For most of the past four decades, American presidents have presumed that a “successful” China would be good for the United States. But this is no longer the case. Today, that long-standing consensus is breaking down in the face of several dynamic changes. These include China’s rapid military buildup, its unprecedentedly quick industrial and economic development, an increasingly assertive Chinese foreign policy, and new competitive pressures on the United States’ economy and fiscal health.

Even the most sanguine voices now view the U.S.-China relationship as competitive, and urge the United States to respond decisively, if carefully, especially to Beijing’s security behavior in Asia. Among Washington foreign-policy elites and a growing number of U.S. companies, China is viewed as a strategic competitor, a military threat in Asia and, ultimately, a possible adversary. Indeed, during the election campaign, Donald Trump pledged to adopt a more confrontational approach toward China, not least by threatening to impose significant tariffs on its exports to the United States. But Trump is by no means alone in this regard. Across the American political spectrum, from right to left, a new and more skeptical consensus about the rise of Chinese power is eroding the aspirational and optimistic view that prevailed for more than forty years.

It would be difficult to understate just how important and dramatic this shift could turn out to be. Eight presidents, from Richard Nixon to Barack Obama, fostered closer relations with China. Washington opened American markets and welcomed Chinese products into the United States. It encouraged U.S. firms to invest in China, sharing business practices and U.S. technologies. Bill Clinton and George W. Bush’s administrations supported China’s admission into the World Trade Organization (WTO). Over three decades, Washington enabled China’s participation in nearly every major international forum.

In the process, the United States subsumed many of its concerns about China’s Communist-led political system to its long-term interest in trying to assure a more integrated, less isolated, less autarkic China—one that joined and participated in the international system. But that was not at all: by helping to enable a stronger Chinese economy, Washington also shelled, at least temporarily, some of its concerns about China’s capacity to translate butter into guns.

But while the long-standing Washington consensus about China is breaking down, it would be too simplistic to argue that the
United States is now heading for a more adversarial relationship. The reality is that the Trump administration’s approach to China will be formulated against the backdrop of four swiftly changing strategic and economic conditions in Asia: the growing economic and financial integration of the region, which has shifted the relative balance of power against the United States; China’s newly assertive strategic posture; the increasingly diverse economic and social ties that now characterize American interaction with China and will make coalition building difficult, whether for more cooperation or more conflict; and the combination of eroding U.S. military advantage and protectionist trade pressures.

A Trump administration has the opportunity to adapt to these conditions. If it does, it can define an agenda with China that sets American policy onto a more strategically and politically sustainable course.

It is already clear that Asia is fast becoming a more integrated region—more “Asia” than “Asia-Pacific.” This means that the U.S. role will, in relative terms, become diminished over time.

This trend is structural, and thus not easily reversible. It reflects the rapid rise of Asian
economies, the growth of intra-Asian trade, the restoration of old linkages between continental and maritime Asia, and the emergence of Asian market participants, companies and government financing arms as capital exporters, including to one another, not just consumers of Western capital. Taken together, this first trend will mean a smaller role for the United States in relative terms, even though U.S. trade and direct investment in Asia are rising in absolute terms.

This is a notable change, one that will make it harder for the new administration to rely on the same playbook the United States has deployed since World War II. Throughout the postwar period, but especially since the 1960s, the United States has been the principal provider of both security and economic related public goods and other benefits in Asia.

In the security realm, alliances and partnerships, solidified by the U.S.-Japan security treaty of 1960, a forward-deployed military presence and willingness to assert American power with carrier battle groups (and, when necessary, military action) have tamped down major-power war. There have been localized conflicts, of course, from Indochina to the South China Sea. But this unique U.S. role has mostly kept the peace.

In the economic realm, the United States has beaten back protectionist pressure, kept its markets open to Asian exports, led the region and the world toward liberalization of trade and investment rules, and enabled Asia’s export-led economies to power their way to prosperity.

The past two administrations, Obama and Bush, have worked to modernize America’s Asian alliances and security partnerships. But the changing U.S. economic role, especially when combined with the death of the Trans-Pacific Partnership (TPP) and other tools of economic statecraft, such as American leadership of big regional trade deals and ambitious bilateral investment treaties, will reinforce the tension in U.S. policy between security and economics.

The American role as Asia’s security provider is being reinforced even as the region’s economy becomes increasingly pan-Asian. So this will deprive the Trump administration of tools that its predecessors mostly just took for granted. Asian governments will, in many ways, look to one another for trade, investment and, above all, a hedge against lingering market volatility from the 2008 financial crisis.

In short, the Trump administration will be trying to make the U.S. security posture in Asia more sustainable at precisely the moment when America’s economic profile in the region is beginning to recede.

