China Still Has What America Needs

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

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September 21, 2026

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The Trump administration approached its summit with Chinese leader Xi Jinping in October 2025 projecting confidence, asserting that it held leverage over China as the trade deficit country in the bilateral relationship. As U.S. Treasury Secretary Scott Bessent put it, "What do we lose by the Chinese raising tariffs on us? We export one-fifth to them of what they export to us, so that is a losing hand for them." This was quickly shown to be folly. As I argued in *Foreign Affairs*, trade wars are easy to lose when countries depend upon an exporter for hard-to-replace inputs, yet still conceive of trade as a zero-sum game. China has escalation dominance over the United States, meaning that at any level of threat, the Chinese government has the ability to inflict more pain on the United States than vice versa. To ease Beijing's restrictions on rare-earth elements, for example, which allow China to control 80 to 90 percent of production, the United States has conceded on tariffs, technology controls, and visa policies during various negotiations.

But Washington's inability to immediately decouple, let alone extract concessions, from China through tariff threats should not mean giving up on economic diplomacy. For centuries, lesser powers in the world economy subject to escalation dominance have navigated relations with their more powerful adversaries by bargaining while avoiding confrontation. In fact, until recently, that is how China—and essentially all other countries—have viewed their economic interactions with the United States, to the occasional frustration of U.S. officials.

Economic relationships are not all or nothing; they have room for resistance and cooperation, even if one side would clearly lose if it came down to outright conflict. Despite the high distrust and strategic rivalry between the two countries, the U.S.-Chinese economic relationship does not have to be played as a zero-sum game. The benefits from trade and diversification for both economies remain substantial, and China's escalation dominance would not spare its own economy pain if it were forced into a tit-for-tat conflict with Washington. Indeed, Beijing, comfortable with the status quo, has little interest in such escalation.

At the upcoming summit between Xi and President Donald Trump, the U.S. government should initiate a different approach to the economic relationship by pursuing increased imports of key strategic goods as well as increased foreign direct investment from China. This should be only one part of a broader economic strategy, of course. Cooperation with allies will be necessary to encourage any sustained changes in Chinese commercial behavior and to diversify sources of supply over the longer term. A more complex assessment of Xi's strategic goals and China's vulnerabilities will also be needed for longer-term strategic success. But this meeting—and any that follow—give Washington a valuable opportunity to buy time to address the country's acute needs.

START WITH STOCKPILING

Despite a decade of denouncing the threat of Chinese imports and investment, under both the Trump and the Biden administrations, the U.S. government has failed to meaningfully decouple even the most sensitive industries from China. As the economists Mary Lovely and Christine Wan have shown, declining direct U.S. imports from China have simply resulted in supply chains becoming more attenuated and less transparent. China remains the source of rare earths, specialized magnets, and the lower-end semiconductors used in autos and appliances, even if intermediate steps of production now take place elsewhere. In the critical area of pharmaceuticals, for example, the United States may import numerous generic drugs from India, but India relies on China for the feedstocks and components to produce them.

This situation is precisely why industrial decoupling is such an uphill battle: strong economic fundamentals drove these commercial arrangements and unwinding them is slow and costly. For now, Washington's most important priority should be to build up short-term inventories of those strategic goods ultimately sourced from China. In an ideal world, the United States would immediately get them from elsewhere, but the Trump administration, like the Biden administration before it, has not made significant progress on this front. Both tried, but failed, to incentivize the creation of alternative sourcing through wider access to the U.S. market or other compensation. And at their worst, in some benighted attempt to spontaneously create U.S. production through deprivation, both tried to force American businesses to do without Chinese inputs through tariffs and restrictions.

Meanwhile, U.S. officials have wasted past summits and negotiations by trying to convince their counterparts in Beijing to increase Chinese imports of various nonstrategic goods, none of which China values most. These efforts may be rationalized by current and former officials as a bank shot to make China more dependent on U.S. goods and gain leverage in future negotiations. But exports of American airliners and soybeans neither alleviate the immediate security vulnerability nor improve U.S. macroeconomic fundamentals. In fact, to the degree that such prioritization on export promotion allows China to pit the United States and its allies against each other—for example, inducing government-led bilateral deals to increase sales of Boeing versus Airbus airliners and vice versa—it weakens Washington's ability to line up a unified front against economic coercion.

