

## Chapter 2

# The United States and Competition with China

America's Entrenched Hardline Posturing

**ARAKAKI Hiromu**



The Chinese and U.S. leaders at their meeting on the margins of the G20 Summit held in Bali, Indonesia, November 14, 2022 (Xinhua/Aflo)

**A**MERICA'S APPROACH to the People's Republic of China (PRC) has undergone a significant shift in recent years. Since the establishment of diplomatic relations following the U.S.-China rapprochement in the 1970s, engaging and supporting China had been the longstanding fundamental policy even after the end of the Cold War. This changed with the Donald Trump administration that took office in 2017, which proclaimed that the 40-plus-year U.S. policy toward China had been premised on erroneous understanding and expectations. Assessing that China and Russia "challenge American power, influence, and interests, attempting to erode American security and prosperity," the administration sets out to address such political, economic, and military competitions. This marked a major shift in policy toward strategic competition with China. Subsequently, the Joseph Biden administration, which came into power in 2021, vowed to "compete responsibly with the PRC,"<sup>1</sup> leaving unchanged the fundamental approach of competing with China.

The purpose of this chapter is to examine the U.S. policy on China since the George W. Bush administration and to shed light on the policy shift toward strategic competition with China and its background. Specifically, it focuses on: (1) when the United States strengthened its hardline posture toward China and the factors behind it; (2) how the U.S.-China competition has unfolded as an established approach since the Trump administration; and (3) whether the United States' hardline stance against China will continue.

This chapter is structured as follows. It first discusses the growing U.S. distrust of China within the government since the post-Cold War era, especially since the 2010s, and how a hardline posture toward China ushered in a clear policy shift during the Trump administration. The chapter then focuses on the military, diplomatic, and economic spheres where the competition with China mainly plays out. It explains the interests and values that Washington is attempting to maintain and acquire in these fields and its policy pursuits. Lastly, this chapter examines whether the U.S. hardline stance against China will continue, with a particular emphasis on managing the U.S.-China competition that will be critical in such a scenario.

## The Adoption of a Hardline Stance against China

### *Washington's Growing Vigilance toward Beijing*

Since the 1970s, the United States had the fundamental policy of engagement toward China, which called for strengthening political, social, and economic

relations with China to pursue U.S. interests.<sup>2</sup> This approach, which was initiated for security reasons to rein in the Soviet Union, remained in place even after the end of the Cold War, against the backdrop of Washington's increasing economic and political hopes for China.

Then came the Trump administration in 2017, which made a major reversal to this policy inherited from the Richard Nixon administration through the Barack Obama administration. The 2017 *National Security Strategy* (NSS2017) affirmed that the premise of the engagement policy—"the assumption that engagement with rivals and their inclusion in international institutions and global commerce would turn them into benign actors and trustworthy partners...turned out to be false."<sup>3</sup> The strategy took a clear hardline posture toward China, identifying it as a country which poses a challenge by attempting to erode U.S. security and prosperity. The NSS2017 explicitly stated that competition with China, along with Russia, would be at the core of national security policy, construing that great power competition had reemerged in the international landscape.

The Trump administration's new approach to China has been inherited by the Biden administration. President Joseph Biden stated that China was the United States' "most serious competitor," while Secretary of State Antony Blinken echoed that the competition with China is the "biggest geopolitical test of the 21st century." Kurt Campbell, deputy assistant to the president and coordinator for the Indo-Pacific, declared that "the period that was broadly described as engagement has come to an end" in the history of the U.S. policy toward China, and expressed the view that this policy trend was irreversible.<sup>4</sup> The *National Security Strategy* released in October 2022 (NSS2022) describes the PRC as "America's most consequential geopolitical challenge" and sets out the goal of "out-competing China."<sup>5</sup>

The reason for this recent significant shift in policy owes to the fact that, since the 2010s, there has been a gradually widening gap between Washington's high hopes for China on which the engagement policy rested, and the reality brought to the fore by the actions of the rising power.

George W. Bush had demonstrated a hardline posture in his presidential campaign speeches, referring to China as a "strategic competitor." But after taking office in 2001, his administration welcomed "the emergence of a strong, peaceful, and prosperous China" and pursued an economic-centric cooperative policy.<sup>6</sup> A major development in the China policy was the U.S. approval of the PRC's accession to the World Trade Organization (WTO) in November 2001. As a result of China's WTO accession, U.S. exports to the country nearly tripled by 2008, while U.S. investments in China increased more than five-fold due to the easing of restrictions. Japanese, Korean, Taiwanese, and Hong Kong investments in China also saw a sharp rise.<sup>7</sup>

Economic cooperation and assistance to China were not driven solely by U.S. economic interests. The United States anticipated that Chinese economic growth spurred by economic cooperation would eventually increase social and political freedom in China and, in turn, transform the one-party rule of the Chinese Communist Party (CCP) into a democratic political system. The *National Security Strategy* released in September 2002 argued that democratization of China would bring about future prosperity. It expressed strong expectations that the force of market doctrine and China's transparency and accountability required by the WTO will "advance openness and the rule of law in China to help establish basic protections for commerce and for citizens."<sup>8</sup>

During President Bush's second term, a debate emerged that an economically growing China should not only democratize but also become a "responsible stakeholder" which, as a member of the international community, adheres to international rules and plays an important role in solving global issues, such as terrorism and the proliferation of weapons of mass destruction. This debate, sparked by Deputy Secretary of State Robert Zoellick's September 2005 remarks to the National Committee on U.S.-China Relations, reflected concerns about the "peaceful rise" of China, while welcoming its integration into the international economic system.<sup>9</sup>

Among the concerns was the lack of transparency in China's rapid military modernization and buildup. Other anxieties included dissatisfaction with the restrictions on foreign company activities in China, as well as intellectual property rights violations, the trade imbalance that saw a growing trade deficit with China every year, and the issue of renminbi's exchange rate.

