

Geopolitics

Elizabeth Economy on Competition with China

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Global Institute Dialogue: Elizabeth Economy on Competition with China

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In this edition of Global Institute Dialogues, Dr. Economy discusses the state of the global competition with China with Wilson Shirley, Vice President, Goldman Sachs Global Institute.

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Wilson Shirley: What have we learned about the second Trump administration's approach to competition with China, and how does it build on and break from past administrations? What new policies and priorities do you expect to see from the new Trump administration when it comes to the economic competition with China?

Elizabeth Economy: President Trump's approach to China policy is just taking shape. Much of it appears in line with his first presidency, including a desire for leader-to-leader diplomacy with President Xi, a ratcheting up of US economic pressure—partly to force change in Chinese policy and partly to increase negotiating leverage for a more comprehensive deal—and heightened uncertainty surrounding the US policy toward Taiwan.

In terms of new policies and priorities, the Trump team has already signaled that it is interested in adopting a set of tougher measures around investment restrictions, tariffs, and export controls to protect US companies from Chinese competition and to advance other US interests, such as controlling the illicit trade in fentanyl. These measures are in line with the overall approach of both his previous presidency and the Biden administration. However, President Trump has also indicated his interest in a more comprehensive deal with China, which could translate into relaxing some of these measures if the two countries commit to negotiating a new economic and security relationship.

One of the most significant features of the Trump administration's approach to competition with China is its more limited scope than that of the prior

administration. The Biden administration adopted a competitive frame across all facets of the relationship: political values, trade and investment, technology, and national security. The Trump administration is, for now, more narrowly focused on the economic and technology competition, as well as cross-border concerns such as illegal immigration and the trafficking of fentanyl. President Trump has called for more burden sharing with allies, believing that much of US leadership on the global stage, such as responding to global challenges like climate change and pandemics, places undue burden on the US that others should share or bear. He has moved to dismantle the US Agency for International Development and to pull the US out of the UN Human Rights Council, the UN Relief and Works Agency for the Near East, the Paris Agreement (on climate change), and the World Health Organization. These steps are not materially different from many of the measures he began to adopt during his first term, but he has made more substantive progress in realizing them during his second.

In the near term, these measures to reduce the US global footprint could lessen friction between the US and China. However, in the long term, they could also pave the way for China to shape the international system in ways that could undermine US economic and security interests.

Wilson Shirley: What are the main goals of the U.S.-led export controls on high-end semiconductors and semiconductor manufacturing equipment, and how effective have they been? What, if any, additional measures do you expect when it comes to technology competition with China?

Elizabeth Economy: The US-led export controls implemented by the Biden Administration are designed to prevent—or at least delay—China from acquiring

access to the high-end semiconductor chips that power artificial intelligence (AI) models and could be used to undermine US national security. These controls include restrictions on the chips themselves, the equipment that

is used to make them, and the transfer of design and manufacturing knowledge.

It is difficult to assess the success of the controls overall. They have limited easy access for China to the most advanced chips and chip technology, but China has also stockpiled chips and equipment and developed work arounds. Moreover, while China was already on a path toward indigenization of semiconductor design and manufacturing, the controls have accelerated Chinese investment toward that effort.

On technology competition more broadly, I think the most important element of US strategy over the past four years has been investing in innovation, advanced manufacturing, and supply chains here at home through programs such as the Chips and Science Act, the Inflation Reduction Act, technology hubs, the Indo-

Pacific Economic Framework, and the Minerals Security Partnership (with our closest European and Asian allies). These initiatives all help ensure that the United States has the innovation capacity, access to commodities, and manufacturing capability necessary to compete effectively in the industries of the 21st century.

President Trump has suggested that he would like to unwind many of these programs, however, and instead levy tariffs and deregulate parts of the tech sector in order to incentivize more private investment. He has also supported significant new investment in AI innovation and the energy production necessary to support an AI integrated economic future. At the same time, he has taken steps to freeze National Science Foundation grants and limit federal funding for university research overhead—measures that could undermine US innovation and economic competitiveness.

