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A more realistic approach: Using Trump-Xi Summits to Buy Time

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The Trump-Xi summit and possible future of US-China economic relations event

September 22, 2026

1750 Massachusetts Avenue, NW | Washington, DC 20036 | www.piie.com

Managing interdependence is better than decoupling

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China Still Has What America Needs

The Trump-Xi Summit Gives Washington a Chance to Buy Time

ADAM S. POSEN

September 21, 2026

ADAM S. POSEN is President of the Peterson Institute for International Economics.

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- US needs to build up resilience
  - 10 years of using tariff threats and export/FDI controls hasn't worked and will not work
- It is more realistic to negotiate a win-win with China on imports and FDI than to successfully decouple now
  - Historically, even adversaries on the cusp of war have continued commerce
  - Risks from this path are lower than trying to abruptly decouple
- This requires Trump Administration to rethink its redlines and stand up to China hawks in the interest of US national security

Being vulnerable is the start of economic diplomacy

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Trade Wars Are Easy to Lose

Beijing Has Escalation Dominance in the U.S.-China Tariff Fight

ADAM S. POSEN

April 9, 2025

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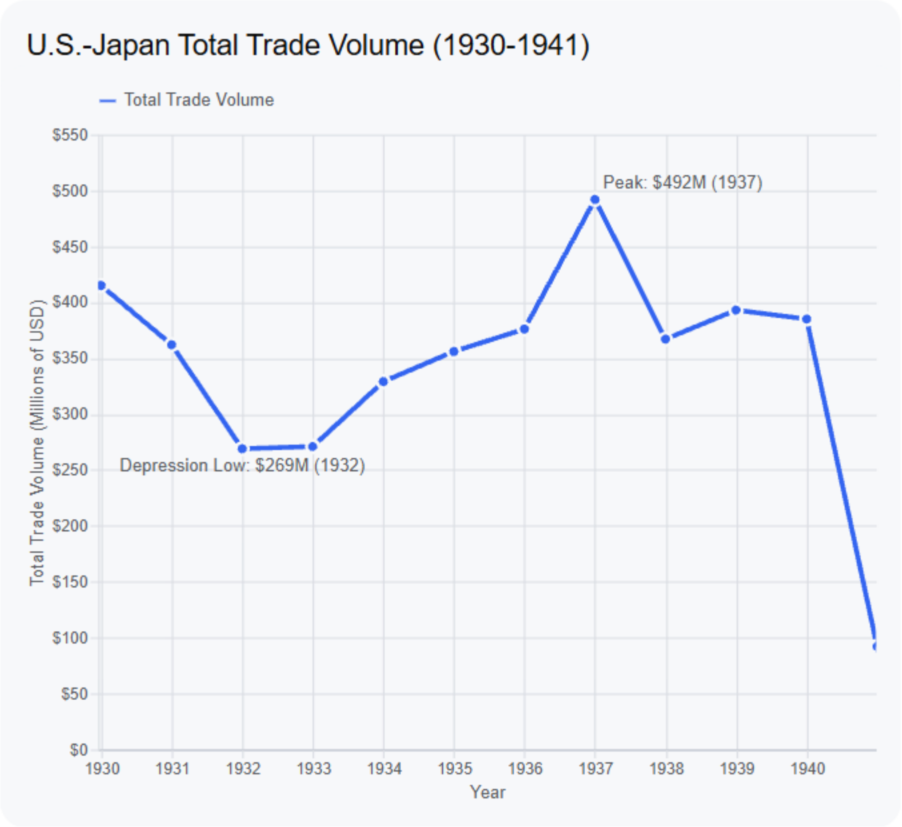
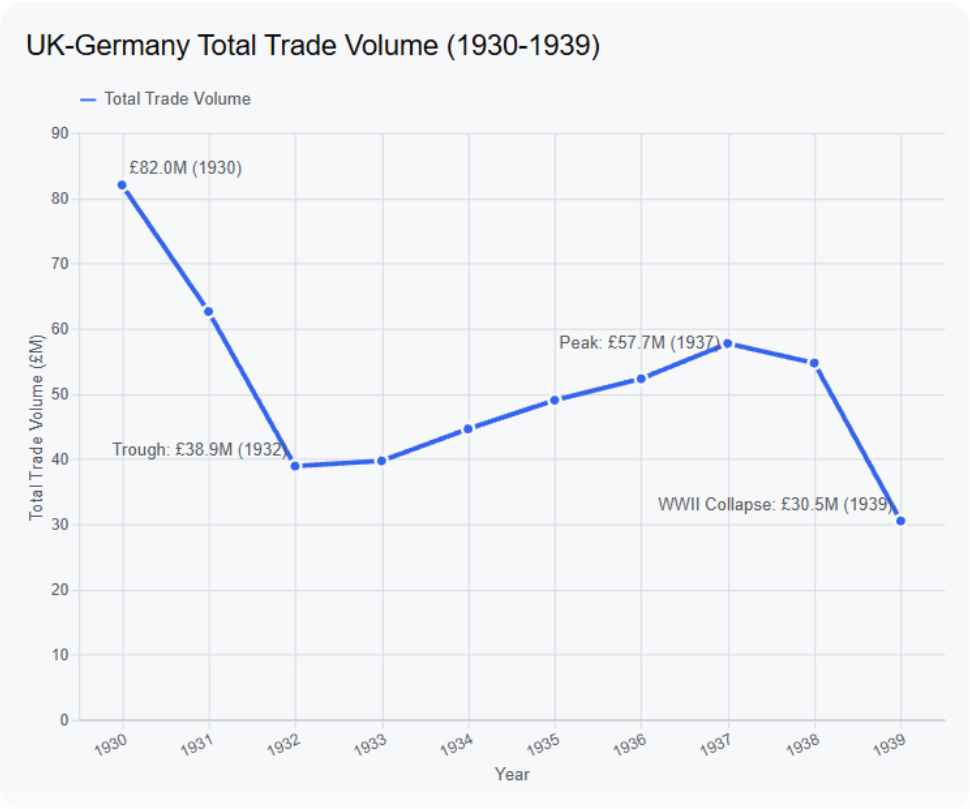
- China does have escalation dominance, if there is a trade war, but China is still better off without a trade war
- The reality is that US is now like every other economy has been vis-à-vis the US for the last 80 years
    - There is still room for win-win deals
    - Bargaining from relative weakness is not all or nothing, but you must give big to get big
- Xi believes time is on China's side, given the Post-American World Economy – so try to buy time to diversify and build resilience

