

The United States' Illiberal Turn Recasts a Potential Deal with China

By Scott Kennedy

Several weeks into the new Trump administration, the world is still trying to figure out what direction U.S.-China relations will ultimately follow in the coming months and years. The United States has now imposed tariffs twice on China, totaling 20 percent, for what it argues is insufficient help from Beijing in stemming fentanyl-related production and trade. On both occasions, within minutes, China responded with **counter-sanctions**, a combination of tariffs, export controls, trade bans, blacklist additions, and **investigations**. Some still believe a deal, either a **grand bargain** or something **more modest** that nevertheless stabilizes ties, is still possible, while others believe escalation is the more likely outcome.

The broader strategic context of bilateral ties, either cooperative or conflictual, is just as important, particularly for market actors and the countries' two economies. The Trump administration is in the process of fundamentally changing key characteristics of U.S. foreign policy and domestic governance in a much more illiberal direction. Those alterations to U.S. politics and the country's role in the world put U.S.-China relations in an entirely new light regardless of whether Washington and Beijing can manage their differences. In such a new world, although tense U.S.-China relations would be highly problematic and dangerous, stability in official U.S.-China relations would not necessarily be a boon for global peace and prosperity either.

A Deal Is Possible . . .

There are multiple reasons why a deal, even with the early exchanges of penalties, may still be possible. The first and most important is that both sides see an upside in a deal. President Trump has never described China as a threat; he has, in fact, repeatedly **praised Xi Jinping's leadership**. A deal would offer President Trump the opportunity to claim he re-righted the economic relationship, reduced the trade deficit, and boosted domestic manufacturing and jobs. He also wants to avoid inducing

inflation and a bear stock market. Similarly, a deal would help Xi Jinping by stabilizing Chinese and global expectations about China's commercial relationship with advanced industrialized economies and avoiding outright decoupling. A stable international environment would allow him to focus on addressing domestic challenges, which have been central to the recent national legislative meeting in Beijing, and to reinforce his political dominance.

Second, both Trump and Xi have political room to do a deal. Despite the many voices within his administration and Congress that see China as a rival, President Trump could override all of this negative sentiment. Cabinet members with historically hawkish positions on China have been relatively muted, and the new Congress has been equally quiet on China, giving the administration space to pursue its own strategy. (The same, not coincidentally, applies to Russia policy, with many traditional hawks also being relatively silent.)

Third, the two sides have been communicating for some time, even prior to last November's election. Both sides have signaled they would prefer a deal, and various Chinese delegations have been passing through the United States sounding out the administration on its goals and demands. Beijing probably sees the Trump administration's early imposition of tariffs as part of a process of building up leverage in advance of focused negotiations, not an alternative to them, and so has not yet concluded that the United States seeks to decouple the two economies or launch an economic war.

And fourth, one can envision the outlines of a bargain. On the economic front, China could commit to (1) large purchases of U.S. agriculture, energy, and big-ticket items (such as Boeing aircraft); (2) manufacturing investment that generates a large number of well-paying union-based jobs, transfers Chinese intellectual property, and takes various steps to mitigate economic security risks; and (3) no devaluation of the renminbi and a pledge to continue to buy U.S. treasuries and to use the U.S. dollar in international financial transactions. In return, President Trump could pledge to not end China's permanent normal trade relations, advocate for Chinese investment over domestic critics, limit any additional technology restrictions, and broker an arrangement on TikTok that benefits ByteDance, perhaps even allowing it to keep an ownership stake or earn royalties from licensing its algorithm. It is also conceivable the two sides could come to an arrangement on security issues such as Ukraine and Taiwan. China could provide peacekeepers, finance reconstruction of Ukraine, and clearly warn Moscow against invading any of its other neighbors. Although it would be a seismic change for both, Washington could pledge to oppose (or at least "not support") Taiwan's de jure independence, and Beijing could commit to not attack the island. And all of these elements and others could potentially be wrapped up in a "Fourth Communiqué" to complement the three others adopted in [1972](#), [1979](#) and [1982](#).

... But Not Likely

Although a deal is possible, it has never been the most probable outcome, and the chances of a deal decline with each passing day. There are characteristics of both sides that work against a bargain.