In September 2006, the Bush administration attempted to address economic frictions by establishing a framework called the U.S.-China Strategic Economic Dialogue (SED).<sup>10</sup> The administration did not, however, change its engagement posture toward China, despite the above growing concerns and heightened sense of caution. The fact that U.S. attention was turned to the war on terror, principally in Iraq and Afghanistan, played a major factor in Washington's continued engagement with the PRC, as did the cooperative stance of the Hu Jintao administration vis-à-vis the United States, as in the slogan of "keeping a low profile" discussed in Chapter 1.

The Obama administration, which came into office in 2009, emphasized a cooperative relationship with China from the outset in contrast to the Bush administration. While there were concerns about China's future actions, the administration hoped to draw out Beijing's cooperative actions in solving other challenges, such as the fight against terrorism centered in Iraq and Afghanistan, nuclear development by North Korea and Iran,

and climate change. The *National Security Strategy* released in May 2010 explicitly welcomed "a China that takes on a responsible leadership role in working with the United States and the international community to advance priorities like economic recovery, confronting climate change, and nonproliferation."<sup>11</sup>

Indeed, China displayed a cooperative posture as if to respond to U.S. expectations in the war on terror and tackling the Iran and North Korea nuclear issues. On climate change, despite criticism of China's passive behavior at the 15th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, which was held in Copenhagen in December 2009,<sup>12</sup> four joint U.S.-China statements on climate change were issued between 2013 and 2016,<sup>13</sup> and cooperation was advanced in this field.<sup>14</sup>

Attaching importance to bilateral consultations, the Obama administration sought to create a dialogue mechanism called the U.S.-China Strategic and Economic Dialogue (S&ED), which adds a new framework to SED for security discussions joined by foreign ministers. The United States and China reached an agreement to establish S&ED in April 2009. They held the first round of talks in Washington in July 2009 and annually thereafter through 2016.

In this way, the cooperative aspect of U.S.-China relations was fostered under the Obama administration. Meanwhile, the competitive and confrontational aspects also deepened, primarily in the security and economic domains. Heightening concern and wariness toward China were particularly salient in the realm of security. They stemmed from the continued modernization of the People's Liberation Army (PLA) and the immense improvements in its Anti-Access/Area Denial (A2AD) capabilities that can affect U.S. force projection and operations. Such concern and wariness grew, principally among senior government officials who prioritized engagement with Asia, such as Kurt Campbell, assistant secretary of state for East Asian and Pacific affairs; Hillary Clinton, secretary of state; and Jeffrey Bader, senior director for Asian Affairs on the National Security Council. They in turn led a policy debate that the focus of U.S. security policy should be shifted from the Middle East, particularly Iraq and Afghanistan, to the Asia-Pacific region.<sup>15</sup>

In November 2011, Secretary of State Clinton published an article in *Foreign Policy* titled, "America's Pacific Century." It called for the United States to shift its focus away from Iraq and Afghanistan and pivot to Asia, arguing that the fate of the world will be determined in the Asia-Pacific region. That same month, in an address to the Australian Parliament, President Obama stated he had "made a deliberate and strategic decision—

as a Pacific nation, the United States will play a larger and long-term role in shaping [the Asia-Pacific] region.”

In the second term of the Obama administration, there was even greater dissatisfaction and wariness toward China in the security and economic domains, largely due to the intensification of its hardline territorial claims and moves to establish *fait accompli* in the East and South China Seas.

In the East China Sea, the Chinese Ministry of Defense unilaterally declared the establishment of “the East China Sea Air Defense Identification Zone” on November 23, 2013. The ministry claimed that aircraft flying in the zone must comply with its procedures, and if not, “defensive emergency measures” would be taken. In the following month, a PLA Navy vessel interfered with the U.S. Navy’s Aegis cruiser USS Cowpens that was sailing in the South China Sea. In August 2014, a PLA Air Force aircraft made a close intercept of the U.S. Navy’s P-8A Poseidon patrol aircraft flying over international waters in the same area.

A particularly significant development in the South China Sea was China’s construction of massive “artificial islands.” Starting around December 2013, China began filling in low-tide elevations, which are coral reefs that are submerged at high tide and cannot be used to determine territorial sea. These reclamations were carried out in multiple areas where China has territorial disputes with neighboring countries, such as the Philippines, Vietnam, and Malaysia. The United States raised concerns not only about this act itself, but also about the enormous scale of China’s land reclamations and about the building of military facilities and deployment of military forces on these islands.

In addition to security-related confrontations, the United States became increasingly dissatisfied with China in the economic sphere, which has functioned as a driving force in its engagement with China. The U.S. trade deficit with China continued to grow, increasing 1.5 times from \$226.8 billion in 2009 to \$346.8 billion in 2016.<sup>16</sup> Furthermore, the unresolved issue of non-tariff barriers, including restrictions on foreign company access to the Chinese market, mounted U.S. frustration.

The Obama administration had maintained the policy of engagement toward China. However, from around the 2010s, it began to adopt a harsher view of the PRC due to a reality that diverged from U.S. expectations.

### ***The United States’ China Policy and Its Assumption of Geopolitical Competition***

Washington’s greater sense of caution toward China in the 2010s manifested as a shift in the engagement policy under the Trump administration. The

administration adopted a severer policy toward China, putting considerable focus on competition and confrontation rather than cooperation. The NSS2017 reveals that the United States was dissatisfied with China for betraying U.S. hopes that supporting economic growth and integrating the PRC into the international order would lead to its liberalization: “Contrary to our hopes, China expanded its power at the expense of the sovereignty of others.”