■ **Wilson Shirley: How do you assess Beijing’s strategy toward Taiwan and the evolution of that strategy under Chinese President Xi Jinping?**

Elizabeth Economy: The whether, when, and how of significant PRC military aggression against Taiwan—including the potential for a crippling cyber attack, missile strikes, a blockade, or an invasion—is an issue of ongoing debate within the US foreign policy community. Some analysts argue that there is little difference between President Xi’s position and that of his immediate predecessors, Hu Jintao and Jiang Zemin, making military action unlikely.

However, Xi has stated that reunification with Taiwan is one of his fourteen “must do” items to achieve his “Great Rejuvenation of the Chinese Nation.” At different times, his strategy includes efforts to induce closer ties with Taiwan through expanding business and educational opportunities, constraining trade and investment, and ratcheting up pressure and military activity, including large-scale naval drills around the island. Both in rhetoric and actions, Xi appears more motivated and more prone to take risks in his pursuit of reunification with Taiwan than his predecessors. 2027 is significant because the CCP will hold its 21st Party Congress, where Xi Jinping could be

selected for an unprecedented fourth five-year term as General Secretary. Xi may well be sending a signal that if significant progress in reunification has not been made before then, he wants the capability to take action during what could be his last term.

Xi will also presumably be testing the US commitment to Taiwan. President Biden indicated that if the PRC launched an invasion against Taiwan, the US would come to Taiwan’s aid. President Trump has thus far declined to say what action he would take. His calls to encourage Taiwan to increase its defense spending to 10 percent of GDP and move to bring more investment from the world’s leading semiconductor manufacturer TSMC to the US could be understood as part of a negotiation that would secure US support or as a set of moves to enable the US to limit its incentive and responsibility to aid Taiwan. And there is no consensus among his top advisers. Senior Advisor Elon Musk has made several statements in support of the mainland’s sovereignty over Taiwan, while Secretary of State Rubio has stated that the US opposes “forced, compelled, coercive change in the status of Taiwan.” The US is a significant factor in Xi’s decision making on Taiwan.

■ **Wilson Shirley: The US alliance system in the Indo-Pacific follows what’s called a “hub and spoke model,” and includes bilateral treaty allies. What are the priorities for America’s allies and partners in the region? What opportunities are there for Washington to deepen these relationships in the next four years?**

Elizabeth Economy: President Trump’s temporary suspension of US support for Ukraine and stated unhappiness with NATO raise questions for the US’ Indo-

Pacific allies and partners about the US security commitment to the region. Their first priority, therefore, will be persuading President Trump of the importance of

the region and its various defense and economic arrangements, including AUKUS, the Quad, the Indo-Pacific Economic Framework, and mini-lateral arrangements between the United States, Japan, and the Philippines, as well as the United States, Japan, and South Korea.

If President Trump and his team decide that maintaining and bolstering our alliances in the Indo-Pacific is a

priority, they could enhance military technology sharing along the lines of AUKUS, more closely coordinate policies around export controls and investment restrictions, and negotiate a new trade agreement or a tie-in to the current Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The latter seems unlikely given the administration's current approach to trade, but it would deepen US ties with the region and elevate its standing.

Wilson Shirley: If you were sitting in Zhongnanhai, which houses the offices of the Chinese Communist Party leadership, how would you assess the most important risks and opportunities for Beijing?

Elizabeth Economy: The current moment presents China's leaders with short-term pain but the opportunity for long-term gain. The greatest risk is in Beijing's inability to address the structural problems in its domestic economy, including the still sluggish property sector, low productivity, and local government debt, in the face of new international headwinds, including the Trump tariffs and export controls, global pushback against China's export of its overcapacity, and diminished interest in China as a destination for foreign direct investment.

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- Elizabeth Economy

Beijing also faces significant uncertainty around Trump's ultimate objectives. Chinese leaders don't know whether his tariffs, investment restrictions, and export controls are designed to constrain China's economic growth or induce China to come to the negotiating table. They also face uncertainty over the Trump administration's approach to Taiwan, its relations with Russia, and whether the attacks on China's Panama port investments are a one-off move or presage a broader attack on China's Belt and Road Initiative (BRI).

