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[00:05:12.39] - Marcus Noland

The US and China are the world's 2 largest economies, and their rivalry has global implications. Addressing this issue will be 3 Peterson-affiliated scholars. Our lead-off speaker is Adam S. Posen, President of the Peterson Institute. Prior to becoming Peterson's President, Adam served as an external member of the Bank of England's Monetary Policy Committee and earlier in his career worked at the New York Fed. Adam will address ways that the US can use economic diplomacy to further its national interests in an environment in which China holds escalatory dominance, drawing on his newly released piece for Foreign Affairs Online. Possible approaches include stockpiling, encouraging inward Chinese FDI as a means of taking hostages, economic hostages, in an effort to buy time until the balance of power changes in a more favorable direction. Adam will be followed by non-resident senior fellow Yeling Tan. When not at Peterson, Yeling is a professor of public policy at the University of Oxford's Blavatnik School of Government. She will argue that leader-to-leader summitry is inadequate to address the underlying escalatory tensions in US-China relations and how lessons drawn from tariff reduction or nuclear weapons negotiations may not be sufficient in the context at hand.

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Last but not least, certainly in stature, Reginald Jones Senior Fellow Chad Bown, co-author with Soumya Keynes of the current bestseller, How to Win a Trade War, and former Chief Economist of the State Department, will tell us what the data reveal about how the U.S.-China trade war is actually going. After these presentations, we'll have the opportunity for questions and discussion. before wrapping up at 10:00 AM local time. And with that, I would like to turn the podium over to Adam Posen for our first presentation.

[00:07:13.30] - Adam S. Posen

Thank you, Mark. Thank you all for joining us online and live. I'm very pleased to share the podium with my colleagues, Yaeling, Chad, and Marcus. If we are in a post-American world economy, as I have argued we are, the U.S. cannot expect to get what it wants as easily as it once did. This sounds pretty straightforward, but it has not been recognized by either the Biden

or the Trump administrations in their relations with China or more broadly. The U.S. in certain areas is now a lesser power than China for purposes of negotiation. That is not the end of the game. Lesser powers— Japan, Germany, United Kingdom, India, Brazil— have gone on for decades, and for that matter, so has China, in the shadow of the U.S. greater power since the World War. and have managed to negotiate and pursue their national interests. It's time for the U.S. to be more realistic, and this means changing some of its red lines. And rather than trying to rapidly decouple in a way that 10 years of trying has failed to deliver better security for the U.S., it needs to manage the interdependence with China better. I focus today on the summit.

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As Mark mentioned and Yeling argues, and I know Chad agrees, summitry is only one piece of the U.S.-China relationship, even defined as economic. Allied relationships are key, economic fundamentals, and especially domestic measures in U.S. are key. Nonetheless, there are better and worse ways of managing the bilateral relationship. And that's what I'm going to focus on today. So managing interdependence is better than decoupling. As Mark kindly mentioned, I have an article that came out yesterday on Foreign Affairs Online. I'm not responsible for the title, but it's not bad. The important point, which everyone seems to agree, is the US needs to build up its resilience. However, 10 years now of Trump 1, Biden, and Trump 2 have used tariff threats and export and FDI controls and restrictions, and it hasn't worked. And in fact, it will not work. It is much more realistic, frankly, not idealistic, not dovish, not blind, realistic, pragmatic. To negotiate or try to negotiate a win-win with China on imports and FDIs than to decouple. As I'll show some illustrations, historically even countries that were far more certain to go to war and far more adversarial than U.S. and China in the past have continued commerce.

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And if ultimately what we care about is U.S. vulnerabilities, the risks of this path, while it is risky, are lower than abruptly trying to decouple. And as I said, this requires the China administration and the China hawks to rethink their insistence on red lines about what to export and what to allow China to invest. Ultimately, being vulnerable is the start of economic diplomacy. A year and a half ago, I published this article in Foreign Affairs. And it had some impact because I reintroduced to the economic discourse this concept of escalation dominance. Basically, if the US goes in trying to have a trade war with China, China will be able to put more pain on the US than it will suffer itself. However, that's just the start of the story. China still suffers if it has a trade war with the US. And so now the reality is that the US is like every other economy has been, including China vis-à-vis the US for the last 80 years. You have to give something when you're in that position to get something big. If we want to be less vulnerable to cutoffs of pharmaceutical supplies, rare earths, and magnets, we have to give something up.