Buying time through commerce has worked historically





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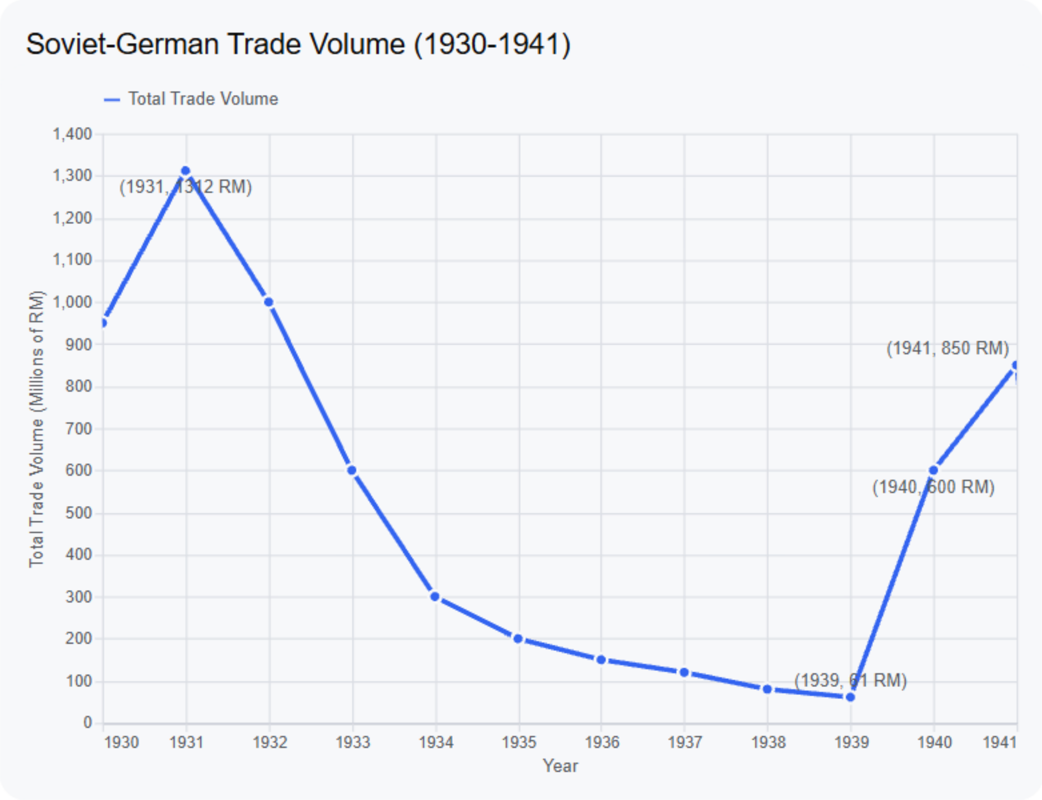
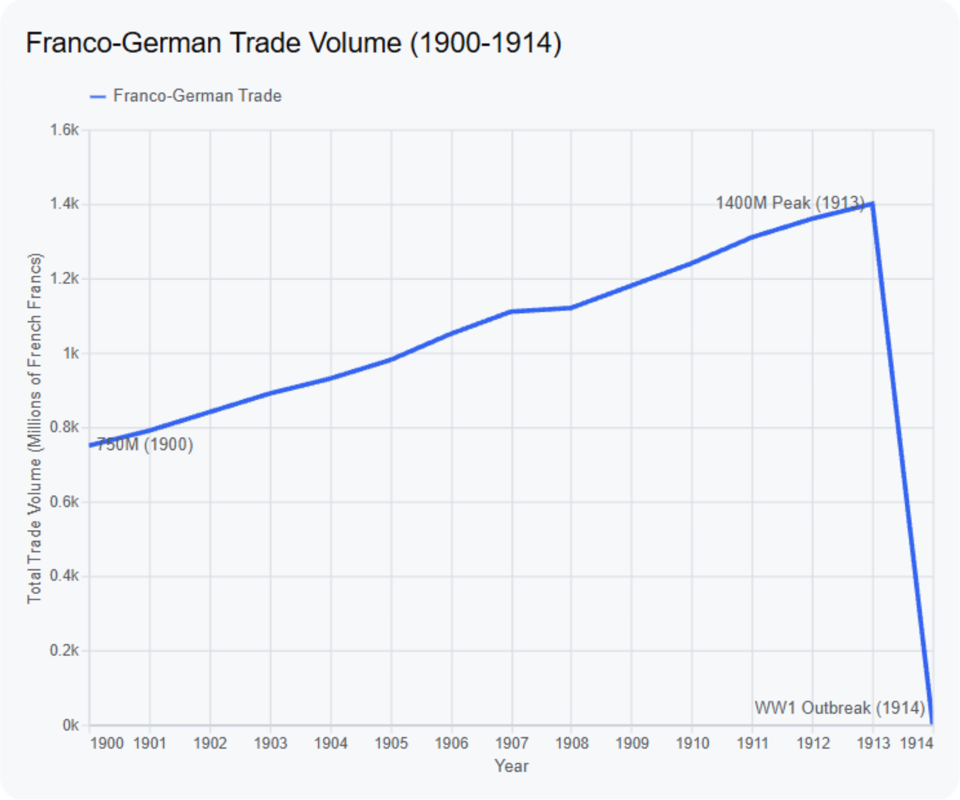


