



An Opening for a New US–China Economic Relationship

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Overview

American leaders have come to accept a one-sided view of China's economic relationship with the United States, losing sight of the many advantages of economic interaction with China and focusing solely on how to reduce exposure.

This skewed response to the challenges of China's growing economic power is increasingly undermining American economic competitiveness because Chinese businesses are assuming a leading position in a growing number of frontier innovation sectors. That means the United States risks falling behind in industries like batteries and robotics, which have critical national security implications as well as a major role in future economic growth.

Many US business leaders agree that the exclusion of China makes it harder for them to remain competitive. Cutting off China limits their markets, reduces both the resources and incentives to pursue breakthrough innovation, and deprives them of talent, know-how, and technology that is crucial to maintaining global competitiveness.

This is why no other advanced economy has adopted such an imbalanced approach. Instead, economic powerhouses across Europe and Asia are finding ways to safely incorporate Chinese competition to spur their own dynamism. Rather than repeating the mistakes of an earlier era of integration and abdicating control to the market, these countries are reviving economic connections with China by carefully managing linkages to ensure benefits on both sides. By not participating,

the United States risks cutting itself off from the main centers of innovation in the world because of its fear of China.

US leaders must change course and pursue a balanced approach. A promising path would be to welcome Chinese foreign direct investment, or FDI, in advanced sectors under clear conditions that gradually increase the intensity of competition and that guarantee benefits, like technology transfer and high-road job creation, to the domestic economy.

The United States can and should institutionalize prudent national security safeguards. But rather than doing so as an excuse to haphazardly cut China out of the American economy, it should do so in order to *increase* cross-fertilization between the two most dynamic economies in the world.

Discussion

A damaging consensus

Over the last decade, both parties in Washington have increasingly assumed an absolutist approach to risks associated with Beijing and have fallen deaf to the significant dangers that come from cutting ties. In the past, new restrictions on China were only imposed as a last resort after exhausting the possibility of mitigating risks; now, new restrictions proliferate without even attempting mitigation.

This consensus is inflicting harm on the US economy for three key reasons:

- **Excluding China cuts American businesses off from the Chinese market.** This denies access to the second-largest economy in the world, which has the fastest-growing demand for high-end consumer goods and services. Immediate losses arise from forcing American companies to abandon this lucrative market to their Chinese, European, and Asian competitors. That, in turn, constricts vital revenue streams needed to finance future innovation in American companies, forcibly slowing US firms in the race to develop breakthrough products.
- **Excluding China restricts the motivating force of competition.** Many American companies, ensconced behind protective tariff walls surrounding the United States, can live comfortably off the captive US market, neglecting innovation that would otherwise be needed to compete with some of the most innovative enterprises in the world. Even those that want to compete in the world market will be weakened against their global counterparts because they lose visibility on what Chinese companies are doing and how they are doing it.
- **Excluding China limits American businesses' access to the many benefits of contact with China.** More than other sectors, high-value, innovation-driven products depend on the constant cross-fertilization of discussion among researchers, learning-by-doing in one business that can be applied in another one, technology transfer, symbiotic product development in research and development, or R&D, and collaborative innovation in the production process that brings output to scale. Cutting China out of US supply chains means that American businesses lose access to crucial talent, know-how, and technology, leaving them at a disadvantage in competition with the rest of the world's leading companies.

US executives express increasing apprehension about the ways the United States is falling behind China. Ford CEO Jim Farley has repeatedly called attention to the danger, calling his test-drive of cars in China "humbling." Last month, in anticipation of US President Donald Trump's coming visit to

Beijing, Farley called on US leaders to make a plan for Chinese-invested production in the United States, Chinese imports, or both. Farley said his company would partner with Chinese companies outside the United States if it becomes unable to do so inside the country.

The United States is isolated in its response

In sharp contrast to the United States, other advanced economies are developing methods to incorporate Chinese competition and investment in their domestic economies. A number of strategies are moving ahead quickly:

- **Exposing domestic companies to Chinese competition in a diluted form that intensifies gradually.** Japan and South Korea have seen rapid growth in electric vehicle imports from China. They have not thrown their doors wide open, however, as doing so could overwhelm local companies that have fallen behind in electric vehicle, or EV, design. These two car superpowers' auto markets are still dominated by domestic manufacturers, and competition is limited by an array of nontariff barriers. But unlike the United States, where regulations have been written to make the sale of Chinese EVs impossible, Japan and South Korea are making sure that their homegrown companies will be able to respond to Chinese competition by offering more attractive products.
- **Incorporating Chinese suppliers to strengthen domestic firms.** Canada is looking to save its auto industry both from US attacks and the looming danger that it will be cut out of the EV transition because of overreliance on the US market. To do so, Canada is not just importing a limited number of Chinese EVs but actively seeking Chinese manufacturing investment in the sector. South Korea, in addition to importing limited numbers of Chinese EVs, is drawing heavily on Chinese-made inputs in order to remain a world leader in battery production. As Chinese companies become world innovation leaders, South Korean companies are starting to collaborate with them to develop new technologies as well.

- **Supporting inbound Chinese investment in advanced sectors with measures to ensure that local workers and businesses benefit.** The Industrial Accelerator Act, new EU legislation proposed by the European Commission, would require that Chinese FDI over €100 million meet four of six requirements on local ownership, entry into joint ventures, technology transfer, R&D commitments, local employment, and local production. This framework mimics the techniques that China used to drive its own rapid development by welcoming foreign investment but forcing it to contribute to local goals rather than just exploiting the country and departing without leaving anything of value behind.

