# JPWS

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# An Irreversible Pathway? Examining the Trump Administration's Economic Competition with China

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**Abstract:** How has the United States' approach to economic competition with China changed under the Trump administration, and what are the possible future trajectories of the economic relationship? Increasingly, under the Trump administration, the Sino-American relationship exhibits competitive characteristics. Since the beginning of the post-Cold War era, U.S.-China economic relations arguably stabilized the bilateral relationship when military ties were shallow and political relations intertwined with concerns about human rights and China's authoritarian governance system. Economic ties tended to be the bright point in relations. Today, the U.S.-China economic relationship is at a historic turning point. Despite continued deep economic engagement between the two great powers, the United States, under the Trump administration, primarily frames economic relations with China as competitive. Also, the Trump administration increasingly links economic issues to national security threats and broader political disagreements. First, this article briefly discusses China's economic rise, U.S.-China economic relations, and tensions in relations predating the Trump administration. Next, it analyzes Trump administration policy statements about the economic relationship as well as actions, including the trade war and the spillover of economic issues into broader political and security concerns. Finally, it explores potential future trajectories of the relationship.

**Keywords:** China, United States, Trade War, Economic Competition, Great Power Competition

**Disclaimer:** Opinions, conclusions, and recommendations expressed or implied within this article are solely those of the author and do not necessarily represent the views of the Air University, the United States Air Force, the Department of Defense, or any other U.S. government agency.

## Introduction

How has the United States' approach to economic competition with China changed under the Trump administration, and what are the possible future trajectories of the economic relationship? Increasingly, under the Trump administration, the Sino-American relationship exhibits competitive characteristics. Since the beginning of the post-Cold War era, U.S.-China economic relations arguably stabilized the bilateral relationship when military ties were shallow and political relations intertwined with concerns about human rights and China's authoritarian governance system. Economic ties tended to be the bright point in relations. Today, the U.S.-China economic relationship is at a historic turning point. Despite continued deep economic engagement between the two great powers, the United States, under the Trump administration, primarily frames economic relations with China as competitive. Also, the Trump administration increasingly links economic issues to national security threats and broader political disagreements.

First, this article briefly discusses China's economic rise, U.S.-China economic


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## China's Economic Rise and U.S.-China Economic Relations

Since China launched economic opening and reform under Deng Xiaoping in 1978, U.S.-China economic relations have served as a stabilizing base of the overall relationship. The Chinese and American economies are tightly intertwined. In many ways, through trade and investment, U.S. economic engagement with China contributed to the phenomenal growth and development the Chinese economy achieved. Despite its low GDP per capita (US$9,771 vs. the U.S. at US$62,795 in 2018),[1] in aggregate terms, China in 2010 became the second-largest economy in the world after the U.S. China is now the world's largest manufacturer, trading economy, and net oil importer. As of 2015, it is also a net provider of foreign direct investment globally.[2]

As China's economy grew, so did its economic relations with the U.S. The two countries are now important economic partners. One substantial facet of their economic relationship is trade. As of the end of 2019, China was the U.S.' number one import supplier at US$452 billion.[3] In 2019, China was also the United States' number three export destination after Canada and Mexico at US$107 billion.[4] The U.S. trade deficit with China in 2019 of US$345 billion accounted for 56% of its worldwide total. Even though this was a 17% decrease from 2018, it was still a substantial portion of the U.S. trade deficit.[5]

Another critical component of economic relations is foreign direct investment (FDI). Starting in 2011, Chinese FDI flows into the U.S. exceeded the U.S. flows into China.[6] By 2016, Chinese FDI flows into the U.S. spiked to almost US$50 billion.[7] Chinese foreign direct investment in the U.S. dropped 80% in two years from 2016-2018. The decline was due to capital controls implemented by Chinese leader Xi Jinping and fear among investors about the future of the investment climate in the U.S. for Chinese businesses. Despite this decrease, China is still a valuable source of investment for the U.S.

## Tensions Begin

Early in China's economic reform and opening, many American analysts and policymakers hoped that over time China would increasingly move towards free-market principles to manage its economy. China made great strides in transitioning from a command economy to one governed by free markets, including joining the World Trade Organization. That said, in the mid-2000s, China's economic transition plateaued. Its transition to a market economy would remain incomplete.

