Center for American Progress

Limit, Leverage, and Compete: A New Strategy on China

By Melanie Hart and Kelly Magsamen Posted on April 3, 2019, 12:01 am

Introduction and summary

The greatest geopolitical challenge in the 21st century will be how the United States—and the rest of the world—responds to the rise of China. China's gross domestic product (GDP), when measured in domestic purchasing power (purchasing power parity), already surpasses that of the United States. It is now, by some measures, the dominant global economic power and is mobilizing that wealth to pursue its own vision for the international system. The central contest of this century will be between the U.S. model of political and economic development and the Chinese model of political and economic development. If China's vision prevails—if it becomes the dominant power of the 21st century—there is a risk the United States and the world will be less free, less prosperous, and less safe. The United States does not need to engage China in a zero-sum Cold War to avoid this outcome. However, it does need to put its own ideas on the table internationally, advocate for that vision, reassert global leadership, and rectify a pattern of serious missteps at home.

The United States should be well-equipped to address the challenges China is posing, but it has been hindered by decades of strategic inertia. Since the early 2000s—when China joined the World Trade Organization (WTO) and the United States launched wars in Afghanistan and Iraq—the United States has pursued a strategy that is fundamentally flawed. Instead of channeling public resources to support American innovation and invest in American workers, Washington assumed the United States could coast on a combination of natural comparative advantages and status quo technology dominance, much of which stemmed from investments made decades earlier. That approach has not worked. China is investing heavily in emerging technology sectors—such as artificial intelligence and next-generation mobile communication—to successfully chip away at U.S. technology leadership and global market share. However, in the United States, many U.S. workers are unable to find good jobs in the information economy. In sum, the United States has lagged on the very areas of strength it needs to compete against an increasingly powerful China.

Over the past few decades, China funneled trillions of dollars into public education, public infrastructure upgrades, high-tech research and development (R & D), and global diplomacy. At the same time, Washington dialed back investments in those fundamental pillars of national strength—including, most importantly, the American people—and assumed the United States had enough of a head start to maintain its edge without the necessary investments at home.

The Trump administration has identified the growing China challenge and the risks it poses to U.S. security and prosperity. Unfortunately, the administration is pursuing a strategy that weakens and isolates the United States and makes the problem worse. The Trump administration's approach to China suffers from two fundamental flaws: Economically, it is failing to enact the necessary policies at home to support U.S. workers and set the United States up to compete effectively in new technologies and markets. And, politically, it is withdrawing from its role as a global leader at the same time it is alienating potential allies and partners—who share similar concerns about China—instead of working with them.

If the United States maintains its current course, it will cede substantial ground to China. Economically, China will dominate key global markets and technologies and the high-paying jobs that go with them, forcing the United States down the value chain. China will continue to use its growing economic footprint to pursue political, military, and diplomatic goals that undermine U.S. national security, such as leveraging its role as a next-generation mobile telecom equipment provider to control global communication networks and push an authoritarian governance model for the global internet. On security issues, China's growing assertiveness will continue to undermine the security balance in Asia, take advantage of new openings that Trump is creating to erode U.S. alliances, and increasingly directly threaten U.S. national security as it shrinks the military capabilities gap. On global challenges such as climate change and global public health, absent renewed U.S. leadership, China will have wide leeway to make minimal contributions while claiming that it is doing more than enough to fulfill its responsibilities as a great power.

To turn this dynamic around, the United States must address U.S. economic challenges head-on and invest in the fundamental drivers of economic prosperity and national security: public education, infrastructure, innovation, R & D, and diplomacy. Instead of acting unilaterally, the United States must reach out multilaterally to lead and build a united front with allies and partners. With those core fundamentals in place, the United States can then execute a strategy that limits China's ability to exploit its openness; leverages China to contribute its growing capabilities in ways that benefit the global common good; and positions the United States to compete more comprehensively over the long term.

The goal of this strategy is straightforward: advance the country's national interests and put the United States in the best possible strategic position regardless of how China acts. Ideally, China returns to a more peaceful and collaborative purpose, engaging in fair competition instead of tilting the field and using its growing military clout to pursue common objectives that other nations share. But as the United States continues to encourage China to change course, Washington must develop policies that respond to the realities of a more assertive China that is actively undermining U.S. interests around the world.

This report presents a new strategic framework—limit, leverage, and compete—as well as key measures the United States should take to begin implementing it. The first section explains how major political shifts in the United States and China put both countries on a trajectory that led to China's re-emergence as a global power. It concludes by describing the strategic missteps—including a multidecade period of inertia and two wars in the Middle East—that have hindered the United States' ability to compete against an increasingly powerful China. The second section lays out an alternative approach to China that will reverse the current trajectory. It recommends a new strategic framework that limits China's ability to exploit U.S. openness; leverages China's growing capabilities to address global challenges; and positions the United States to compete more comprehensively over the long term. The section concludes by explaining how this strategic framework—limit, leverage, and compete—will put the United States in a stronger position to respond to the realities of a more assertive China while providing ample off ramps to adjust if China chooses a more collaborative path. The third and final section makes specific recommendations about how each pillar of this strategy should be implemented, prioritizing investments in the United States' network of democratic allies, its democratic values, and the unlimited potential of the American people.

Pillar One: Limit describes how China is exploiting U.S. openness to distort markets and exert influence over U.S. policy toward China. It offers specific policy measures the United States must adopt to limit Beijing's ability to exploit open systems for China's gain.

- Require Chinese firms to disclose their ownership structure and funding sources before entering the U.S. market
- Require disclaimers on direct foreign government propaganda
- Mandate transparency for U.S. educational and civil society institutions receiving Chinese government funding
- Overhaul the U.S. legal framework on foreign interference
- Stop allowing Chinese security services to operate illegally within U.S. borders

Pillar Two: Leverage argues that where China's strategic intent aligns with U.S. and broader global interests, the United States should seek to leverage rather than limit Chinese initiatives. It offers specific policy measures the United States must adopt to leverage China's growing capabilities to solve global challenges.

- Leverage China's Belt and Road Initiative to support regional development needs
- Encourage greater contribution to humanitarian assistance and disaster relief
- Partner on global sustainability efforts

- Push China to meet its pandemic disease responsibilities

Pillar Three: Compete explains how China uses gray-zone tactics to strengthen its global position and exert influence over global rules and norms without triggering a proportional U.S. response. It argues that the United States must shift to comprehensive competition and double down on its own comparative advantages. It offers specific policy measures the United States must take to compete at full strength.

- Launch a national competitiveness initiative
- Fight back on trade in partnership with allies
- Launch a next-generation digital infrastructure initiative
- Network a new Asia-Pacific regional security architecture
- Make the necessary defense investments to ensure effective deterrence and defeat aggression
- Work collectively to uphold and defend democratic values
- Position U.S. policy for success

While China presents the most serious economic and security challenge to the United States in a generation, the good news is that, throughout history, the United States has always excelled and advanced when it faced a strong peer competitor. Although competition with China brings significant downside risks, it also provides a critical strategic opportunity for the United States to get its own house in order. U.S. leaders and lawmakers' collective task now is to ensure that the United States puts in place a strategy that rebuilds the foundation of American strength at home and denies China easy wins. This report presents key policy recommendations for how the United States should implement each of these three parts of that strategy—limit, leverage, and compete—to advance U.S. national interests and put the U.S.-China relationship on a more competitive and stable trajectory.

How the United States got here: The emergence of a new China challenge

When the United States first reached out to China to establish formal diplomatic relations in the 1970s, China was poor, isolated, and unable to project military power beyond its periphery. Washington expected China to grow more powerful over time and assumed the best way to advance U.S. interests was to bring China into the international system and create incentives for China to rise within that system—and abide by its rules—rather than operate outside of it. Washington paired that open-door approach with a beefed-up security architecture designed to deter China from using its growing military power against U.S. allies and security interests in Asia. This "engage and hedge" strategy reached its apex in 2001, when the United States shepherded China's entry into the WTO. Over the following decade, major political shifts in China and in the United States began to lay the groundwork for the China challenge the United States faces today.

Shortly after China joined the WTO, Beijing began to reassess the nation's economic path. China's piecemeal market reforms benefited some interest groups more than others, and by the early 2000s, the losers were getting restless. China's authoritarian regime does not provide effective channels for citizens to voice discontent; when frustrations are high, citizens join forces for collective protests that, from Beijing's perspective, could easily spiral out of control. From the mid-1990s to the early 2000s, collective protest incidents rose from less than 10,000 per year to nearly 60,000 per year.[1] Beijing feared the escalating unrest could coalesce into a massive social movement on par with the color revolutions that swept the former Soviet Union.[2] At the same time, Chinese leaders also began to detect early signs that China's development model—based primarily on low-value-added manufacturing and heavy-infrastructure investment—would soon run out of steam. The only way to keep growing was to shift into higher-value-added production. In the tech sector, for example, in order to manufacture and sell DVD players, Chinese companies had to rely on core technology from Hitachi, Toshiba, and other foreign patent holders, and they had to fork over one-third of the per-unit sales price in licensing fees.[3] Beijing wanted Chinese companies to develop their own technology standards so they could shift from paying royalty fees to receiving them. But developing a knowledge economy based on the Western model—with broad access to information, a strong court system for intellectual property enforcement, and profit-driven financing—would require Beijing to relinquish more control over the nation's economy and society. Instead of taking that risk, Beijing decided to follow a different path: Reassert state control over key sectors of the economy and use those controls to restructure global markets in ways that would benefit China at its trading partners' expense.

China's economic pivot amounted to a rejection of the bargain Washington thought it struck with Beijing when it brought China into the WTO. The United States knew that welcoming a massive developing economy into the global trading system would inevitably pull manufacturing jobs from the United States to China. However, Washington expected that as China developed, the United States would gain new opportunities to export higher-value-added products to Chinese consumers, balancing the initial losses.