At the upcoming summit, the Trump administration should take a different tack. At the October 2025 meeting between Trump and Xi, the United States and Beijing struck a deal to temporarily reduce tariffs in exchange for partially relaxing limits on the exports of critical materials from China. In doing so, the administration, in essence, gave up on any strategic goals as soon as its bluster was revealed to be hiding weakness. And with the agreement set to expire in November, Washington may be tempted to simply renew its terms. Instead, the Trump administration should seek a more ambitious deal that includes multiyear, large-scale purchasing agreements for the critical goods whose production is currently heavily concentrated in China (or whose critical components are produced in China for supply chains elsewhere). The United States could use government guarantees and even purchases to create strategic reserves until alternative domestic or reliable allied sources emerge. In exchange, it should allow China to import more of some sought-after technologies in which the United States still has a lead.

Such an agreement is both more attainable and more sustainable than many opponents may think. Even during the Cold War, in the 1970s and 1980s, the Soviet Union and the United States concluded a series of grain deals that allowed the Soviets to import American wheat, corn, and soybeans. Despite the constant temptation to exploit Soviet dependence—President Jimmy Carter would embargo trade with the Soviet Union in 1979 after its invasion of Afghanistan—the deals were renewed and expanded by Presidents Ronald Reagan and George H. W. Bush.

China could, of course, renege on such agreements at any time. It has already set the terms of its exports of rare earths and associated products in a way that discourages resale and accumulation, precisely to maintain the leverage it has built up. The direct cash value of rare-earth export sales by China is small and, in isolation, an insufficient incentive to give up that leverage.

Yet the threat of a sustained cutoff by China, while real, is exaggerated. For its part, China has an interest in selling more exports to offset its persistently weak domestic demand and industrial overcapacity. Furthermore, heavy use of export bans is costly, provokes retaliation, and ultimately encourages the development of hostile alternative systems. Washington should understand these risks all too well: U.S. overuse of financial sanctions have encouraged movement out of the dollar and into Chinese-led payments systems over the last five years. It is more likely that a U.S. offer of sufficient commercial benefit would induce China to export more freely.

Historically, even rivals approaching the cusp of war have successfully pursued stockpiling and continued trade. Before World War II, Japan did everything it could to import energy, rubber, and other critical supplies, getting as much as 40 percent of its war supplies from the United States as late as 1941, when Washington banned trade with Tokyo. Germany and the Soviet Union, meanwhile, were trading militarily useful technology and petroleum products through their respective invasions of Poland in 1939. And trade between France and Germany was largely stable in the decade leading up to World War I.

The same incentives that have governed strategic rivals throughout modern history apply to China and the United States today. The Trump administration and its more hawkish critics should thus recognize that greater flexibility on U.S. export controls—combined with opening of investment opportunities in the United States in a broader commercial relationship—is worth exercising for the benefits of more reliable access to Chinese goods for which Washington currently lacks any alternative. This is simply recognizing reality, rather than just giving up or insisting on using a tool that will not work. The smart move for the U.S. government is to import and stockpile as much as it can from China for as long as it can. Doing so should not discourage the creation of domestic or reliable allied supply any more than the United States cutting itself off from Chinese supply has encouraged it.

INVESTED IN SUCCESS

Since ancient times, potential enemies have engaged in a form of hostage exchange, sending nobles or royal family members to live—and be at risk—in the opposing side's metropole. This was not an absolute deterrent to conflict, but it did serve as a disincentive to attacks and slowed down precipitous escalations. Some hostages even proved to be useful envoys, enhancing understanding between both sides through public diplomacy, intelligence gathering, or both.

The modern economic form of the hostage exchange is foreign direct investment (FDI). Leading companies establish presences in rival countries, transferring technologies and management practices across borders. Much like the nobles of antiquity, this presence is symbolically valuable, since the companies are often closely tied to the elites at home and the practice puts their investment at risk.