A second trend compounds this challenge: Beijing increasingly seeks to take advantage of these underlying changes in Asia. In many ways, China has begun to successfully leverage these trends to bolster its power, profile and interests.

For example, Beijing’s more assertive posture in the South and East China Seas, together with a raft of new economic initiatives, are challenging Washington’s footprint in Asia. The latter include the first true Chinese effort to build new institutions and set technical and legal standards. One illustration of this is the new multilateral Asian Infrastructure Investment Bank (AIIB), proposed by Beijing in 2013 and launched with fifty-seven founding members, including some of Washington’s closest allies. Another is China’s bilateral multitrillion-dollar “Belt and Road” infrastructure initiative, which aims to finance and build roads, ports, rails and power plants across Asia and beyond.

Beijing did not invent such pan-Asian initiatives. Nor did it begin to advocate them only when its self-assured president, Xi Jinping, rose to power in 2012. In fact, pan-Asianism has a decades-long pedigree, especially in Japan and Southeast Asia and
also among major development banks. Nor does the construction of infrastructure by China in itself necessarily or automatically challenge U.S. interests.

But Beijing’s activism, especially against the backdrop of growing pan-Asian integration, will, in time, reinforce perceptions of U.S. retreat and Chinese advance. Thus it will challenge the Trump administration to formulate a strategically coherent and realistic response—one that gets more American skin into the game.

A third trend that will affect any new administration approach is the emergence of more stakeholders in the U.S.-China relationship. This will vastly complicate the politics of building policy coalitions. Elite consensus around America’s China policy has eroded, yet it will be no easy thing to build a new one, whether for more confrontation or even more cooperation with Beijing.

That is because the number of Americans involved in the relationship with China has become more diverse and multifaceted than ever. In the 1970s, U.S. ties with Beijing were driven, in large part, by a desire to triangulate and neutralize the Soviet threat while also extricating the United States from Vietnam. Thus the core constituency for the relationship comprised strategic elites and touched geopolitical interests. From the 1980s, and especially since China’s 2001 entry into the WTO, U.S. policy has depended not just on foreign-policy elites but also Wall Street and big U.S. corporations, which have plowed some $65.8 billion in foreign direct investment stock into China while providing ballast for the relationship during periods of strategic tension. Today, however, as the economic relationship grows more diverse and decentralized, American governors and mayors, small- and medium-sized firms, farmers and ranchers, and technology developers and entrepreneurs have deep and growing stakes in the U.S.-China relationship.

The more diverse the stakeholders, the harder it will be for any U.S. administration to assemble a tightly knit political coalition around this or that overarching strategy. And in fact, this challenge will be compounded by economic change in China. As Beijing moves to deploy an even larger share of its $3 trillion in foreign-exchange reserves (and billions more on corporate balance sheets) into direct investments overseas, American states, cities and businesses have begun to clamor for a share. Vice President-elect Mike Pence’s Indiana offers just one example: the state has both lost jobs to and gained jobs from China. Some factories have closed and moved operations to China, yet the state has also attracted job-creating green field investment, such as Nanshan Group’s $160 million aluminum extrusion operation in West Lafayette, which employs hundreds. China is one of Indiana’s top overseas markets, with $2.1 billion in exports in 2015.

This complex set of economic interests is now multiplied in state after state. In turn, even as trade competition with China mushroomed among the established players, it is creating at least some new interest groups, warier of economic confrontation between Beijing and Washington.

Similarly, as China deploys, on a massive scale, commercial technologies, with which
medium-sized U.S. firms have a competitive advantage, exports to China will be integral to the growth strategies of midcap firms, not just the large U.S. multinationals that have dominated U.S.-China economic relations to date.

A final trend involves growing constraints on U.S. foreign- and economic-policy activism. Sadly, these may handicap the United States in Asia just as Washington needs greater leverage to balance the rise of Chinese power.

The United States needs new military and economic tools to bolster its footprint. Yet polls consistently show that the public has grown weary of such engagement. The 2016 presidential campaign, where both major-party nominees came out against the TPP, demonstrated that traditional tools, such as large-scale trade deals, are under intense pressure.

The good news is that the Trump administration and congressional leaders seem likely to end the defense-budget sequester and pursue tax, fiscal and competitiveness reforms that would strengthen the U.S. hand in Asia. Though TPP is now dead, bilateral trade deals apparently remain on the table.

Still, the need for major new naval- and force-projection investments, as well as an overhaul of U.S. economic and competitiveness policies, will be no simple task for the president and Congress.