Due to stalled reforms and indications China was reemphasizing the role of the state in the economy, in the mid-2000s, optimism in the future of the U.S.-China economic relationship faded. The U.S. business community and policymakers increasingly voiced concerns. Combined with China's rising economic power globally, the relationship between state and economy in China became a significant point of contention between the U.S. and China. Thorny issues included intellectual property rights violations, currency devaluation, the U.S.-China trade deficit, and China's indigenous innovation initiatives. Claims of Chinese discriminatory practices toward foreign-invested enterprises, requirements of foreign businesses to transfer technology to joint ventures, and China's anti-monopoly law that was perceived to target foreign enterprises also caused tensions.

Two Chinese government industrial policy announcements generated particular concern, the 2006 announcement of the enhanced role of the state in certain sectors and the 2015 unveiling of Made in China 2025. In 2006, China's State Assets Supervision and Administration Commission (SASAC) published a list of strategically important sectors in which the state should have full control or dominate. They included autos, aviation, banking, coal, construction, environmental technology, information technology, insurance, media, metals (such as steel), oil and gas, power, railways, shipping, telecommunications, and tobacco.[8] This publication generated skepticism among U.S. policymakers and business owners that China would ever provide the market access desired and move away from state-owned enterprise dominance of certain sectors. It appeared China had no intention of opening some segments of its economy.

In 2015, China announced its Made in China 2025 initiative.[9] This blueprint for China's global aspirations for its companies further fueled concern in the U.S. The plan listed ten critical industries in which China plans to become a world leader. Those industries are information technology, robotics, green energy and green vehicles, aerospace equipment, ocean engineering and high-tech ships, power equipment, new materials, medicine and medical devices, and agricultural machinery. Given the overlap with the 2006 directive for most of these industries to be state-dominated, the practical effect is that the Chinese government will play a significant role domestically and internationally in autos, aviation, banking, coal, construction, environmental technology, information technology, insurance, media, metals (such as steel), oil and gas, power, railways, shipping, telecommunications, and tobacco.

## Trump Administration and the Shift to Great Power Economic Competition

Despite pre-existing tensions in the economic relationship, the Trump administration's explicit focus on great competition with China in all functional areas of relations, including economics, is a significant shift in approach for the U.S. Ever since the end of the Cold War, during the George H.W. Bush, Bill Clinton, George W. Bush, and Barak Obama administrations, U.S. national security strategies encouraged both economic engagement and competition with China. The balance between those two elements varied over time, but both were emphasized.[10] Most recently, Obama's 2015 National Security Strategy stated, "The scope of our cooperation with China is unprecedented, even as we remain alert to

China's military modernization and reject any role for intimidation in resolving territorial disputes."[11] It also said,

> The U.S. welcomes the rise of a stable, peaceful, and prosperous China. We seek to develop a constructive relationship with China that delivers benefits for our two peoples and promotes security and prosperity in Asia and around the world. We seek cooperation on shared regional and global challenges such as climate change, public health, economic growth, and the denuclearization of the Korean Peninsula. While there will be competition, we reject the inevitability of confrontation. At the same time, we will manage competition from a position of strength while insisting that China uphold international rules and norms on issues ranging from maritime security to trade and human rights. … On cybersecurity, we will take necessary actions to protect our businesses and defend our networks against cyber-theft of trade secrets for commercial gain, whether by private actors or the Chinese government.[12]

The balance between engagement and competition has now shifted significantly. Under the Trump administration, over the last several years, the U.S. prioritized great power competition with China as the top threat to U.S. national security.[13] Increasingly, the U.S. characterizes China as a revisionist and rival across all functional domains. China also recognizes that strategic competition with the U.S. is rising.[14]

Several key policy statements provide insights into the Trump administration's new approach to economic competition. The 2017 U.S. National Security Strategy states, "China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity. They are determined to make economies less free and less fair, to grow their militaries, and to control information and data to repress their societies and expand their influence."[15] The document highlights the ways China economically threatens the U.S., including stealing intellectual property, conducting cyberwarfare, eroding American competitive advantages in innovation and technology,[16] and expanding its state-driven economic model globally.[17] It expresses concern about China "targeting investment in the developing world to expand influence and gain competitive advantages against the U.S.,"[18] utilizing economic inducements and penalties to persuade states to support its political and security agenda, and endangering the free flow of trade in the Indo-Pacific region.[19] It accuses China of "expanding its unfair trade practices and investing in key industries, sensitive technologies, and infrastructure" in Europe,[20] pulling Central America into "its orbit through state-led investments and loans,"[21] and increasing its economic and military presence in Africa and "locking countries into unsustainable and opaque debts and commitments."[22] Compared to past U.S. national security strategies, this document highlights a particularly negative interpretation of U.S.-China economic interactions.