In the same vein, the *Summary of the 2018 National Defense Strategy* identified China as a “strategic competitor,” raising issues with the way China and Russia are attempting to shape a world complying with their authoritarian model; how China is taking advantage of military modernization, influence operations, and predatory economics to coerce neighboring countries to reconstruct the Indo-Pacific regional order; and China’s way of seeking regional hegemony through military modernization. The strategy then made clear that “Long-term strategic competitions with China or Russia are the principal priorities for the Department [of Defense].”<sup>17</sup>

The Trump administration’s severe posture toward China came to the forefront again in a speech on the China policy delivered by Vice President Mike Pence at the Hudson Institute in October 2018.<sup>18</sup> Pence highlighted the notable challenges posed by the PRC in the military, economic, and political fields and called on the U.S. people to be vigilant.

At the top of the list was China’s influence operations in the United States. Vice President Pence criticized the country for “employing a whole-of-government approach, using political, economic, and military tools, as well as propaganda” to influence U.S. domestic politics and policies and to expand China’s influence and benefit its interests in the United States. In the economic domain, he pointed to China’s theft of U.S. intellectual property, including cutting-edge military technology, and coercion of U.S. firms operating in China to provide their trade secrets, all in order to take the lead in advanced technology. Additionally, Vice President Pence mentioned China’s use of rapid military buildup to ramp up activities in the East and South China Seas.

Although the Biden administration has inherited the Trump administration’s thinking on great power competition with China and Russia, its national security policy places more emphasis on China than its predecessor’s. The NSS2022 describes that the PRC is “the only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it,” and that “the next ten years will be the decisive decade” in the U.S.-China competition. Under this strong sense of urgency, it states that the United States will be “out-competing the PRC in the technological, economic,

political, military, intelligence, and global governance domains.”<sup>19</sup>

At the same time, the Biden administration explains, “While we compete vigorously, we will manage the competition responsibly.” Specifically, “We will seek greater strategic stability through measures that reduce the risk of unintended military escalation, enhance crisis communications, build mutual transparency, and ultimately engage Beijing on more formal arms control efforts.” Indeed, the Biden administration has proactively held dialogues with the Chinese government, including a summit meeting with President Xi Jinping.

Since the 1970s, the U.S. policy toward China has been based on the cooperative approach of engagement. In the post-Cold War era, this policy rested on the United States’ unilateral expectation that economically growing China would play a responsible role in maintaining the international order, and that the PRC would loosen the CCP’s one-party control and eventually transition to a democracy. Contrary to such expectations, China’s actions have been viewed as going against U.S. interests, which has heightened wariness toward China within the United States. This wariness intensified from around the 2010s and ultimately shifted the policy from engagement to strategic competition with China during the Trump administration. It is necessary to understand what the United States means by strategic competition with China and what that situation exactly is.

## U.S.-China Rivalry

### *Competition in the Military and Diplomacy Domains*

The main areas of competition with China are the military and diplomacy domains. To maintain peace and stability in the Indo-Pacific region, the United States is taking steps to prevent an armed unification of Taiwan by the PRC, as well as responding to its increasingly hardline territorial claims in the East and South China Seas and to unilateral efforts to establish fait accompli, both of which have become more pronounced in recent years.

A particularly critical and challenging task is to ensure the superiority of the U.S. forces over the PLA. Under the strategic goal of the “great rejuvenation of the Chinese nation,” China has consistently proceeded with the PLA’s modernization program, aspiring to build a “world-class” military that can “fight and win” to resolutely protect the interests of national sovereignty, security, and development.<sup>20</sup> In response, the United States is pursuing the development of deterrence and defense capability of the U.S. forces that can deal with all aspects of conflicts, including the so-called gray

zone stage where armed conflict is absent.

The challenges underlying the capability building of the U.S. forces is the PLA’s A2AD capabilities. They include elements such as precision strike capability, a typical example being anti-ship ballistic missiles, as well as air defense systems, medium-range hypersonic weapons, and air power. These capabilities have been regarded as major threats that inhibit U.S. force projection and operations in the Western Pacific.

In November 2022, the Department of Defense (DOD) released its annual report to Congress, *2022 Military and Security Developments Involving the People’s Republic of China* (2022 CMPR). It states that China is aggressively developing A2AD capabilities based on a “counter-intervention” strategy to “dissuade, deter, or, if ordered, defeat third-party intervention in the Asia-Pacific region.”<sup>21</sup> The report lists several capabilities, including: (1) precision strike capability and intelligence, surveillance, and reconnaissance (ISR) by the Strategic Support Force to detect, identify, target, and conduct battlefield damage assessments for precision strikes; (2) an early warning radar network, diverse surface-to-air missile (SAM) systems, and ballistic and cruise missile systems; (3) hypersonic weapons; and (4) aviation forces capable of long-range operations beyond the First Island Chain.<sup>22</sup>

The U.S. forces keyed in on the A2AD capabilities of the PLA from early on. In the *Quadrennial Defense Review* (QDR) released in 2001, defeating A2AD threats was set forth as an operational goal of the U.S. forces.<sup>23</sup> However, the U.S. forces did not begin to consider tangible responses until the latter half of the 2000s. In 2009, at the direction of Secretary of Defense Robert Gates, mainly the U.S. Air Force and Navy began studying the Air-Sea Battle (ASB) Concept as a means to counter A2AD threats.<sup>24</sup>

The development of the ASB Concept was advanced in the Air-Sea Battle Office (ASBO), established in November 2011, which included the U.S. Marine Corps along with the U.S. Navy and U.S. Air Force. An outline of the concept was released in May 2013.<sup>25</sup> It indicated that the U.S. forces would aim to develop “networked, integrated forces capable of attack-in-depth to disrupt, destroy and defeat” (NIA/D3) the adversary’s A2AD threats.