On the U.S. side, there is an assumption that President Trump does not view China negatively. Although he avoids criticizing China directly, constantly calling Covid-19 the "China virus" clearly puts the blame on China for the pandemic. And as a result, in 2020, the Trump administration imposed dozens of diplomatic and political penalties on China with no attempt to negotiate away any of them. His views

may be flexible, but the pendulum can swing both ways, meaning he is clearly open to punishment and tensions when he deems them appropriate.

The first Trump administration had officials with a wide range of views, from globalists (former Director of the National Economic Council Gary Cohn) to unilateralists (former U.S. Trade Representative Robert Lighthizer) to decouplers (former Director of the Office of Trade and Manufacturing Policy Peter Navarro). Based on previous statements and **writings**, there appears to be a **range of views** within the new administration, but there has been an overall spectrum shift in a hawkish direction, with likely greater support for a broader imposition of restrictions and the notion that some degree of **economic decoupling** is necessary. It is hard to find strong advocates for maintaining or expanding the commercial relationship or pushing China to make structural reforms to its economy, positions that were better represented in the first term. Although there is speculation that Department of Government Efficiency leader and businessman Elon Musk would counsel for continued engagement because of Tesla's production and sales in China, Musk's other companies (such as SpaceX, Starlink, and X) have no business in China, and Chinese firms may be among their toughest competitors. As a result, he may not be as dependable a voice for caution as some believe.

The most visible consequence of a predominance of hawkish views is the issuance of a series of executive orders and statements that propose taking extreme measures against China. In addition to the fentanyl-related duties and tariffs on steel and aluminum set to be applied starting in mid-March, the administration has issued three other major policy review documents—the **American First Trade Policy**, the memo on “**Reciprocal Trade and Tariffs**,” and the **America First Investment Policy**—which could provide the legal foundation and policy justification for radically scaling back the commercial relationship across every dimension.

Beijing has shifted in a direction that also portends taking a firmer line. Although China's macro economy has slowed and there are a series of structural challenges, from demography to debt to insufficient consumption—**media reports** and interviews by this author suggest that China's leadership believes their economy is **stronger than critics charge** and is in a decidedly stronger position than it was during the first Trump administration. China's technological capabilities have continued to improve, **China has become less dependent on the United States** as a source of inputs or as an export market, and Chinese companies have expanded investments around the world. Chinese experts who have crunched the numbers believe that if the United States imposed massive tariffs, the Chinese economy would only shrink by less than 0.5 percent—not insignificant, particularly given the slowing overall growth—but nowhere near a knockout punch that would cause a crisis and bring China to its knees.

Moreover, China has concluded that when the Trump administration imposes penalties, it must vigorously respond in order to demonstrate that it is not weak and can inflict pain on the United States as well, a position Chinese Foreign Minister Wang Yi reaffirmed in his **press conference** for China's annual legislative gathering. There is a sense in Beijing that China's leaders were too meek during the first trade war and that holding back emboldened the first Trump administration, giving it the impression that it faced no costs in punishing Beijing. China has decided that it should use a range of economic penalties as well as “asymmetric” responses on the diplomatic and security fronts. Hence, as noted above, in the case of the two fentanyl-related tariff raises, China responded within minutes with a

coordinated retaliatory response. One should expect Beijing's retaliatory moves to be equally swift and wide-ranging and targeted to impose both economic and political costs.

Not only have the two sides moved in a more confrontational direction, their interactions to date and the forthcoming calendar obviate against an agreement that allows the two sides to avoid an escalatory spiral. Both sides believe they have the upper hand or at least can outlast the other in any test of will. Moreover, the level of distrust on both sides is exceedingly high. Neither believes the other is likely to be willing to make large concessions, or that if they did, they would keep their word for very long.

As the calendar moves toward spring, the chances of a deal will quickly fade. The America First Trade Policy requires reviews to be complete by April 1, and those reviews are likely to conclude that China's system is unfair to U.S. interests and that additional penalties are justified. The administration has announced that it will impose proportionate tariffs a day later, on April 2, on other countries. That calculation will likely include explicit tariffs as well as nontariff barriers, such as industrial policy spending and other protectionist regulations. Consequently, U.S. economic penalties on China could rise dramatically, and China would most likely retaliate just as quickly. The two sides would then be in a stare-down to see who blinks first.