But contemporary two-way FDI flows also generate substantially more economic benefits than the exchange of individual nobles ever did. FDI investments are statistically associated with the creation of jobs that pay well relative to local average wages, increases in local research and development spending, and diminished supply volatility through geographic diversification. This kind of exchange was a key component of successive economic deals between the United States and Europe, Japan, and Korea when the latter group saw relative gains of industrial competitiveness vis-à-vis American industry in the 1960 through the early 2000s. FDI reduced the occurrence of punitive tariffs and export controls, both by directly decreasing the need for them and by creating political constituencies with an economic interest in integration.

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The U.S.-Chinese relationsh

The U.S.-Chinese relationship, of course, is quite different from those between Washington and its military allies. And many American companies that did put substantial foreign direct investment into China in the early 2000s grew frustrated with limits on their ability to repatriate profits, to gain market share, or to protect their intellectual property. As a result of these disappointments, along with the more hostile security climate, U.S.-Chinese cross-border bilateral foreign direct investment flows are down 90 percent from their previous highs in 2016.

Yet the basic incentive structure—and the potential economic benefits—remain. And the net benefits to the United States of Chinese FDI have gone up in recent years as Chinese technological prowess in sectors such as batteries and electric vehicles has risen. The Trump administration should thus put its focus into attracting Chinese FDI. Washington's best use of access to the U.S. market as leverage remains enticing foreign investment inward rather than pushing for greater exports. Doing so would not be breaking new ground. The Reagan and Bush administrations successfully courted FDI from Japan and Germany in the auto and chemical industries in the 1980s; China used FDI from around the world to build up its domestic industries during the first two decades of this century. And most recently, the European Union has begun using Chinese FDI to foster its own domestic EV sector.

U.S. Transportation Secretary Sean Duffy's recent public letter attacking Ford for its licensing agreement with the Chinese battery maker CATL at a factory the American automaker owns in

Michigan, and the broader congressional outrage against Chinese investment, ignores this opportunity. China has become more resilient and increased growth by negotiating local production and technology transfer at the beginning of the twenty-first century. The United States has every reason to emulate that path up the competitiveness ladder. In a world of remote sensing, cyberattacks, and reverse engineering, let alone the unlicensed distillation of the latest advances in artificial intelligence, the additional risk of technology loss or damage in having Chinese corporations located in the United States is minimal. Chinese FDI would in fact add pure benefits to employment, research, and production know-how, improving U.S. national security.

TIME FOR SALE

Last year's summit was a rude awakening for the Trump administration and China hawks in both parties, but it taught a useful lesson: no amount of bilateral trade-related threats or exclusion from the U.S. economy would give the United States an easy win over China. The United States needs time to reduce its dependence on China—and, for that matter, other concentrated supply sources of critical industrial inputs—as well as to rebuild alliances to make those alternatives viable. Attempts by the Biden and Trump administrations to unilaterally decouple from China and to bully allies into providing alternatives have failed to advance those needs. Fortunately, China's leadership feels it has time on its side now that Washington has ceded its position as leader and insurer of the world economy. The summit should thus be used to reassure and incentivize China to sell this time through mutually beneficial commercial ties.

The first step is for the United States to return to the forms of economic diplomacy long pursued by states accustomed to not always getting their way. The United States has already created a new economic geography. Now, it must act like every other lesser power has acted toward it for the last 80 years: by seeking win-win deals, by negotiating cautiously from relative weakness, and by deliberately using what ongoing economic interdependence remains to build resilience.

History demonstrates that even seemingly inevitable adversaries continue to trade, invest, and even cooperate with each other. For the United States and China, that pattern is likely to hold, perhaps for even longer than some past periods of major-power rivalry because of the blessings of the Pacific Ocean, nuclear deterrence, and the United States' 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.

There are no guarantees that restoring some economic interdependence will prevent China from one day cutting off U.S. access to critical goods or someday instigating military conflict. Nor will a solely bilateral approach create U.S. 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 in the form of foreign direct investment will buy the necessary time and additional economic resources to strengthen American resilience.

The Trump administration needs to look beyond both its zero-sum approach and its 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.