Rather than focusing on neutralizing long-range precision strike capability and other specific enemy capabilities, the underlying idea was to attack the adversary’s kill chain at any stage, whether it be (1) disrupting adversary command, control, communications, computers, intelligence, surveillance, and reconnaissance, (2) destroying adversary A2AD platforms and weapons systems, or (3) defeating adversary employed weapons and formations, in order to disrupt and destroy their functions and render their entire A2AD capabilities ineffective.<sup>26</sup> The ASB Concept assumes that the

NIA/D3 will have somewhat neutralized A2AD threats, allowing for force projection and operations to be conducted.

Subsequently, in January 2015, the study of ASB was placed under the monitoring of the Joint Staff J7 Directorate for Joint Force Development, and the concept name was changed to “Joint Concept for Access and Maneuver in the Global Commons” (JAM-GC). JAM-GC, officially approved in October 2016, expanded the operational domains from not only sea and air, which were the focus of ASB, to five battle domains including land, space, and cyberspace. Moreover, in contrast to the previous emphasis on operations from outside the enemy’s A2AD threat range, JAM-GC places focus on operations within the threat range by implementing and building a logistics system that assumes distributed operation, resilience, and attrition and disruption by enemy attack.<sup>27</sup>

As explained, in the latter half of the 2000s when discussions emerged about the PLA’s A2AD threats, the focus was on how the U.S. forces would neutralize these threats through attacks. Then, from the latter half of the 2010s, a key focus of the debate became how to defend the operational systems of the U.S. forces from PLA attacks. Behind this change was the recognition that the military power of China has unquestionably increased and, capability wise, the PRC had become a “peer adversary” to the United States. In addition to traditional A2AD threats, the PLA’s improved capabilities in space, cyberspace, and the electromagnetic spectrum have made it all the more realistic that various U.S. force systems would be vulnerable to threats—not only its force projection capability and sustained operations but even its situational awareness capability and decision-making systems in which the U.S. forces had superiority.

This was referred to as the “systems destruction warfare” threat for the first time in the 2022 CMPR.<sup>28</sup> According to the report, the PLA aims to conduct Multi-Domain Precision Warfare, which leverages the “network information system-of-systems” that incorporates advances in big data and artificial intelligence (AI) to rapidly identify vulnerabilities in the U.S. force operational system and then launches precision strikes against those vulnerabilities by employing joint forces across multiple domains.<sup>29</sup>

Against this backdrop of changes in the perception of China’s military threat, Secretary of Defense Mark Esper instructed the Joint Chiefs of Staff to develop the Joint Warfighting Concept (JWC) for the entire U.S. forces in July 2019. JWC (classified) was approved by Secretary of Defense Lloyd Austin in around June 2021.<sup>30</sup> At its core is the so-called Joint All Domain Operations (JADO), which is defined as “actions by the joint force in multiple domains integrated in planning and synchronized in execution, at speed and scale needed to gain advantage and accomplish the mission.”<sup>31</sup> It

postulates the idea of gaining an advantage by making decisions faster than an adversary with equivalent capabilities.<sup>32</sup>

Based on this understanding, the U.S. forces is developing a next-generation command and control system called Joint All Domain Command and Control (JADC2), which utilizes AI technology. The goal of JADC2 is to combine the sensors and strike capabilities of all U.S. force services into a single network, enabling an immediate and efficient kill chain process.<sup>33</sup> Each military service has developed its own tactical network that is different from the other services. This has resulted in a kill chain process that takes several days to analyze the operational environment, select targets, select attack methods, and issue attack orders. To address this problem, JADC2 aims to provide an environment that allows for faster decision-making by enabling intelligence, surveillance, and reconnaissance data to be sent and received across the U.S. forces through a massive cloud-like communication network.<sup>34</sup>

While the development of JADC2 has been underway at the DOD since around 2019, this project was originally being considered by the U.S. Air Force. The U.S. Army has also started a similar program called “Project Convergence,” and in September 2020, agreed to develop it together with the Air Force. The U.S. Navy has informally agreed to develop the Joint Battle Network with the Air Force in November 2019.<sup>35</sup> Development experiments are now being conducted under the monitoring of the Joint Staff J6 Directorate for Command, Control, Communications, and Computers/Cyber. The JADC2 Cross-Functional Team (JADC2-CFT) was established in January 2020, consisting of representatives from the military services, unified combatant commands, relevant government agencies, and allies, and has been placed under J6.<sup>36</sup>

The Biden administration, which pledges to strengthen relationships with allies and partners, is working to enhance collaboration also in efforts of the U.S. forces.<sup>37</sup> For example, JADC2 is being advanced not only with the participation of Australia, the United Kingdom, Canada, and New Zealand.<sup>38</sup> Nineteen allies and partners participated in Bold Quest 22, which was conducted in August 2022 to test ISR sharing among allies.<sup>39</sup> In September 2021, the creation of a security partnership between Australia, the United Kingdom, and the United States (AUKUS) was announced as a framework for cooperation on technology development, including acquisition of nuclear-powered submarines by Australia and emerging technologies. In addition to these initiatives, the United States has continued to hold military exercises in the Indo-Pacific with allies and partners, such as Japan, Australia, and the United Kingdom.