Regardless of exactly how high tariffs and other penalties go, it seems far from certain that the two sides could negotiate a mutually acceptable deal. Although one can identify potential components, it is unclear whether Beijing and Washington could satisfy each other's bottom lines, particularly the Trump administration's. Washington may not demand China adopt structural reforms and liberalize its domestic economy, but Beijing would likely require as a basic condition of any deal that the Trump administration heavily scale back tariffs imposed during its first term and which the Biden administration left in place because it determined removing them was too politically dangerous. Beijing would simply be unwilling to sign a one-sided deal in which it alone makes substantial concessions. This difference over the final disposition of tariffs could very well put a deal of any size out of reach.

Hence, a more likely outcome is continued escalation, with the Trump administration dramatically scaling back trade, investment, technology exchange, and people-to-people ties. This is not a trajectory Beijing would prefer, but if faced with no option, it would retaliate in kind and then focus heavily on expanding ties with other countries and regions as quickly and comprehensively as possible.

A Deal May Not Be Good for the World

Although deeply bitter U.S.-China ties would create substantial costs and be broadly destabilizing, a grand—or even modest—bargain would not necessarily be a positive outcome either. A central determinant of the value of an agreement is how it answers the question, “To what end?” If bilateral cooperation serves a broader constructive purpose, then it would be worth embracing. If it does not, then placid U.S.-China relations would not be something to celebrate.

For decades, the United States has pursued a broader foreign policy geared around not only maintaining its preeminence globally but also strengthening the **liberal rules-based order**. This order has included an open, multilateral trading system, the free flow of capital, human rights and good governance, sustainable development, and addressing climate change. Different U.S. administrations have offered somewhat different interpretations, and the United States has not always lived up to the

standards it has advocated, but there nevertheless was a common framing to U.S. foreign policy that the United States, its allies, and even its rivals could count on.

For decades, the United States’ China policy fit into this overall approach. From President Carter to President Obama, the United States believed it could use patient diplomacy to nudge China to increasingly comply with (or at least not outright oppose) many of the principles of this order and possibly in some areas begin to provide public goods. Under President Clinton, the United States negotiated a “grand bargain” that resulted in China joining the World Trade Organization in late 2001. The project of patient integration into this order continued under the Bush and Obama administrations, indicated by the upper left quadrant of Table 1.

Table 1: The Global Order and U.S.-China Ties

		The United States’ Preferred Global Order	
		Liberal	Illiberal
U.S.-China Ties	Deal	Reinforce the Order Type: Structural reforms Target: China	Spheres of Influence Type: Limited deal Target: China, allies
	No Deal	West vs. the Rest De-risking from China to protect market democracies	Triangular Power Politics Decoupling from China and broader U.S. economic isolation

Source: Author’s analysis.

Over the last decade and a half, as hopes for China’s market reforms have given way to pessimism, this project of patient integration (a.k.a. “engagement”) has gradually been abandoned, first its means and then its ends. The initial Trump administration still sought to push China to become more open, but it abandoned patient engagement in favor of unilateral pressure. It was close to finalizing a comprehensive deal on structural reforms, which would have benefited the global economy and the rules-based order, but when China backed away from its original commitments, it settled for a narrower “Phase One” deal centered around purchases.

Coming on the heels of the Trump administration’s failure to get a grand bargain on structural reforms, the Biden administration determined that such negotiations would be futile and that the best way to preserve the rules-based order would be to insulate the United States from the negative effects of China’s nonmarket system (i.e., “de-risking”), invest at home, and strengthen collaboration with like-minded countries. The administration did seek to sustain the rules-based order (including arguing for reform of the system’s trade pillar), but it viewed a meaningful deal with China in service of this goal as not possible, placing it in the bottom left quadrant of Table 1. As a result, seeking a grand bargain and harmonious relations with an illiberal China understandably did not make much sense.

The second Trump administration is far more ambitious than the first, as it seeks not only to shift tactics, but also more completely turn its back on the rules-based order in favor of one based on raw power politics.

The Trump administration is explicitly opposed to an open, multilateral trading order rooted in nondiscrimination and a belief in the value of comparative advantage in favor of one based on matching barriers where the measure of fairness is balanced bilateral trade. It has signaled that security guarantees to allies are conditional, and it has openly embraced territorial expansion as a worthy goal. It has backed away from any commitments to promote democracy, human rights, and sustainable development, and it has turned entirely against institutions and policies created to combat climate change. In sum, the Trump administration appears to be pursuing a policy geared toward an **illiberal global order**.

