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Tentative Proposals

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The CSIS Trustee Chair in Chinese Business and Economics provides unmatched thought leadership for the Washington policy community by examining China's economy and the costs and benefits of its commercial relationship with the United States and the rest of the world.

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Our analysis is shared with the policy community, business leaders, scholars, and the public through reports and commentaries, interactive digital content, media engagement, public events, and private discussions.

Acknowledgments

The editor wishes to express his deep gratitude to the Carnegie Corporation of New York for its generous support over the last decade for the U.S.-China Global Economic Order (GEO) Dialogue. In particular, Dr. Stephen Del Rosso, senior director of the International Peace and Security program, has been unwavering in his championing of track-2 dialogue to promote greater mutual understanding and in-depth discussions, whose outcomes then filter into policy discussions among practitioners in Washington, Beijing, and elsewhere.

The GEO Dialogue would not be possible without its key participants—scholars from universities and think tanks in the United States, China, and other countries, many of whom have repeatedly joined the discussions over the years. The core group has also benefited from the regular participation of additional contributors from governments, business, and international organizations.

Central to the GEO Dialogue's success has been CSIS's organizational partners: the Peterson Institute for International Economics (PIIE), the Shanghai Institutes for International Studies (SIIS), and the Institute of World Economics and Politics (IWEP) within the Chinese Academy of Social Sciences (CASS). We are especially indebted to the leadership provided over the years by Chen Dongxiao and Ye Yu (SIIS), Adam Posen and Mary Lovely (PIIE), and Zhang Yuyan and Su Qingyi (CASS IWEP).

At CSIS, the GEO Dialogue owes its founding to former colleague Matthew P. Goodman, former head of the Economics Program. Now managed by the Trustee Chair in Chinese Business and Economics, the dialogue's smooth operations depend on the hard work of Nic Rogers, Erin Murphy, and Matthew Barocas of CSIS.

Each of the talented individuals recognized here deserves credit for making the GEO Dialogue a success. Any remaining errors in this report are the sole responsibility of the editor.

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Introduction

Search for Solutions

Scott Kennedy
Center for Strategic and International Studies

The U.S.-China Global Economic Order (GEO) Dialogue, now in its ninth year, focuses on strengthening dialogue and fostering cooperation around the three pillars of the Bretton Woods system: international trade, finance, and development. The purpose of the dialogue is to provide a platform for in-depth discussions among a small number of subject-matter experts. Through repeated exchanges and consultations with policymakers, the dialogue provides an opportunity to raise sensitive topics, test assumptions, analyze challenging problems, and explore potential solutions.

Although the discussions are the main "deliverable" of the GEO Dialogue, the project has previously published reports in 2017, 2019, and 2021.[1] The primary value of these reports were their collective call to adopt imaginative policies to resolve difficult problems. The current volume adopts the same posture but with one difference. Whereas the dialogue sessions were the foundation for previous volumes, with a portion of the participants picking up the pen to write wholly formed commentaries, this volume comprises brief notes drafted in advance of the session, held in May 2024 in Washington, D.C., and then lightly revised afterward. The exception is the summary by University of British Columbia professor Yves Tiberghien in Chapter 2.

During the 2024 dialogue session, participants were discouraged from analyzing problems and instead were encouraged to focus their attention solely on proposed solutions. In the past few years, official U.S.-China discussions have been mired in analyses blaming the other side as the source of the problems, such as unfair trade practices, technology rivalry, growing debt and other financial challenges, or climate change. Tired of the finger-pointing, participants were asked to propose solutions, and they obliged.

Because these proposals were written prior to the dialogue sessions and are quite brief, they should be taken as tentative yet provocative prods to the policy community. Some will be seen as standard fare, but others are intentionally bold, offered to spur further reflection and debate. If track-2 dialogues are meant to accomplish anything, it is to push boundaries beyond where government negotiations may go. All of the proposals were written well ahead of the United States' November 2024 elections.

The proposals in this volume are divided into four topical groups: economic competition, economic security, finance, and decarbonization and development. They intentionally are not grouped by the authors' nationalities since the ideas deserve more attention than the identity of their drafters.

Most of the solutions proposed in this volume are limited and meant to address specific issues, in part to resolve specific challenges and in part to serve as confidence-building steps toward rebuilding strategic trust and tackling larger problems. A small number of the proposals, by contrast, are framed as "grand bargains," painting in broad strokes significant steps the United States and China could take to reset the course of their relationship. Such proposals may seem fanciful, yet they are valuable in that they prompt the policy communities in multiple countries to think the unthinkable and open up potential new horizons.

That said, there are clear limits to the proposals offered here, reflecting the deep challenges in the U.S.-China relationship across a spectrum of issues. The proposals may be sorted into three types: those that address one country's own needs, those that address the needs of the other country, and those that address the needs of third parties. Many are of the first kind, intended to reassure the author's home country. Many take into account the worries of developing and developed countries in Asia, Europe, and elsewhere. A smaller proportion address the core needs of the opposing side.

Americans are most concerned about what they see as Chinese efforts to undermine the rules-based liberal international economic order, including market-based economies, free trade and open investment, green growth, and multistakeholder governance involving both states and civil society. The Chinese seem most concerned about challenges to China's sovereignty and the right of countries to choose their preferred economic model and political system. They see broad unfairness in many areas of global economic governance, which they believe favors advanced Western countries to the detriment of developing countries.

The proposals of U.S. and other Western participants are most often tilted toward protecting their favored order, whereas Chinese proposals look to resolve substantive issues while preserving the flexibility of China's own governance system. Proposals from both sides emphasize the need for the other country to make adjustments. This is not surprising, but it rightly suggests caution against being overly optimistic about reaching compromise. At the same time, other authors attempt to stand in the shoes of the opposing side to suggest a need for compromise between the United States and China.

Another strategy in several essays is to remove problems from their bilateral or global context and frame them as domestic challenges, thereby reducing the salience of the bilateral rivalry. For example, the problem of China's overcapacity and the dramatic rise in exports of various products induces a defensive reaction from the Chinese government. But when framed as a domestic macroeconomic imbalance between supply and demand, the issue becomes less about unfair trade and more about the problems of domestic economic mismanagement–a challenge in China, the United States, and elsewhere.

The GEO Dialogue organizers welcome readers' feedback, whether the ideas are technical or philosophical; whether they are about unilateral, bilateral, or multilateral actions; or whether they are motivated by the interests of the author's home country, the party across the table, or others. In the spirit of this volume and the broader dialogue, the authors hope readers' suggestions focus less on the analysis of problems and more on potential solutions to fix them.

Managing a Global Economic Order Under Stress

Takeaways from Dialogue

Yves Tiberghien
University of British Columbia

The aim of the U.S.-China Global Economic Order (GEO) Dialogue is to identify mutual interests, key policy differences, and recommendations for policymakers on U.S.-China economic relations.