What Beijing decided to do in the mid-2000s was to own both ends of this deal: Use the early manufacturing shift to gain access to U.S. technology and then use state funding and preferential regulatory policies—such as forced technology transfer—to help Chinese companies develop their own homegrown versions of higher-end U.S. products.[4] Once Chinese companies figured out how to replicate what their foreign partners were producing, Beijing then provided financial subsidies to help them sell the products at below-market costs, driving the original U.S. firms out of business. This pattern was particularly prevalent in "strategic emerging industries" where, in Beijing's view, the gap between China and developed nations was not yet insurmountable.[5]

In the wind industry, for example, Beijing used localization rules to force foreign companies to hand over turbine technology, which China then used to build its own manufacturing sector. In 2005 Beijing issued a notice stating that, in order to "speed up the pace of development of the domestic manufacturing of wind power equipment," Chinese regulators would no longer grant construction permits for wind farms that did not source at least 70 percent of their content from domestic firms.[6] To stay in the market, foreign firms—such as Spain's Gamesa—trained Chinese firms to serve as their component suppliers. The Chinese government then provided hundreds of millions of dollars in subsidies to help newly trained Chinese suppliers gain market share at home and around the world.[7] In 2005 Spain's Gamesa had a 35 percent market share in China.[8] By 2010, after Gamesa trained more than 500 Chinese companies to make turbine components, its market share had decreased to 3 percent in China, and Chinese firms were providing components for 85 percent of China's domestic market and nearly 50 percent of the global market.[9]

Forced technology transfer and intellectual property theft

Forced technology transfer occurs when regulators require foreign companies to hand over core technology and trade secrets to gain market access. For example, China requires U.S. and other foreign companies to form joint venture partnerships with a Chinese firm in order to do business in sectors ranging from auto manufacturing to electronics.[10] That gives the Chinese partner access to U.S. technology, which the partner can use to replicate the product. For example, China's Zhangjiagang Glory used its joint venture partnership with DuPont to replicate a proprietary chemical process and produce and sell a DuPont product without DuPont's involvement or consent.[11] When DuPont tried to work through China's legal system to force Zhangjiagang Glory to stop using the stolen technology, Chinese officials raided DuPont's Shanghai office. More recently, China's Cybersecurity Law gives the nation's police and intelligence officials the authority to access company networks and force foreign companies to hand over source codes and other proprietary intellectual property to prove the equipment they sell to Chinese consumers is secure.[12] Many companies fear Beijing intends to use those inspections to steal foreign technology secrets. The joint venture requirement and new cybersecurity requirements both utilize Chinese market access as a carrot to convince U.S. and other foreign companies to voluntarily hand over their technology secrets. Companies who do not seek market access or refuse to hand over technology to gain that access can still lose intellectual property to China through cyberattacks and covert human theft operations. For example, U.S. chip maker Micron has accused China's state-owned Fujian Jinhua Integrated Circuit Co. of offering lucrative salary packages to Micron employees, hiring them, and then using them to steal and replicate Micron's semiconductor technology.[13]

To be sure, smart policy also played a critical role in moving China up the value chain. In addition to pilfering trade secrets from international partners, China's indigenous innovation initiative also directed trillions of dollars to build up the nation's education, infrastructure, and R & D capabilities. Smart policy investments in those sectors—the pillars of a nation's innovation ecosystem—made it possible for China to significantly upgrade its domestic science and technology capabilities. In 2000, China had 1,041 colleges and universities producing 950,000 graduates per year; as of 2017, China had 2,631 colleagues and universities producing more than 7 million graduates per year.[14] Between 1992 and 2011, China spent 8.5 percent of its GDP on public infrastructure—roads, rail, telecommunication, utility, airport, and seaport projects—that improved production efficiency and connected its citizens to the global economy.[15] In contrast, the United States spent just 2.6 percent of its GDP on public infrastructure during that same time frame.[16] Since 2000, China has increased its R & D spending by around 18 percent per year, doubling its gross domestic research and development expenditures from less than 1 percent of GDP in 2000 to 2.1 percent in 2017.[17] In contrast, U.S. spending remained relatively flat—the United States spent 2.6 percent of its GDP on R & D in 2000 and 2.78 percent in 2017.[18]

Inertia and the Great Recession

From the beginning, Beijing's goal was to catch up with and eventually surpass the United States. The United States helped China along by entering a multidecade period of inertia. On the foreign policy front, at the same time China joined the WTO, the United States launched two wars in the Middle East and South Asia that made it harder to invest in economic development at home or focus strategically on forward-looking diplomatic engagement in Asia. Unlike the Cold War, the war on terror did not force the United States to face off against a peer economic competitor, so Washington did not have a foreign policy imperative to upgrade the nation's domestic economic capabilities. When global manufacturing began to shift to China following its WTO entry—pulling critical jobs out of the United States—Washington did not significantly ramp up domestic investments in education, public infrastructure, or R & D to help develop new, higher-tech industrial sectors and high-paying jobs to replace those lost to China.

For both nations, the 2008-2009 global financial crisis was a major inflection point. On the U.S. side, one-fifth of American workers lost their jobs, and less than half have found new jobs with salaries equivalent to those they had before the crisis.[19] In China, Beijing used a combination of capital controls and a $586 billion stimulus to avoid following the United States and Europe into recession.[20] China weathered the crisis so well that many Chinese observers viewed it as an indicator that China's state-directed economic model was superior to Western-style liberalism. The crisis also convinced many in Beijing that U.S. decline was officially underway, China was ascendant, and it was time for China to step forward and play a much bigger leadership role at the international level. After Xi Jinping took over as China's top leader in 2013, he made expanding China's global influence a top priority.

The United States was slow to recognize the degree of change underway in China. Three factors muddied the waters. First, China was beginning to leverage its new capabilities to support global objectives the United States shared, such as joining forces with the Bush administration and other G-20 nations to prevent global economic collapse in 2008 and working with the Obama administration to secure the Paris climate agreement and the Iranian nuclear deal in 2015. Those successes produced positive examples of U.S.-China partnership that, at a macro level, counterbalanced some of the concerns growing in other areas. Second, for U.S. businesses, the picture was mixed. U.S. exports to China grew 86 percent between 2007 and 2017, and those exports support 1 million U.S. jobs.[21] For every U.S. company sounding the alarm about Chinese malpractice—such as American Superconductor Corp., which spent years pursuing restitution after China's Sinovel stole its wind turbine technology—there was another company describing China as a land of opportunity.[22] Third, there was—and continues to be—a divide in China, with many experts and even senior party and government officials calling for more liberal economic reform. In November 2013, Xi Jinping released a sweeping 60-point economic reform blueprint that promised to let "market forces play a decisive role" in the economy.[23] There were many hopeful reformers inside China reading that plan as an indicator that Xi's escalating political crackdowns were primarily aimed at breaking up powerful interest groups blocking liberal economic reform. Those hopes were dashed in 2015 when China's stock market crashed and the new leadership responded with heavy-handed interventions. These included banning major shareholders from selling their stocks and threatening to arrest those who did not comply; arresting journalists who shared negative information about the market; and using more than $200 billion in state funds to prop up the market through ad hoc purchases.[24] Anti-market voices in Beijing utilized the crash to silence liberal reformers, arguing that market forces bring unacceptable political risks and the Chinese Communist Party (CCP)—not the markets—must play the decisive role going forward.

By 2015, alarm bells were sounding on multiple fronts.[25] On the economic front, U.S. businesses were facing a host of new Chinese market regulations that imposed new barriers and tilted playing fields to favor Chinese firms over foreign competitors. Beijing released the "Made in China 2025" plan, which called for Chinese firms to supplant their foreign competitors in China and in global markets and provided financial and regulatory support to help them do so. Beijing also implemented a new cybersecurity law requiring foreign firms to store data on mainland Chinese servers and hand over proprietary source codes and other trade secrets to pass a new national security review process—measures that exposed U.S. data and intellectual property to potential misuse and theft.[26]

On the security front, there was growing evidence that China intended to exercise its strength in destabilizing ways. The United States and the world began to pay sharper attention to China's actions in the South China Sea.[27] China had made significant progress constructing a massive man-made island in disputed waters, and those images served as an impossible-to-ignore metric for China's military ambitions.[28] When the Philippines exercised their legal rights under the U.N. Convention on the

Law of the Sea (UNCLOS) to contest China's behavior, Beijing worked to undermine the U.N. tribunal adjudicating the case.[29] In the East China Sea, China increased its air and maritime operations around the Senkaku Islands. The United States also uncovered two massive Chinese cyberattacks in 2015: an attack on the U.S. Office of Personnel Management, in which China obtained 4 million federal government personnel files, and an attack on health insurer Anthem Inc., in which China obtained private data on 80 million Americans.[30]

On the political front, Beijing adopted a new foreign nongovernment organization (NGO) management law that requires U.S. think tanks, business associations, and other NGOs to apply for a permit from the Chinese police before visiting China for meetings and other "temporary activities."[31] These changes unfolded against the backdrop of a much broader domestic political tightening, in which the CCP enacted sweeping new controls over Chinese society, reducing the space for Chinese citizens to voice or hear independent views.