Alongside enhancing U.S. force capabilities, the United States has

been engaged in efforts to strengthen the relationship with Taiwan. The Biden administration maintains the one China policy, which is guided by the Taiwan Relations Act, the Three Joint Communiqués of 1972, 1979, and 1982, and the Six Assurances given to Taiwan by the Reagan administration. The NSS2022 outlines the U.S. position to “oppose any unilateral changes to the status quo from either side, and [not to] support Taiwan independence.”<sup>40</sup> Furthermore, at the U.S.-China summit, which was held on November 14, 2022 on the margins of the G20 Summit in Indonesia, President Biden explained to President Xi Jinping that America’s “one China policy has not changed, [and] the United States opposes any unilateral changes to the status quo by either side.”<sup>41</sup>

Meanwhile, Washington has demonstrated an intention to “uphold [its] commitments under the Taiwan Relations Act to support Taiwan’s self-defense and to maintain [its] capacity to resist any resort to force or coercion against Taiwan.”<sup>42</sup> At a Senate Foreign Relations Committee hearing on December 8, 2021, Ely Ratner, assistant secretary of defense for Indo-Pacific security affairs, stated, “bolstering Taiwan’s self-defenses is an urgent task and an essential feature of deterrence,” and that “DoD is taking an increasingly proactive approach to supporting these efforts as [it] continue[s] upholding [its] commitment under the Taiwan Relations Act to make available to Taiwan relevant defense articles and services.”<sup>43</sup> As of December 2022, the total amount of weapons sold by the Biden administration to Taiwan amounted to approximately \$2.9 billion, including Harpoon anti-ship missiles, Sidewinder air-to-air missiles, and spare parts for F-16 and C-130 maintenance.<sup>44</sup>

In response to China’s assertive territorial claims and acts to establish fait accompli in the East and South China Seas, the United States continues to publicly disclose and criticize the PRC’s actions. At the same time, the United States has reiterated that Japan-administered Senkaku Islands are covered under Article V of the Japan-U.S. Security Treaty, that the U.S.-Philippines Mutual Defense Treaty covers armed attacks on Philippine forces, public vessels, and aircraft in the region including the South China Sea, and that the United States supports the 2016 Arbitral Tribunal ruling that China’s territorial claims in the Philippines’ exclusive economic zone have no legal basis.<sup>45</sup>

Furthermore, U.S. Navy and Coast Guard vessels continue to carry out freedom of navigation operations (FONOPs) in the South China Sea and the Taiwan Strait, while U.S. Air Force aircraft conduct overflight operations in the region including the East China Sea. In recent years, Washington has imposed sanctions on Chinese firms and government officials involved in South China Sea activities. Capacity building support for Southeast Asian

countries is another major U.S. policy. Maritime security assistance was initiated during the Obama administration in the form of the Southeast Asia Maritime Security Initiative, which has been renamed and continued under the Trump administration as the Indo-Pacific Maritime Security Initiative, targeting Indonesia, Malaysia, the Philippines, Thailand, Vietnam, Sri Lanka, and Bangladesh.<sup>46</sup> In recent years, the United States has also sought to improve Maritime Domain Awareness (MDA) capabilities of relevant countries through the quadrilateral security cooperation (Quad) among Japan, the United States, Australia, and India.<sup>47</sup>

### *Spillover Effects on the Economy*

The economic sector has emerged as a new domain of U.S.-China competition. While this sector has supported a cooperative relationship between the two countries, it has become more competitive and confrontational in the face of their security tensions. That said, the recent situation has been not so much a deterioration of the overall Sino-U.S. economic relationship as a competition in areas closely intertwined with U.S. security—a competition for technological supremacy and a competition for building supply chains.

In terms of technological dominance, the United States is in a contest to secure future technological supremacy with China in mind. Beijing’s recent industrial policy has sought to strengthen domestic resilience by reducing reliance on foreign supply chains and boosting domestic demand, including increasing domestic production.<sup>48</sup> Specifically, in line with “Made in China 2025” announced in May 2015, China aims to promote domestic innovation by setting higher targets for domestic manufacturing in strategic industries, such as robotics, power equipment, and next-generation information technology by 2020 and 2025.<sup>49</sup>

In recent years, under the “dual-circulation” concept unveiled in 2020, China has placed emphasis on making the domestic market a main driver of economic growth, while allowing for mutual reinforcement between domestic and foreign markets. China seeks to achieve basic self-sufficiency in innovation, manufacturing, and consumption within its own economy, and at the same time, leverage the international economy through exports, critical supply chains, and limited imports of capital.<sup>50</sup>

What the United States takes issue with is the Chinese government’s adoption of discriminatory preferential treatment measures, such as subsidies for Chinese companies, while restricting foreign company access to the domestic market through strengthened regulations. Other U.S. concerns include: China’s theft of advanced U.S. technology and infringement of intellectual property; forced technology transfer from foreign companies

operating in China; the “Military-Civil fusion” policy to integrate China’s defense industry and civilian technology/industrial base for developing and acquiring advanced dual-use technology for military purposes; military application of dual-use technology under this policy; economic statecraft leveraging economic dependence; and the increasing entry and investment of Chinese companies in the U.S. security infrastructure sector.

As a response to these issues, the United States first invoked sanctions under Section 301 of the Trade Act of 1974. On August 18, 2017, U.S. Trade Representative (USTR) Robert Lighthizer announced that an investigation would be conducted into China’s technology transfer policies and intellectual property infringement under Section 301 of the Trade Act of 1974.<sup>51</sup> Based on the finding that the Chinese government had unfairly intervened in the transfer of intellectual property and technology from U.S. firms to Chinese companies, the USTR announced on March 22, 2018 that sanctions would be imposed against China under Section 301 of the Trade Act.<sup>52</sup> The sanctions consisted of: 25% ad valorem duties on applicable products, including aerospace, information and communication technology, and machinery; and strengthened regulations on Chinese companies’ investments in the United States. Since the imposition of a 25% tariff on 818 products worth \$34 billion in imports from China in July 2018, the list of additional products subject to tariffs was gradually expanded through August 2019.<sup>53</sup>