At the same time, China's leaders see opportunity over the longer term if the US is unwilling to assume the financial and security responsibilities of global leadership, desires to reduce US commitments in international institutions, if there is uncertain support for NATO and North American allies, or if there's a push to reduce investment in US science, health, and education, or a desire to prioritize the Western Hemisphere at the expense of the rest of the world. Such factors could enable China to advance its agenda of transforming the international system in line with its values, interests, and policy priorities.

WILSON SHIRLEY: How are China's current internal challenges shaping China's international strategy, and how might other countries adapt their own China approaches, given Beijing's ongoing issues?

Elizabeth Economy: China faces a number of consequential domestic economic and political challenges. Economic growth has slowed, consumer demand and confidence remain weak, and private venture capital and foreign direct investment have flatlined. Serious problems with the property sector, local government debt, and demographic trends also remain unresolved. Thus far, however, these challenges have not led to a significant reduction in Chinese global ambitions. Xi Jinping has not reduced military spending or military assertiveness in the Indo-Pacific; BRI financing has bounced back to pre-Covid levels; investment in technology and technology infrastructure remains at

record highs; and China's pattern of exporting its overcapacity continues unabated.

Moreover, there is no indication that Xi Jinping will change the priority he places on transforming China into the world's leading political, economic, technological, and security power. The two sessions in early March—the annual meeting of the National People's Congress (the legislature), and its advisory body the Chinese People's Political Consultative Conference—promoted continued significant investments in technology, the military, and public security. Immediately following the Two Sessions, the government released an action plan

with measures designed to boost consumption, but the implementation details remain to be elaborated. And it will take time to determine whether recent promises to improve the environment for private enterprise and foreign investment will be realized.

Given this reality, there is little apparent reason for the US or other countries to revise their China strategies dramatically. The current US administration's policies notwithstanding, the US and its allies should continue to try to deepen strategic military dialogue with China while developing sufficient technological and military capabilities to deter and/or defeat Chinese military aggression in the Indo-Pacific, put pressure on China to

create a level playing field in trade and investment and work to reform the WTO or develop alternative trade arrangements with allies and partners, and support democratic ideals in international institutions. In the business sector, geopolitical realities, lessons from COVID around the risk of supply chain dependence, and China's own domestic business environment have led many multinationals to begin to reduce their reliance on both Chinese manufacturing and the China market. If China lives up to its pledge to improve the situation for multinationals, companies can then adjust their strategy. Without a demonstrable shift in Chinese policy, however, changing course would be premature.

Wilson Shirley: China, Russia, Iran, and North Korea have enhanced their cooperation across a variety of domains. How do you see this cooperation evolving in the new few years? And what are the most significant differences between China and these partners?

Elizabeth Economy: The single most important area of cooperation among these countries has been their support for Russia's war of aggression against Ukraine. It's not clear that they actively cooperate on many other issues. There is evidence, for example, that China was concerned about the closer ties between Russia and the DPRK. Nonetheless, they share many of the same values and aspirations. They in some ways align in opposition to universal human values, the role of the dollar as the world's reserve currency, the US-led alliance system, and a free and open Internet, and each is also a leader in cyberattacks. There are opportunities for them to cooperate on many of these issues. One important area of potential future cooperation would also be political

and economic support for Chinese military action against Taiwan.

China stands apart from these other countries as the only global power. Its Belt and Road Initiative, expanding security relationships, technological prowess, and leadership positions in international institutions provide it with global reach and influence that is not matched by others. It also has played an important role as a provider of global goods. Russia has ambitions to be a power on par with the United States and China, but it has neither the economic wherewithal nor the diplomatic presence to compete effectively.

Wilson Shirley: What are the primary sources of tension between China and the US, or the US-led international system?