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We cannot insist, no, no, if we just try to escalate once more on tariffs, China will cave. Whoops, that didn't work. I think importantly, and there are many people writing about this, including Yeling, Nick Lardy, our colleague Tianlei Huang, I think at this point Xi, with good reason, believes the time for now is on China's side. And so the U.S., like other countries exposed to a dangerous rival, needs to think in terms of buying time rather than just demanding what it wants. Now, I want to put some historical context on this just to show you how realistic this is. The left chart shows U.S.-Japan total trade volume in the run-up to World War II. Until the U.S. put on an embargo in 1941, U.S.-Japan cross-border trade was quite substantial and in fact growing. UK-Germany from 1930 to '39, similarly countries that were eyeing each other as direct military rivals, had a decline in trade, basically sustained pretty high trade throughout this period. In the case of Soviet-Nazi Germany trade volume, there was a slightly different story. Hitler, of course, came to power proclaiming his hatred of Bolshevism, but later on found that was depriving the German economy of critical goods and imports, and so resumed trade as Germany and the Soviet Union carved up Poland.

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And even in the febrile environment of France and Germany between the Prussian— Franco-Prussian War and World War I, trade grew. Now, my point of this is not necessarily that it's optimal, but that even in such situations where there was clearly risk of imminent global conflict, the countries in question continued to trade because they decided the balance of risks was better. And I think there's good reason for that. Now, I would start with stockpiling, but the key point that makes this difference is to offer something worth it to Xi. So yes, obviously Xi and China have great leverage over their ability to cut off rare earths. I warned about that a year ago April. And as colleagues have pointed out, the direct financial benefits to China of selling rare earths are relatively small. So why would they give this up? Well, the answer is because it's not an all-or-nothing, life-or-death struggle. There are exports and investments which China does want from or in the U.S., and these are primarily technological goods, of course. But repeatedly in summits, Trump, and to some degree Biden, has tried to sell things to China and get, as Chad has thoroughly documented, false promises to purchase things that China can get elsewhere.

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Large aircraft, they don't have to buy from Boeing, they can buy from Airbus. Soybeans, they don't have to buy from the U.S., they can buy from Brazil. The point is, What you need to do is

offer China things China currently cannot get elsewhere. And this will be a finely balanced evaluation of which technologies you can afford to let China get in return for more steady access, multi-year purchase agreements, and stockpiling of the U.S. of these critical goods. As George Michael said in his Back to Reality mix, You got to give for what you take. That's what freedom means. Meanwhile, people will say, oh, Adam, you don't care about the national security risks of technological diffusion. Well, as we just saw over the last week, trade is not the only way that China gets access to technology. There's smuggling, there's theft, there's intelligence. And so the incremental risk for the U.S. of adding additional exports— again, not everything— is small. I think the vulnerability to being cut off from critical minerals, critical pharmaceutical products, and other things in the near term is a far more acute vulnerability. And this is where the mindset of the U.S. and the China hawks in Congress thinking the U.S. is still the demander and doesn't have to give anything backfires because the assumption is, well, if it's acute, we're just gonna demand it from our allies.

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We're gonna try to get around from China. Again, and as Chad has the scars to prove from his time at the State Department, it hasn't proven that easy. So in the near term, if you care about US national security risks, you need to maximize imports, what the US needs, and you need exports as a means to that end. You're not there just to maximize the dollar amount of exports. The second thing I would mention is the idea of exchanging hostages through opening up investment in the U.S. As shown in data from our colleagues at the Rhodium Group, and AEI has similar data, there was a huge surge of investment from China into the U.S. in 2017. But leaving that aside, if you look at the previous years and then the 2017 number, we are way, way down near zero in recent years. And this partly reflects the geopolitics, but more reflects the hostility towards Chinese investment in the U.S. This is a mistake. We go back to ancient and medieval history, there's long been the practice of exchanging hostages. amongst powers. It doesn't prevent an attack. Nothing you do economically will prevent war. What it can do is discourage and slow down escalatory cycles.

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Again, Yeling's gonna talk about this from a different perspective, but we have situations where right now, for the next few years, it would be very, very dangerous to US self-interest to get into an escalatory cycle with China. You have to be realistic about that. Moreover, FDI is a virtuous thing to do in economic terms. You are exchanging hostages by doing something visible, high value, putting value at risk, something tied to the regime. But this is also something that creates economic spillovers. And this is how, as Mark Noland has written about, Paul Krugman has written about, others have written about. This is part of how Japan, Korea, the EU have

negotiated their relationship with the U.S. when they were creeping up on the U.S. in competitiveness. The same incentives remain for China vis-à-vis the U.S., even though obviously China is not a military ally like Japan or Korea. Now, we've just had the example of Treasury Secretary Duffy attacking Ford to cut ties with their new investment in Michigan, employing US workers, transferring Chinese battery technology to an American company. This is incompetent. I'm not carrying water for Ford. Let me be very clear. This is just a perfect example that came out in the last week.