When U.S. officials tried to push back against these measures, they discovered they did not have effective tools to do so. The U.S.-China Strategic and Economic Dialogue (S&ED) proved to be much more effective at highlighting areas of agreement than addressing disagreement. Annual S&ED meetings produced hundreds of Chinese commitments to address U.S. trade and investment complaints, but there was no formal mechanism to track implementation or to hold China accountable.[32] Beijing made the same promises year after year, convincing many U.S. officials that China primarily saw the S&ED as a mechanism for keeping Americans running on a hamster-wheel of meetings, diverting energy they might otherwise use to pursue retaliatory actions that could impose real costs on China. U.S. companies could pursue anti-dumping or countervailing duty remedies through the U.S. Department of Commerce, but those remedies only apply to Chinese goods sold in the U.S. market. Companies could also petition the U.S. government to pursue cases against China at the WTO—something individual companies cannot do themselves—but that approach is slow, costly, and risks Chinese retaliation. Beijing frequently threatens to kick companies who file formal trade cases against China—or even just voice their complaints publicly—out of the Chinese market. To avoid that, many do not bother, choosing instead to accept their losses as a cost of doing business in China. Over time, those losses add up to a major erosion in U.S. competitiveness. Even when U.S. companies—or the U.S. government acting on their behalf—do win trade cases against China, Beijing frequently uses its state-controlled system to avoid enforcement.

For example, in 2017, Beijing amended more than 1,000 cybersecurity standards, downgrading previously mandatory requirements to voluntary ones as a means to evade WTO scrutiny.[33] However, despite the change in official language, Beijing still requires foreign firms to meet those standards in order to do business in China. The only difference is that those firms no longer have clear evidence to use for WTO complaints. When the world's largest economy consistently evades accountability and enforcement, it begins to undermine the entire rules-based trading system.

When the United States first engaged China, Washington assumed rules-based international systems were strong enough to shape China; instead, in the Xi Jinping era, it is discovering that China can undermine those systems in dangerous ways.

Crafting a new approach: Limit, leverage, and compete

The United States needs a new approach to China that takes into account Beijing's new strategic intent and capabilities and directly addresses areas where Beijing's current objectives—and the levers Beijing deploys to pursue them—either complement or conflict with U.S. interests.

Under Xi Jinping's leadership, official statements suggest those objectives are as follows:

- Leverage China-foreign commercial engagements to strengthen its economic competitiveness and rebalance the domestic economy without sacrificing top-down political control
- Pursue a global leadership role commensurate with China's economic status and use that role to shape China's external environment and gain external validation for the CCP regime
- Reform the global governance system by augmenting or replacing rules-based liberal democratic values and standards with authoritarian governance principles to reduce external pressure on the CCP regime
- Reclaim China's sphere of influence in the Asia-Pacific region
- Demonstrate to the Chinese people that the Chinese military is growing into a force that can "fight and win wars" and ensure past humiliations will never happen again[34]

Beijing is currently pursuing these objectives in ways that create problems for the United States. To be sure, some of these objectives do create opportunities for the United States to work collaboratively with China to advance U.S. interests. For example, China played a key role bringing Iran to the table for negotiations to limit its nuclear program.[35] In addition, the desire to step out and be recognized as a global leader drives Beijing to increase the nation's contributions on global public-goods issues such as climate change, global health, and disaster relief, serving Chinese interests in ways that can benefit others as well.

The problem is that, outside of the public goods space, Beijing increasingly takes a more zero-sum view, assuming the only way to achieve these goals is to carve out space for China from space currently occupied by the United States and its allies. From Beijing's perspective, that effort pits China against a stronger power, and the best strategic approach is an asymmetric one—deploying unconventional, incremental tactics that aim to evade an opponent's defenses over the long term rather than taking that opponent on directly or immediately. Beijing's aim is to siphon off U.S. advantages and slowly shift the U.S.-China balance of power in small increments that do not immediately trigger U.S. defenses and enable Beijing to make large strategic gains without directly engaging a more dominant power in head-to-head competition.

China's gray-zone tactics

Across multiple issue areas, Beijing utilizes gray-zone tactics to gradually shift the U.S.-China balance of power through a series of seemingly small, incremental steps that, when added together, impose significant costs on U.S. prosperity and security.

On the economic front, Beijing directs a mix of state-owned and private Chinese companies to acquire bits and pieces of U.S. technical know-how in a coordinated fashion to transfer entire U.S. value chains to China, piece by piece.[36] Those transfers occur via a mix of commercial U.S. market acquisitions (such as Chinese entities entering the United States to purchase U.S. assets, as discussed in the limit section below) and regulatory requirements imposed on U.S. businesses seeking to enter the Chinese market (such as forcing U.S. businesses to transfer core technology to Chinese partners as a prerequisite for market access). China also engages extensively in industrial espionage—including cyberattacks—to acquire U.S. intellectual property, personnel data, and proprietary business information. At the same time, Beijing severely restricts the scope and scale of foreign investment in China in order to protect its own companies from competition, cultivating "national champions"[37] that Beijing can then send overseas to compete against U.S. and other foreign firms in the global market.

On the security front, China is seeking to build out its own sphere of influence in the Asia-Pacific and make it harder for the United States to counter Chinese activities in the region by driving wedges in regional institutions and in U.S. security alliances and partnerships. China is making a series of seemingly tactical moves in the South and East China Seas—building and militarizing artificial islands; flouting the international law of the sea with excessive maritime claims; attempting to restrict the freedom of navigation and overflight; and using civilian vessels to expand China's presence in disputed areas—that change the status quo in ways that favor China at the expense of other nations. In the East China Sea, Beijing has escalated tensions by declaring its own air defense identification zone (ADIZ). In the Taiwan Strait, Beijing has conducted military exercises in an attempt to intimidate Taipei. China is also pursuing an aggressive and sustained campaign to undermine Taiwan's democratic process and popular support for the current Taiwanese government through disinformation campaigns and other influence operations.[38]

At a global level, China is working to undermine liberal democratic principles and augment or replace them with authoritarian ones.[39] The current global governance system—the set of rules, institutions, and enforcement mechanisms the global community uses to solve common challenges—privileges liberal values such as freedom, democracy, binding international law, and inalienable individual rights. From Beijing's perspective, that is a problem, because as China becomes increasingly integrated with the global system, integration exposes Chinese citizens to a set of ideals their current leaders do not intend to meet. To reduce that risk, Beijing is working to make the system more authoritarian. For example, Beijing is watering down human rights accountability mechanisms at the United Nations and rallying other nations to oppose a free and open global internet.

The United States needs a new, updated strategy that accounts for the realities of modern China; that leads with the United States' comparative advantages; and that takes the necessary steps to address its own vulnerabilities. That strategy should aim toward the following long-term goals:

1. Strive to put the United States on sound footing, regardless of what path China takes
2. Maintain security and stability in Asia by defending U.S. allies and ensuring countries in the region are free to make their own security choices, safe from coercion
3. Strengthen long-term U.S. economic competitiveness and ensure countries in the region are free to make their own economic choices, safe from coercion
4. Defend universal democratic values, human rights, and rule of law
5. Establish a united front with key allies and partners

This remainder of this report offers U.S. policymakers a new strategic framework for dealing with China: limit, leverage, and compete. It acknowledges the fact that different approaches are needed in different areas of U.S. China relations:

- **Limit:** Where Beijing is exploiting U.S. openness or good faith to benefit Chinese interests at U.S. expense, the United States must impose new limits or safeguards
- **Leverage:** Where the United States and China share common interests and China is using its capabilities in ways that benefit the United States and other nations, the United States should support and leverage those actions
- **Compete:** Where the United States is not effectively meeting the challenges posed by this new peer competitor, the United States must strengthen its ability to do so

Unlike the strategy the Trump administration is pursuing, this three-pillar approach prioritizes investments in U.S. strengths: the United States' network of democratic allies, its democratic values, and the unlimited potential of the American people. It also leaves room for the United States to cooperate with China for mutual benefit on some issues while, at the same time, providing a clear framework to determine where the United States should pursue cooperation versus where it should push back.

The United States has a set of core strategic advantages that it can and should draw on: The U.S. political system is resilient; the United States has strong allies and China does not; the United States' friends and allies share many of the same concerns about China and, if the country and our leaders engage China correctly, they can stand together to form a united front on these issues.

The next section of the report will describe what each pillar of this new strategic framework aims to achieve—limit, leverage, and compete—and lay out policy recommendations the United States can take to begin implementing them.

Limit Beijing's ability to exploit U.S. openness for China's gain

U.S. markets and information platforms generally operate like an open public square. In the economic realm, individuals and companies from other nations can invest and do business in the United States; in the information realm, visitors from other nations can share their views with the American public, enjoying some of the same rights and freedoms—such as the freedom of speech—that Americans do. To be sure, everyone must follow the law, and screening requirements do apply in some cases—for example, foreign firms cannot purchase sensitive U.S. military technologies without prior screening and approval—but U.S. policy aims to keep the nation's markets and information arenas open so that market forces determine business outcomes and the U.S. public can make its own decisions about which information to take in and how to judge that information. In contrast, although Chinese leaders recognize the benefits associated with open market and information systems, they view the risks as untenable in today's China. Instead, they prioritize state control: They want the CCP to play a dominant role in determining business outcomes and shaping public opinion. Under Xi Jinping's leadership, China is rolling back previous reforms that relaxed some of those controls within China. They are also doing something entirely new: leveraging China's growing capabilities to extend elements of the CCP control playbook abroad. From Beijing's perspective, open systems in the United States and other liberal democracies give China the opportunity to exert influence in those nations, acquire sensitive information and technology, and bolster China's position at the target nation's expense.

Most Americans are familiar with Russia's interference in the 2016 U.S. presidential election, but China's operations—which include both influence activities and coordinated technology acquisitions—are just beginning to attract public scrutiny. Whereas Russia operates primarily in the digital space and seeks to sow divisions in U.S. society and undermine U.S. democracy, there is currently no evidence to indicate that Beijing seeks to follow that playbook. Rather, Beijing wants Chinese companies, organizations, and individuals to participate in U.S. markets, civil society, media, and policy debates the same way Americans do. That participation is not a problem. The problem is the coordination that sometimes lies behind it.