What is still unclear is where China fits in that overall vision. There is speculation that the Trump administration would prefer to improve relations with both Russia and China and agree to some form of spheres of influence, with the United States dominant in the Western hemisphere, Russia in Europe, and China in East Asia. This perception likely derives, most significantly, from the president's displayed admiration for authoritarian leaders, including Xi Jinping. It may also reflect his negative views about Taiwan because of, from his perspective, its persistent trade surplus, dominant semiconductor industry (achieved in President Trump's view at the United States' expense), and its over-dependence on the United States for its defense.

But there is also speculation from many quarters, including in China, that the Trump administration's broader aim is to improve relations with Russia in order to counter Beijing. Such a "reverse Nixon" still reflects a view of international relations as rooted entirely in power politics, but instead of a concert of powers, it seeks to achieve a favorable balance of power against a potential adversary. Secretary of State Marco Rubio's **recent interview** indicates no illusion that the United States could outright split Moscow and Beijing, but he suggests that U.S.-Russian relations could be improved, in part, by highlighting to Moscow the downsides of being over-dependent on China. Many **commentators** have offered skepticism that such a goal is achievable, largely because Russia-China relations are far better now than they were in the late 1960s, when Kissinger and Nixon made their successful gambit. Both **Beijing and Moscow** have poured cold water on the idea of a potential split, emphasizing that their strategic partnership is unbreakable.

The broader shift in U.S. foreign policy goals in an illiberal direction has major implications for China policy. A bargain with China under these circumstances (the top right quadrant) would be more limited and not aimed at pushing China to liberalize its economy or political system and would concede Chinese dominance in East Asia. That means maintaining a commercial relationship with China in which unbridled state intervention in the economy and discrimination are accepted as standard practice, and a substantial reduction in the United States' commitment to the security of South Korea, Japan, Taiwan, and others.

If on the other hand, the United States seeks to align with Russia against China (the bottom right quadrant), one would expect that the ongoing imposition of tariffs and other restrictions is not about building leverage for an eventual deal but part of a larger goal to decouple, intending to isolate and weaken China. Such a scenario would impose substantial costs on China, but the economic and security costs to the United States would be deeply negative. Although there are certain elements of the commercial relationship that are unfair and harmful to the U.S. economy and national security, there are also elements that support U.S. jobs, technology innovation, affordably priced goods, growth, and supply chain resilience.

Moreover, a United States that sought to impose its vision of reciprocal trade and investment on others would most likely find itself isolated from others and, ironically, create greater opportunities for China to expand its commercial and political influence as well as achieve technological leadership across a far wider part of the world than would otherwise be the case. If that were not enough, the degrading of common economic interests would also erode any shared commitments on security between the United States and its traditional allies. Such an outcome would be quite different than what Nixon and Kissinger achieved in the 1970s, in which the United States' improved relations with the other large powers was welcomed by its friends in Europe and Asia.

Focus on the Big Picture

The world is at a dangerous fork in the road. Given the broader illiberal turn in U.S. foreign policy, there is no realistic chance for any sort of soothing scenario in U.S.-China relations in the coming few years. Not only is it likely that U.S.-China relations will further deteriorate, but a deal that could stabilize relations would be far from an unambiguous good for the United States and others.

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The first and most important step in improving the Trump administration's China policy is not persuading it to adopt or avoid any specific tactic—export controls, tariffs, or investment restrictions—but rather in arguing that an outright abandonment of the liberal rules-based order—and the allies which help us sustain it—is deeply in conflict with the United States' own interests. A shift toward unilateral illiberalism and authoritarian powers offers the false promise of quick solutions for the United States. Instead of upending the international order, the United States needs to champion reforms—in partnership with its allies—for trade, investment, technology, health, climate, and human rights. Conceiving, negotiating, and implementing change that is far-reaching, effective, and sustainable will build on, not undermine the strengths of the existing order and the United States' partnerships, and put the United States in a better position with which to manage relations with China. This view may not find a welcome audience in the Trump administration or other corners of Washington, but it is where the focus needs to be. ■

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