Overall Impressions

One key takeaway is that the dialogue can help defuse misunderstandings and misperceptions. Harsh tit-for-tat actions that are detrimental to both sides often result from misunderstanding the domestic political or national security drivers of a geoeconomic competitor. By contrast, a comprehensive dialogue among scholars who have worked together throughout the course of the GEO Dialogue and under Chatham House rules can help foster a more collaborative environment and contribute to mitigating punitive actions. Solution-oriented presentations on global problems also help establish a common language.

Several salient points emerged during the session. Scholars from both sides are deeply concerned about a security-driven spiral of measures without clear limits that leads to bad outcomes for both sides. Chinese scholars noted continued Chinese support for U.S.-led institutions such as the

International Monetary Fund (IMF) and World Bank. Even limited quotas or other symbolic reforms would go a long way in deepening that support from status-seeking China. Additionally, increased bilateral communication in 2024 has helped diffuse insecurity loops and overreactions to strong unilateral measures. Both sides agree that identifying small, concrete steps for mutual interest helps, but there is also joint interest in exploring grand bargains. The Chinese side mentioned the G20 platform as a good opportunity for such exploration, including in 2026 when it will be hosted by the United States.

Turning to the big picture, scholars from both sides expressed deep concern about a seemingly unstoppable drift toward policies that would negatively affect both countries and the world. Currently, a mutually agreeable overarching framework for the relationship is lacking. Both sides may overestimate their power to inflict economic pain on the other and underestimate the pain they will suffer in the process.

The countries risk a self-fulfilling prophecy of fragmentation and confrontation. A full decoupling is untenable and, if pursued, could produce significant economic issues for both economies. National security–driven measures, particularly around export controls and supply chains, could generate great mutual harm, deeply erode the global system and efforts at cooperation, and exacerbate tensions.

The measures taken by each country have strong domestic political support and address legitimate national security concerns; however, they trigger strong countermeasures by the other side and generate momentum toward conflict. Scholars from both sides note that both countries have great capacity to design better trajectories as long as they can muster creativity and willpower. Scholars also recognized the potential for worsening ties and miscalculations due to current economic and political trends. It remains useful for policy analysts to map the impact and scenarios of various policy choices at the national and systemic levels.

The dialogue yielded thematic takeaways on the topics of economic security, industrial overcapacity and trade conflicts, domestic economic flaws, debt and climate crises in developing countries, climate change, and data and artificial intelligence (AI) governance.

Economic Security

On national security issues, both sides are moving ahead with domestic defensive measures. But a sustained dialogue on potential limits, guardrails, and credible commitments would help limit the risks of uncontrolled escalation. Explaining the rationale and drivers behind defensive measures is essential in limiting loss-aversion narratives and the perception of defensive measures as offensive.

Defusing the economic security dilemma is a priority and requires early, ongoing, and credible communication. It also requires, as Thomas Schelling has persuasively shown, combining reassurance with deterrence. Clear messaging on actions expected from the other side and the associated rewards can induce changes in behavior.

Industrial Overcapacity and Long-Term Trade Conflicts

Industrial overcapacity is a serious U.S. and global concern that China must address. China has engaged in state-directed strategic investment supported by subsidies that lack market-driven corrective signals, inducing economic displacement in other countries by flooding markets with cheap Chinese goods and products. This has happened previously, and policies should be in place to mitigate this issue.

In the dialogue, Chinese scholars mostly noted their disagreement with U.S. views on overcapacity, but they recognized the usefulness in clarifying all dimensions of the issue and acknowledged the need for a rethink. There must be acknowledgment of the 20 years of difficult and disappointing trade negotiations across multiple U.S. administrations and trade relations between the two countries. Perhaps Beijing's approach has been too successful in warding off small losses for its own sake, possibly poisoning the well. There is room for a new approach that seeks mid-level credible gains. It will be important for China to undertake credible commitments up front to start rebuilding trust.

Mutual Discussion on Economic Models and Domestic Economic Risks

Scholars expressed genuine concern about the low level of demand and weak consumer confidence in China, and participants discussed whether anything could be done to boost consumer spending and what actions would further dampen demand.

Concern about China's growth model, with strong political signaling at its core, stood out in the dialogue. China's growth model allows both clean sectors and dirty sectors based on state-owned enterprises to prosper and grow. There is an absence of autocorrection driven by market signals.

Participants expressed concerns about the current U.S. model. Political polarization in the lead-up to the U.S. election in November inhibited policymakers and scholars from undertaking scenario planning on the trajectory of bilateral relations. The two presidential candidates had different policies on economic growth and energy, further complicating scenario building. Going forward, Chinese participants have concerns about the U.S. budget and debt situation.

Given continued upward pressures on the U.S. dollar, serious sustained discussions are needed to defuse fears and find pathways that work for all sides. Innovative blueprints, including regional blueprints, could be created.

Least Developed Countries: Debt, Development, and Climate

Scholars expressed concern about the negative capital flows from multilateral development banks (MDBs) and the private sector to least developed countries in 2023-24. Joint monitoring by the United States and China could be part of the solution. U.S.-China cooperation in managing the global debt crisis and the large number of vulnerable countries on the brink is essential. For example, there is room for cooperation on managing private bondholders and crafting public goods deals that work for all through quiet professional discussions.

Bigger and better MDBs are also required. MDBs must play a countercyclical role (with leverage), as they are efficient. There was discussion about a possible modest capital increase of $25-$30 billion. MDBs could also contribute greatly to establishing standards and a common language for the private sector. U.S.-China cooperation is critical in this work.

One idea pertained to reducing political intervention in IMF operations and focusing instead on consistency of principles, such as war zone operations. This is very important for the long-term viability of the institution.

Finally, common work on large infrastructure development is promising. Major countries should agree on standards, including building on the G20 principles for quality infrastructure developed in 2019.

Climate Change

Scholars recognized the opportunity and need for a global framework on carbon accounting and green standards. The current trend is toward a bifurcated and conflictual system centered on carbon border adjustment mechanisms (CBAMs). Developing countries strongly oppose these measures, but U.S.-China cooperation could lead on this issue, including by establishing a new regime that is more palatable to developing economies.

The United States and China have a mandate to cooperate and could ramp up work on carbon capture and storage (CCS). The same goes for geophysical countermeasures, some of which require global cooperation. The new methane dialogue, including joint monitoring, is a good marker of progress. The United States and China could extend cooperation from climate to space by cooperatively using space to monitor methane, as well as CO_2 pollution, as a first step for trust building. This early cooperation could help future joint efforts on geoengineering, which have strong security implications if done unilaterally. Such cooperation also carries significant systemic risks.

Scholars expressed concern about possible bifurcation in green financing (and diminished success) if Western countries ban the use of Chinese technologies, currently the most affordable and widely available to developing countries.

Data and AI Governance

Scholars on both sides recognized the high risks involved in data flows and AI and the need for careful management through policy frameworks. At the same time, scholars viewed full decoupling and securitization of these measures as risky, as it would prevent mutual scientific cooperation and could trigger systemic risks at the global level. Full securitization could also generate intense competition in third countries seen as geopolitical arenas, such as Southeast Asia, with negative outcomes for those countries.