But, then, the United States and China signed a Phase One economic and trade agreement related to these sanctions on January 15, 2020. It was agreed that China will commit to protecting intellectual property, opening up its financial markets, banning currency manipulation, and increasing imports from the United States over the next two years, while the United States will reduce some of its additional tariffs.<sup>54</sup>

In parallel with sanctions against China, the United States has also strengthened its export control system that covers emerging technologies. Section 1758, titled “Export Control Reform Act of 2018,” was included in the National Defense Authorization Act for Fiscal Year 2019 (NDAA2019) enacted in 2018.<sup>55</sup> With the lines blurred between civilian and military technology, the NDAA2019 included the Foreign Investment Risk Review Modernization Act (FIRRMA), which increases the authority of the Committee on Foreign Investment in the United States (CFIUS) to prevent inappropriate technology transfer and information leaks.

In November 2021, President Biden signed the Secure Equipment Act of 2021, which stipulates the Federal Communications Commission (FCC) to adopt rules prohibiting authorizations of equipment that pose a significant risk to U.S. national security.<sup>56</sup> On November 25, 2022, the

FCC issued a Report and Order for communications equipment that could threaten security, banning authorizations of importation or sale in the United States of any communications equipment and surveillance cameras manufactured or provided by Chinese companies Huawei and ZTE, as well as communications equipment and surveillance cameras manufactured or provided by Hytera, Hikvision, and Dahua for national security purposes.<sup>57</sup>

In the competition for building supply chains, the United States seeks to reduce China’s use of economic statecraft and future supply risks, and to build a supply chain that does not rely on China for resources and materials critical to national security. For securing supply chains, the Biden administration issued Executive Order 14017 in February 2021, instructing the respective heads of agencies to consider and submit reports on supply chain risks in four areas: advanced semiconductor manufacturing and advanced packaging (secretary of commerce); high-capacity batteries (secretary of energy); critical minerals and other strategic materials, including rare earth elements (secretary of defense); and pharmaceuticals and active pharmaceutical ingredients (secretary of health and human services).

The United States places importance on semiconductors within its supply chain. Not only are semiconductors important in the civilian economy, they also play a critical role in U.S. national security, such as in the production of cutting-edge weapons of the U.S. forces and the development of AI technology.<sup>58</sup> However, the United States currently is unable to produce enough semiconductors domestically to meet its needs. The U.S. share of global semiconductor manufacturing has decreased from 37% in 1990 to 12% in 2020, with Asian countries accounting for four-fifths of the world’s share as of 2019.<sup>59</sup> Moreover, most of the advanced semiconductors used in military-level equipment, such as F-35, are reliant on Taiwan Semiconductor Manufacturing Company (TSMC) in Taiwan. For this reason, priority is given to ensuring a stable production and supply chain of semiconductors, which are a key strategic item for U.S. national security, including addressing the risk of a Taiwan contingency. These circumstances underlie the United States’ pursuit of domestic industry promotion for semiconductors and stricter controls for semiconductor technology exports to China, which has inferior technological development capacity compared to the United States.

To bolster the domestic semiconductor manufacturing industry, President Biden signed the CHIPS and Science Act (H.R.4346) (CHIPS Plus Act) in August 2022.<sup>60</sup> This act appropriated a budget of approximately \$280 billion in total for strengthening U.S. technological capabilities, with a portion of it to be used to support U.S. semiconductor manufacturing.<sup>61</sup> With the domestic industry promoted through the CHIPS Plus Act, the United States has continued to make a large-scale investment of \$200 billion



in semiconductor manufacturing from 2020 to 2022. For example, TSMC has announced plans to build two semiconductor manufacturing plants in Arizona, while companies from Japanese, Korean, and U.K. companies have also announced plans for investments in the United States.<sup>62</sup>

As for export control, on October 7, 2022, the Bureau of Industry and Security (BIS) of the U.S. Department of Commerce announced export administration regulations on advanced semiconductors for AI technology, items destined for their production, and supercomputers to China.<sup>63</sup> As a result, TSMC has been prohibited from manufacturing advanced semiconductors in China, and such measures are expected to have a significant impact on China's AI technology development.<sup>64</sup>

## Prospects of the U.S.-China Competition

### *A Continuation of America's Hardline Stance*

The U.S. policy toward China underwent a major shift during the Trump administration, transitioning from a policy of engagement to one of comprehensive competitive relationship. The Biden administration differs from its predecessor in emphasizing dialogues and cooperation with Beijing to solve common challenges like climate change. Nonetheless, it has de facto succeeded Trump's hardline stance against China. That is, Biden has given up on changing China's behavior through engagement and assumes the PRC, with its increasing military and economic power, to be a competitor that threatens U.S. superiority. This raises the question: will the U.S. posture toward China change in years to come?

Washington is not expected to break away from its hardline posture toward China at least in the near future. As the relative power gap between the two countries narrows, it has become increasingly difficult for the United States to influence China's behavior to its liking. Against this backdrop, there is a widely and deeply shared perception in the United States that the PRC's future actions could threaten U.S. national security. Indeed, ensuring U.S. national security has become the primary factor shaping America's policy toward China.

From the U.S. perspective, China's foreign policy seeks to change the Indo-Pacific order to its favor, weakens the alliances that the United States has forged, and leverages China's military and economic power to coerce neighboring countries.<sup>65</sup> The United States views Beijing's objective as not only altering the regional order but also changing the global international order to suit its authoritarian regime, and deems China has "the economic,

diplomatic, military, and technological power" to achieve this objective.<sup>66</sup> Furthermore, in the eyes of the United States, the CCP considers the current international order to be incompatible with its proposed "community of common destiny," and regards U.S. alliances as "irreconcilable with the PRC's sovereignty, security, and development interests."<sup>67</sup> While the U.S. view of the international order and policy approach may change under future administrations, they are not anticipated to accept China's posture of denying U.S. alliances and attempting to alter the existing international order.