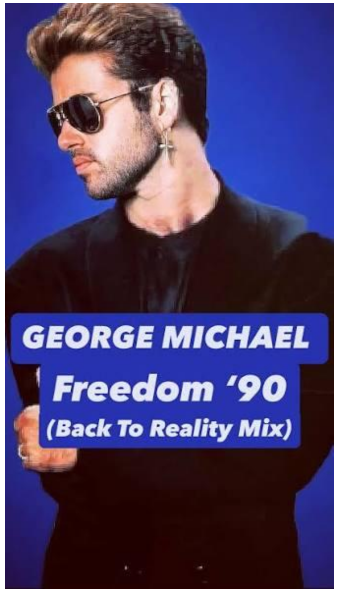


Start with stockpiling – offer something worth it to Xi

US Congress investigates diversion of sensitive F-35 parts to Hong Kong: report

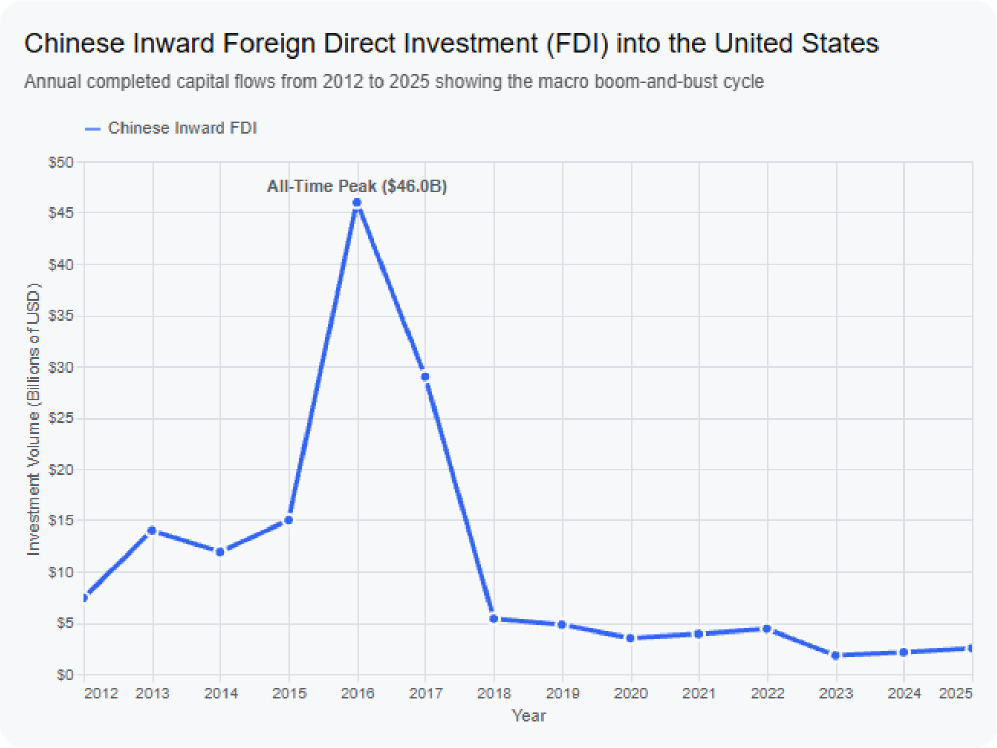
Jet's canopy among components missing, sparking fears of potential reverse engineering, as city's authorities decline to comment