In sum, the United States must make its China policy in the period ahead amid rapidly changing conditions in Asia and with a more constrained set of tools for strategic and economic statecraft.

Against this backdrop, the new president and his administration must meet some specific challenges with China. For one, it has long been presumed that economic integration between the two countries would mitigate security competition. Yet to put it bluntly, that does not seem to be happening, and, if anything, military tensions and competition are actually intensifying. The region’s story now resembles a “Tale of Two Asias,” with economies and security colliding, not running in parallel—the U.S.-China relationship is a microcosm of this debilitating dynamic.

Indeed, the United States and China have never been so economically integrated. Two-way trade now exceeds $600 billion. China is America’s fastest-growing export market; and in agriculture, for instance, exports to China have grown 200 percent over the past decade, reaching $20.2 billion in U.S. farm and food exports in 2015.

But despite this deepening integration, security tensions have escalated, with the risks of military conflict now more real than at perhaps any time since the 1950s.

At the simplest level, the problem involves choices and policies in the South China Sea, cyber-related tensions and so on. It also touches China’s deteriorating relationships with three of America’s five Pacific allies—Japan, South Korea and Australia. Where Beijing has sought to firewall U.S.-China relations from, say, China-Japan relations, its pressure on American allies is bleeding into relations with Washington too.

And yet a deeper problem exacerbates these day-to-day security tensions: Washington and Beijing have developed clashing security concepts in Asia. As a result, they are talking past each other about what has caused tension in the region, finger pointing at one another, and pursuing contradictory approaches.

This has reduced the two sides to trying to avoid accidents and minimize escalation risk, while fatalistically accepting the sharpening of competition. Just take the South China Sea: Beijing asserts its national maritime rights and interests, while Washington talks mostly about international norms, rules and law. The two
governments disagree, fundamentally, on how to interpret some important aspects of international law. And the United States perceives that China acts as if its interests trump international law. With such irreconcilable views, the two sides are talking past each other, as the sea becomes the locus of a full-contact spat between Washington and Beijing.

For Washington, this will require a series of systematic approaches in the near term: in the South China Sea, firm adherence to principles of international law; a willingness to operate its fleet and aircraft where the law permits; maintenance (or new building) of a naval capacity to so operate; routine but discreet, as opposed to erratic yet showy, freedom-of-navigation operations, directed at sending consistent messages to China and its neighbors rather than public relations; assistance to allies and partners with domain awareness; and a continuing effort with Beijing to mitigate the risk of accidents.

It will also require substantial diplomatic effort, for instance, by encouraging the non-China claimants in Southeast Asia to settle their claims with one another, in part to strengthen their collective hand with Beijing. Security competition with China will be a fact of life for the new president. It cannot simply be wished away. But Washington also needs to be more vigilant about distinguishing its vital interests from those that are more peripheral—and this will be particularly true as it manages diverse security partnerships around Asia.

Of course, the economic relationship will not be so easy either, and not just because President-elect Trump promises a toughened policy. China and the United States have become centerpieces in wider strategic and economic debates that will play out, ultimately, in each side’s domestic politics and are bigger than bilateral relations per se. In the United States, these include the future of American manufacturing, competitiveness and innovation. In China, they include the pace and scope of economic rebalancing, and whether (and when) to knuckle under to international pressure on China’s industrial, regulatory and currency policies.

Put simply, while the United States and China are interdependent, a growing number of stakeholders on both sides find that reality thoroughly disquieting.
including Trump, have continued to emphasize China’s currency policies, that issue is fading as Beijing has sustained a gradual appreciation of the yuan. Instead, China’s industrial policies will rise to the fore, especially its use of regulatory tools to restrict foreign competition and support the growth of Chinese national champion firms, both state-owned and private. And those tensions will be tougher still because they strike at the core of each country’s economic competitiveness.

China’s ability to compete with U.S. firms has improved faster in some areas than many had anticipated. From high-speed rail to nuclear power plants, China’s capacity to digest foreign technology, reengineer it to Chinese specifications and then produce (but as a lower-cost competitor) has unnerved a host of foreign companies, who now question the wisdom of transferring technology to China. The underlying fear is that if China can quickly produce substitutable (but cheaper) products, then foreign firms will be marginalized.

Even with a tougher U.S. posture, it will be difficult to coordinate actions and responses, as the complexities of this Chinese challenge vary across sectors and affect distinct firms differently.

The good news is that while economic integration has not alleviated U.S.-China security competition, the economic relationship, although contentious, is changing from the heavily trade-dominated relationship that was the focus of Trump’s campaign to one that also includes substantial direct investment.