The United States has a successful history of adapting to difficult foreign competition in just such ways. In the 1980s, fears were widespread that Japanese corporations would wipe out American manufacturing. Rather than cutting ties, the United States embraced a tempered form of Japanese competition, making use of selective protectionism, negotiations with the Japanese government, and measures to encourage Japanese industrial investment in America. As US President Ronald Reagan said in 1987: “This isn’t a time for us to be afraid, to be erecting barriers, or to be trying to shut out the world. Instead, we should be working to open markets, to increase our productivity, and to meet the competition head-on. And don’t let anyone tell you we can’t do it.” Today, Japanese firms account for nearly one-third of auto manufacturing in the United States. The success of Japanese investment, however, came at a cost to workers by lowering labor standards. To be successful, Chinese investment should uphold stronger standards.

Instead of a creative reinvention of global ties along these lines, the United States is currently heading toward an indefinitely protected domestic market cut off from the interconnected markets of China, the rest of Asia, and Europe. Over time, the United States may turn itself into an economic backwater in crucial industries of the future.

An opening to change course

President Trump has mooted up to four meetings with Chinese President Xi Jinping in 2026. China is likely to agree to increased purchases of US exports, but the two countries also have an opening to change direction at a deeper level by copying the European Union’s playbook and establishing a framework to draw large-scale Chinese FDI in advanced sectors to the United States.

Conditions are ripe for a breakthrough. Trump sees China as a tough competitor pursuing its own interests rather than as an enemy plotting America’s downfall. He has explicitly endorsed the idea of Chinese investment, most recently in January at the Detroit Economic Club, where he said that if foreign automakers “want to come in and build the plant and hire you, and hire your friends and neighbors, that’s great. I love that. Let China come in, let Japan come in.”

The Trump administration has suggested creating a Board of Investment to facilitate FDI but there has been little progress on the details. Focusing on advanced sectors and imposing requirements on tech transfer, labor and environmental standards, and localization of supply chains remains a possibility. An industry like batteries is crucial for a strong military and an abundant energy system, while EVs are the future of the auto industry, so such a framework could have broad appeal beyond the White House. China is interested in exploring the possibility.

Democrats may be tempted to attack Trump for making a deal with China. But they also have good reason to join in shaping the agreement rather than lobbing insults from the outside. If they refuse to engage, they will find themselves opposing industrial job creation and investment in US-based clean energy production.

Democrats would also miss the opportunity to assert the interests of organized labor. To revive access to the US market, China might be willing to accept provisions like union neutrality agreements and strong wage and benefit standards in their projects. The one BYD Auto factory in the United States shows the potential. Democrats would have good reason to oppose the agreement if these

crucial measures were left out, but they should not reject the possibility before making the demand.

Responding to objections

Too often in Washington, urgent US goals of reindustrialization and supply chain resilience are thought to demand the exclusion of Chinese capital and trade. Oren Cass, for example, argues that allowing Chinese FDI would leave the US market unprotected from state-subsidized Chinese firms that could outcompete American-owned private businesses. After taking over the US market, Chinese firms could withdraw production, leading to the collapse of American industry.

Such catastrophizing springs from a crisis of confidence in American vitality rather than a sober diagnosis of the challenges posed by China. Often, China is cast in a sinister light to justify its exclusion, rationalizing the refusal to compete economically. This also shifts relations with China onto terrain thought to be more favorable for the United States: military competition.

Others use fear of China more instrumentally. They think the threat of an external enemy is the only way to overcome America's debilitating partisanship and force large corporations to recommit to the public good. However, this strategy has shown little success, and, in any case, rebuilding American strength by unleashing violent geopolitical conflict would be a cure worse than the disease.

One genuine concern is that, in reconnecting with China, American leaders might repeat their recent history of privileging business interests over those of workers, local communities, and the environment. Likewise, though Chinese firms are not scheming to destroy America, they certainly will take the easiest and most profitable path if left to their own devices. Achieving economic growth at the expense of the human beings whose activities make up the economy would be both pyrrhic and unsustainable.

The United States enjoys the state capacity to formulate a healthy agenda for growth and innovation. The crucial questions are:

- Will the government design a sophisticated industrial policy that limits and channels competition while still applying the disciplining power of markets?
- Will the government closely monitor both American and Chinese companies to see that they make good on their commitments and cooperate in mitigating national security risks?

Now is the right time to try. For the moment, the United States enjoys considerable leverage over China in renegotiating the terms of the economic relationship. China has a strong interest in restoring access to the American market and stabilizing the diplomatic relationship, so it would be willing to make significant concessions on what the conditions of integration would be. If we spurn the opportunity now and only years later realize the need for it, a more advanced China will have far less reason to accept conditions so advantageous to America.

Conclusion

Welcoming Chinese investment in the United States is an economic winner for both countries and is the best chance for a near-term breakthrough in the world's most important international relationship.

A stable and mutually beneficial economic relationship would open space to more safely manage the difficult security tensions between the world's two leading superpowers. On both sides of the Pacific, advocates of geopolitical conflict play on economic resentment to expand otherwise limited support for aggressive military moves. Hopes for great power peace would be significantly advanced if the US-China economic dynamic became a reason for coexistence rather than conflict.

About the Author

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Prior to joining Quincy, Jake was a postdoctoral Global China Research Fellow at the Boston University Global Development Policy Center, a Harper-Schmidt Fellow at the University of Chicago, a Fulbright Scholar at National Chiao Tung University in Taiwan, and a Fulbright-Hays Fellow at East China Normal University in Shanghai. He received his PhD in history from the University of Chicago.

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