George Michael Freedom 90 Scroll Lyrics 22



- Yes, Xi values having leverage via rare earths, et al, and sales are not large
- Yet, there are exports and investments which China does want from/in US
  - These are tech goods
  - These are not soybeans and large aircraft which can be gotten elsewhere
- China will continue to smuggle and acquire tech – the incremental additional risk is low for most exports
- US vulnerability to cutoffs is the more dangerous and acute risk
- Maximize imports of what the US needs, with exports as a means to that end (don't just maximize exports)

Exchange hostages through opening up investment



Data source: The Rhodium Group

- The practice of exchange of hostages by potential adversaries runs through history
  - While no guarantee against attack, it slows down and disincentivizes escalation of conflicts by greater powers against lesser ones
- FDI is the contemporary modern equivalent, putting at risk something of value, with ties to the ruling regime, and high symbolic weight
- This is part of how economic interdependence between the US and Japan, Korea, and EU has been managed to avoid confrontation
  - Obviously, relations with allied countries are different than between China and US
  - But the basic benefits and incentives remain

Exchange hostages through opening up investment

Trump's Transportation Secretary Sean P. Duffy Urges Ford to Cut Ties to China and Prioritize Manufacturing in America

Tuesday, September 8, 2026

WASHINGTON, D.C. – U.S. Transportation Secretary Sean P. Duffy today warned Ford Motor Company against its embrace of Chinese technology and manufacturing due to national security concerns. In a letter to Ford CEO Jim Farley, Secretary Duffy advocates for skilled American workers who suffer as Ford continues to manufacture vehicles with Chinese companies abroad instead of building in America.

The letter highlights several recent actions by Ford that increase its dependence on our foreign adversary China, including:

MONEY > MARKETS

China Sees Opening For Investment In U.S. After Trump-Xi Summit

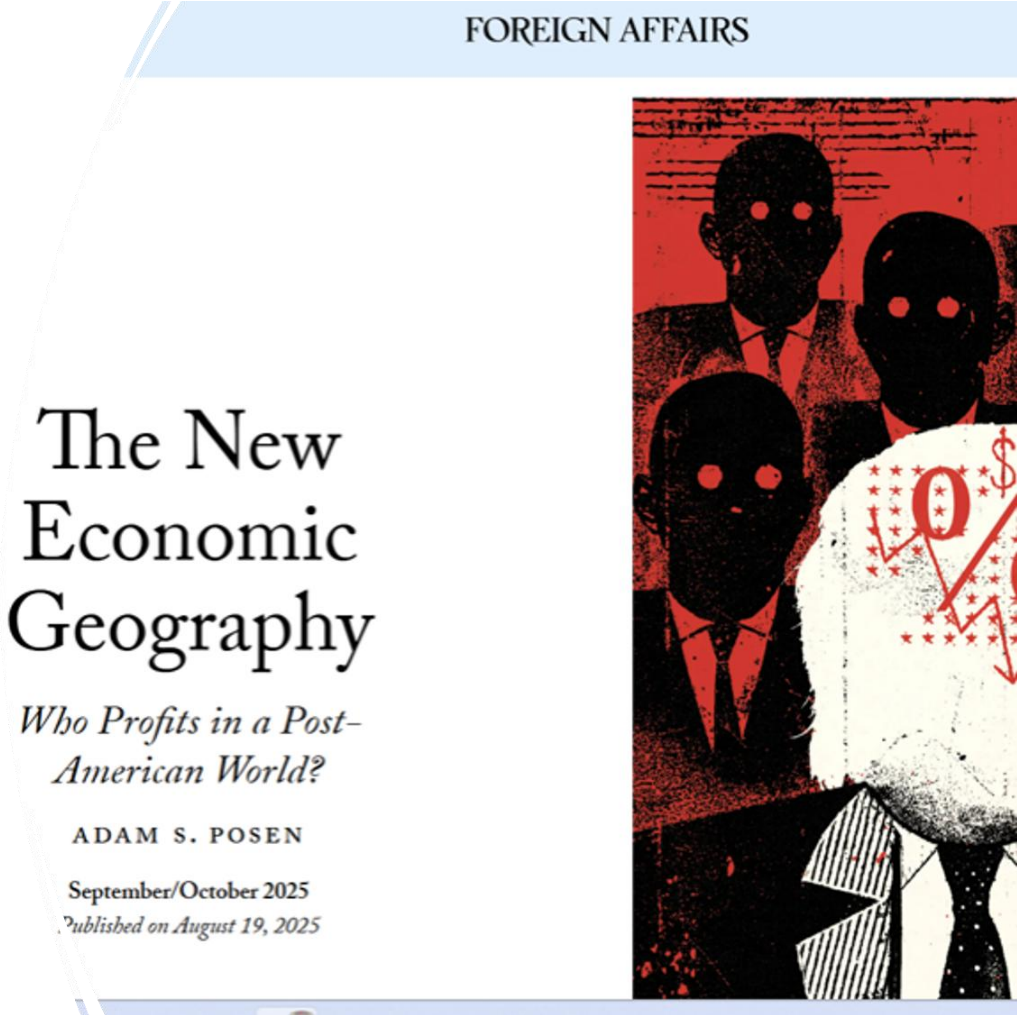
By Russell Flannery, Senior Contributor.