U.S. Vice President Mike Pence's October 2018 policy speech on China further elaborated on the emerging rivalry in economic relations.[23] In that speech, Pence declared that "Beijing is employing a whole-of-government approach, using political, economic, and military tools, as well as propaganda, to advance its influence and benefit its interests in the U.S. The speech specifically discusses many of the economic concerns mentioned early in this article and highlights some new ones.

The 2018 Pence speech expresses disappointment in the current status of China's reform and opening. It asserts that:

> the Chinese Communist Party has also used an arsenal of policies inconsistent with free and fair trade, including tariffs, quotas, currency manipulation, forced technology transfer, intellectual property theft, and industrial subsidies that are handed out like candy to foreign investment. These policies have built Beijing's manufacturing base, at the expense of its competitors—especially the United States of America

In Pence's words, "America had hoped that economic liberalization would bring China into a greater partnership with us and with the world. Instead, China has chosen economic aggression, which has, in turn, emboldened its growing military." The speech also expresses worries about the trade deficit. Regarding Made in China 2025, the 2018 Pence speech argues, "the Communist Party has set its sights on controlling 90 percent of the world's most advanced industries, including robotics, biotechnology, and artificial intelligence." Speaking of intellectual property, it states,

> To win the commanding heights of the 21st-century economy, Beijing has directed its bureaucrats and businesses to obtain American intellectual property—the foundation of our economic leadership--by any means necessary. Beijing now requires many American businesses to hand over their trade secrets as the cost of doing business in China. It also coordinates and sponsors the acquisition of American firms to gain ownership of their creations. Worst of all, Chinese security agencies have masterminded the wholesale theft of American technology—including cutting-edge military blueprints. And using that stolen technology, the Chinese Communist Party is turning plowshares into swords on a massive scale.

In alignment with the 2017 National Security Strategy, Pence's 2018 speech calls out China for using debt diplomacy to expand its influence. Also, it highlights a number of emerging economic issues of concern. They include the Chinese Communist Party (CCP) exploiting its economic leverage and attractive market to reward and coerce American businesses, requiring American joint ventures operating in China to establish party organizations in their companies giving the CCP a voice in hiring and investment decisions, and threatening U.S. companies that "depict Taiwan as a distinct geographic entity, or stray from Chinese policy on Tibet," and influencing Hollywood.

In December 2018, U.S. National Security Advisor John Bolton gave a speech on the Trump Administration's New Africa Strategy. It also highlighted concerns about the ways China is using its economic instruments of power. It says, "Great power competitors, namely China and Russia, are rapidly expanding their financial and political influence across Africa. They are deliberately and aggressively targeting their investments in the region to gain a competitive advantage over the U.S." It portrays China as an economic predator in Africa that is using "bribes, opaque agreements, and the strategic use of debt to hold states in Africa captive to Beijing's wishes and demands." Broadening beyond Africa, it asserts that "Such predatory actions are sub-components of broader Chinese strategic initiatives, including the 'Belt and Road Initiative (BRI)'—a plan to develop a series of trade routes leading to and from China with the ultimate goal of advancing Chinese global dominance." Ultimately, its central argument about China's economic relations with Africa is that "predatory practices pursued by China and Russia stunt economic growth in Africa; threaten the financial independence of African nations; inhibit opportunities for U.S. investment; interfere with U.S. military operations; and pose a significant threat to U.S. national security interests."[24]

One year after his first policy speech on China, Vice President Pence's October 2019 speech on the U.S.-China relationship further reflects the rapid deterioration of Sino–American economic relations. Early in the speech, it states, "As President Trump has said many times, we rebuilt China over the last 25 years. No truer words were spoken, but those days are over." In discussing developments in the relationship since his last speech in 2018, Pence states, "And in that spirit of candor, I must tell you that in the year since my Hudson speech, Beijing has still not taken significant action to improve our economic relationship. And on many other issues we've raised, Beijing's behavior has become even more aggressive and destabilizing." Again, the speech calls out China's use of an "arsenal of policies inconsistent with free and fair trade, including tariffs, quotas, currency manipulation, forced technology transfer, and industrial subsidies." The speech continues to criticize BRI as well as the CCP's economic influence over American businesses and Hollywood. As a response to Chinese economic coercion of U.S. companies regarding Hong Kong, the Vice President pointedly declares, "And far too many American multinational corporations have kowtowed to the lure of China's money and markets by muzzling not only criticism of the Chinese Communist Party, but even affirmative expressions of American values."[25]