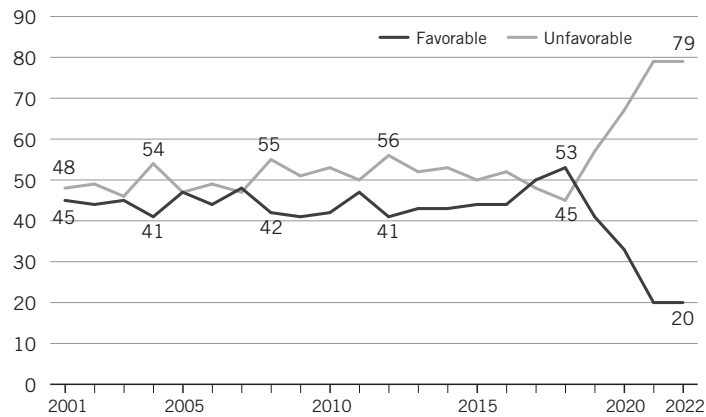
The Biden administration does not reject cooperating with the PRC to address challenges, such as climate change, nuclear non-proliferation, and the spread of global infectious diseases like COVID-19. However, the space for cooperation is becoming smaller, and cooperation is unlikely to advance to the point of dispelling U.S. security concerns or economy-related dissatisfaction.

Furthermore, even in the economic sector, which had served to ease U.S. wariness toward China, their security competition has transformed the U.S.-China relationship to confrontational and competitive. As examined in the previous section, the Sino-U.S. economic relationship has been marked by competition for technological supremacy and building strategic material supply chains. During the Clinton and Bush administrations, there were strong calls for granting U.S. companies access to the Chinese market and for the Chinese government to cooperate on economic activities. However, Beijing has proposed Made in China 2025 and favored Chinese state-owned and private enterprises, all the while strengthening regulations on U.S. and other foreign companies. Under these circumstances, the U.S.-China economic relationship is unlikely to play a role in easing the U.S. hardline posture.

Additionally, Congress is likely to maintain its firm stance toward China. Congress recognizes China-related issues to include rapid military modernization, theft of other countries' technology and intellectual property, and expansion of international influence using economic dependence as a lever. Both the Democratic and Republican parties are wary, especially about Chinese moves to weaken U.S. influence in the Indo-Pacific region and to achieve dominance in advanced technology.<sup>68</sup> The mere existence of a bipartisan consensus, amid the oft-cited "divisiveness" in U.S. domestic politics, reveals the depth and breadth of the Congress's concern. One of the underlying reasons is the deteriorating view of China among the American public, as shown in Figure 2.1.<sup>69</sup>

The prospect of a continued hardline approach suggests that engagement with China will not be revived. For the United States, engagement was not

Figure 2.1. Changes in Americans' view of China



Note: The figures represent the total of “very favorable” and “mostly favorable” or “very unfavorable” and “mostly unfavorable.”

Source: Gallup.

simply about building a cooperative relationship with China. Rather, it was a means of encouraging its growth in a way that was favorable to the United States—encouraging China to abide by existing international norms and rules, play a responsible role in solving common challenges as a member of the international community, respect basic human rights domestically, and transition from the CCP’s one-party rule to a democratic political system. The United States believed engagement could bring about changes not only to China’s economic system but also to its political system.

As it turns out, in the 30 years since the end of the Cold War, “neither U.S. military power nor American diplomatic engagement has dissuaded China from trying to build a world-class military of its own.”<sup>70</sup> The United States came face-to-face with the reality that “Diplomatic and commercial engagement have not brought political and economic openness [in China],”<sup>71</sup> as pointed out in a 2018 paper by Deputy Assistant to the President Campbell and Assistant Secretary of Defense Ratner. Campbell, in a 2019 joint paper with National Security Advisor Jake Sullivan, writes it was the “basic mistake of engagement” to believe the United States could encourage fundamental changes to China’s political system, economy, and foreign policy.<sup>72</sup>

As the Biden administration revealed in the NSS2022, the fact that U.S. security policy assumes geopolitical competition with China means that the era of being able to change its actions has come to a close. For the United States, China is now an “peer competitor” with more power, both

economically as well as militarily and politically, and the policy goal of transforming China from within has become unrealistic. Going forward, the United States is anticipated to accept the Chinese political system as a given and aim for “a steady state of clear-eyed coexistence [with China] on terms favorable to U.S. interests and values,” regardless of Beijing’s policies.<sup>73</sup>

### *Managing U.S.-China Competition*

Assuming that the United States continues its hardline stance against China, it will be essential to address the following questions: how can we avoid military and diplomatic competition from escalating into military conflict; and what can prevent economic competition from turning into overall U.S.-China economic decoupling that would cause a global economic turmoil?

Of particular note is managing U.S.-China competition in security: firstly, avoiding the risk of armed conflict due to accidental or unintentional escalation in the East and South China Seas; and secondly, preventing armed invasion of Taiwan from a mid-to-long-term perspective.

In the East China Sea, there has been ramped-up activity by PLA vessels and aircraft, as well as military exercises such as the ones conducted when House Speaker Nancy Pelosi visited Taiwan in August 2022. In the South China Sea, China has built military bases on artificial islands created by reclaiming low-tide elevations, and has deployed PLA vessels and aircraft.<sup>74</sup> In response, the United States has continued to conduct U.S. Navy FONOPs not only in the South China Sea but also in the Taiwan Strait.<sup>75</sup> With this situation, the United States has become increasingly attuned to the risk of armed conflict triggered by unintended escalation due to accidental incidents, miscalculations, or misunderstandings between the U.S. and Chinese militaries.