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Inward FDI, as numerous studies published by the Peterson Institute and elsewhere shows, brings in technology and know-how, it brings in well-paid jobs, it diversifies supply, so it's better than having Xi's princelings as hostages. The gains to the U.S. economy from Chinese FDI have gone up markedly in the last 10 years when China is in the lead in so many technologies from which we can learn. The incremental intelligence losses by having them here when they can get so much through AI and cyber attacks already have gone down. So the value proposition of FDI has come— inward FDI from China has become even better. This is a policy choice. If we took off certain restrictions and reviewed the application of FIRMA, we could attract useful Chinese investment. with national security benefits. So ultimately, the U.S. now has to pursue economic diplomacy like a lesser power. I'm sorry for all the self-citations, but I've actually been building an argument over a few years. We are in a new economic geography. The lesson of the Busan 2025 Summit, the last Trump-Xi summit, was important for the Trump administration and China hawks in both parties. No amount of unilateral exclusion or threats by U.S. Is going to give the U.S. an easy win over China.

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As Mary Lovely and Christine Wan have published in a recent study here by the Peterson Institute, by them for the Peterson Institute, all these efforts to forcibly decouple have attenuated supply chains, made them less transparent, but ultimately almost all of our critical supply chains go back to China whether some of the assembly is in Vietnam or Mexico. There is a real reason why Nazi Germany did resume trade with the Soviet Union, why Germany traded with France ahead of World War I, with the UK ahead of World War II. Because disentangling economic needs is very difficult. This is a reality. The US needs time as well as a different approach. And here's the next point. Bilateral deals will not suffice. So the bilateral approach I'm talking about in the U.S. case is because of the summit and is necessary. It is far, far, far from sufficient. As Chad has written about, as I have said, as our founder Fred Bergsten has spoken about, co-founder Fred Bergsten has spoken about, allies are absolutely critical to achieve any

sustainable change in Chinese behavior. But it's also going to take time to rebuild those alliances after the behavior of the U.S. over recent years.

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So just to recap, the first step is the U.S. government, the China hawks, President Trump and his cabinet, need to use the kinds of economic diplomacy long used by states accustomed to not always getting their way. There's no guarantees, but you can seek win-win deals with China, you can negotiate cautiously, and you can deliberately try to lean into the interdependence we got than make futile efforts at abrupt decoupling. History shows this is what most strong states do when in this situation. In fact, I am hopeful, given that China thinks it has the upper hand at present, given that we have the Pacific and nuclear deterrence, given that the US does, of course, still have major technological leads in various critical areas, that this pattern can persist for longer if the US would stop trying to do the wrong thing. Thank you very much.

[00:23:54.09] - Yeling Tan

Good morning. It's great to be here on the panel with Adam and Chad, and thank you all for joining us. So, I want to start with the view, with one view about summitry. This view that through this week's meeting and through future meetings between Presidents Trump and Xi at APEC, at the G20, that the United States and China have found a new leader-based formula for stability that did not exist in earlier parts of the Trump administration. And in support of this view, it's not without merit, we would look at the agreements that the 2 presidents signed in Busan last October to mutually suspend escalations in export controls. The affiliates rule on the part of the United States, and extraterritorial controls on rare earth minerals and processing technology on the part of China. And we would also point to the summit in Beijing in May earlier this year, where the 2 leaders agreed to a vision of constructive strategic stability based on fairness and reciprocity. But to me, this current leader-to-leader summitry is an incomplete formula, and dangerously incomplete, because it doesn't address the structural tensions in the relationship between the US and Chinese economies that remain fundamentally escalatory.

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In essence, as Adam has just very persuasively pointed out, the United States needs time, I would say, well, China also needs time. It's using that time. It's in the interest of both sides to use whatever time they have provided by the temporary suspensions to build escape routes, escape routes to their chokepoint dependencies while trying to close any loopholes to maintain their own leverage vis-à-vis the other. China in particular has not wasted the time that it currently has. Since 2018, it has worked intensely to build out a new legislative toolkit for

economic security to try to match the incredible strength and reach of America's export control regimes. And indeed, it's a security logic, as I've argued, that now runs through much of China's economic policymaking. Making, not just through this counter-coercion toolkit, but also in its dual circulation strategy and also in its intense domestic focus on high-tech innovation and self-reliance. But this set of legal tools that China has built up for economic retaliation, it's incredibly robust and it goes beyond the controls on rare earths and processing technologies that have been in the headlines. There is a suite of new laws from the Export Control Law, the Foreign Anti-Foreign Sanctions Law, the Foreign Relations Law, the Tariff Law, the revisions to the Foreign Trade Law, and so on that now allow China to forcefully hit back at what it perceives as acts of foreign economic coercion.