Finally, in July 2020, U.S. Secretary of State Mike Pompeo delivered a fiery speech titled "Communist China and the Free World's Future" at the Nixon library declaring that the U.S. must now distrust but verify China. During the speech, he asks: "What do the American people have to show now 50 years on from engagement with China?" In response, he argues that despite the U.S. desire to induce change in China through engagement, "The truth is that our policies— and those of other free nations—resurrected China's failing economy, only to see Beijing bite the international hands that were feeding it….China ripped off our prized intellectual property and trade secrets, causing millions of jobs all across America. It sucked supply chains away from America, and then added a widget made of slave labor…"[26] He says, "We're seeing staggering statistics of Chinese trade abuses that cost American jobs and strike enormous blows to the economies all across America…" During the speech, he also highlights the dangers of interacting with CCP-backed companies and the national security threat posed by Huawei. Pompeo's speech clearly demonstrates how the Trump administration almost exclusively frames economic relations with China as competitive. In many ways, this official speech at the Nixon library on U.S.-China relations could be interpreted as the lowest point in relations since Nixon's visit to China is 1972.

As seen above, since the beginning of the Trump administration, the U.S. has increasingly framed its economic relationship with China as one of competition, disappointment, rivalry, and threat. Compared to past national security strategy documents and policy speeches, the U.S. is clearly moving away from words encouraging engagement and towards one of outright economic animosity and conflict. Together with this dramatic escalation of U.S. rhetoric, the Trump administration has also taken several steps to compete with China economically. The next sections of this article analyze those actions.

## Trade War Heats Up

One Trump administration response to longstanding economic grievances against China was to pursue a trade war. Before the 2017 National Security Strategy and other policy speeches discussed above were released, in August 2017, the U.S. initiated the war when President Trump ordered the U.S. Trade Representative (USTR) to launch a Section 301 investigating China's violations of intellectual property rights.[27] This action can be seen as the first significant response of the Trump administration to economic competition with China. The purpose of the investigation was to determine whether China's acts, policies, and practices related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory, and burden or restrict U.S. commerce.[28]

The first tariffs implemented by the U.S. were on solar panels (30% tariff) and washing machines (20%) in January 2018. Those tariffs were not exclusively targeted at China, but China was a significant supplier of both products.[29] Next, in February 2018, the U.S. imposed tariffs on steel (25%) and aluminum (10%). The tariffs were the result of a Commerce Department investigation that concluded imported metal threatened national security by degrading the American industrial base. Again, the tariffs were not China-specific, but ultimately they had a disparate impact on China because it was unable to obtain an exemption to them.[30] On March 2, 2018, Trump tweeted the following about those tariffs, "When a country (U.S.) is losing many billions of dollars on trade with virtually every country it does business with, trade wars are good, and easy to win. For example, when we are down $100 billion with a certain country and they get cute, don't trade anymore—we win big. It's easy!"[31]

In response to these steel and aluminum tariffs, China retaliated. The back and forth between China and the U.S. escalated and continues to this day. On April 2, 2018, China responded to the steel and aluminum tariffs with US$3 billion in targeted tariffs on American fruits, nuts, wine, steel pipes, aluminum, and pork. The very next day, the U.S. announced US$50 billion in new tariffs at a rate of 25% on 1,300 Chinese goods from the aerospace, machinery, and medical industries. Those tariffs were a result of the Section 301 investigation initiated in 2017 about intellectual property rights violations. In the words of the USTR, these tariffs were "in response to China's policies that coerce American companies into transferring their technology and intellectual property to domestic Chinese enterprises."[32] In reaction, on April 4, 2018, China retaliated with US$50 billion tariffs at a rate of 25% on one hundred and six American products, including aircraft, automobiles, soybeans, and chemicals. Quickly ratcheting up threats, the U.S. on April 5, 2018 threatened another US$100 billion in tariffs, and China vowed to reciprocate.[33]