Unlike trade, which involves buying and selling at the border, or bond holdings, which can be bought or sold through a quick paper transaction, direct investments involve people, plants and other assets. They are, in that sense, a vote of confidence in another country’s economic system since they take time both to establish and unwind. And they create more direct ties between two economies.

The growing role of investment, then, will give the two sides another bite at the apple—a chance to test if a more direct form of economic linkage, especially if it creates jobs in the United States, can build a more enduring foundation.

The U.S. debate about investment is likely to grow contentious, in part, because some sectors in the United States that are open to Chinese firms are not open in a reciprocal way to American investment there. This is fueling debates about a need for greater reciprocity. Moreover, the murky governance of China’s state-owned enterprises makes their acquisition of publicly traded U.S. companies both sensitive and, in some cases, deeply problematic.

What is needed is a serious process that shifts the U.S. emphasis from defense to offense—from reactively lawyering specific trade cases and debating this-or-that tariff to a systematic and proactive effort to align with Chinese economic reformers who can promote change within, and extract concessions from, their system.

In recent years, Washington has used negotiations over a potential bilateral investment treaty (BIT) as precisely such a lever to open up closed sectors of the Chinese economy. A BIT remains a useful tool but, with the Senate unlikely to approve a treaty, a more realistic step in the administration’s first months would be to begin an intensive bilateral negotiation process that offers more in exchange for real reform and opening, but would exact real consequences for a failure to move.

In that way, punishments and consequences would be a function of failed negotiation, not just of unilateral action. It would establish a firmer footing for bargaining between the two governments. And Washington could logically focus such an effort on market access in sectors where
The United States is most competitive—for instance, services, healthcare and technology. Chinese economic reformers do not always welcome foreign competition, but they do certainly understand the importance of competition in the economy generally. And this is especially important because some reforms are being rolled back or are proceeding too slowly. Put bluntly, statism is advancing in too many areas of China’s economy. By using a negotiation to link market access to competition policy, U.S. negotiators could help invest Chinese reformers in a renewed push to foster it. Ultimately, more competition would benefit Chinese private-sector firms, help reformers break down state-led oligopolies, expose state firms to the discipline of the market, help make the market “decisive” in China’s economy (a goal the Chinese Communist Party itself set at a November 2013 plenum) and, ultimately, benefit both countries.

A second challenge Trump will face is that even when Beijing and Washington share interests, these are, too often, overly general in nature—“peace,” “stability,” “security,” “nonprovocation” and so on. Often, the two sides fall flat when trying to turn their common interests into complementary policies.

The United States and China actually have a long history of cooperating around the world, including in sensitive regions around China’s periphery.

Consider Afghanistan. Recent strains belie the degree to which Beijing and Washington worked jointly to defeat the Soviet occupation of Afghanistan in the 1980s. The United States encouraged Chinese support for the Afghan mujahideen, and the two countries cooperated in other novel ways during the conflict.

Today, by contrast, the two capitals are often at loggerheads in such places. For instance, before Myanmar’s political transition to Daw Aung San Suu Kyi’s government, U.S. officials argued that Beijing’s policies only helped to bolster the ruling junta. Likewise, Americans argue that Chinese trade and investment policies shield North Korea from the effects of the very international sanctions Beijing voted for.

For their part, Chinese officials view U.S. policies in some of these countries as naïve at best, destabilizing at worst. In Central Asia, for example, while serving as deputy assistant secretary of state for the region in 2006 and 2007, I heard Chinese officials argue ad infinitum that U.S. actions to promote political reform would ultimately “destabilize” these countries.

Does coordination really have to be so hard? The challenge for Trump’s administration is threefold.

First, the two countries need to better align their threat assessments. So for all that Washington may have security tensions with China, what is needed is a more intensive strategic and contingency planning discussion. Beijing, quite simply, does not share American assessments of the scope and urgency of some important threats. And China’s leaders, even when they do sense a challenge to “stability,” are more relaxed about them than Americans.

This is true of Pakistan, where Beijing tends to trust the military’s instincts...
implicitly. It is true of Iran. And it is true of North Korea. Few Chinese believe Kim Jong-un’s regime will collapse. Beijing will not push Pyongyang over the precipice and retains hope for a managed transition toward Chinese-style reform.

Second, even when Beijing shares Washington’s sense of threat, countervailing interests can obstruct cooperation. In Afghanistan, China has certainly shared America’s core interest in a stable Afghan state that does not harbor, nurture or export terrorism. But Chinese decisionmakers were never comfortable in the 2000s with NATO access arrangements across China’s western border in pursuit of this objective, much less enhanced U.S. strategic coordination with neighbors that have difficult relations with Beijing.