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So apart from what's been in the headlines on the offensive side, right, export controls on rare earths, the entity listings that deny access to vital industrial inputs, China is also using a set of tools that work on the defensive side that are aimed at blunting the reach of American export controls. And so China is slowly testing these blocking regulations out, which are putting firms, and not just Chinese firms, but also multinational firms, potentially in a very tricky essentially a legal catch-22 where abiding by the economic security rules and regulations of one side would by definition put these firms in the legal crosshairs of the other side. And this is a dynamic that I think we need to watch carefully and it will play out in the coming months and years. So given what is going on underneath the leader-level summit, it appears to me at least that at the moment there is no meat on the bones of what is being called constructive strategic stability. Even amidst this pause, the leader-level pause established in Busan and in Beijing, we've seen a couple of action-reaction cycles now. Between the May summit actually and today that indicate just how fragile this truce is.

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So, in June, the Pentagon added over 60 Chinese companies to its list of entities considered to be aiding the Chinese military, which included Alibaba, and it included BYD, included Baidu. China retaliated, right? It added a number of American industrial firms to its entity list, including MP Materials, including US rare earths. It issued some procurement bans on a number of American defense contractors. So, that was June. Last month, the FCC imposed import bans on Chinese drones. The Department of Homeland Security added more companies to the list associated with the Uyghur Forced Labor Protection Act. China hit back with its own controls and blocking measures that will make it harder for firms that currently rely on a set of companies that engage in the supply chain forensics that allow many firms around the world to abide by American sanctions and export controls. But we can't only say that this pattern is one of the US

taking actions that China considers to be provocative and then China retaliating. On the Chinese side, China is also taking actions, right? It issued in June this year 2 State Council regulations on supply chain security and on what it calls improper extraterritorial jurisdiction, which analysts see as potentially changing the status quo, especially for firms operating in the global economy.

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There are new regulations that came into force this month that tighten the restrictions on the movement of people out of China and further tightening export controls on human expertise. So, if any of these actions, either on the US side or on the Chinese side, accidentally spiral into escalation, either side could be accused of making the move to rock the boat. So, in short, this bilateral economic relationship remains fragile as long as both sides are focused on an approach that is based on maximizing credible threat to the other and minimizing their own vulnerability. This is an approach to security that is rational, but it's imbalanced because it traps both the United States and China. essentially in a security dilemma, where one side takes an action. It might be defensive to shore up its own security, but it can be perceived or misperceived as being essentially offensive to the other side. And it triggers the need to retaliate, and we're caught in a rational but dangerous spiral. But what I would want to point out is that the situation we're in now is not a traditional security dilemma, as we've seen with nuclear weapons and so on.

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The risks of strategic misperception actually to me are higher when governments are using economic networks as weapons. And this is because the economy is not set up for this kind of warfare. So more so than when we're talking about traditional weapons, missile systems and guns and so on, it's already unclear in the traditional security arena, when we're talking about economic warfare, it is even less obvious what actions can be clearly seen and agreed to by both sides as purely defensive or purely offensive. And that makes the odds of misperception far higher. Another problem is that proportionality is incredibly difficult to establish in the realm of export controls. We're not in the situation of tariffs where we can, as Canadian Prime Minister Mark Carney has declared, match the other side's tariffs dollar for dollar or sector for sector. We're in an environment where restrictions, export restrictions in one network, it could be semiconductors, operates through one set of firms and supply chains. Retaliation takes place through a different network, that of rare earths, right? And they're overlapping and interconnected. And these interconnections mean that export restrictions on any single input reverberates across sectors. It reverberates across territorial borders.

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It hits third-party firms. It drags in third-party nations. That makes it really hard for any given government to ensure that there is a precise and intended amount of pain being inflicted on the party that it is trying to attack. The impact plays out through companies. It doesn't play out through foot soldiers. These companies are trying to maximize their own interests, their own profits, and their actions are not necessarily through or in the spirit of the guidance of governments. So this makes both proportionality hard to calibrate and intentionality hard to verify, which means again that we're in an environment where the risks of unintended escalation are that much higher than in the traditional security realm. By the same token then, as, as my co-author Henry Farrell has argued, the pathways to de-escalation are very unclear. We're not in a world where we can negotiate mutual tariff reductions and both sides can basically agree on the release— the relief being afforded to its economy. We're not in a world of mutual drawdowns in nuclear warheads where both sides can basically come to an agreement on the effective reduction in threat. So these are really important questions that need to be addressed, but to me are neglected at the moment because the dominant focus on each side is this approach of what is my credible threat?