As the trade war heated up, another economic issue fundamentally shifted the dynamic of U.S.-China economic relations. On April 16, 2018, U.S. Commerce Secretary Wilber Ross announced the Bureau of Industry and Security (BIS) had imposed a denial of export privileges for seven years against Zhongxing Telecommunications Equipment Corporation (ZTE). This action was due to ZTE's violations of U.S. bilateral sanctions on Iran and North

Korea.[34] This order meant that U.S. companies were not allowed to export to ZTE until 2025. ZTE is a major telecommunications company in China with US$17 billion a year in revenues and 75,000 employees. The company is China's second-largest telecommunications network equipment provider and is well known throughout China. It heavily depends on U.S. components for its production operations, especially critical chips. As a result, this denial of export privileges quickly disabled this prominent Chinese company. The company was forced to delist from the stock market. On May 9, 2018, ZTE halted operations and laid off all of its 75,000 employees. Ultimately, ZTE and the U.S. government reached a negotiated settlement, and the export ban was lifted in July 2018. That said, in a month, the damage was already done. Although the Commerce Department clearly stated this action was a regulatory action unrelated to any ongoing trade-related actions, due to the timing of the announcement, it was seen by the Chinese leadership and people as part of the broader trade war. Arguably, this incident with ZTE highlighted to Xi Jinping that China is overly reliant on U.S. component imports and inspired him to ramp up indigenous innovation and self-sufficiency efforts.[35]

After the initial round of tit-for-tat tariffs, the U.S. sent a delegation to Beijing in May 2018 to attempt to resolve trade frictions. U.S. demands were extensive. They requested for China to reduce the trade deficit by US$200 billion over two years, halt all industrial subsidies to Made in China 2025 sectors, accept that the U.S. may restrict imports from industries under Made in China 2025, and stop cyberespionage into U.S. commercial networks. They also insisted China strengthen intellectual property rights protection, cease forced joint venture technological transfers, accept U.S. restrictions on Chinese investments in sensitive technologies, cut tariffs, and open up its services and agricultural sectors to full American competition.[36] The U.S. team departed Beijing without reaching a deal.

In August 2018, the U.S. implemented a second round of tariffs, including a 25% tariff on 279 goods originating in China worth US$16 billion, and China retaliated with a 15% tariff on 333 goods from the U.S. worth US$16 billion. A third round of tariffs in 2018 was implemented in September. The U.S. implemented tariffs on US$200 billion worth of Chinese goods, bringing the total to US$250 billion. The new portion of the tariffs carried an initial rate of 10% to be increased to 25% by January 1, 2019. China responded with additional tariffs on US$60 billion of U.S. imports. Tariff rates were five or ten percent.[37] During Fall 2018, the U.S. government threatened to tariff almost all Chinese goods exported to the U.S. if China did not meet its demands. Finally, there was relief in trade tensions when Xi and Trump agreed to a temporary truce on December 2, 2018. Tariffs scheduled to increase on January 1, 2019 would not. It was a 90-day truce scheduled to last until March 1, 2019.[38]

At the same time as the U.S. and China declared a trade tariff escalation truce, another incident dramatically escalated economic and political tension between the two countries. On December 1, 2018, Meng Wanzhou, Huawei's Chief Financial Officer and daughter of Huawei's founder, at the request of the U.S. government, was arrested in Vancouver as she transited through the airport. Huawei is the world's largest telecommunications company and leading smartphone brand. The U.S. wanted Meng extradited on fraud charges. Similar to the issues previously discussed ZTE, the U.S. accused Meng of deceiving banks to enable Huawei to avoid sanctions on Iran. Although the official U.S. stance was that this was a law enforcement action unrelated to the trade war, in many ways, China saw the arrest as another attempt to contain China economically and part of the much broader context of economic tensions.[39]

In late February 2019, the trade truce was extended.[40] From April 30-May 1, U.S. and Chinese trade negotiators met in Beijing and drafted a one hundred and fifty-page agreement. On May 3, 2019, cables to Washington indicated that Beijing was backtracking on almost all aspects of the draft deal. In response, on May 5, 2019, Trump tweeted that he planned to raise tariffs on another US$200 billion in Chinese goods to 25% on May 10.[41] In May 2019, the U.S. also banned Huawei from buying parts and components from U.S. companies. [42] In the next month, Trump and Xi agreed to restart talks. At the G20 meeting in Osaka, Trump agreed to no new tariff and considering lifted restrictions on Huawei in exchange for China committing to purchase America farm products. Despite some progress, talks continued to stall, and in August, Trump announced 10% tariffs on US$300 billion of Chinese imports, and China halted purchases on U.S. agricultural products. China also allowed the yuan to weaken and was accused by the U.S. of manipulating its currency. In August, Trump postponed some of the 10% tariffs on US$300 billion worth of goods until December 15, and China's announced retaliatory tariffs of US$75 billion.[43] Ultimately, these increases were delayed in anticipation of a phase one trade deal.