Given that data is crucial to the current economy, a dialogue on regulating big data and privacy is crucial and represents a shared interest. Aligning standards can benefit both nations and be compatible with national security. China may need to pull back from excessive regulation, including relaxing the “Great Firewall,” while the United States needs a greater government role in establishing policies, particularly on data protection and global data governance. The Digital Economy Partnership Agreement (DEPA) is one possible venue of interest for both China and the United States. There is much benefit in a dialogue about common interests, such as avoiding systemic risks from AI and finding a hybrid regulatory point between market and regulation.

Section I

Economic Competition

3

Fostering Structural Rebalancing in China by Redirecting Fiscal Resources Toward Chinese Households

Tianlei Huang
Peterson Institute for International Economics

China has made significant progress in the past decade in rebalancing its economy toward being more consumption driven and services led, but it still has considerable room for convergence with higher-income economies. Further rebalancing is needed to put China's economic growth on a more sustainable path. But the political and economic imperatives driving China's economic policy are defying that needed transition. As old growth engines lose steam and the desire to pursue technological self-sufficiency grows, China's new growth strategy focuses on promoting productivity growth through greater indigenous innovation and diffusion of new technologies in priority areas, now identified as "new productive forces" by Beijing.[2] Absent in Beijing's new playbook, however, is how it plans to pursue structural rebalancing, without which China's domestic imbalances will continue to spill into the global economy, causing trade tensions with its trading partners.

Policy Recommendations

Fiscal policy can play an important role in fostering China's structural rebalancing. With China's capital stock per worker reaching levels similar to those of advanced economies, and with infrastructure investment seeing diminishing returns, more fiscal resources should be directed toward the household sector to raise private demand, especially for low-income groups such as rural migrant workers. Doing so would help reduce precautionary savings and raise consumption, which is much lower among rural households than urban households.

Several reforms are urgently needed in this regard:

- **Expand access to public services in urban areas, such as healthcare, education, and public housing, including for migrant households.** Ideally, this should happen in tandem with further relaxations on *hukou* (residential permit) restrictions to allow easier and freer mobility.
- **Raise the pensions of those enrolled in rural pension programs.** Many first-generation migrant workers who have reached retirement age cannot afford to retire because of meager pensions.
- **Provide retraining opportunities to migrant workers struggling to find jobs.** Many workers are facing difficulties due to the economic downturn, the housing crisis, and rising age discrimination in the workplace.

Local governments must be fiscally empowered to provide more targeted support. To that end, three measures should be considered:

- **Provide greater intergovernmental transfers from the central government.** While the central government has substantially increased its transfers to localities since the pandemic, it still has fiscal space to do more. Beijing could provide greater central transfers, possibly drawn from current and future ultralong special treasury bond issues, to localities to expand local public services and strengthen the social safety net for rural migrants working in cities.
- **Institute a change in the composition of debt issuance for local governments.** Since 2020, local governments across China have received special bond quotas of nearly RMB 4 trillion every year to fund their capital investment. Yet most special bond funds are invested in infrastructure development, and only a small portion is spent on people-related areas.[3] Providing targeted support for low-income households probably cannot generate sufficient returns to meet Beijing's requirement on return prospects to use local special bonds. The government should therefore consider lowering the annual local special bond quota to make room for more local general bond issues to spend on household-related areas while ensuring local governments' overall debt levels do not exceed the ceiling imposed by the legislature.[4]
- **Draw greater dividends from the state enterprise sector and use them as a fiscal subsidy for social security.** While the dividends state firms pay to government budgets have increased gradually, they are still lower than the goal set by Beijing more than a decade ago of 30 percent of after-tax profit.[5] Drawing greater dividends from local state firms or outright privatizing some underperforming ones would not only fill local government

coffers in the immediate term but also help improve resource allocation in the economy over the long run. But that alone is not enough. The dividends state firms pay must turn into actual fiscal subsidies that go into the social security budget. The current amount of that fiscal transfer is still minimal, and most dividends state firms pay are still used on state firms themselves.

4

Ending the Trade War

Grand Bargain or Baby Steps?

William Alan Reinsch
Center for Strategic and International Studies

Trade and security have been conflated in the past few years to the point where it is difficult to discuss trade with China without linking it to national security issues. Currently, that linkage makes it impossible to resolve trade issues by themselves. One potential step forward would be to untangle trade and security in the U.S.-China relationship and attempt to address trade on its own terms.

There are essentially two options to end, or at least mitigate, the trade war with China: the "grand bargain" approach or the "baby steps" approach. In the grand bargain approach, both sides give up something important to get something important. In the baby steps, or incremental, approach, each side takes small, successive confidence-building measures in the hope they will lead to broader agreements.

An example of a grand bargain would be for the United States to agree to eliminate its Section 301 and 232 tariffs on Chinese imports—while retaining regular most favored nation (MFN) tariffs and tariffs resulting from anti-dumping or countervailing duty investigations—in return for China's commitment to stop all intellectual property (IP) theft and agreeing to a unilateral U.S. process that excludes any imports from the U.S. market that are determined to be the beneficiary of stolen IP.

Because China has made such promises in the past but has largely ignored them, the United States requires a mechanism to create practical consequences if China does not keep its promises.

Such a bargain would give each side something important without compromising its national security, without forcing fundamental economic change on the Chinese side, and without causing undue harm to the United States, as the removal of the tariffs would simply restore tariffs to pre-2018 levels.

An incremental baby steps approach has already begun through the establishment—or resurrection—of bilateral dialogues between Washington and Beijing. U.S. commerce secretary Gina Raimondo started two such dialogues during her visit to China in August 2023, and U.S. treasury secretary Janet Yellen has started three. Although some older dialogues have restarted, they are at best confidence-building measures to clarify the economic issues that divide the two countries, improving each side's understanding of the other's point of view and perhaps pointing the way to resolving the issues identified in the dialogues.

The next step would be to turn the successful dialogues into working groups, each charged with tackling a specific issue and each having a deadline to report to senior officials on their progress. A third step would be to elevate the working groups' results, if any, to the ministerial level and turn them into a formal negotiation that could lead to an agreement. If successful, the two countries could take a fourth step by starting new dialogues on other issues and trying to repeat the process.

This process is not foolproof. Few dialogues are likely to progress beyond the first or second step. Nevertheless, the process is potentially a way forward if the two countries want to resolve their differences by addressing specific issues one by one.

Although these policy approaches are unlikely to produce results now or in the near future, given the current state of bilateral relations and the difficulty of separating security concerns from trade policy differences, there is little to be lost by considering them.

5

Managing U.S.-China Trade Frictions

Su Qingyi
CASS Institute of World Economics and Politics

Since 2018, friction in U.S.-China trade relations has been persistent, resulting in a trend toward direct decoupling between the two nations. The following suggestions are offered as ways to mitigate these tensions and stabilize trade relations.