To reduce this risk, several dialogue channels have been established between the U.S. and Chinese military authorities, including: (1) Defense Consultation Talks (DCT); (2) Joint Strategic Dialogue Mechanism (JSDM); (3) Defense Policy Coordination Talks (DPCT); (4) Military Maritime Consultative Agreement (MMCA); and (5) Defense Telephone Link (DTL). In addition, in April 2014, 21 countries, including the United States and China, agreed upon the Code for Unplanned Encounters at Sea (CUES) that establishes procedures for the safe operations of aircraft and vessels.

Despite the recent creation of these crisis communication mechanisms, China has not always responded to U.S. calls for communication. The Biden administration is thus urging Beijing to secure a stable communication channel.<sup>76</sup> At the U.S.-China defense ministerial meeting held in Cambodia on November 22, 2022, Secretary of Defense Austin brought to Minister

of Defense Wei Fenghe's attention that PLA aircraft have been engaged in dangerous behavior that could lead to accidents in the Indo-Pacific region, and emphasized the importance of having communication means in times of crisis.<sup>77</sup>

Regarding the second point, the United States' most important task is to make China realize that armed unification of Taiwan is neither rational nor feasible, such as through supporting Taiwan's defense capabilities and working with neighboring countries in improving the deterrence and defense capability. At the same time, it is essential to avoid actions that heighten China's need for armed invasion. The tendency of Congress to formulate more hardline bills on Taiwan policy and visits by congressional delegations to Taiwan, such as Speaker Pelosi's, have instigated large-scale PLA military exercises and raise questions about how or whether to control Congress. The Biden administration and future U.S. administrations will be forced to navigate this difficult issue.<sup>78</sup>

Considering the impact on the world economy, it is likewise critical to prevent competition in the economic sector, namely, competition over technological supremacy and supply chains, from developing into U.S.-China economic decoupling.<sup>79</sup> As shown in Figure 2.2, trade between the two countries has consistently grown over the past 20 years. The total amount of U.S. imports from China exceeded \$500 billion in 2021, up from \$100 billion in 2001. Although the total volume of goods and services traded between the two countries temporarily declined due to additional tariffs imposed in 2018, it has been increasing again since 2020. U.S. imports

from China decreased from \$558 billion in 2018 to \$449 billion in 2020 but recovered to \$527 billion in 2021. Similarly, U.S. exports to China decreased from \$181 billion in 2018 to \$166 billion in 2020 but have recovered to \$192 billion in 2021.<sup>80</sup>

The Biden administration has indicated that decoupling is not the objective of its emphasis on fostering domestic industries. In remarks made at the Massachusetts Institute of Technology on November 30, 2022, Secretary of Commerce Gina Raimondo underlined the importance of domestic investment for strengthening the U.S. innovation ecosystem, noting that the United States will be collaborating with universities and industries in boosting talent development and other investments in the semiconductor field, as well as in other key areas of technological development. In this context, she made clear, "we [United States] are not seeking the decoupling of our economy from that of China's," saying, "We want to promote trade and investment in areas that do not threaten our core economic and national security interests or human rights values."<sup>81</sup>

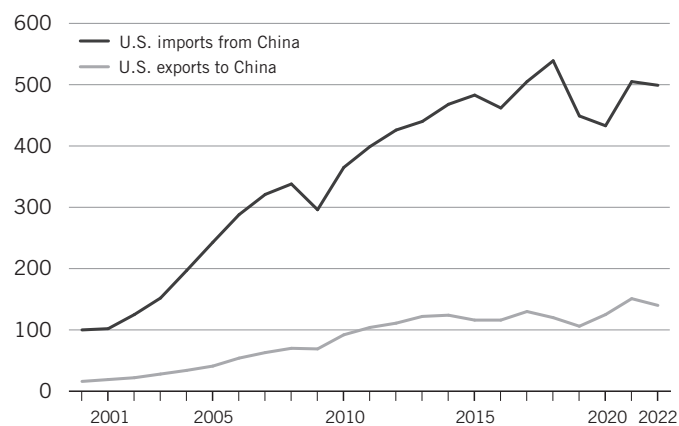
In view of China's economic influence, the United States cannot gain an advantage in the competition over technological supremacy or supply chains through its own efforts alone. Will major producers of strategic materials, such as semiconductors, and leaders in advanced technology adopt similar policies as the United States? Will the United States be able to coordinate policies with them? These will be critical questions that influence the outcome of the U.S.-China competition in this field.

## Conclusion

The United States' hardline posture toward China gradually increased from the 2010s and became more prominent during the Trump administration. Underlying factors included rising concerns about China's continued military buildup, assertive territorial claims in the East and South China Seas, and attempts to establish *fait accompli*. While the U.S.-China competition is being played out mainly in the military and diplomacy spheres, heightened security tensions have also spilled over into the economic sector, which had traditionally served as a driver of their cooperative relationship.

The hardline stance against China has become more apparent since the Trump administration and will likely continue, as will U.S.-China competition. As the relative power gap between the two countries narrows, the United States has been unable to change China's behavior to its liking. Under such circumstances, there is a widely shared view in the United States that the PRC's future actions may threaten U.S. national security. Today, the

Figure 2.2. U.S.-China trade



Note: Figures are in billions of dollars.

Source: U.S. Census Bureau.

policy toward China is shaped by Washington's top priority of ensuring U.S. national security.

Amid the ongoing competition with China, focus will continue to be on U.S. efforts to prevent military and diplomatic competition from escalating into military conflicts, and to prevent economic competition from triggering broad U.S.-China decoupling and global economic turmoil.