On the economic front, Beijing dispatches an array of firms and investment funds to acquire U.S. technologies that China cannot yet produce on its own, bring that know-how back to China, and leverage it to undercut U.S. comparative advantages in global technology markets.[40] These operations are well-coordinated, state-directed, and designed to boost China's global economic position at the expense of the United States. The individuals, firms, and funds who carry out those operations often pretend to be independent actors pursuing their own private commercial interests. If that were the case, their acquisitions would be market-driven and generally would not pose a threat. In reality, some are agents of the Chinese state pursuing coordinated operations that distort and undermine U.S. market forces.

China's National Integrated Circuit Industry Investment Fund

Beijing is running a massive operation aimed at acquiring foreign chip technology and supplanting U.S. and other foreign firms in global semiconductor value chains.[41] Chinese firms have not figured out how to make that technology themselves, so they import 95 percent of the chips they need to manufacture mobile phones, servers, and other electronics.[42] Chinese leaders have big ambitions to turn that around: They are calling for Chinese firms to produce 40 percent of the semiconductors the nation uses by 2020 and 70 percent by 2025.[43] To make that happen, Beijing is providing around $150 billion in state subsidies, R & D support, and acquisition funding. That includes the state-supported China Integrated Circuit (IC) Industry Investment Fund, which is providing an estimated $60 billion to help Chinese firms acquire foreign semiconductor know-how and replicate it at home.[44] The China IC Fund is behind some of the Chinese entities—companies and investment funds—that, since 2015, have put forward more than $30 billion in bids to acquire U.S. semiconductor assets.[45] At first glance, they appear to be independent companies pursuing their own commercial interests. In reality, they are front-companies for a much broader state-directed acquisition effort. The Committee on Foreign Investment in the United States (CFIUS) tries to identify and block those acquisitions, but it is often difficult for U.S. regulators to trace a Chinese firm's true ownership structure and funding sources to identify which entities are part of a broader coordinated effort and which are not.[46]

Beijing deploys similar tactics on the information front, executing a coordinated campaign to flood public U.S. fora with positive information about China in order to counterbalance negative information about Beijing's intentions and actions.[47] These efforts aim to push U.S. policy toward China in a more accommodative direction. This occurs via two different pathways: direct propaganda and indirect narrative-shaping via proxy. On the direct side, China's state-run propaganda organizations operate their own English-language television, radio, and print media platforms in the United States; publicize pro-China material on those platforms; and insert material into U.S. publications ranging from *The Washington Post* to *The Wall Street Journal*. That material appears in the form of independent news articles, but these publications are part of a state-run, coordinated propaganda campaign. On the indirect side, Beijing funds language and research programs across hundreds of American primary schools, secondary schools, universities, and think tanks to support and promote pro-China school curriculums and policy research.[48]

For example, the Chinese government funds and co-directs 600 language programs embedded within U.S. educational institutions, including 500 Confucius Classrooms in U.S. primary and secondary schools and 97 Confucius Institutes in U.S. colleges and universities.[49] Those programs provide Chinese language instructors and cultural programs that paint Beijing in a positive light, generally avoiding difficult issues such as the fact that Beijing is currently holding more than 1 million ethnic minorities in internment camps. As with the direct propaganda, the goal is to flood American students and policymakers with pro-China information in order to counterbalance more negative perspectives and push U.S. policy to be more accommodating. This distorts information about China within the United States and can undermine the American public's ability to make fact-based assessments about China.

These distortions are magnified by the fact that the openness only goes one way, particularly in the Xi Jinping era. When U.S. companies, journalists, think tank experts, and academics try to enter China, they increasingly face a closed door. The United States is an open public square; China is a walled garden. Once Chinese firms strip U.S. technology know-how and bring it home, Beijing slams the garden gate to keep U.S. firms from entering the Chinese market to compete against Chinese companies working to deploy their newly acquired technology. Beijing also restricts U.S. journalists, academics, and civil society organizations who seek to travel to China to independently gather information about Beijing's actions and intentions.[50]

The United States cannot force China to abandon these tactics and adopt liberal democratic principles or a market-based economy. What America can do, however, is counter these operations with enhanced transparency and screening. The challenge is to protect the United States' values of openness and inclusiveness from entities that seek to participate in bad faith without compromising those values—a fine line to navigate. Unfortunately, U.S. history demonstrates how easily policymakers can overreact to legitimate national security concerns, producing remedies that undermine core democratic values. Current policymakers should follow three principles to avoid repeating past mistakes: 1) avoid remedies that infringe on legitimate free speech, freedom of the press, and academic freedom; 2) avoid actions and statements that frame the China challenge in racial terms, which can too easily trigger demonization and discrimination against Chinese Americans and the Chinese people; 3) in the economic sphere, avoid interventions that seek to decrease U.S.-China commercial engagement across the board and aim instead to target specific actors or operations that threaten U.S. prosperity or national security.[51] These principles can help policymakers avoid remedies that themselves undermine democratic values and interests, such as banning all Chinese students seeking to study in American universities, imposing rules or demands on U.S. media entities, prohibiting certain types of university programming, or banning all Chinese companies that seek to do business in the United States.

There is a solid middle path that addresses legitimate U.S. concerns about China in ways that strengthen our values instead of undermining them: When applying new screening measures, the United States should look for solutions that enhance transparency rather than close doors and sacrifice the benefits gained from open markets and free speech. Many of these coordinated Chinese tactics—such as Chinese government propaganda—lose their impact when they are exposed to public scrutiny. Hiding the coordination and government ties driving these actions is a key part of Beijing's distortion playbook—once that is exposed, these operations are much easier to counter. Closing doors to shut off access to U.S. markets and information platforms should be done sparingly and only when transparency alone cannot get the job done.

Although not a comprehensive list, the following sections outline some specific policy measures to operationalize this strategic concept.

Limit: Require Chinese firms to disclose their ownership structure and funding sources before entering the U.S. market

Congress recently enacted new, enhanced rules requiring Chinese and other foreign firms to undergo national security screening before investing in certain U.S. technology sectors. The problem with this approach is that technology value chains are constantly evolving. A static list of key industries will not keep pace with those changes. The United States should do more to target the real concern: covert Chinese government influence over U.S.-China commercial transactions. The United States should require all inbound foreign investors from all nonmarket economies to self-disclose their ownership structure, foreign government political affiliations (such as CCP cells within individual firms), and funding sources. Individual Chinese citizens already provide five years of employment history to obtain a visa to enter the United States; likewise, Chinese companies and investment funds should provide detailed information on their ownership structure and funding sources for the past five years in order to do business in the United States.[52] This information will help U.S. regulators track Chinese government involvement across the U.S. economy and identify new areas of concern. Such areas include particular companies or funds carrying out coordinated acquisition activity—which U.S. regulators should investigate to determine if a state actor is directing that activity—and industries that are not on the list of sensitive sectors but are attracting a high level of potentially coordinated foreign investment interest.

Strong disclosure requirements will deter at least some Chinese companies seeking to hide CCP and government ties—such as Huawei and ZTE, which refused to provide similar information in response to congressional requests—while keeping the door open for Chinese firms willing to abide by high-transparency standards. Congress must provide dedicated funding to enable relevant U.S. agencies—including functional agencies, such as the Departments of Treasury, Commerce, and State, as well as key intelligence bureaus—to monitor foreign investor activity across the United States, identify areas of concern, and investigate companies or groups of companies that fail to disclose foreign government ties or use their U.S. market presence to pursue covert political objectives. If U.S. regulators find Chinese companies or investment funds providing false information to hide their party or government ties, they can pass that information on to the CFIUS, which must have the authority to immediately block or unwind those transactions.

Limit: Mandatory disclaimers on direct foreign government propaganda

It is not a problem for the Chinese government—or any other foreign government—to voice its opinions in the United States as long as American viewers understand where the material is coming from. The Federal Election Campaign Act's requirement that campaign-related advertisements contain a disclaimer stating who paid for the ad can serve as a model for providing that transparency.[53] The Department of Justice is increasingly enforcing the Foreign Agents Registration Act (FARA) requirement for state-run and state-funded press outlets to register as foreign agents—including China's major state platforms—and that is a positive step. In addition, in order to provide broad public transparency, the United States should require all state-run and state-funded press outlets to label the public material they produce with clear disclaimers. For example, Chinese state press outlets should include disclaimers stating that the messaging is "paid for by the government of the People's Republic of China." Those disclaimers should apply to any foreign government and should be as prominent as the disclaimers required in U.S. campaign ads.

Limit: Mandatory transparency for U.S. educational and civil society institutions receiving Chinese government funding

Currently, the U.S. Higher Education Act only requires U.S. colleges and universities to report foreign government funding if the amount exceeds $250,000 per year.[54] Congress should amend the act to require all U.S. colleges and universities to publicize foreign contracts or gifts (including in-kind gifts) that exceed $10,000 per year from a single foreign government, institution, or group of institutions from a single foreign nation. The Government Accountability Office (GAO) should publish annual assessment reports on foreign-funded programs in U.S. educational institutions to highlight areas of potential concern.[55] To improve think tank transparency, U.S. think tanks and other civil society organizations should be required to publicly disclose foreign funding to maintain nonprofit status. The IRS already requires all tax-exempt organizations to file an annual publicly available information return—the IRS Form 990—and should amend that form to require tax-exempt organizations to disclose foreign grants and gifts. Congress can also support academic and think tank transparency by requiring experts to publicly declare foreign funding before participating in congressional hearings and other policy influence activities.