Defining Boundaries of Competition and Managing Decoupling

Unregulated competition in select sectors, such as high-tech products, could impede normal trade interactions in other areas, undermining the stability of U.S.-China trade relations. To provide certainty for businesses, China and the United States should demarcate competitive boundaries and explore the feasibility of establishing three separate lists: one for competition, another for cooperation, and a third for routine trade exchanges. The scope of competitive domains should be as narrow as possible.

Joint Efforts to Maintain Supply Chain Stability and Mutual Dependence

China and the United States should address supply chain stability bilaterally and work together to establish a non-exclusionary multilateral mechanism for its preservation. In response to risks to global supply chain stability, such as natural disasters or geopolitical conflicts, the two nations should promote international cooperation at the global level.

Additionally, both countries should expand routine trade exchanges. As a first step, neither should impose new tariffs or trade protection measures. Building on this foundation, they should discuss which product tariffs they can appropriately reduce or eliminate.

Discussing Trade Rulemaking at the Bilateral and Multilateral Levels

China and the United States have substantial disagreements about rulemaking for industrial policy, the digital economy, and state-owned enterprises. Accusations alone do not resolve issues; mutual dialogue is essential to better understand each country's concerns and reach a consensus. Both countries should engage in consultations across bilateral and multilateral platforms. Larger disagreements should be discussed at the bilateral level, while areas of easier consensus building should be the focus of multilateral arenas.

At the bilateral level, official and nonofficial communication channels should be established. On the official front, the existing U.S.-China Commercial Issues Working Group should be augmented to include the Office of the U.S. Trade Representative when deliberating on key areas of regulations. Parallel to this, a scholarly exchange mechanism should be formed for nonofficial discussions on trade rules.

On the multilateral front, China and the United States could collaborate with major World Trade Organization (WTO) members to discuss a road map for WTO reform. They should adopt a gradual reform approach and formulate a road map that outlines reform areas based on their difficulty, presenting a timeline for implementation from easiest to most challenging. The two nations should set aside sensitive rule disagreements and jointly drive progress in easily reformable areas to achieve tangible results, thereby instilling confidence in WTO members regarding the reform process.

6

Principles to Stabilize the U.S.-China Economic Relationship

Ye Yu
Shanghai Institutes for International Studies

The U.S.-China economic relationship is in a vulnerable state. Reasons include lack of trust, securitization of the economy, a zero- or negative-sum logic, and different understandings of many fundamental issues between the two countries. The following three principles are suggested to make the bilateral economic relationship more resilient and stable.

First, the mindset of both sides must shift from benefit sharing to risk sharing, especially considering the rising global challenges all countries face. From the perspective of risk sharing, the two countries should "compete" to contribute more to global public goods rather than impose sanctions and retaliatory measures. Industrial policies for energy transition should be encouraged so long as they are effective. Measures adopted for more reliable, more interconnected economic systems are also acceptable for sustainable development.

Second, there should be greater focus on enhanced information sharing through think tanks instead of trying to solve the substantial disputes over many fundamental issues at the official level. Academics from both countries have called for a clearer definition of the World Trade Organization (WTO) rule on "national security exception"–the boundaries of the state's role vis-à-vis the market in creating subsidies–or at least bilateral agreement on a positive list of achievable goals. This will be very difficult, if not impossible. The two countries instead should start by improving information sharing on policy, practices, and priorities to avoid elevation of disputes. Think tank exchanges like the GEO Dialogue should prioritize comprehensive and comparative studies on the two countries' industrial policies, including their major policy goals, tools, functions, successes, challenges, effectiveness, and lessons learned. This kind of knowledge sharing among think tanks need not seek common standards on many thorny issues, therefore being more politically acceptable while serving functions similar to the more formal monitoring mechanisms that both sides demand.

Third, multilateral economic institutions should play a larger role in orchestrating private actors to provide global public goods. In an era of "hybrid institutional complexes" in global governance–or systems comprising many heterogeneous interstate, intrastate, public-private, and private transnational institutions, as coined by Kenneth W. Abbott–multilateral institutions are often more resilient than people thought during the Cold War era. China and the United States agree that international financial institutions can play a unique role in mobilizing private resources for infrastructure, climate change, and other global public goods. In an era of poly-crises, multilateral development banks (MDBs) are working closely as a system to de-risk their operations rather than compete with each other. But they need more shareholder support to leverage private sector resources "from billions to trillions." The two countries should also spend more time discussing the effectiveness of these institutions as they expand their mission into the much broader humanitarian-development-peace nexus. This discussion is key to building resilience into multilateralism.

Section II

Economic Security

7

Managing Export Controls

Martin Chorzempa
Peterson Institute for International Economics

The administration of former U.S. president Donald Trump utilized export controls as one of the primary tools the United States applied to China. It targeted the Chinese state-owned ZTE Corporation with a denial order and Huawei with entity listing and, subsequently, an extraterritorial foreign direct product rule. In total, the Trump administration added 380 Chinese entities to the Bureau of Industry and Security's Entity List for reasons ranging from intellectual property theft to human rights violations to military modernization. The Biden administration continued this policy, adding nearly as many entities to the list, passing sweeping rules to reduce China's access to advanced semiconductors and semiconductor manufacturing equipment, and most importantly bringing wider coalitions together to impose controls. These changes have become a major sticking point in U.S.-China relations, with each control sparking a strong negative reaction from China and what the United States perceives as retaliation through controls on gallium, germanium, and graphite, as well as investigations into U.S. tech company Micron Technology.

The following recommendations may serve to reduce tensions without compromising the security interests of either side.

First, one of the greatest threats in the relationship is an “offensive-defensive spiral,” in which a defensive reduction in dependency on one side leads to offensive controls designed to slow the other’s progress. Measures such as cutting off access to technology drive further defensive pushes that reduce the ability of future U.S. controls to be effective.

Second, the United States should consider in its annual refinements of semiconductor controls whether to adjust thresholds to line up with industry advances. The further controls are from the cutting edge—especially as China seems to have already advanced past them in some cases—the more they risk creating an incentive to design out U.S. technology in China and around the world. This could reduce the ability of future U.S. controls to have any effect. It is impossible to freeze China at 2022 levels forever.

Third, the United States should launch an initiative for more institutionalized multilateral controls with close allies beyond the Wassenaar Arrangement. That process, including other countries’ interests in limiting the ability of the United States to push them further than they are willing to go on controls on China, could be a moderating influence and make future controls more effective, enforceable, and sustainable than ad hoc bilateral negotiations or unilateral controls.

Fourth, China could reconsider its position on due diligence firms, and the United States and China could consider renegotiating to increase the number of end-use checks in China. Ideally, better due diligence could reduce the likelihood of a lose-lose scenario in which firms’ inability to certify compliance with U.S. export controls leads to broader decoupling than is necessary as firms “over-comply” to avoid violations in the absence of targeted information. More end-use checks or changes in end-use check policy could help address concerns about civilian exports being diverted through “civil-military fusion” to military or strategic purposes.