Finally, a phase one trade deal was signed in January 2020. China pledged to increase U.S. imports to US$200 billion above 2017 levels over two years, with specific targets from manufactured goods (US$77 billion), agricultural products (US$32 billion), energy products (US$52 billion), and services (US$38 billion). China also agreed to strengthen intellectual property rules, stop forced technology transfers, and enhance market access into its finance sector. In exchange, the U.S. decided to cut some of the newly imposed tariffs on China.[44] It would reduce by half the tariff rate it imposed on September 1 on a US$120 billion list of Chinese goods, to 7.5%. American tariffs of 25% on US$250 billion worth of Chinese goods put in place earlier in the trade war remained unchanged. Tariffs scheduled to take effect on December 15 on nearly US$160 billion worth of Chinese goods, including cellphones, laptop computers, toys, and clothing, were suspended indefinitely. China's retaliatory December 15th tariffs, including a 25% tariff on U.S.-made autos, were also suspended. [45]

Even with the phase one trade deal in place, 65% of U.S. imports from China and 57% of Chinese imports from the U.S. were still subject to tariffs.[46] When the deal was initially signed, many analysts noted that the agreement's import goals were unrealistic. Chinese imports from the U.S. in 2017 were only US$134 billion and services US$56 billion, which means the target is a 100% increase over two years.[47] In light of recent events with the global economic downturn and plunging energy prices, China meeting the targets is even less likely.

## Spillover from Economics to Security and Politics

Although it is high-profile, the U.S.-China trade war is only one aspect of the U.S.' increasingly competitive economic approach to China under the Trump administration. Concerns about China's economic behavior extend well beyond the trade deficit, intellectual property rights issues, forced technology transfers, and market access. Many aspects of U.S.–China economic relations are now framed as primarily competitive. As already mentioned, issues with ZTE and Huawei became intertwined with the trade war. This section will describe other ways the U.S. approach to economic competition with China is metastasizing into a much more confrontational approach.

Increasingly, the U.S. characterizes Chinese economic activity as a security threat. Earlier, this article discussed how actions against Huawei and ZTE were perceived as part of the broader trade war at specific points. U.S. concerns about the role of Chinese telecommunications companies have become a significant aspect of more widespread competition between the U.S. and China. Globally, the U.S. is discouraging allies and partners from using Chinese 5G telecommunications infrastructure and equipment. Huawei and ZTE are the two most high-profile examples. In 2019, the U.S. Secure and Trusted Communications Networks Act prohibited the use of federal funds to purchase equipment from telecommunications companies that pose a national security risk to the U.S., including ZTE and Huawei.[48] As discussed above, in May 2019, as part of the trade war, the U.S. barred U.S. companies without an exclusive license from selling parts and components to Huawei when it added the company onto an entity list of companies that endanger U.S. national security.[49] As a result of those restrictions, Huawei started diversifying away from U.S. suppliers. On May 15, 2020, the U.S. Department of Commerce Bureau of Industry and Security (BIS) accused Huawei of undermining previous restrictions. It announced plans to protect U.S. national security by barring Huawei and its suppliers from using American technology and software to design and manufacture its semiconductors abroad.[50] The ruling also included ZTE.[51] According to Hu Xijin, editor in chief of the *Global Times*, "Based on what I know, if the U.S. further blocks key technology supply to Huawei, China will activate the 'unreliable entity list,' restrict or investigate U.S. companies such as Qualcomm, Cisco, and Apple, and suspend the purchase of Boeing airplanes."[52] Although the U.S. did indicate a willingness to lift some restrictions on Huawei during phase one trade negotiations, U.S.-China competition through Huawei continues and is intensifying. According to a U.S. State Department representative on May 15, 2020, the U.S. has broad concerns about Huawei, "including that it had violated American sanctions on Iran and helped the Chinese government construct a surveillance network within China and abroad. Huawei is key to the Chinese government's broad strategy of "civil-military fusion" that supports the Communist Party's global ambitions."[53]