Limit: Overhaul the U.S. legal framework on foreign interference

The United States is struggling to effectively counter Chinese and Russian foreign interference operations in part because U.S. regulators are using a legal framework designed for a different era. Congress passed the Foreign Agents Registration Act (FARA) in 1938 to combat Nazi propaganda.[56] Today's challenges are different; they require a different toolkit. The existing framework contains multiple loopholes that today's authoritarian regimes are vigorously exploiting. For example, FARA disclosure relies on voluntary compliance; it primarily covers lobbying and public relations work—not commercial activities; and there are broad exemptions, such as the exception for organizations involved in "religious, scholastic, or scientific pursuits," which gives Confucius Institutes a free pass. Congress should overhaul this legal framework to address the mix of challenges the United States faces today, which includes Chinese Students and Scholars Associations working on Beijing's behalf to curtail Chinese students' academic freedom on American university campuses and American companies accepting financing from foreign government-directed funds (such as China's IC fund) and utilizing it to help foreign governments acquire critical U.S. technology.[57] The overhaul should aim to bring these activities into the light instead of blocking them, and it should enable coordinated oversight across issue areas, which the United States currently lacks.

For example, if CFIUS identifies a Chinese commercial entity failing to disclose party or government ties, the committee should be able to hand that information over to a foreign influence process that requires U.S. firms who continue to accept funding from the Chinese entity to register as foreign agents before utilizing the funding for any future U.S. commercial deals.

Reform foreign influence rules to expose stealth acquisitions

China's Ministry of Finance recently used a series of front companies to circumvent both CFIUS and U.S. Department of Commerce export controls to successfully acquire Boeing satellite technology.[58] China's Ministry of Finance owns China Orient. U.S. regulators blocked a China Orient subsidiary—China Orient Asset Management Co.—from purchasing a U.S. satellite. China Orient Asset Management Co. then used two of its subsidiaries—one based in the Virgin Islands—to fund Global IP, a U.S. startup company, and utilize Global IP to purchase Boeing satellite technology, which China Orient then took over and likely passed on to the Chinese military. Requiring Chinese companies to declare their funding structures is not enough to expose deals of this nature. Legal reform is also needed to impose transparency on American companies who accept Chinese funding and, by doing so, allow Beijing to use them as covert technology acquisition agents.

Limit: Stop allowing Chinese security services to operate illegally within U.S. borders

Chinese security officials are entering the United States under false pretenses to monitor and harass individuals—Chinese nationals and American citizens—who possess damaging information about the CCP or share views the regime seeks to suppress. The Trump administration has blocked U.S. law enforcement efforts to arrest the teams conducting those illegal activities. For example, in 2017, Chinese Ministry of State Security (MSS) officials used short-term transit visas to enter the United States and pressure a high-profile Chinese defector to stop publishing negative information about Chinese leaders and to return with them to China.[59] The MSS officials repeatedly circled back to the defector's home, blatantly violating U.S. law and ignoring U.S. demands to leave the country. The FBI requested permission to arrest the MSS officials, but the Trump administration blocked that effort.[60] That case is reportedly one of many Chinese government intimidation and forced-rendition operations conducted against Chinese defectors, dissidents, and other political targets residing within the United States. The United States should adopt a strict zero tolerance policy regarding these operations. When law enforcement agencies discover Chinese security agents operating illegally within U.S. borders, they should prosecute those officials according to U.S. law instead of giving them a free pass. The United States should also publicize those cases, including by unsealing relevant indictments after arrests are made.

Leverage China's growing capabilities

Where China's strategic intent aligns with U.S. and broader global interests, the United States should seek to leverage rather than limit Chinese initiatives. Those opportunities are most prevalent on global public goods issues. From a Chinese perspective, stepping up to play a larger role in multilateral efforts to address common global challenges fills two national objectives. First, if the international community welcomes and supports China as a global leader, that provides external validation for the CCP's claim that it is restoring China's greatness on the world stage. Second, as China deepens its involvement in global issues, Beijing takes an increasingly active role to shape global institutions, norms, and outcomes in ways that further China's national interests. Those objectives give Beijing incentives to step forward in ways that the United States can and should leverage.

From a U.S. perspective, where multiple nations must share the burden to address a common global problem—such as climate change, international development, environmental degradation, nonproliferation, disaster relief, or a pandemic disease—U.S. interests are best served when all nations contribute their fair share. China is the second-largest economy in the world and on track to surpass the United States in less than two decades as the world's largest economy. If the United States allows China to free-ride on global public goods provision, the United States will inevitably carry some of China's weight, and problems will be harder to solve. On disaster relief and refugee issues, for example, China can make economic contributions that reduce burdens on the United States and other nations—and that, without which, some of these problems would be impossible to effectively address.

Beijing's need for international validation gives the United States—and the broader global community—an opportunity to press China to carry its weight. When other nations welcome and applaud China's leadership role on global challenges that buttresses the CCP at home. As the predominant global power, the United States has substantial leverage to shape the standards Beijing must meet to receive that validation. When the United States does not participate, China has more leverage to set those standards itself. The more the United States leans back diplomatically or cedes the field to China, the more discretion Beijing has to highlight positive impacts from Chinese actions; downplay or hide the negative impacts; and seek maximum international award at minimum cost.

To be sure, China's motives do not always align well with the broader global community, and in some cases the best U.S. approach is to counter rather than leverage. The United States should make that determination based on Beijing's stated objectives and intent. If Beijing claims its intent is to address a shared global challenge in ways that make the global community better off, the United States should leverage those claims to hold Beijing accountable for its promises to the global community. That is how the United States should have responded when China sought U.S. support for the Asia Infrastructure Investment Bank (AIIB), the multilateral development bank China launched in 2016 to finance infrastructure projects across Asia. Unfortunately, instead of seeking to shape that effort—which funnels Chinese financing through a transparent multilateral institution instead of the shady backroom deals China's state banks normally engage in—the Obama administration launched a failed attempt to convince other major industrial nations to boycott the AIIB.[61]

Where leveraging China's capabilities does make sense, the intent is active leverage rather than passive leverage. The United States has a role to play not only pushing China to contribute resources but also setting a high bar for China to live up to. Under the Trump administration, the United States is on exactly the wrong course on this front. The administration is leaning back across multiple multilateral efforts and giving Beijing wide leeway to shape the agenda and the standards by which its own performance will be judged. On climate change, for example, when the Trump administration announced its intention to pull the United States out of the Paris climate accord, that immediately elevated Beijing as a global climate champion and lowered the bar for critical assessments of its actual performance. On global economic issues, the Trump administration's stated distain for the WTO and other multilateral mechanisms is creating space for Xi Jinping to frame China as defending the international trading system against U.S. aggression, despite the fact that China is taking actions that undermine that system.[62]

The problem is that the Trump administration does not have a coherent strategy for leveraging China. The administration's National Security Strategy frames U.S. policy toward China through a zero-sum lens, suggesting that all of China's current global initiatives directly undermine U.S. national security and that the primary U.S. objective on all fronts is to limit and provide alternatives to China rather than leverage

China’s capabilities in ways that benefit everyone, including the United States. That approach forfeits opportunities to press China to carry its load on global public goods issues, increasing the extent to which critical problems will not be addressed adequately or to which others will have a greater burden to bear.

Going forward, the United States needs to turn this dynamic around. The aim is to maximize China’s positive contributions not only by pushing China to contribute more on common global challenges but also by raising the standards China must meet to receive the international validation Beijing seeks. The following sections outline some near-term opportunities to do so.

Leverage: Leverage China’s Belt and Road Initiative to support regional development needs

While the United States should not be naïve to the potential strategic impact of China’s Belt and Road Initiative, it should not repeat the mistake it made with the AIIB. Beijing claims the Belt and Road Initiative primarily seeks to support cross-regional development and connectivity. Those are shared regional and global objectives that the United States and other nations can use to hold Beijing accountable to its Belt and Road Initiative promises. While there are legitimate concerns that China will ultimately use this emerging economic and commercial backbone to project security and political influence, the U.S. should focus on addressing specific problems rather than seeking to block the initiative as a whole. The United States can leverage the positive aspects of China’s Belt and Road Initiative and simultaneously dilute and counter some of the negative impacts by:

- **Working with Belt and Road Initiative target nations to set up regional platforms for project transparency and accountability.** Beijing’s preferred approach is to set up Belt and Road Initiative projects in other nations via bilateral deals that are not fully disclosed to the public. That lack of transparency makes it difficult to accurately assess project impacts in addition to fostering corruption and crony capitalism. [63] The United States should work with existing institutions in Belt and Road Initiative target regions—such as the Association of Southeast Asian Nations (ASEAN) and the European Commission—to set up regional infrastructure investment transparency platforms that pool project oversight information in one centralized location. That information should include details such as lending terms; technology standards; how the project will benefit local public interests (such as environmental and employment impacts); and a proposed project’s greenhouse gas emissions impacts on recipient countries’ Paris climate agreement commitments. That information, once public, will empower Belt and Road Initiative target nations to push Beijing to improve project terms—including lower interest rates and higher project standards—and give the international community the information it needs to accurately assess and hold Beijing accountable for the initiative’s broader regional and global impacts.

- **Working cross-nationally to improve competition and choice.** For many Belt and Road Initiative target nations, the offers they receive from Beijing are the only offers on the table. This is particularly true when the recipient nation cannot pay the prices associated with higher project standards or more advanced technologies. In some cases, U.S. companies would like to put project proposals on the table to compete with China's, but they cannot match the financing Chinese firms receive from China's state banks. A more level playing field can drive higher quality projects, lower costs, and improve opportunities for U.S. companies to compete for at least some parts of these large projects. The United States should push international lending institutions to form capacity-building funds to help developing nations make the leap from low-standard to high-standard projects (for example, from high-emission coal plants to cleaner energy technologies). The United States should also get its own development financing in order. The U.S. Export-Import Bank, which provides financing for U.S. companies seeking to sell U.S. goods and services overseas, has not been fully operational since 2014. Last fall Congress authorized creation of the U.S. International Development Finance Corporation to support U.S. industry-led infrastructure development projects in emerging markets.[64] That was a critical step in the right direction. Going forward, the Senate must confirm a full slate of nominees to the U.S. Export-Import Bank Board to enable Ex-Im to support U.S. companies seeking to compete for projects abroad. The United States can then leverage those two institutions as well as partnerships with development banks in other nations—such as Japan—to support U.S. companies with the interest and capabilities to put their own offers on the table. These measures would leverage competition to improve project impacts and give recipient nations more choice.