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How do I maximize my credible threat? So I'm not saying we shouldn't think about that. I'm saying we need to balance that focus with equal focus and thought into a question of what constitutes credible assurance in this new world of weaponized interdependence that we're in. So, how do we prevent an accidental spiral into unintended conflict? I will suggest 3 areas that we can focus on. So, the first is transparency and disclosure, right? Greater disclosure, just to give one example, on the Chinese side on how its export control licensing decisions are made. This would reduce ambiguity, which has plagued, I think, the bilateral relationship in the past over whether or not delays in licensing decisions, whether they are unintentional or deliberate. Secondly, clearer guidelines on the circumstances and decision-making process that lead up to the enactment of a countermeasure or retaliation. And this would help in aligning expectations on both sides on what the other would be doing and what the other side would be calculating and thinking through before they react. And this is to build guardrails against an uncontrolled spiral. Thirdly, agreement and protection on the boundary between where the normal economy operates and where national security holds sway.

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This could take place or be manifested through a positive list on the types of exchanges that can be insulated from national security concerns. The Board of Trade could be one such mechanism and platform. We can also look at principles that are being tried out in other parts of

the world. So, for example, the agreements that the Singapore government has signed with New Zealand and Australia on the sets of essential supplies that each side pledges to not impose export restrictions on in the event of a crisis. This is a positive kind of assurance logic. So to conclude, I think without more focus on some of the dangers I've highlighted, the need to reduce misperception, how to give credibility to assurances being given by both sides, Both sides, the constructive stability— constructive strategic stability agreed to in May runs the risk of remaining quite hollow. I hope that the suggestions I put forward can help spur further work and thinking about this vital need to boost stability in the all-important economic relationship between the US and China. Thank you.

[00:38:33.17] - Chad P. Bown

Okay. Thanks, Marcus, for the introduction. And let me start by saying that I agree with most everything that Yeling and Adam said, and not just because Adam's my boss. I will come back to it at the end. So, and they've said really a lot of really important and very smart things. And so rather than just simply repeat them, what I thought I would do to try to add some value and to provide something different is to present 6 updates from the data. This is going to be the most recent bilateral trade data between the 2 countries. This is data through July of 2026 to provide evidence and support of essentially what they have said, either explicitly or implicitly. 3 of the points are going to involve US imports from China. 3 will be about US exports to China. And a huge thanks to the Peterson team, Ashley and Selina especially, for continually updating these data for us. Okay. So let's start with imports. Point number 1, 2025, there were a lot of US tariffs. You might remember Liberation Day, but before that, we had the tariffs on China for fentanyl, all the sector-specific tariffs. And you put all those tariffs together, it was really unclear how trade might be affected, especially if it might disproportionately impact China or not relative to other countries, because there were just so many tariffs.

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But what we saw at the end of the day at the end of 2025 was the tariffs did disproportionately negatively impact China. That's the red line, huge major reduction in US imports from China. And actually, US imports from the world overall and from the rest of the world grew in 2025, perhaps somewhat surprising. Then in 2026, in February, we get the Supreme Court decision, which eliminates the IEPA tariffs of Liberation Day. And also, the IEPA tariffs on China that were imposed in February and March, those had already been cut in half for fentanyl, right? And they're replaced with these new tariffs in the period since, which have led to a much flatter tariff structure, whereby China is no longer facing tariffs that are much, much higher than competitor countries for many key products. They're still higher in many instances, but not much, much higher. And so, since February of 2026, overall, what you see in the data is US imports from

China have stopped their freefall and have basically leveled off. So, one question is what happens next? Could President Trump's next round of tariffs actually drive companies and US sourcing back to China? And this may be something that we want for reasons that Adam articulated as part of negotiations.

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But here, by next tariffs, I mean basically 2 things, the combination of the Section 301 tariffs on overcapacity that we're still waiting to be released, and also the administration potentially reducing tariffs on imports from China as it seeks to operationalize this US-China Board of Trade idea. So for each product, one thing that matters is the size of the differential between the tariff the United States imposes on China and the tariff the United States imposes on the next best alternative out there in the world, which in many instances is just simply not the United States. It might be some other country in South Asia, Mexico, somewhere else. So, 2 examples from 2025 I've illustrated here help to make this point. Take smartphones, right? For much of 2025, the United States had imposed a 20% tariff on imports of smartphones from China, but not imposed any tariffs at all on imports of smartphones from anywhere else, including India. And what you saw was a quick and a massive reallocation of US sourcing away from China. That's the pink area in the middle chart up there, toward India and away from China. That stands in sharp contrast to clothing.

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In 2025, the United States also increased tariffs on imports of clothing from China, but it also increased tariffs on imports of clothing from many of China's other competitors out there as well, including India. And for a period in late 2025, the US tariffs on clothing from India were actually higher than the tariffs on clothing from China. And so you don't see for those particular products a major reallocation of sourcing. The point here again is that what matters oftentimes is the tariff differential between what China gets hit with and what other key potential sourcing countries get hit with. And again, back to Adam's point, when they're deciding on this Board of Trade and what tariffs might be reduced, are these things the products that are going to be important for the overall US-China relationship, and are they going to be chosen strategically? Point 3. The U.S. remains highly dependent on China for imports of rare earth permanent magnets, right? You can see this in the data. This is the Chinese export data. You see, first of all, the sharp decline in Chinese exports to the United States in April and May of 2025 when President Xi imposed those export restrictions.