In addition to targeting Huawei and ZTE for restrictions, the Trump administration is also attempting to ban other technology companies it perceives as potential national security threats due to the information they collect. For example, President Trump signed an executive order in August 2020, banning the use of TikTok and WeChat phone apps in the U.S.[54]

Another area where economic concerns now bleed over into the security sphere is the scrutiny of Chinese investment in the U.S. for threats to national security. Over the last few years, the scope of the Committee of Foreign Investment in the U.S. (CFIUS) has grown substantially. CFIUS is an interagency body comprised of nine Cabinet members, two ex officio members, and other members as appointed by the President. The purpose of the committee is to assist the President in reviewing the national security aspects of foreign direct investment in the U.S. economy. The Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) expanded the scope of CFIUS.[55] It enhanced CFIUS in many ways, including broadening the scope of transactions under CFIUS purview to encompass "real estate transactions in close proximity to a military installation or a U.S. Government facility or property of national security sensitivities; any nonpassive investment in a critical industry or critical technologies; any change in foreign investor rights regarding a U.S. business; transactions in which a foreign government has a direct or indirect substantial interest; any transaction or arrangement designed to evade CFIUS regulations; and transactions that may result in compromising personally identifiable information of U.S. citizens." The FIRRMA allows CFIUS to discriminate among foreign investors by country of origin.[56] Now, an increasing number of Chinese investments are considered to pose a national security threat.[57] Combined with increasing capital controls imposed by China, CFIUS scrutiny, and the fear it instills in potential Chinese investors about the long term viability of the U.S. as an investment environment helps to explain the dramatic decline in Chinese FDI into the U.S. since 2016.[58]

Yet another bilateral economic issue that is evolving into a security concern is pharmaceuticals. In 2018, China accounted for a substantial percentage of U.S. pharmaceutical imports, for example, ibuprofen (95%), hydrocortisone (91%), acetaminophen (70%), penicillin (40-45%), and heparin (40%).[59] In 2019, there was increasing concern among Congress and some policymakers that this dependency could result in national security vulnerabilities for the U.S.[60] COVID-19 supply chain disruptions further increased the concern about this issue. As of May 14, 2020, the Trump Administration was reportedly preparing an executive order that would require more essential pharmaceuticals to be produced in the U.S.[61]

Launching the trade war, pursing restrictions on Chinese technology companies, increasing CFIUS scrutiny, and concerns about pharmaceutics are all examples of how the U.S. is approaching bilateral economic issues as competitive. The Belt and Road Initiative is another example of economic competition spilling over into security competition, but it is more global. Although it will not be discussed in detail here, as seen from U.S. policy statements discussed earlier in this article, the U.S. increasingly views BRI as a way for China to use economic leverage via debt diplomacy and economic incentives and punishments to seek political support and potential future security cooperation with other countries. For example, the Trump administration has expressed concern that in addition to the base it already established in Djibouti, China is establishing future military bases in countries along the Belt and Road, including Cambodia, Pakistan, and Sri Lanka.[62] One concrete policy action the U.S. has taken to counteract the multilateral BRI is the Build Act that would increase investment promotion by the U.S. in Belt and Road countries.[63]

Finally, some political issues are quickly spilling over into the economic realm. Examples include Xinjiang, Taiwan, and Hong Kong. In October 2019, the U.S. blacklisted twenty-nine Chinese artificial intelligence companies for their activities in Xinjiang.[64] Some U.S. congressional representatives are pushing legislation that would impose limits on imports from Xinjiang.[65] In 2019, China announced that it would cut business ties with companies selling arms to Taiwan.[66] Also, over the last few years, China pressured many U.S. companies who portrayed Taiwan as separate from China with threats of cutting off market access, including Coach, Calvin Klein, Marriott, and Delta.[67] China has also punished several companies seen as sympathetic to Hong Kong protester demands, including the NBA, Tiffany & Co., and Apple.[68] Vice President Pence's policy speech in October 2019 explicitly calls out American businesses for bowing to Chinese political demands in the face of economic punishment. Most recently, after China announced its new National Security Law for Hong Kong, the Trump administration responded with several economic actions, including removing Hong Kong's differential treatment, suspending portions of the U.S.-Hong Kong Policy Act, and sanctioning individual Chinese and Hong Kong officials.[69]

## The Future Trajectory of the U.S.' Approach

Since the mid-2000s, U.S. concerns about China's economic reforms and behavior grew. During the Trump administration, the U.S.' approach to economic relations with China fundamentally changed. The U.S. has explicitly shifted to framing the relationship as primarily competitive in all domains. The U.S. is focusing on economic competition rather than engagement. Examples of the ways the U.S. economic approach to China is more confrontational than past administrations are the trade war as well as the spillover of U.S. economic concerns into the security and political realms with Huawei, ZTE, BRI, pharmaceuticals, CFIUS, and Xinjiang, Taiwan and Hong Kong. Although it is still unlikely to be fully realized, Sino–American economic decoupling appears to be more likely now than a few years ago.