8

Promoting Cooperation on Data between China and the United States

Han Bing
CASS Institute of World Economics and Politics

The differences between China and the United States on data are indeed deep and complex. The following three risk areas must be addressed.

First, data applications pose risks to everyone's security. The application of data needs to ensure that it is ultimately consistent with ethical values and human control over the results of its application. The most pressing issue is the development of artificial intelligence (AI) technology, which requires China and the United States to benchmark safety standards that ensure the goals of AI systems are consistent with human value judgments. Further, human beings must control the development, scope, and scale of these systems.

Second, there are risks to decoupling the digital economy. Data is one of the most important resources in the digital economy era. Currently, major countries and regions lack consensus on the basic principles of data collection, transmission, security, and the cross-border flow of data, as well as other important aspects, hindering the sustainable development of the global digital economy. Excessive restrictions could lead to incompatible technical standards, market fragmentation, and increased costs for businesses.

Third, both countries risk undercutting innovation. In some areas of science and technology innovation, the United States and China are more complementary than competitive. For instance, in the field of AI, the United States has obvious advantages in the development of algorithms and computing power, while China has advantages in the scale of data and richness of application scenarios. The two sides could choose to cooperate rather than delink, not only to avoid the risk of disorderly proliferation of AI technology but also to avoid slipping into a zero-sum game due to lack of mutual trust.

Cross-border transfers are one of the most important issues in regard to data. At present, global international rules on cross-border data transfers have not yet been established. Only a few regional treaties and soft laws regulate transfers, among which economic and trade agreements—specifically, free trade agreements (FTAs) and digital economy agreements (DEAs)—occupy an important position. Provisions on cross-border data transfer under these FTAs and DEAs are also different. All parties, whether in the negotiation of global agreements at the World Trade Organization (WTO) level or regional agreements such as the Digital Economy Partnership Agreement (DEPA), have embodied a prudent and complex attitude toward the rules on cross-border data flows. Differences between China and the United States have undoubtedly exacerbated the complexity of international data cooperation.

Resolving data disagreements between the United States and China requires a comprehensive, multilayered approach that includes intergovernmental consultation and cooperation, private sector participation, and technological innovation while considering the common interests and standards of the international community.

Therefore, China and the United States should promote international exchange and discussions on data governance to seek a wider consensus. On this basis, the United States and China should jointly support the promotion of international standards and norms for data protection, secure transmission, and cross-border flows, especially to provide strong support for addressing major challenges such as global natural disasters, public health crises, the environment, and climate change.

9

After the U.S.-China Science and Technology Cooperation Agreement

Preventing Decoupling

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On February 27, 2024, the landmark U.S.-China Science and Technology Cooperation Agreement (STA) was extended for an additional six months. On the bright side, negotiations between China and the United States on STA renewal have not totally broken down, with some reports saying that both sides had agreed on some fundamental principles and were continuing to negotiate beyond August 2024. However, the window of opportunity to fully renew the agreement is closing. Given the significance of the STA for both sides, the United States and China should work out an arrangement that could serve as a backup should the agreement lapse.

One major concern for the United States is the "national security challenges" associated with the STA. In parallel to the negotiations on renewing and amending the STA, the Chinese and U.S. governments could establish a transient arrangement by organizing existing and potential STA-covered projects into three boxes:

- **Green Box:** projects unrelated to national security that China and the United States should continue and strengthen
- **Yellow Box:** projects that need further consideration and case-by-case scrutiny

- **Red Box:** projects that are highly sensitive to national security and on which cooperation is nearly impossible in the foreseeable future

Both China and the United States will benefit from this categorization without incurring extra costs.

First, this categorization will prevent the science and technology system from collapsing even if the STA is scrapped. The STA is an umbrella agreement under which China and the United States have created numerous instruments (e.g., protocols, memorandums of understanding, and contracts between government agencies, research institutions, and universities) on projects of cooperation. Theoretically, these subordinate instruments are independent from the umbrella agreement and will remain in force even if the latter expires. But if the umbrella agreement no longer exists, the subordinate instruments will be in an unstable and unpredictable situation. Without clear guidance, agencies, institutions, universities, scientists, and students will have no idea whether they can continue to carry out cooperative projects. But with a transient arrangement in place, people will have a clearer picture of which instruments will survive (green box projects), which will be repealed (red box projects), and which must wait to be amended (yellow box projects).

Second, reviewing and bargaining over yellow box projects will help facilitate communication between the two governments. During the process, some spillover effects may nurture or shape the global governance mechanism.

Third, this informal arrangement will curb oversecuritization, as the categorization process is also a process of measuring how high the fence is and how small the yard is.

What is more, this temporary arrangement is achievable. It does not require starting from scratch or gathering extra personnel or resources, as China and the United States have already had several rounds of negotiations to renew the STA.

10

A Big Economic Security Deal

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There needs to be a fundamental rethink on how to manage economic security-related tensions between China, the United States, and other advanced industrialized democracies. Given their conflicting positions on hotspots such as Taiwan, the Korean peninsula, the South China Sea, and Ukraine and their different views about the shape of the international order, it is understandable that China and the United States would see the other's military power and security-related economic capabilities as threatening and seek to constrain them as well as reduce their own vulnerabilities. However, some elements of interdependence do support national security, there are still a variety of economic areas that do not bring with them national security risks of any sorts, and there are commonly faced global problems (such as climate change and pandemics) where cooperation is necessary.

Efforts to promote dialogue and make incremental progress on minor issues are no longer enough to keep the U.S.-China relationship from deteriorating. Instead, experts on both sides should begin advancing proposals for larger deals that aim to halt the decline and create a foundation for real stability. Doing so requires political courage and recognition that economics and national security are not purely a zero-sum game.

China and the United States and its allies should consider aiming for big deals at the multilateral, bilateral, and unilateral levels. This essay focuses on a proposal at the unilateral level.

The United States should adopt a comprehensive legal framework around data security and data privacy. The European Union's General Data Protection Regulation (GDPR) is far from perfect, and some elements are not appropriate for the United States. Nevertheless, the United States needs a detailed framework that applies to the activities of all corporate actors (e.g., social media companies, corporations, financial institutions), government agencies, and individuals. Such regulations could identify the standards all organizations, domestic and foreign, would need to meet. One potential benefit is a reduced need to impose restrictions on a company-by-company basis, such as those imposed on TikTok.

In the same spirit, China should lower its "Great Firewall," a complex set of technical barriers managed by a large bureaucracy, between the People's Republic of China (PRC) and the global internet. Lowering the Great Firewall would bring immediate positive results for China domestically and internationally. An improvement in the information environment would yield greater confidence in the economy and political system. This, in turn, would translate into greater business investment and household consumption. International university students and business expatriates would return to China, confident they could maintain close ties with their family, friends, and organizations outside of China. The improved information environment in China would yield a more diverse data ecosystem that would result in faster training of generative artificial intelligence (AI) models, such as large language models. Finally, China could have much greater influence over the global governance of data, AI, and the digital economy.