Leverage: Encourage greater contribution to humanitarian assistance and disaster relief

Although the U.S. Pacific Command has led most of the strategic responses to major disasters in the Asia-Pacific region since the end of the Cold War, China has the capacity and resources to do more. The United States and China have conducted some joint exercises recently to execute complicated humanitarian assistance and disaster relief (HADR) operations in the region, but pushing China to share more of the burden would not only be good for the region but would also free up U.S. resources.[65] As China is growing its military, Beijing must show that it intends to use it for regional peace rather than the apparent aggression—and working more on HADR is one way to do that.

Leverage: Partner on global sustainability efforts

Xi Jinping and other Chinese leaders frequently state that China intends to fulfill its responsibilities to the global community on sustainability issues, and the United States has two near-term opportunities to leverage China's commitments and capabilities in this space.

First, the United States should re-engage in the Paris climate agreement—not only to advance and protect U.S. environmental, economic, and diplomatic interests but also to engage and, if/when necessary, challenge China on its performance in addressing climate change. Currently, the absence of U.S. leadership on climate is giving China wide leeway to set the standards by which the rest of the world is judging its actions. Although China is playing a largely positive role in this space, it is also hitting a difficult phase in its energy transition where coal use is trending upward, crude oil imports are soaring, and Belt and Road Initiative projects—many of which deploy outdated technologies—are contributing to greenhouse gas emissions in other nations. The United States needs to get its own house in order on the climate front, re-engage in the multilateral process, and lead an international effort to make sure China carries its weight.

Second, the United States should partner with China on ocean protection. Overfishing, pollution, and unchecked resource extraction are currently undermining global ocean health and producing a range of economic and national security risks. China is the world's largest seafood producer and has both the capabilities and interest to act to reverse current trends. The United States should work with China to improve standards in Chinese commercial aquaculture and to set up new marine protected areas, particularly in Asia, where fisheries are reaching crisis levels, and in Antarctica, where China joined Russia and Norway to block a proposal to protect a vast area of the Weddell Sea.[66] The United States should also engage with China to rightsize capacity in its distant-water fishing fleet, both for national security purposes and to ensure global food security and fisheries sustainability.

Leverage: Push China to meet its pandemic disease responsibilities

Global warming is bringing new pandemic disease risks. China's large population serves as a critical disease incubator, and, as the world's second largest economy, China has a large commercial presence in other nations and an outsized responsibility to work multilaterally to quickly respond to disease outbreaks. Despite that responsibility, China has a pattern of refusing to disclose outbreaks within its borders and refusing to share virus samples with the international community in a timely manner.[67] The World Health Organization Pandemic Influenza Preparedness Framework requires member nations to promptly share disease samples with other nations following major outbreaks, but China refused to share samples from a deadly bird flu outbreak it experienced in 2016–2017.[68] Without samples, the U.S. Centers for Disease Control is unable to develop vaccine and treatment protocols to prepare for a potential outbreak in the United States. The United States should establish new platforms for bilateral cooperation on pandemic disease and leverage the international community to push China for greater information transparency.

Compete at full strength

China is competing against the United States on three primary fronts, each of which will pose substantial risks to U.S. national interests: economic and technical preeminence; the Asia-Pacific region; the global order. On the economic front, the United States seeks to maintain its economic primacy; China seeks to surpass the United States on its own terms. In the Asia-Pacific, the United States seeks to maintain regional stability, support international rules and norms—including democracy and human rights—and prevent the emergence of a regional hegemon. Meanwhile, China is pursing national objectives that challenge the status quo and undermine stability—particularly in the maritime space and around Taiwan—and seeks to establish a sphere of influence.[69] At a global level, the United States wants to maintain a rules-based global governance system that not only promotes peace but also protects democracy and strives toward upholding universal rights; Beijing wants a system based on authoritarian governance principles in which nations negotiate issues bilaterally and are not held to common rules or standards.

It is natural for China to seek a stronger global position and stronger influence over global rules and norms as its capabilities grow, and the United States should not shy away from nor be intimidated by rising Chinese competition. The United States holds multiple advantages over China. The problem is that the United States is not effectively leveraging those advantages for two reasons.

First, the United States is failing to make the necessary strategic investments, both in its domestic economy and foreign and security policy. At home, the United States is not adjusting its economic policies to account for globalization. The international economy has shifted, but U.S. workers have not received the support they need to adjust to the consequences of an increasingly globalized economy. Wages are not rising despite strong economic growth, and the American middle class is being hollowed out. The United States has failed to establish domestic policies that ensure the benefits of growth are broadly shared; the result is increased inequality, stagnant wages for workers, and the lack of a viable economic model for shared prosperity in the 21st century. Going forward, the United States must make the necessary investments in the innovation drivers—science and technology education, R & D, among others—that are needed to sustain its comparative advantages in the global economy and pair those investments with policies that ensure gains are distributed equitably. A similar pattern is playing out on foreign and security policy, where the United States remains deeply invested—both in terms of resources and strategic focus—in the challenges of the past two decades.

Second, the United States is struggling to compete effectively with Beijing's gray-zone tactics—whether in the Asia-Pacific or in its efforts to exploit the openness of U.S. and international systems. Across the board, China avoids high-profile offensives that would trigger direct conflict or overly destabilize the U.S.-China relationship. Instead, China makes a series of seemingly incremental moves that—since they do not initially appear significant enough to trigger a large response—have left U.S. policymakers and regional governments on their back foot. Economically, China's predatory technology acquisitions and technonationalist industrial policies are enabling it to dominate global markets across multiple key industries. It is then using its vast economic power to coerce countries politically. Militarily, China has made massive modernization efforts aimed at closing the capability gap with U.S. forces, eroding regional confidence in their security credibility, and upending regional maritime stability. Within the global governance system, China is making a series of moves—such as eroding U.N. mechanisms for human rights accountability—that undermines liberal democratic norms and augments or replaces them with authoritarian ones.[70]

To counter this approach, the United States must target the broader pattern instead of the tactical moves and immediately shift to comprehensive competition both in the bilateral relationship and on the international stage. This is what Beijing is working diligently to avoid, and it is a key to U.S. success. To be clear, the goal is not to prevent or hinder China's rise; rather, the goal is to prevent China from fueling its rise and reshaping the international order in ways that are against fundamental U.S. interests. To be successful against this new and powerful competitor, the U.S. must first take steps to improve its own competitiveness. Even if China's illegal and predatory tactics are reduced or eliminated, China will still be a formidable economic and military competitor. The United States must invest in its own competitiveness and double down on its own comparative advantages—the advantages that China cannot match—and prepare itself to compete with China comprehensively over the long term and at full strength.

The following sections outline some specific steps for the United States to take.

Compete: Launch a National Competitiveness Initiative

For the United States to truly compete economically in the long-term with China, it needs to drive a strategic shift in how it invests in its most precious resource—the American people. The United States needs to treat this challenge akin to the launch of Sputnik for American national competitiveness and kick into high gear. The United States should design and fully resource a National Competitiveness Initiative that makes key long-term investments in its comparative advantages so that it can compete effectively against China—not just today but also for the long run. That initiative should include the following:

- **Make high-quality postsecondary education affordable for all Americans.** The United States has some of the best universities in the world, but many American families cannot afford to utilize them or, if they try to do so, suffer limited economic mobility due to crippling student debt. Low-income students are four-times less likely to earn a bachelor's degree than their high-income classmates.[71] They are also more likely to default on their federal loans—87 percent of students who entered college in 2003 and received a federal Pell Grant defaulted on their debt.[72] The United States cannot compete effectively if a high-quality college degree is only available to a slice of the population. The United States must break down financial barriers to higher education and, in their stead, create university on-ramps for the entire American talent pool. That will require a federal-state partnership that provides a debt-free undergraduate education for all students; tuition assistance for postgraduate science, technology, engineering, and math degrees; and funding to strengthen state and local public universities so the nation's best educational resources and opportunities are accessible to all Americans across the nation.[73]

- **Rebuild workforce development infrastructure.** The publicly funded job-training system is failing to keep pace with fast-paced technological change. Meaningful federal-level investments are required to turn that around.[74] While upskilling matters in bridging the opportunity gap, skills attainment alone is only a rough proxy of employment prospects when structural bias acts as another barrier to finding a good job. Future job prospects vary depending on several factors, including: whether a job-seeker has been unemployed for a long time; is a veteran or a woman in nontraditional training; has finished high school; has a disability; or has a first language other than English. With profound changes in the nature of work underway, the United States must adopt a more inclusive economic systems strategy that empowers workers to find future-proof jobs and strives toward equitable labor force participation and full employment. That will require the United States to redesign its workforce development system to better adjust to economic cycles and match its labor needs. Among other things, the United States must facilitate effective and equitable matching processes to quality jobs and embed and reinforce targeted interventions that maintain lifelong connections to work.
- **Moon-shot investment in national R & D**. China's R & D investments continue to rise significantly each year, approaching parity with the United States. To compete, the U.S. needs to jump start investments in R & D and technology across the national enterprise—not just within the Department of Defense.[75]
- **Invest in productive public infrastructure**. The federal government has significantly withdrawn from its role supporting the creation and maintenance of productive physical infrastructure. Net federal investment in nondefense has fallen sharply since the mid-1980s and is at its lowest level, relative to GDP, since 1948. The United States needs to increase public investment in the infrastructure that forms the foundation of the American economy—transportation, clean energy, water, community facilities, affordable housing, and high-speed internet—in a manner that leverages both federal funds and public-private partnerships to improve economic vitality throughout the country. That should include a special focus on areas where past discriminatory infrastructure investment policies exacerbated social

inequities.[76] To prepare all American communities for the challenges of the 21st century, public infrastructure design and siting must take into particular account the growing importance of the digital economy, wealth inequality, and climate change.

