the tricky matter of values. China's suppression of Uyghurs in Xinjiang and its imposition of tighter political control over Hong Kong have sparked outrage among human-rights advocates and in Congress. And the increasing self-confidence of China's leaders in their authoritarian state-capitalist model means that they are bolder not only in defending it, but also in trying to squash any international criticism of their governance.

There is no easy or consistent way to express the values gulf between China and the West through policy

The values gulf between authoritarian China and the democratic, US-led West is so great that it must find some expression in policy. But there is no easy or consistent way to do this. For one thing, the tight economic interdependence between the US and China means that it is impossible to embark on a cold war, as with the Soviet Union. Furthermore, the only way that the US can come out ahead in its strategic competition with China is with the help of its allies. Yet none of its allies in Europe or Asia is interested in a cold war, since their economies depend heavily on engagement with China and few of them see China as an existential security threat.

If the US sets constraining China as its core goal, it will inevitably compromise its stated commitment to liberalism

Moreover, if the US sets constraining China as its core goal, and then tries to maximize the number of allies and partners in this effort, then it will inevitably compromise its stated commitment to liberalism and democracy—a familiar dilemma from the Cold War, when the US habitually propped up right-wing dictatorships. Two months into the Biden administration, this ugly trade-off has already appeared. The decision not to sanction Saudi crown prince Muhammad bin-Salman for the murder of journalist Jamal Khashoggi was apparently driven in no small part by the fear of antagonizing Saudi Arabia and driving it into China's corner.

While his team sorts all this out, Biden has left Trump's China policies in place, and even upped the ante on a few:

- The Department of Commerce continues to explore the use of rules allowing it to veto or unwind a broad range of transactions in "information and communications technology and services," which was created by a Trump executive order in 2019. So far it has not blocked any deals, but new Commerce Secretary Gina Raimondo has subpoenaed several Chinese firms under this authority, which could be a prelude to future action.
- Two days ahead of the Anchorage summit, the Treasury added 10 Chinese and Hong Kong officials to its sanctions list for their role in imposing the national security law in Hong Kong. The move followed sanctions on 14 officials, including a Politburo member, announced in December by the Trump administration.
- On March 12, the FCC declared that several Chinese companies—including Huawei, ZTE, and Hikvision—posed a national security risk. And five days later the FCC revoked China Unicom's license to operate in the US.

To be fair, these actions are all narrow, and do not yet indicate an expansion of US sanctions beyond previously identified targets. All were announced in the week before the Anchorage summit, signaling to Beijing that Biden will not immediately reverse any of Trump's actions. It is possible—though far

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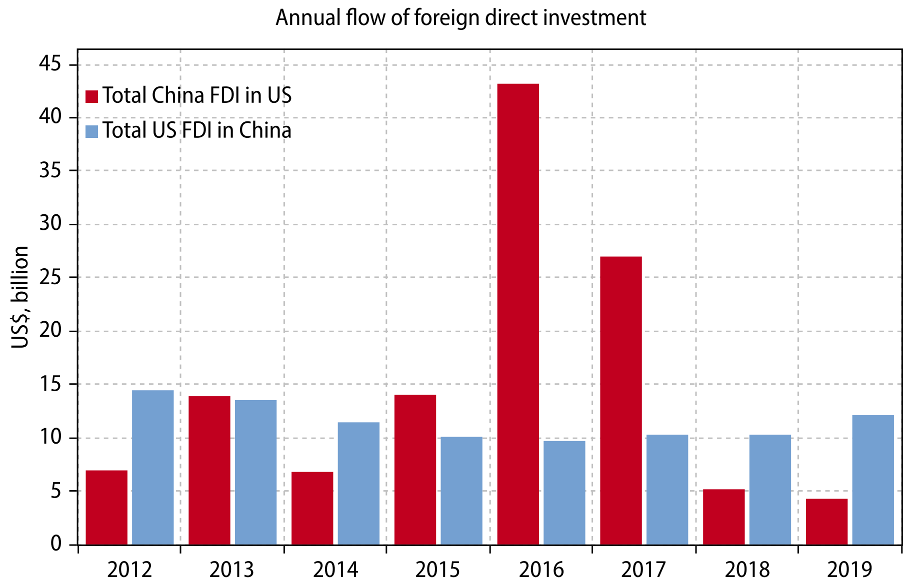
from certain—that these moves, and the tough talk in Anchorage, are tactics to insulate Biden from criticism that he is "soft on China," creating political space for some pragmatic deal making later this year, on trade or climate change. It's also possible that Biden will leave most of his inheritance in place.

Congress was responsible for some of the most consequential anti-China actions of the Trump era

A final and important element of the equation is Congress, which was responsible for some of the most consequential actions of the Trump era. The 2018 Foreign Investment Risk Review and Modernization Act contributed to virtual cessation of Chinese direct investment in the US, especially in tech; most likely, Chinese FDI in the US will never recover.

China's FDI in the US has collapsed; US FDI in China is stable



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The Export Control Review Act, passed at the same time, set up a framework for restricting technology flows to China that is arguably more systematic and less inflammatory than the "entity list" designations so beloved of the Trump Administration, which target individual firms as bad actors. One key decision for the Biden team is how to balance the use of broad ECRA controls with the company-specific entity list tactic, while still enabling US tech hardware companies to sell into the vast China market.

In the dying days of 2020 Congress also passed the Holding Foreign Companies Accountable Act, which prohibits companies from being listed on US stock exchanges if they do not fully comply with US audit oversight. Since Chinese law prevents Chinese firms from complying, this means that approximately US$2trn worth of US-listed Chinese firms will eventually need to delist from US exchanges.

The next bit of Congressional action to watch for is a proposed China omnibus bill being crafted by Senate majority leader Chuck Schumer. It is being touted as a comprehensive response to China's global influence, but most of its substance will probably be domestic: funding for infrastructure spending, industrial policy, and R&D subsidies. Since trash-talking China is

Democrats can build support for their domestic economic agenda by packaging it as a "compete with China" strategy

now a bipartisan blood sport, the easiest way for the Democrats to build broad support for their domestic economic agenda may be for them to package it as a "compete with China" strategy. At any rate, the bill will be worth close attention as a signal of whether the US aims to pursue its rivalry with China mainly through negative, restrictive measures, or by positive efforts to build up its domestic strengths.