The modest phase one trade deal from January 2020 is already in jeopardy. Even before COVID-19, many considered the terms of the agreement, especially Chinese purchases of U.S. products and services, unrealistic. Amid COVID-19, in early May 2020, President Trump started to express doubts that the trade deal would continue.[70] COVID-19 has exposed many trade vulnerabilities for China and the U.S. Given the significant increase in purchases required of China, it may be difficult for China to fulfill its end of the deal due to decreased demand and falling oil prices. That said, as of August 2020, another round trade talks are scheduled.[71] One possible future is that after COVID-19 begins to resolve, the U.S. and China continue the phase one agreement and begin to negotiate future agreements to resolve long-festering trade tensions. Since well over 50% of U.S.-China trade is still under tariffs even with the phase one agreement, there is plenty of room for further de-escalation of trade tensions.

COVID-19 is also starting to impact broader aspects of U.S.-China relations.[72] Assuming political tensions and economic conflicts are correlated, a worsening political relationship will likely not bode well for the future trajectory of economic ties. Increasingly, the Trump administration is blaming China for the origins of the virus and the impact of the initial lack of transparency on its global spread. There is reporting that his administration plans to use a wide range of economic tools to punish China for its role in COVID-19.[73] On May 14, 2020, President Trump even told a Fox reporter that to punish China for its behavior in the COVID-19 outbreak, "We could cut off the whole relationship."[74] These actions could easily further sour economic relations.

Of course, this is a time of extraordinary uncertainty, and a number of variables could impact the future of the U.S.' economic approach to China. The upcoming election and a new president could potentially fundamentally reset U.S.-China relations. That said, that outcome is unlikely. Economic tensions between the U.S. and China predate the Trump administration. Although a new president may employ a different economic approach towards China, over the last few years, a bipartisan consensus is emerging over the threats posed by China's economic, political, and security behavior. Security concerns within the U.S. government and Congress about Huawei, ZTE, WeChat, TikTok, Chinese investment in the U.S., pharmaceuticals, and BRI will not disappear with a change in administration. Also, political concerns within Congress and the U.S. government about China's behavior in Xinjiang and Hong Kong will not fundamentally change unless Chinese behavior changes. Increasingly, across the U.S. government and Congress, China is viewed as a security, political, and economic threat. With a change in administration, the tone of official policy documents may lessen the portrayal of China as a threat. Still, the concern about China's use of its economic instrument of power is unlikely to recede.

Also, although it is not discussed in detail in this article, the Chinese reaction to the U.S. approach matters. If the change in the approach used by the Trump administration has fundamentally altered Xi Jinping and Chinese leadership's view of the potential for continued positive economic engagement with the U.S., it may be challenging for the economic relationship to shift away from its current competitive dynamics, regardless of U.S. intent.

Based on the trends in the Trump administration approach to economic relations analyzed in this article and economic concerns about China predating this administration, the most likely future trajectory in the U.S. economic approach is the continued treatment of China as an economic competitor and potential adversary. The rapid deterioration of

U.S.-China economic relations over the last several years during the Trump administration, combined with the increasing spillover of economic tensions into the security and political realm, does not particularly inspire confidence in improved relations in the near-term future. Economic ties are now wrapped up in a much broader strategic competition between the U.S. and China. Given the increasing perception of China as security, political and economic threat in many parts of the U.S. government, Congress, and the general public, it would be challenging to return to the economic engagement of the past. Changes in the U.S. economic approach to China during the Trump administration may have fundamentally altered the competitive dynamic between the U.S. and China. Opportunities for economic cooperation still exist, but China is increasingly perceived through the lens of national security, even on economic matters. Competition has become the predominant characteristic of economic, political, and security relations. If the last three years are any guide, the future of Sino-American economic ties may be in for a rocky ride for the foreseeable future.

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