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This is what created the shortage for automakers and supply chains in the United States. And to be clear, China imposed these export restrictions globally. It was not just a problem for the United States. The bottom chart shows how dependent the United States was on China at the time. 94% of imports of these rare earth permanent magnets were coming in from China, and it has not gotten markedly better since, right? The only other major alternative out there— and by major, it's still relatively small, as you can see— is Japan. It has about, you know, 4 or 5% of the U.S. import market at this stage. And the problem, of course, is that in the period since January, China has actually been restricting rare earth exports to Japan. That's the essential input, of course, that Japanese manufacturers need to make rare earth permanent magnets. So, this is just to show that this bilateral engagement, the bilateral focus, is not sufficient. The United States is also reliant on Japan. So, if China cuts off Japan, that is bad for downstream American automakers. Okay. So, what do you do about this? Yes, you want to subsidize the creation of alternative sources outside of China, industrial policy.

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We've seen the administration make efforts in that domain. But also, stockpile. As Adam mentioned, and as Marcus kindly referred to, there's this amazing new book out there, How to Win a Trade War. Stockpiling, right, is a strategy nowadays. But the challenge is, of course, you can't build up a stockpile if they're only selling to you the amount that you desperately need to keep operations going. And so while exports have resumed in the period since, they have not grown by a significantly large amount to allow countries to build up inventories through stockpiling. All right, let's shift to exports. This is a fairly grim story. This is US exports to China. In 2025, China retaliated not only by imposing export restrictions on rare earths and permanent magnets and things like that, but they also used tariffs and other barriers to US exports. So, there was a dramatic decline of US exports to China in 2025. They fell by about 28%, and they have since leveled off at that much lower rate. There's a lot to be said about agriculture, of course. Um, the story is not great. This was a huge drop-off in 2025 with the Chinese retaliation.

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Agriculture, of course, is driven by, uh, soybeans predominantly. In any normal year, Soybeans make up 50% to 60% of total U.S. farm exports to China. In the right-hand side chart, you can see that soybeans are coming back a little bit. Of course, the main export months are going to be October, November, December, January, February, March, given this, the seasonality of the crop. So we'll have to wait and see. But currently, they're at much, much lower levels. than they were pre-Trump 2.0. And for all of the other products that I've listed up there— cotton, wheat, pork, beef— the exports were devastated in 2025, and there's no evidence of them coming back. Final point, and then I'll conclude. What about energy products and aircraft? Energy

remains low, right? I don't think we need to worry about the oil companies. They seem to be doing fine given things happening in other parts of the world. But this is just to suggest that China is not buying a lot of American energy products, with the exception of refined products that are primarily driven by things like butane and ethane. And as for those promises that President Trump articulated of lots more sales of aircraft, quote, 200 planes and a promise of up to 750 if they do a good job, he said on May 15th.

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You can see deliveries of aircraft did start to resume around 2024, 2023, late '23 into '24 before the president came into office, but they've essentially stabilized yet and there's no evidence that they're significantly expanding. So to conclude, we should expect extraordinary little out of this summit because of China's continued leverage over the United States in terms of its ability to restrict exports of inputs like rare earth permanent magnets that are essential not only for defense but also for manufacturing. Those Chinese export restrictions that began in April of 2025, as well as the temporary ban on exports of semiconductors from Nexperia in October, nearly brought the North American automotive supply chain to a halt due to a shortage of parts. Unless and until those sorts of one-way dependencies are rectified, this is what we may continue to get. No escalation, but also little redress on the bigger US and other countries' concerns about China's economic and foreign policies. That includes things like global imbalances, currency undervaluation, overcapacity, and evolution in key sectors. the spillovers associated with China's non-market policies, even Iran, right? The US could make progress by working with allies. Japan, Canada, Europe, Korea all face the same challenges when it comes to China.

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They could work with allies to stand up these alternative suppliers, these alternative sources of supply faster and more quickly. But there is just little evidence that the administration is choosing to pursue that approach in any serious manner. So it may be buying time, but the importance is how you use that time. And at the moment, at least, it does not appear to be using it effectively. With that, I'll stop. Thank you. Thank you.

[00:50:39.34] - Marcus Noland

Okay, well, I hope you agree those were 3 very enlightening presentations, and now we have come to the audience participation part of our, our program. So I would invite you to ask any questions that you might have. There is a microphone on a stand in the middle of the room, and

our colleague will bring a mic to you if you raise your hand and are recognized. And when you ask your question, please identify yourself and your affiliation. Please.