Third, the administration needs to overcome the contradictory U.S. and Chinese ranking of shared objectives. In North Korea, both value stability and denuclearization, but China values stability much more, while the United States has been prepared to risk some stability to achieve denuclearization.

To deal with these obstacles, Washington and Beijing badly need a track record of concrete successes in places where shared strategic interests exist but are often too abstract.

Doing so will not require joint projects and actions, merely complementary ones. Take, for instance, counternarcotics in Afghanistan and Central Asia: China works bilaterally and through the Shanghai Cooperation Organization; the United States works mostly bilaterally through security assistance and capacity building. Washington and Beijing do not need joint efforts to pursue their shared goal, just to coordinate areas of focus, direct their financial assistance at similar drugs-related goals, and build complementary capacity while maintaining separate efforts.

Ultimately, the global arena, not East Asia, is likely to be more conducive to near-term cooperation. And while global cooperation cannot mitigate security tensions in the Pacific, it will further enlarge the field for action.

To deploy an American baseball metaphor, such cooperation does not always mean the two sides should “swing for the fences.” Often, the United States has sought cooperation with China around the world, but failed. By working on more peripheral issues, the two countries have a chance to work over time toward more significant strategic ones.

In particular, better coordinating some international economic policies will likely prove easier than coordinating security policies. One example would be to encourage even more coordination between the international financial institutions and the new China-backed Asian Infrastructure Investment Bank. Even if the United States does not join the AIIB, it can encourage and promote cofinancing of projects via its voting weight and project support to more established structures. This would provide the United States and China with some multilateral “cover,” and thus prove easier than coordinating bilaterally.

Another example would be to jointly shape investment standards in other countries and regions, like Africa. China’s arrival as a trader, investor, lender and builder has dramatically changed the economic environment around the world because, while Chinese investors are not oblivious to the challenges of doing business in, say, Papua New Guinea or Niger, they have taken on risks where American, Japanese and European firms have not. And China has already displaced other, more traditional partners across an array of sectors.

Chinese strategies are hardly uniform. Nor have they proved to be uniformly successful. Resources for infrastructure deals
have benefited Chinese construction, telecommunications and hydropower companies. But Chinese oil and mining companies have failed to dominate Africa’s extractive industries, for example. And significant infrastructure investments in mineral-rich countries have not given Chinese firms a preferential position.

Many American analysts take for granted that Chinese companies can bear more risk, or that Beijing will underwrite the kind of risks that other governments shy away from. But as China’s reach grows, its economic incentive to revisit these practices may expand, not least to protect its own investments. Chinese companies no longer operate alone in many places, and are seeking partnerships—first to acquire technology, second to share risk, and third to connect to new skills and industry practices. The Chinese even surprised their State Department counterparts in a mid-2000s round of policy-planning discussions by asking about the good-governance provisions in President Bush’s Millennium Challenge development fund.

Chinese firms, backed by state loans, face growing constraints in countries that have stringent local content rules. So there are limits to China’s traditional approach: The weaker the state, the more appealing is China’s model of trading loans and infrastructure for resources. But the stronger the state, the more wary countries are likely to be of falling into a debilitating trap of dependence.

And that opens up some potential space for the United States and China (and third parties) to work jointly on standards, investment models and other issues in partnership.

The bottom line is that President Trump will face a tougher challenge with Beijing than have his eight predecessors since the 1972 Nixon opening. China is now weightier, more influential around the world, better able to resist or retaliate against U.S. pressure, and has more tools of economic statecraft and military power than ever before.

This means that Washington needs to move from reactive to activist in its approach to both China and Asia. After all, for much of the last decade—and with the exception of the now-shelved TPP—the United States has too often found itself acting in response to a Chinese initiative.

The AIIB is just one example. The United States offered no distinctively “American” model of infrastructure finance for Asia, failed to complete governance reforms in the existing international financial institutions, chose to forego the opportunity to shape the bank early on, and then discouraged its allies and others from joining. The result was that Washington was left responding to a Chinese initiative (and ended up isolated from nearly all of its allies) rather than setting the action agenda itself. Likewise in the South China Sea: the United States increasingly seems to conduct freedom-of-navigation operations in response to Chinese island building or other actions, rather than as a function of strategy.

American interests in the Pacific have been consistent for more than a century: open markets; open regionalism; freedom of navigation; no exclusionary blocs or dominant regional hegemons that might exclude the United States; support for political and economic openness; and, in the postwar period, support for allies.

It would be the height of irony if the United States, Asia’s principal champion of openness since the nineteenth century, begins to close itself off from the region. If the new administration pursues tough-minded, productive relations with China, but anchors it very firmly within this larger context of strategy in Asia, then it will be off to a realistic start.