Published May 30, 2026, 01:09pm EDT, Updated May 30, 2026, 07:35pm EDT

Forbes

- Inward FDI also offers technology and know-how transfer, well-paid jobs, and diversification of supply, unlike actual princely hostages
  - *The gains* to the US economy from Chinese inward FDI *have risen* with China's leadership in various industries
  - *The incremental intelligence losses* to the US from inwards FDI *have fallen* as AI/cyber became more effective
- The restriction of Chinese investment into the US is a policy choice, through FIRRMA and forced divestitures – and it is reversible mistake
- China in earlier decades gained, and EU/Canada now are gaining, competitiveness through greenfield FDI by rivals. US should do the same

US now has to pursue economic diplomacy like a lesser power



- Lesson of Busan 2025 summit for the Trump administration and China hawks in both parties:
  - No amount of bilateral trade-related threats or exclusion from the US economy would give the United States an easy win over China.
  - A decade of attempts by the Biden and Trump administrations to unilaterally decouple from China and to bully allies into providing alternatives has failed
- The United States needs time to reduce its dependence on China—and other concentrated supply sources of critical industrial inputs
- The US needs to rebuild its alliances to make developing those supply alternatives viable. Bilateral deals alone won’t suffice

US now has to pursue economic diplomacy like a lesser power

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- The first step is for US to use forms of economic diplomacy long pursued by states accustomed to not always getting their way.
- By seeking win-win deals, by negotiating cautiously, and by deliberately using what ongoing economic interdependence remains to build resilience.
- History demonstrates that even seemingly inevitable adversaries can and often do continue to trade, invest, and even cooperate with each other.
- For the United States and China, that pattern is likely to hold for even longer than some past rivalries because of the Pacific Ocean, nuclear deterrence, and US' remaining technological leads in multiple sectors.
- China's own internal economic and demographic problems make it still more likely that Beijing has an interest in maintaining relative peace, including by continuing to export to and invest in the United States.

How realistically to make better use of Trump-Xi Summits

- There are no guarantees that restoring some economic interdependence will prevent China from one day cutting off US access to critical goods or someday instigating military conflict.
- Nor will a solely bilateral approach create US resilience on its own—domestic and allied efforts are also needed.
- But importing from China at scale, trading valued exports to stockpile critical supplies, and exchanging commercial hostages thru increasing inward Chinese FDI will buy the necessary time while adding economic resources to strengthen American resilience.
- The Trump administration should look beyond both the China hawks’ zero-sum approach and its own subsequent shift to flattering accommodation and piecemeal deals.
- Bilateral economic diplomacy begins when a government recognizes its interdependence with a potential adversary; it should not end there

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