Compete: Fight back on trade in partnership with allies

Trade policy plays an essential role in U.S. competitiveness. The United States cannot compete at full strength without a strong and forward-looking trade agenda. That agenda must rest on a bedrock of sound domestic policy: The United States cannot compete effectively at a global level unless and until it enacts the right policies at home. The National Competitiveness Initiative outlined above should be one part of a broader domestic policy agenda aimed at putting the United States on a more sustainable trajectory—one that supports U.S. workers and sets the United States up to compete in new technologies and markets. That domestic agenda must be paired with an international-facing trade policy agenda that recruits U.S. allies and partners to form a united front on China. Currently, although China is undermining the global trading system by violating the rules and norms of that system and then using its market size to evade or undermine international enforcement efforts, Xi Jinping is portraying China as the system's key defender and a major force supporting globalization and open markets. The United States needs to shine a light on what China is really doing and drive a multilateral—not just bilateral—response. One of the challenges the next U.S. president will face is the fact that, in the Asia-Pacific region, the primary multilateral response to China—the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)—does not include the United States. The next president will need to devise a trade strategy that addresses that new dynamic. In the immediate term, there is a clear need and opportunity to take action on two fronts: the WTO and digital trade. The United States should:

- **Rally other nations to jointly file a nullification and impairment case against China at the WTO.** The WTO dispute settlement provisions give member nations the option to file cases against nations whose actions violate the organization at a foundational level and, by doing so, effectively nullify the benefits the organization was designed to provide its members. [77] It is time to pull that lever on China.[78] At a minimum, filing a nullification and impairment case against China will shine a light on what China is doing; how that destabilizes the system; and the need for dramatic system-level change. If the WTO rules against China, that will force China to either substantially change its policies or exit the organization. If the case fails, it will highlight the ways that the current system is unable to meet the challenge China poses and help build multilateral support for system-level reform, which could include a post-WTO multilateral trading system.
- **Negotiate a digital trade agreement with the European Union, Japan, and the Five Eyes intelligence-sharing partner nations (the United States, Australia, the United Kingdom, Canada, and New Zealand).** As the recent

CAP report “Mapping China’s Global Governance Ambitions” demonstrates, China’s digital infrastructure expansion poses multiple near-term risks, particularly on 5G mobile communications infrastructure.[79] The global internet is on track to become dependent on Chinese equipment and standards, and Beijing is leveraging that dependence to push authoritarian governance principles, including state control over internet activity. U.S. economic competitiveness depends on an open global internet. In 2016 the U.S. digital economy supported 5.9 million jobs at wages nearly twice the national average.[80] The United States exports over $400 billion per year in digital services; in contrast, soybean exports total around $30 billion per year.[81] Global commerce increasingly runs on digital infrastructure, and the United States cannot afford to sit back and allow China to control that infrastructure. The United States should work with like-minded partners to create a safe space for digital trade, one that enshrines open internet principles. That agreement should combine the digital two-dozen regulatory principles with European privacy rules, which the United States should adopt.

Compete: Launch a next-generation digital infrastructure initiative

Information and communication networks are the infrastructure of the 21st century. U.S. prosperity and national security depends on a secure and open global network that can provide a level playing field for U.S. firms engaged in e-commerce; support freedom of expression and global information exchange; and protect users from cyberthreats. China is currently threatening all of those objectives. Chinese firms are building and operating digital networks around the world that, according to current Chinese law, Beijing can use for intelligence-gathering and other objectives that further China’s national interests. Beijing is also leveraging China’s digital infrastructure presence in other nations to build global support for Chinese-style internet regulatory principles that give states the authority to control internet activity within their borders. Coordinated action is needed to keep the global Internet open and secure as it migrates toward next-generation technology standards—not only 5G, but beyond.

- **As the world transitions to high-speed digital infrastructure, digital backbone networks increasingly serve as broadcast networks.** Thus far, China’s Huawei has 30 commercial contracts to supply 5G equipment to other nations.[82] If Huawei follows the same model in 5G that it employed in 3G and 4G, some of those contracts will give Chinese firms control over network operations, including broadcast operations. That is already a problem in Africa where StarTimes—the Chinese media conglomerate and digital TV provider—often follows behind Chinese equipment providers.[83] African nations, in particular, are asking for international assistance to help ensure that rapid digitalization—which increasingly entails a move to Chinese technology, financing, and network operations—does not erode freedom of expression. The United States should lead a global effort among democratic nations to adopt common governance principles for managing broadcast traffic in the digital era. That effort should also address best practices for providing interoperability between free and open internet systems and those that utilize Chinese technology and governance principles. Following the Edward Snowden revelations, many nations may have concerns about Washington's motives. To help address those concerns, the United States should enlist independent actors with broad credibility to pressure the Internet Corporation for Assigned Names and Numbers (ICANN), the Internet Engineering Task Force (IETF), and other self-regulatory bodies to challenge Chinese efforts to erode the free and open global internet.

- **The United States should lead a global effort to ensure digitalization does not erode freedom of information.** The United States should make digital infrastructure financing a high-priority focus for overseas aid.[84] For many developing nations, China is the only low-cost option for digital infrastructure. Yet, the United States provides over one-third of global development aid. The United States should utilize that funding to provide a digital alternative for developing nations, giving them access to secure technologies and assistance to develop high-standard governance principles for a free and open internet. Those options must be as affordable as the Chinese alternative. Developing nations should not be forced to choose between network performance and affordability or internet freedom.
- **The United States should convene a global effort among democratic nations to develop and adopt a set of common principles and standards for artificial intelligence (AI) to ensure AI development does not threaten democratic governance or human rights.** That effort should incorporate civil society efforts and build on the work the European Union is doing to develop guidelines for trustworthy AI. The United States and the European Union should encourage all states to adopt these principles and standards and to monitor compliance by private and public sector actors. China is already a global leader in AI technology. China is also developing and utilizing AI technology to monitor and control its citizens domestically, and it is exporting those technologies to help other authoritarian regimes follow suit.[85] If China leverages its current position as an AI leader to set global technical and/or governance standards for facial recognition systems, machine learning, and other AI tools, that could erode freedom across the globe. If democracies work collaboratively to develop common AI standards and principles to protect citizen freedom, that will provide a critical counterweight.

Compete: Network a new Asia-Pacific regional security architecture

The best way to maintain peace in the Asia-Pacific is to build the strength of regional powers to deter China from attempting to undermine regional stability. The U.S. needs to invest in the defense capabilities of its regional partners and network a new regional security architecture grounded both in the rule of law and liberal values. The United States should build out and deepen its bilateral and multilateral cooperation with capable states such as Japan, Australia, the Republic of Korea, India, and others who share its values and interests with more frequent joint exercises, information sharing, security assistance coordination, and strategic dialogues. The purpose of this architecture is not to contain China but rather to constrain China's ability to impose its will on weaker states through security coercion by strengthening regional capacity in the long term and providing security space to less capable states. This approach should include:

- **Creating an informal Asia-Pacific Democracy Network**. The United States should try to create a quiet, informal group of countries beyond the high-profile Quadrilateral Security Dialogue with the goal of strengthening security cooperation in Asia by fostering and operationalizing day-to-day cooperation on security issues, including maritime security, defense planning, and joint exercises.
- **Launch a Strategic Advantage Initiative with India.** As a follow up to its designation of India as a Major Defense Partner in 2016, the United States should develop a government-wide Strategic Advantage Initiative focused on developing India's defense capabilities to ensure India has the capabilities to prevail against China in contested domains.[86]
- **Boost funding for building maritime capabilities in Southeast Asia.** These investments should include increasing funding for the U.S. International Military and Educational Training (IMET) program with a priority for Southeast Asian militaries and expanding the Southeast Asia Maritime Security Initiative launched during the Obama administration.
- **Transform the East Asia Summit (EAS).** The United States should work with ASEAN and regional allies to transform the EAS into a more robust forum for forging and enforcing security rules and norms in Asia. The eventual goal would be a forum where all countries could constructively discuss thorny regional security issues and convene in times of crisis to defuse tensions.

Compete: Make the necessary defense investments to ensure effective deterrence and defeat aggression

The U.S. edge against China in the western Pacific is decreasing as a result of China's investments in anti-access and area denial capabilities. If the United States is to effectively deter China in contested domains, the United States will need to continue to retool and strengthen its force posture in Asia, in conjunction with those of allies, as China's military capabilities grow. Specifically, the U.S. should redesign its power projection capabilities to counter China's anti-access and area denial investments, first, by fundamentally rethinking how the U.S. projects power into the region. The U.S. should reinvest in its abilities to ensure resiliency against attack, increase reliance on more survivable surface and subsurface vessels, and reduce dependency on a small number of vulnerable high-value fixed assets located within range of China's rocket forces. The U.S. should also invest in information warfare, global intelligence, surveillance, and reconnaissance (ISR), integrated command and control, long-range strike, and prepositioned equipment, such as munitions that can be used interoperably with allies. Some forward deployed U.S. forces are necessary to reassure allies and show U.S. resolve. However, those forces should be tailored to military capabilities the U.S. can uniquely provide and consistent with realigned roles for the United States and its allies.