11

The World Trade Organization's E-Commerce Negotiations at a Crossroads

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Background on the Joint Statement Initiative E-Commerce Negotiations

Digital trade comprises digitally ordered trade in goods and services (cross-border e-commerce) and digitally delivered trade (services delivered internationally through the internet). It has become the most promising new area for international trade and the global competitiveness of U.S. firms. By the 2010s, U.S. tech firms had begun to lobby the U.S. government to establish a set of global rules to liberalize trade and eliminate trade barriers in foreign markets.

This trade policy area is one of the few in which Chinese and U.S. interests largely align. With the increasing competitiveness of Chinese tech firms abroad and Beijing's strong push to place the Digital Silk Road at the center of the Belt and Road Initiative (BRI), Beijing has quietly moved its policy stance to support the free flow of data across borders and limit measures restricting data flow, despite its emphasis on filtering and censoring certain types of data for the sake of national security and regime stability.

The United States unexpectedly withdrew its long-standing support for the inclusion of these issues in late 2023, as it needed additional "policy space" for domestic political discussions on how the government should regulate the activities of big technology companies. What are the effects on e-commerce negotiations of this sudden shift of the U.S. position on the World Trade Organization (WTO) Joint Statement Initiative (JSI)? Will the shift help the United States and China narrow their different interests in the negotiations or further escalate them, mirroring the recent initiative to ban TikTok in the United States? What will be the impact of the first-ever set of baseline rules to govern global digital trade? The following sections address some of these questions and the possible impacts of the changing U.S. position on global data governance.

Plurilateral JSI E-Commerce Negotiations

The United States is not the only country that has increased its policy intervention in the high-tech sector, particularly on data protection and data nationalism. The Digital Policy Alert Activity Tracker reports that since January 2020, there have been 3,799 policy or regulatory changes in the European Union, G20 governments, and Switzerland.[6] These interventions span a wide range of areas, including data governance, consumer privacy protection, online content moderation, competition, taxation, and international trade. This greater regulatory heterogeneity could undermine earlier efforts to set a high standard for digital trade liberalization, but at the same time it might allow greater flexibility in the negotiation toward this regulatory heterogeneity.

Countries have similar concerns over the safety of cross-border data, even though these might be driven by totally different domestic considerations, such as consumer protection (European Union), national security (United States), data nationalism (India), and data sovereignty (China). Reaching a first-ever multilateral agreement governing digital trade in the near future could help the rest of the world, though it likely will be a shallow agreement mainly covering rules to facilitate digital trade. It likely will exclude stringent rules on the most contentious issues such as the free flow of data, source code, and data protection.

The recent co-conveners' text showed several notable changes.[7] First, the market access section, visible in earlier versions, was deleted. Second, articles related to the free flow of data were shifted from the openness and e-commerce section to the cross-cutting issues section. Third, several articles, including services market access, were moved under a new annex. All the changes suggest that the JSI negotiations will likely conclude soon with a shallow agreement.

Regional Free Trade Agreements: The Free Flow of Data Among Friends?

Washington has continued to negotiate high-standard digital trade agreements bilaterally and regionally, as the free flow of data across borders is the lifeline of all major U.S. tech companies. But in the context of U.S.-China competition, the free flow of data between the United States and China is very unlikely under the national security clause. Instead, a viable policy compromise might be free digital trade and the free flow of data among friends and allies, which has been achieved through regional digital cooperation and bilateral FTA negotiations, such as the U.S.-EU Data Privacy Framework, U.S.-Mexico-Canada Agreement (USMCA), and U.S.-Japan Digital Trade Agreement. Trust is key for the United States to negotiate digital trade openness. However, the G20, with the inclusion of China and other developing countries, is not a desirable forum for digital trade rulemaking.

One Way Forward: A Trans-Pacific Partnership for Digital Trade?

Much as Singapore helped launch the Trans-Pacific Partnership (TPP) negotiations through the Trans-Pacific Strategic Economic Partnership Agreement (P4), it has made substantial progress on digital trade by reaching the Digital Economy Partnership Agreement (DEPA) with Chile and New Zealand and bilateral agreements with the United Kingdom and Australia. These partnerships are the most rigorous agreements defining and writing rules for digital trade. The United States could again borrow this framework and take the lead to negotiate a high-standard regional digital trade agreement with more countries in the Asia Pacific and Indo-Pacific.

Finally, a note of caution is appropriate concerning the future development of AI governance. As many have argued, data is the new oil in today's global economy. But unlike oil, data is both a commercial asset and a semi-public good. Therefore, governments need to both regulate it and provide it. Today, many datasets are globally available. Generative AI has been trained with data scraped from the open internet. Quickly moving toward data isolation will impede the future development of AI tools and products.

12

Enhancing the U.S.-China Technology Dialogue

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Remarkable achievements in technological innovation by the United States and China have contributed significantly to global industrial upgrading during economic downturns. However, the accompanying technology race has intensified deep-seated geopolitical tensions. Both nations now face a double-edged challenge: leveraging technological innovation to drive economic growth while addressing the socioeconomic effects, such as shifts in employment structures and the exacerbation of technological inequalities. To alleviate these tensions and enhance cooperation, the United States and China should work toward establishing a diverse, inclusive ecosystem for technology dialogue and collaboration, which should focus on three main areas.

Strengthening Intergovernmental Dialogue to Lay the Foundation for Cooperation

The primary task is to clarify the reasonable boundaries of technological security through high-level government dialogues, resolving core disputes in areas like cybersecurity and intellectual property protection. This will remove obstacles to implementing the "five-point consensus on U.S.-China cooperation," ensuring an open and collaborative environment for technological development while avoiding overly broad security considerations that hinder technological progress and international cooperation. By aligning strategic intentions and fostering a mutually beneficial situation, the nations can work within multilateral frameworks like the World Trade Organization (WTO) and Asia-Pacific Economic Cooperation (APEC) to develop international rules favorable to technological innovation and diffusion and promote the healthy growth of the global technological ecosystem.

Expanding Collaborative Forums Involving Research Institutions, International Organizations, and Public Sectors

First, the United States and China should enhance policy and academic exchanges, collaborating on research and discussions in key areas such as artificial intelligence (AI), moving beyond narrow technical or market perspectives and bilateral considerations to address the long-term impacts of AI on the global economic order and social structures. In particular, attention should be paid to AI's impact on the growth potential of developing countries and the pathways to achieving the UN Sustainable Development Goals (SDGs). Policies should prevent the technology gap from exacerbating global inequalities or causing disorder in the international economic order and promote fair and inclusive global technology governance.

Second, both countries should advance forward-looking and technologically responsive development cooperation projects. Given the incompleteness of the international development cooperation system, the United States and China should pioneer joint research on deploying projects that enhance technology adaptation and capacity building in developing countries, such as infrastructure development, education, and skills training. This will increase their ability to withstand technological shocks, promote inclusive growth, and maintain global economic resilience and balanced development.