Elizabeth Economy: Bilateral tensions between the United States and China over trade, human rights, and security (primarily Taiwan) have existed since the two countries normalized relations in 1979. Over the past 10-15 years (particularly since the 2012 ascension to power of Xi Jinping), however, there has been a dramatic expansion in the range of issues over which there is conflict and in the intensity of that conflict. These shifts derive primarily from changes in Chinese ambitions and capabilities. China now has the intention and ability to transform its position in the international system and the system itself in ways that directly affect the United States. Its leaders seek to reduce the role of the dollar in the global economy, end the US-led alliance system, and through its BRI and other initiatives, transform the geopolitical, economic, and strategic landscape in ways that reflect Chinese values, priorities, and interests. It also desires to create a multi-polar system in which it

dominates Asia.

These changes in Chinese policy contributed to changes in US policy. Rather than preference the traditional policy of "engagement" with China, both the first Trump and Biden presidencies pursued a policy of strategic competition. The second Trump administration, however, appears poised to adapt this approach. Its actions suggest that in technology as well as trade and investment, it continues to view China through a competitive lens. But it may not seek to compete with China globally for political and military leadership. The administration or some of its members have called into question fundamental elements of traditional US political and security leadership, including with regards to NATO, support for Ukraine, and involvement in international organizations. If challenges to traditional US leadership are realized, the geostrategic landscape could be

fundamentally altered and, in the process, help Xi Jinping fulfill his vision of “great changes not seen in a century.”

Wilson Shirley: What topic or issue related to China’s role in the world does not get enough attention, and why is it important for policymakers and business leaders to understand?

Elizbeth Economy: China’s persistence. When China’s economy is struggling, as it is now, there is a temptation for policymakers and business leaders to assume that Beijing will reduce its domestic and foreign policy ambitions. But even if Beijing pauses or pivots slightly, it will continue to pursue its objectives. It took China more than thirty years to become the leading manufacturer and exporter of electric vehicles, but the government persisted and eventually succeeded. This same pattern holds true across multiple sectors of the economy.

Moreover, Beijing displays this same tenacity in its foreign policy. It has spent decades making incremental progress in advancing its economic and strategic interests in the Arctic, pushing its norm of state-determined human rights, attempting to assert sovereignty over 80 percent of the South China Sea, and working to internationalize its currency. And it may spend decades more, but it won’t give up and it won’t give in. The lesson for policymakers is never to take your eye off Chinese leaders’ long-term ambitions, because they don’t.



Elizbeth Economy is the Hargrove Senior Fellow and co-chair of the Program on the US, China, and the World at the Hoover Institution. From 2021 to 2023, she served as the senior advisor for China in the Department of Commerce. Economy was previously at the Council on Foreign Relations, where she served as the C.V. Starr Senior Fellow and director for Asia Studies for over a decade.

Economy is an acclaimed author and expert on Chinese domestic and foreign policy. Her most recent book is *The World According to China* (Polity, 2022). She is also the author of *The Third Revolution: Xi Jinping and the New Chinese State* (Oxford University Press, 2018), which was shortlisted for the Lionel Gelber Prize for foreign affairs books, and *By All Means Necessary: How China’s Resource Quest Is Changing the World* (Oxford University Press, 2014) with Michael Levi. She has published articles in foreign policy and scholarly journals including *Foreign Affairs*, *Harvard Business Review*, and *Foreign Policy*, and op-eds in the *New York Times*, the *Washington Post*, and the *Wall Street Journal*, among other news outlets. Economy is a frequent guest on nationally broadcast television and radio programs, has testified before Congress on numerous occasions, and regularly consults for US government agencies and companies. In June 2018, Economy was named one of the “10 Names That Matter on China Policy” by *Politico Magazine*.

Economy serves on the board of managers of Swarthmore College, as well as on the boards of the National Committee on US–China Relations and the National Endowment for Democracy. She is a member of the Aspen Strategy Group and the Council on Foreign Relations. At the World Economic Forum, she served as a member and then vice chair of the Global Agenda Council on the Future of China (2008–14) and a member of the Global Agenda Council on the United States (2014–16). She has taught undergraduate- and graduate-level courses at Columbia University, Johns Hopkins University’s Paul H. Nitze School of Advanced International Studies, and the University of Washington’s Jackson School of International Studies.

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