Compete: Work collectively to uphold and defend democratic values

The United States must lead with its democratic values and view them as a comparative advantage, not a hindrance, in competition. The United States' values are part of what makes it distinct from China. A key component of competition must be to strengthen the global network of democracies and work together to uphold democratic values, both in international institutions and throughout the global governance system. This approach should include the following actions:

- **Lead a liberal democratic effort to protect and revitalize the global governance system.** Xi Jinping is working to undermine the current rules-based global order and transform it into one that is safe for autocracy. The United States must counter that effort. To succeed, the United States must join forces with other liberal democratic nations to figure out what democracies want the global order to look like over the coming decades and how to create more space within the international governance system for China and other developing nations without ceding ground on fundamental principles. With that common vision in hand, the United States must also lead a multilateral effort to push back against Chinese attempts to undermine the current system, such as China's efforts to undermine binding international law and human rights accountability at the United Nations. One possibility is for the United States to invest in transforming the existing Community of Democracies into a robust community that can coordinate action amongst democracies to solve major international challenges and fight back against China's attempts to undermine international institutions and norms.
- **Push Beijing to clarify its intent regarding global governance reform.** Xi Jinping has stated that China intends to "lead the reform of the global governance system" and that China's end goal is to make the system more balanced, democratic, and diverse, creating a "community of common destiny for all mankind."[87] However, foreign policy discussions within China and China's pattern of actions thus far indicate that Beijing's real aim is to make the system more authoritarian. When Xi Jinping and other Chinese leaders make lofty promises to the international community, the United States should challenge them to define the terms they are using and explain how specific scenarios—such as a difference in interests between nations—would play out under China's alternative vision for the global order.
- **Hold China accountable for its domestic human rights abuses, particularly those targeting Uyghurs and other marginalized groups**.

Domestically, China has arbitrarily detained an estimated 1.5 million Uyghur—along with members of other traditionally Muslim and Turkic ethnic groups—in massive extrajudicial internment camps.[88] Detainees released from the camps report beatings, forced consumption of unknown drugs, deaths in custody, forced labor, and other conditions that violate the United Nations Standard Minimum Rules for the Treatment of Prisoners and China's commitments under the United Nations Convention against Torture.[89] Internationally, China is using its seat on the U.N. Human Rights Council to put forward and pass U.N. resolutions that give states maneuvering room to abuse human rights in order to pursue other objectives such as economic development or social stability. In addition to calling out China and pursuing bilateral approaches to pressure China over human rights, the United States must immediately return to and re-engage in the U.N. Human Rights Council and rally other democracies to strengthen human rights accountability mechanisms.

- **Launch a comprehensive, whole-of-government Taiwan Relations Act implementation assessment.** In 2014, a youth-led social movement erupted in Taiwan to protest then-president Ma Ying-Jeou's attempts to sign a trade agreement with mainland China that many feared would undermine Taiwan's political independence. In 2016, Taiwan's citizens elected Tsai Ing-wen—who represented the independence-leaning Democratic Progressive Party—as president. Beijing responded with a pressure campaign that aims to isolate Taiwan diplomatically and—through interference in Taiwan's democratic system—undercut domestic political support for Tsai Ing-wen. The Taiwan Relations Act states that U.S. policy toward the People's Republic of China and Taiwan "rests upon the expectation that the future of Taiwan will be determined by peaceful means."[90] It is necessary to assess—in a comprehensive and empirical manner—whether mainland China's pressure campaign is violating that principle. The interference tactics Beijing is deploying in Taiwan mirror those Russia is deploying in the United States, using digital platforms and information warfare tactics that were not foreseen when Congress passed the Taiwan Relations Act in 1979. The United States should also assess how it has implemented the Taiwan Relations Act since 1979 and whether updates are needed to provide clear guidelines on issues such as defense requirements and exchanges between U.S. and Taiwan senior-level officials.

Compete: Position U.S. policy for success

The U.S. government cannot fully understand and address the scale of the China challenge without focused investments on its own human capital as well as its national policymaking process. It is essential that the United States improve its capacity to understand China and formulate well-informed policies.

- **Launch a U.S. government human capital strategy on China**. Since September 11, the U.S. government has made major investments in counterterrorism and in Middle East and South Asia expertise to address the security challenges that have dominated U.S. national security policy. It is now imperative that U.S. departments and agencies make strategic investments in developing deep expertise on China, especially foreign language proficiency, in order to generate better policy and strategy. Understanding and adequately addressing the China challenge will require personnel who can read and speak Chinese; who understand the complex Chinese political system and how it operates; and who have studied the deep history of the Chinese people. It is also essential to increase the number of diplomatic, defense policy, economic, and commercial personnel dedicated to the China challenge.

- **Improve U.S. policy integration on China.** To ensure that the U.S. government can strategically address the China challenge across the national enterprise, the U.S. should establish more integrated policymaking and decision-making on China. Joint meetings of the National Security Council, National Economic Council, and Domestic Policy Council should be institutionalized to ensure that national policy planning on China is more strategic. The next president should consider issuing a policy directive to lay out a strategic framework and national goals with respect to China that will organize and drive U.S. government efforts.

- **Invest in the Chinese language pipeline.** Developing human capital with the relevant skills to meet growing demand for China expertise from the U.S. government, civil society, and the private sector will require a redoubled investment in Chinese language instruction in the U.S. school system. Federal and state governments should include Chinese language programs as a priority for funding and should support utilization of online learning programs both to improve access to Mandarin instruction in remote or underserved communities and to offer instruction in less commonly taught languages such as Cantonese, Uyghur, and other regional dialects.

Deterring Chinese aggression in maritime Asia

The most difficult decisions for the United States in maintaining stability in Asia will come when faced with confronting Chinese assertiveness in maritime hotspots such as the South China Sea and the East China Sea. In both cases, China uses gray-zone—or salami-slicing—tactics to methodically pressure other countries with competing sovereignty claims without being so aggressive as to trigger a response from the United States or the international community. Individual disputes are unique, and U.S. policy approaches to each must likewise be unique. However, there are important principles that should inform U.S. policy across the board. Encroaching Chinese capabilities and assertiveness will, over time, make it more difficult for the United States to effectively deter or respond to Chinese actions in maritime hotspots.

Principles for U.S. approach to Asia's hot spots

- **Defend treaty allies.** The United States must uphold its defense treaty commitments to the two countries—Japan and the Philippines—involved in territorial and maritime disputes with China in order to maintain stability in Asia and to uphold broader norms of nonaggression. The United States must send early, direct, and consistent signals to China and to its allies and partners in the region that the United States will come to the defense of its allies and partners in the event of Chinese aggression. To do so, the United States must be willing to choose opportunities to demonstrate its relevant military capabilities in order to reinforce deterrence.
- **Uphold international law and norms.** Many of China's tactics in these hotspots intentionally avoid outright aggression but rather seek to coerce by using force to dissuade other countries from sailing in international waters, for instance. This requires the United States to stand firm when international principles such as freedom of navigation are violated and continue to fly, sail, and operate wherever international law allows, despite China's protestations. To strengthen its own position, the United States should ratify the U.N. Convention on the Law of the Sea (UNCLOS) as soon as possible. The United States should also work multilaterally with other like-minded nations to reinforce these rules and norms, for example, with joint or coordinated navigation and overflight operations. The United States should also support other countries' use of international legal mechanisms to challenge China's excessive maritime claims and actions, such as when the Philippines did by bringing a case to the International Tribunal on Law of the Sea.
- **Uphold regional stability.** While deterring China and responding to its coercive activities, the United States must also emphasize regional stability as essential for its allies, partners, and for the interests of the American people. This means prioritizing intensive bilateral and multilateral diplomacy with China to find ways to reduce tensions, such as fostering discussions amongst claimant states in the South China Sea and using the East Asia Summit to find frameworks for operating in the air and maritime space.

Manage risks to reduce chances of miscalculation and conflict

As China continues to rise and the United States seeks to maintain its influence, the two countries will continue to encounter one another on the high seas, in international institutions, and throughout the global economy. Throughout all the policy areas outlined above, the United States must continue to develop and strengthen efforts to manage the risks associated with increasingly competitive U.S.-China relations. These efforts should include:

- **Cultivating open communication channels at key bureaucratic levels.** Beyond formal meetings, there also need to be better infrastructure to support informal communications between both countries' officials. In addition to regular high-level dialogues between security, military, and economic officials, U.S. and Chinese leaders must have a consistent and regular dialogue. The two countries should also ensure that the high-level dialogue on sensitive and difficult security challenges—bringing together senior leaders from the defense, military, and intelligence agencies—actively continues regardless of tensions.
- **Strengthening mechanisms to reduce the chances of miscalculation and conflict.** The United States and China should build mechanisms and protocols that ensure that unsafe military encounters and accidents do not escalate in the South China Sea and beyond.[91] In addition to conventional military operations, the two countries should also discuss cyberinterventions and work toward a shared understanding of the rules of the virtual road. Although the two countries may not fully agree on those rules, some clarification of red lines can help manage expectations, reduce miscalculations, and limit unintended escalation.
- **Message the threat accurately and hedge against misunderstanding.** There is a risk that overstatement of the disagreements between the two countries will further close the remaining space for cooperation as each side begins to interpret the relationship as increasingly zero sum. Therefore, both sides must carefully articulate where shared interests remain, which requires officials in positions of responsibility to be judicious in how they describe the threats posed by the CCP and the policies they recommend to address them. The U.S. government should make clear that it is concerned about the actions of the Chinese government and avoid painting the actions of the CCP as representative of all Chinese people.

Conclusion

Two decades into the 21st century, China's ambitions—economic, political, and territorial—have created a global storm. If the United States maintains its current course, it will cede substantial ground to China.

To turn this dynamic around, the United States must reinvest in its own unique strengths and principles. At home, it must address its economic challenges head-on and invest in the fundamental drivers of economic prosperity and national security. Globally, it must reach out multilaterally to lead and build a united front with allies and partners.

With those core fundamentals in place, the United States can then execute a strategy that limits China's ability to exploit its openness; leverages China to contribute its growing capabilities in ways that benefit the global common good; and positions the United States to compete more comprehensively over the long term.

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