Promoting Micro-Level Cooperation Among Enterprises and Civil Society to Inspire New Vitality

U.S. and Chinese enterprises, investors, and civil society organizations should be encouraged to establish closer cooperative networks. Through regular exchanges, joint research and development projects, technology pilots, and expanded talent and knowledge flow channels, collaboration in fields like AI can be deepened. These micro-level interactions can accelerate technological innovation and commercialization processes, provide empirical support for a flexible and diverse global technology cooperation model, and strengthen the micro-foundation of international technological cooperation, ensuring that technological progress benefits a broader spectrum of society.

In conclusion, through systematic efforts across these three levels, the United States and China can effectively manage the geopolitical risks brought about by technological competition and jointly shape a more stable, inclusive, and dynamic global technology cooperation environment, contributing to sustained global economic growth and social well-being.

13

How to Address the Risk of an Economic Security Cascade

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The Emergence of an Economic Security Spiral

Since 2019, key economies have engaged in an accelerating cycle of economic security measures. While these measures are, by nature, defensive and focused on protecting the integrity and socio-economic well-being of national economies, they generate externalities for other countries. These negative externalities affect rivals and friends alike. Should the dynamic accelerate unchecked, it could affect the integrity of the entire global system and lead to negative outcomes for all parties.

Economic security measures refer to state measures taken to protect access to critical inputs for a national economy, such as energy, food, water, medicine, capital, technology, intellectual property (IP), critical infrastructure, and critical components. They can also include access to critical markets and maritime routes to those markets. Various countries emphasize different components and elements.

In the last decade, trust in international markets to deliver these critical inputs under any circumstance has deeply eroded, and various major players are asking the "what if" questions, seeking to add a layer of safety and certainty to the supply of critical goods. States increasingly seek to protect themselves against the growing trend of weaponized interdependence, in which key players use economic statecraft and asymmetric control over key nodes or bottlenecks of the world economy to pressure others.[8]

The problem is that the economic security measures one party takes accelerate the economic security predicament for others. Economic security measures increasingly generate a security dilemma akin to an arms race–like dynamic. The acceleration of tit-for-tat measures is hard to fully predict or control. Economic security measures are always conceived within national political contexts as defensive measures at time T0. Policymakers rarely consider the negative externalities affecting other countries or, above all, the countermeasures rivals and friends will likely respond with and how these will erode the initial benefits. This dynamic is similar to a trade war, such as the one that followed the 1930 Smoot-Hawley tariffs.

Finally, from a cognitive perspective, each side frames economic security as loss aversion, which in turn generates greater willingness to take risks, as outlined by prospect theory. Interactive loss-aversion dynamics are particularly prone to escalation.

Proposed Solutions for the Economic Security Dilemma

To address the rational dimension of the economic security dilemma and prevent an ever-accelerating lose-lose spiral, the following bilateral, plurilateral, and multilateral mechanisms should be deployed. A combination of mechanisms at multiple levels would likely best serve national interests and ensure that each side maximizes its leverage while avoiding the lose-lose outcome of the prisoner's dilemma.

- **Transparency and Reassurance:** The United States and China, as well as other important players, must develop safe venues and institutions to share information and rationales about economic security measures. This may prevent one side from seeing the defensive measures of another as offensive or targeted. Advancing information to opponents and friends alike on coming measures and their limits is the surest way to reduce misperceptions and escalation. This approach is similar to the mutual assessment process (MAP) used in the early years of the G20 to great success (2009–15).
- **Stress Testing Externalities:** In a second stage, key players should discuss negative externalities and likely responses (including scenarios) to preempt ever-expanding tit-for-tat cycles and cascade effects.
- **Mutual Credible Commitments:** Given the high risk of lose-lose dynamics, the United States and China (and others) should design credible commitment agreements to defuse certain dimensions of the economic security dilemma, such as medical inputs, food, energy, and critical minerals. Making those agreements credible and resilient to future storms is important.
- **Rapid Reaction Channel:** A working group and a channel connected to top leadership should be set up to allow for rapid response to damage generated by another party's

economic security. This channel should be robust and independent of political or security-driven channels.

Working Group on Soft Landing and Reimagining Global Economic Governance: As noted by Dani Rodrik, the neoliberal global economic model has peaked, after possibly going too far, in terms of social and security impacts.[9] What matters is avoiding a free-for-all period of protectionist and economic security measures that unravel interdependence in a chaotic way, as in the 1930s. Scoping possible agreed adjustments would increase both countries' economic security.

The following recommendations are to address the psychological, cognitive, and symbolic dimensions of the economic security dilemma:

- Pay close attention to process design, decorum, and symbolism. This requires time for listening to the other side and avoiding high-speed interactions.
- Involve trusted third parties (governments, nongovernmental bodies, or even a coach) to defuse hidden cognitive obstacles that may prevent quality work.

14

Safeguarding the Stability and Prosperity of Global Supply Chains

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Market reform, opening up internationally, and accession to the World Trade Organization (WTO) have integrated China as a vital component within global industrial and supply chains. However, disagreements between China and the United States concerning these chains have become increasingly pronounced. These tensions chiefly revolve around technology rivalry and control, market access and rulemaking, supply chain security and resilience, and the reconfiguration of the global economic order and geopolitical maneuvers.

In order to resolve these differences, both China and the United States need to strengthen bilateral dialogue, seek consensus through multilateral frameworks such as the WTO, and promote constructive cooperation to enhance transparency, mutual trust, and coordination of supply chains. This will safeguard the stability and prosperity of global industrial and supply chains.

Several policy recommendations are needed:

- **Strengthen dialogue mechanisms.** Establish or reinforce high-level economic dialogue platforms that will convene regularly, facilitating in-depth discussions on trade, investment, and technology, with the aim of enhancing mutual comprehension and trust as well as promptly resolving disagreements.

- **Facilitate reform of the multilateral trading system.** Jointly drive modernization reforms in multilateral trade bodies like the WTO, enabling them to better address contemporary global economic challenges, including digital commerce, intellectual property protection, and environmental standards, thereby furnishing a more equitable and transparent trading framework.
- **Collaboratively build secure supply networks.** Encourage China, the United States, and other global partners to ensure supply chain security without excessive market segmentation. Jointly establish international standards and emergency stockpiles, and engage in information sharing, all of which together will elevate supply chain adaptability and risk resistance.
- **Promote technical cooperation and innovation exchange.** Under the premise of respecting each other's security interests, explore collaborative opportunities in non-sensitive technology sectors, jointly advancing scientific research and innovation, establishing joint research and development initiatives, and facilitating personnel exchange and training.
- **Advance market access and investment liberalization.** Both nations should gradually lower market-access barriers and ease investment scrutiny, particularly in service sectors and high-tech industries, by reciprocally opening markets, enhancing transparency, and attracting more foreign direct investment.
- **Forge green and low-carbon supply chains.** Amid global climate change, China and the United States, as two major economies and as two of the largest emitters of carbon, can collaborate on green supply chain development, cooperate in clean energy and environmental technology development, and set common carbon emissions standards and reduction targets, guiding the global transition toward sustainability.
- **Facilitate developing country integration.** Provide technical assistance, financial backing, and capacity building to developing countries, aiding in infrastructure enhancement and industry competitiveness, as well as enabling equitable engagement in the global value chain, thereby enriching the diversity and vitality of global industrial chains.
- **Enhance education and cultural exchanges.** Augment educational and cultural exchange programs between the two countries to foster mutual understanding and amicable relations between the peoples of both nations, laying a societal foundation for enduring cooperation and mitigating misunderstandings and prejudices.