[00:51:16.02] - Audience

I'm Barry Wood. I write the American Dispatch column on the global economy. My question follows from what Adam said about that Ford joint venture in Michigan. Is it a good idea for the Chinese to be allowed to produce vehicles in the United States? And what about the EV import restrictions?

[00:51:48.04] - Adam S. Posen

Chad, Yeling, or for that matter Marcus may want to come in on this. Thanks, Barry. I think the proper way to deal with the overwhelming competitive advantage of China in the production of EVs is, as happened with Toyota, Honda, BMW, and then Hyundai, Kia in the past, essentially demand that most of the production for sale in the US be done here. This is what Germany, Spain, Hungary, other members of the EU are groping towards. It is, and this is where I'm not carrying water for anybody in the US auto industry, It is likely to be a historic mistake if the U.S. creates a bit of Galápagos in the auto sector and we're the only ones relying heavily on hybrids and not buying cheap EVs as the rest of the world electrifies their auto fleet. So I think despite the political sensitivities, I think having a managed trade, managed transition is the far more responsible course than trying to entirely keep out Chinese production. Now, if in some fantasy world, the major producers of autos in the US, and in that I include the so-called foreign manufacturers who employ hundreds of thousands of Americans and invest billions in the US.

[00:53:43.06]

So I'm just— everybody who produces autos in the US were to start offering somewhat price-competitive EV options and do it, say, as Ford seemed to be trying to do on the batteries front, through joint ventures that attract and transfer technology, that would be an important and valuable part of the process. This is all for negotiation, but I am completely opposed to the idea that the US should go on a sonderweg, its own unique path of having a completely different auto market than the rest of the world, depriving its citizens and global climate of the best available technology. I hope that's responsive.

[00:54:39.38] - Marcus Noland

Okay.

[00:54:44.52] - Yeling Tan

So, I agree with what Adam just said. I also would like to point out this is one of those sectors and issue areas where precisely that national security logic has this tendency of crowding out, I think, potential opportunities for the United States to boost its own competitiveness. And here, I don't want to talk just about the production side. I think, Adam, you've covered that. I want to talk about industrial policy more broadly. We have quite a simplistic view of Chinese industrial policy that it's through subsidies and protection. through infant industry, very traditional infant industry tools that China has distorted the playing field and worked its way to the top. But I think there needs to be more effort and openness to understanding the incredible sophistication of Chinese industrial policies that go beyond just subsidies and tariffs. If we look at the EV sector, what are the sources of success? It's actually quite multifaceted. It's the local governments creating the incentives for consumer demand. So creating that demand for a very hesitant consumer base in the first place, building out a charging infrastructure that alleviates range anxiety and so on, procurement in the public transportation network, but also environments that feed and create essentially extremely cutthroat competition amongst Chinese companies.

[00:56:24.53]

And would we not want to understand all of these various ingredients a little bit better? Would we not want to have a greater insight into some of these local governments and how they either worked with or created enabling environments for their own companies to create what are essentially some of the best electric vehicles on the global market today? So that, I think, is something that we can do without national security risk, right, that can boost American competitiveness.

[00:56:59.34] - Chad P. Bown

Can I just quickly also— sorry, Mark. I think this is— I think the Peterson Institute is the perfect place to have this conversation because I agree with Adam that this is absolutely what we should be talking about. But let me raise maybe 3 points about why it's going to be markedly different when we're thinking about Chinese foreign direct investment, and why that's going to force the United States, I think, as Adam has also said, to have to think differently in terms of one that just can't simply dictate the rules, but is going to have to be working from a different position. First of all, it's not just tariffs in the United States we have now. We have the connected vehicles regulation, so there are potentially national security concerns. With Chinese vehicles writ large, whether they're manufactured in China or whether they're manufactured here in the United States, regarding hardware, software, where data flows, what pictures get taken of what, can these things be shut down remotely, okay? So, you're going to have to think through what

the implications are for technology with non-countries that don't trust each other for other sorts of reasons to make those products trustworthy.

[00:58:07.03]

It's not to say that it can't happen, But that's something that has to be thought through, that we haven't engaged in this sort of conversation yet. So, that's the first point. Second, because of the nature of the Chinese economic system, I think there's also fundamental differences that have to be fully thought through. And again, we haven't thought through them at all and debated this all in the United States yet, but they are in Europe, and they've got regulations that are beginning to think about these things. So, what do you do when even Chinese firms, private firms, are benefiting implicitly from Chinese subsidies back home and creating an unlevel playing field in your local market because their subsidiaries are receiving some of the continued subsidies back home. Europe's got this foreign subsidies regulation to try to deal with that. That's something that we would have to think about here in the United States as well. How do we ensure a level playing field? And then third, now that we are in this world, where export restrictions can be weaponized, especially for the critical minerals that are essential to go into the batteries for electric vehicles, right?

