News Release
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As US-China Tensions Intensify, Don’t Abandon the Relationship; Reaffirm American Leadership


The Solutions Brief—which can be accessed here and is the latest in CED’s Sustaining Capitalism series—comes at a time of growing tensions between the two nations. The war in Ukraine has accelerated China’s efforts, in concert with Russia, to shift the international order away from the US’s dominance. The US is becoming increasingly cautious in accepting Chinese investment in many economic sectors. And both policy and private sector leaders need to reconsider the extent to which they should remain dependent on China for important components in supply chains.

But these challenges and others do not mean the US should abandon its relationship with China—far from it. Despite the growing tensions, the US trade in goods with China—the US’s third largest trading partner—hit a record in 2022 of $690.6 billion, topping the 2018 record of $658.8 billion. This trading trend demonstrates the continuing demand on the part of business and consumers for trade with China and, consequently, the need for mutual cooperation.

“The US and China’s economies are deeply intertwined, and neither policymakers nor US businesses should underestimate the multifaceted challenge the nation faces in our strategic competition with China,” said Dr. Lori Esposito Murray, President of CED. “Robust US engagement with China and with our allies and partners around the world that recognizes the areas where we must compete, as well as the areas where we must cooperate to promote economic growth and geopolitical stability, must be a top priority.”

Key Recommendations from the Solutions Brief

The following recommendations focus on the trade and investment relationship, the main area of US-China interdependence, and seek to address the challenges through private and public sector collaboration:

**Develop a strategic plan on trade and investment**: The principal solution to the China challenge is to adopt a comprehensive policy by US government leaders, in consultation with business leaders, based on the series of recommendations below on trade and investment. Critically, there should be a coordinated, comprehensive approach to trade and investment.

**Adopt sound economic policies that help preserve the US dollar’s preeminent role in the global economy**: The US dollar’s status as the global reserve currency is supported by the size and strength of the US economy, its stability and openness to trade and capital flows, and strong property rights and the rule of law. These are all areas that fiscal and monetary policy makers in collaboration with business leaders should target to bolster, to help preserve the US dollar’s preeminent global role.

**Reinvigorate trade negotiations with China**: US policy leaders, with the support of private sector leaders, should work with the international community to reinforce the WTO trading guidelines; reach a comprehensive agreement with China on trade and IP rights; increase US market access and IP protection, in exchange for
removing the current tariffs; and short of a comprehensive agreement, reinvigorate negotiations on phase two of the US-China trade deal.

**Reinvigorate the World Trade Organization (WTO):** The US should work with its allies and partners to reform the WTO and continue to promote the benefits of an open global trading system.

**Continue US support for Taiwan,** which is guided by the Taiwan Relations Act, the three US-China Joint Communiques, and the Six Assurances, as a deterrent to Chinese aggression and as a means of preventing war. At the same time, encourage Taiwanese investment in microchip and advanced technologies in the US.

**Bolster cybersecurity defense and resilience:** Businesses should bolster their cybersecurity protection and resilience and exercise vigilance against economic espionage and protect their IP.

**Bolster supply chains for resilience and redundancy:**

Business leaders should:
- Understand the full extent and costs of supply chains, with an immediate focus on China and Taiwan.
- Evaluate supply chains in terms of financial and geostrategic risk and seek to diversify when possible.
- Strongly consider re-shoring, near-shoring, and friend-shoring opportunities.
- Consult with US policy leaders to develop policies addressing supply chain challenges and bottlenecks.

Public policy leaders should:
- Increase public/private collaboration to solve supply chain disruptions, particularly in strategic sectors.
- Modernize customs procedures and consider ways to facilitate trade.
- Negotiate bilateral and regional trade agreements to address and ameliorate supply chain challenges.
- Develop alternative and secure supply chains for critical minerals and materials.
- Streamline regulation and implement policies to promote investment in the US.

**Develop guideposts for foreign investment and export controls:** Support foreign investment, provided it meets national security standards and take action against particular companies only on grounds of national security or IP theft. The US should also consider whether restrictions on investment and export control agreements for goods of importance to national security should be more robust and mandatory.

**Semiconductor restrictions and innovation:** Continue export restrictions on manufacturing materials for advanced semiconductors; work with allies to ensure a global approach to these restrictions; and foster innovation, including increased R&D in the US, as the best strategy to maintain global leadership in semiconductor technology as well as other critical technologies.

**Public policy leaders should reinvigorate US trade policy in the Indo-Pacific:**
- Rejoin the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).
- Lead a coalition with the business community in favor of global trade and the CPTPP, including emphasizing its benefits in every Congressional district.
- Accelerate the pace on the Indo-Pacific Economic Framework (IPEF) and similar groups for the Pacific Island states, Africa, and Latin America by setting clear agendas, goals, and deadlines, with reciprocal obligations for the US; invite other nations to suggest what is needed from the US to make IPEF work.

**Pursue areas of cooperation:** Reinvigorate efforts to work with China on important global issues such as climate, macroeconomics, and geopolitical issues; work with China on global trade issues; keep lines of communication open through regular US-China meetings of senior officials.

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