[00:59:10.41]

How do we make sure that once you've created and allowed Chinese investment in your market, that doesn't become another vector that could be weaponized against you, right? So, China supplies 99% of the world's graphite, which is essential for the anodes and cathodes that go into batteries. Right? Well, what if China decides to deploy these export restrictions in a discriminatory way once the battery makers are in your market that allows those battery makers to get access to the inputs, but not the other European or American or Japanese or Korean battery makers and automakers? Right? Not to say that it can't happen, but dealing with, I think, Chinese investment forces countries to have to open their eyes and think about all sorts of additional complementary regulations to have to be able to manage the relationship.

[01:00:06.54] - Audience

Hi. Not to be too optimistic, but I wonder if the panelists might—

[01:00:10.18] - Marcus Noland

Identify yourself. Identify yourself.

[01:00:12.38] - Audience

Oh, sorry. I'm Kim Clausing. I'm a nonresident senior fellow here at Peterson. I wonder if the panelists might opine on areas of possible cooperation between these 2 countries. And 3 leap to mind, one that I think is more feasible in the short run and 2 that might have to wait a couple years. But in the short run, it strikes me there's the existential risks associated with AI, and this is one area where we might be able to have win-win cooperation. A couple years from now, I can also imagine cooperation to other fronts— on climate, where China's been very active and where the U.S. could resume activity, but also on expanding U.S. service exports, which might also play into the exchange of hostages. One of our strongest exports has been higher education and the creation of technology and exchange, and we can do more of that if we had a more welcoming attitude to the talents of the world and to Chinese students coming to study in the United States.

[01:01:07.33] - Marcus Noland

Who would like to take that on?

[01:01:11.33] - Adam S. Posen

I mean, I just completely agree with you, Kim. I did not mention the AI bilateral discussions going on right now because it was outside my remit. I, as I said to colleagues internally, that is much more important, frankly, than anything I'm talking about right now, in my view. And I'm glad that we have colleagues like Martin Chorzempa and Anton Korinek and Anna Stansbury and Jed Kolko and Jason Furman who are working on these issues. And that is a place where It may not be perfect, but I want to give praise to Treasury Secretary Bessent for very seemingly seriously with real work, trying to work with his counterpart to actually focus on AI safety. So everything, at least speaking for myself, I said is orthogonal, but in a good sense to that, that that should just as nuclear threat reduction talks between the Soviet Union and the US went on, ups and downs of the relationship they went on. I think it's great. I'm like you, I am hopeful on both services exports and more importantly climate change. I think both of those depend much more on transformations in the US than on China, to be frank, and particularly on climate.

[01:02:57.32]

And that relates, of course, to the previous point about Chinese auto production and EVs. Once— I think Chad was absolutely right. To talk about the various issues, including national security technology threats from Chinese production that were not there in German or Japanese or Korean production. But I think they are surmountable. And similarly, on climate, it's, it's surmountable. The issue, as you know well from your service in the U.S. government is how

much is anybody going to be able to believe in a multi-year commitment from the U.S. if every 4 years we repudiate commitments previously made? And so to me, in the areas you're talking about, that's going to be the issue. And in that sense, frankly, bilateral negotiations between U.S. and China in some ways— Yeling may disagree— but are actually easier despite all the issues she raised about threats because it's very clear what's at stake. Whereas if I'm worrying about multilateral negotiations, whether at the WTO or at COP or whatever, there's much more of a sense of the US Being willing to ignore or renegotiate or simply renege.

[01:04:43.08] - Yeling Tan

So, just very quickly, I completely agree. These are areas that both sides should be looking at. So, the question that you led me to think about, Kim, is what would create the enabling environment for these types of cooperation to move forward either in the short term or long term? Definitely existential risk focuses our minds. But I think more broadly, each side needs to be open to a broader framing of the other side's actions. If we're in an environment where, from the American perspective, all actions coming from China are filtered through a lens of predation, that closes the possibility of even considering broader cooperation. If on the Chinese side, all actions coming from the United States are filtered through the lens of containment and suppression, then we're not in an enabling environment. So, if we can— if each side can take actions that can convince the other that actually, look, this is not an action that's about predation, look, this is not an action that's about containment, then we can lay the groundwork for the types of cooperation that you point out that I think are sorely needed.

[01:05:58.42] - Marcus Noland

Okay, well, I think we've had a very stimulating program from Adam Posen, Yeling Tan, and Chad Bown. Please thank— please join me in thanking our presenters. Meeting adjourned. Thank you.