Section III

Finance

15

How China and the United States Manage the Changing International Monetary System

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This year marks the 80th anniversary of the Bretton Woods Conference. The historic event gave birth to two pillars of the international monetary system in the postwar era: the dollar and the International Monetary Fund (IMF). In the decades since, the landscape of the world economic structure has changed significantly with the rise of emerging economies such as China. Recently, geopolitical tensions have intensified economic fragmentation, increasing the fragility of the international monetary system. Although the dollar is still an anchor, currency choices are more diverse than before. The lack of dialogue and policy coordination only reinforces the divergence between China and the United States and impedes the efforts to restore global monetary order.

Policy Recommendations

First, China and the United States should carry out frank dialogue and exchange views on the shifting pattern of the international monetary system, in which "multipolar international monetary arrangements have been the rule, not the exception."[10] It is especially important in the circumstance that geopolitical dynamics play a role in shaping currency blocs. From China's perspective, in this multipolar trading system, the renminbi's international role is as a supplement to the dollar, and building currency blocs without trade or financial ties is not in China's interest.

Second, the renminbi strategy is China's domestic project. Successful or not, it relies on a series of domestic reforms and policy adjustments, such as removing domestic institutional barriers, liberalizing the capital account, rebalancing external sectors, and developing domestic financial markets. In fact, the renminbi strategy invites external pressure for domestic reforms.[11] The United States should welcome China's effort to foster the international use of the renminbi, as those policy adjustments are beneficial and bring more convergence for both countries.

Third, reserve currencies are public goods built on trust. China and the United States should avoid the "geopolitical Triffin dilemma," in which reserve asset adjustments are based more on the possibility of limiting the use of reserves than on traditional economic rationales.[12] Both countries are still the other's largest trade partners, and China is in the position of a major creditor. Weaponization of currency and financial interdependence are double-edged swords and have limited effects in the long term.

Fourth, policy coordination is the only way to maintain the stability of a global system where currency diversification occurs more frequently due to economic and political uncertainties. China and the United States should consider possible coordination to prevent financial crises and mitigate the risk of policy spillovers. For instance, the two countries should play positive roles in the global financial safety net. One way to accomplish this is for the People's Bank of China and the Federal Reserve to consider collectively providing liquidity support through their swap lines.

Finally, at multiple levels, the two countries should continue to support the reform of multilateral financial institutions. For instance, they can explore effective ways of using the IMF Special Drawing Rights, secure the institution's funding adequacy, expand the tool kit to meet the diverse needs of member countries, and implement necessary governance reform for the balance of power. China's continuous engagement with international financial institutions evinces the country's adherence to multilateralism. For the United States, investing more in multilateral institutions is the best way to save multilateralism.[13]

16

China and the United States Should Both Give the International Monetary Fund More Operational Independence

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Given the growing distrust among the United States, the European Union, and China, there should be mutual agreement to give the International Monetary Fund (IMF) operational insulation. Securing such an agreement, with clear limits on what the IMF can address, would assure each of the big three economies that the other two cannot exercise control in situations that really matter to them. All macroeconomic institutions depend upon mutual recognition that it is better to yield control than risk abuse of power. In the absence of adequate insulation of IMF operations, the global financial safety net will likely splinter with divergent politicized conditionality; allocate access to funding unevenly, if not unfairly; and diminish the stability of the international monetary system.

Particularly worrisome is the largest economies' increasing tendency to link access to their markets to various political loyalty tests or side payments. All manner of access is affected, including exports to those countries, employment and technical knowledge in high-tech and other critical industries, financial services and liquidity, foreign direct investment into and from those countries, and cross-border aid and lending. Intentional or not, this kind of national security-driven fragmentation is what the Bretton Woods institutions were created 80 years ago to prevent.

The IMF can thus best serve its membership—including the big three—as a bulwark of technocratic multilateralism against politicized bullying in financial and other market access. A significant step in this direction would be strengthening the IMF executive board's ability to pass decisions by qualified majority voting, which means restricting the largest shareholder's ability to exercise a veto except on long-term or quasi-constitutional issues. This exchange of narrowness for the sake of operational independence would be feasible because the IMF would not be putting more U.S. taxpayer funds at perceived risk or using them to serve mission creep.

Another step forward would be to adopt stricter and more consistent rules limiting IMF lending to economies at war—for example, Israel, the West Bank and Gaza, and Ukraine. There is, of course, a need for support and, eventually, reconstruction assistance, but the perception that the IMF is taking sides during an ongoing conflict could split the world economy even further. For the first time since the 1980s, military conflicts have placed the major powers' allies on opposite sides, a trend that is likely to continue. The IMF should forestall falling into this trap.

Enhanced operational independence would go hand in hand with the IMF's continued accountability to its board for goal setting and evaluation of its policy execution. This effort is in the long-term best interest of the big three economies as well. But their governments are increasingly tempted to either insert their geopolitical preferences into IMF decisions or shield their protectionist self-dealing from surveillance, despite the large impact on others. They should agree to simultaneously retreat and create space for the IMF to do its job.

17

Avoiding Renminbi-Dollar Developments That Exacerbate U.S.-China Economic Tensions

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The U.S. dollar appreciated sharply in 2024 due to interest rate hikes by the Federal Reserve, the market dialing back rate-cut expectations, large U.S. fiscal deficits, and geopolitical tensions which fueled risk-off sentiment.

The renminbi—though highly competitive, as evidenced by China's current account and large manufacturing surplus—faces downward pressure versus the dollar due to wide rate differentials. But it is also being affected by Chinese deflationary forces and significant economic headwinds from housing woes and low confidence. In 2015-16, renminbi depreciation seemingly triggered self-feeding massive capital outflows.

Despite the history of U.S.-China exchange rate tensions, renminbi-dollar developments are not now a focus of bilateral economic strains. Instead, the United States is focused on China's growth model, overcapacity, and technology. But any sharp fall in the renminbi could exacerbate Chinese capital outflow and economic tensions with the United States.

The best prospect for staving off currency tensions would be to cool U.S. momentum and inflation. Such efforts would likely bring U.S. rates and the dollar down but are perhaps months away. A more assertive, consumer-oriented Chinese fiscal policy could help support the renminbi. In the meantime, U.S. officials should explain, if needed, that the renminbi-dollar rate reflects dollar strength and not just renminbi weakness, so Chinese officials should continue to restrain renminbi depreciation pressures.

Background

Per data from the Federal Reserve, the trade-weighted dollar is historically quite strong, but the renminbi-dollar exchange rate is also heavily influenced by Chinese developments.

The renminbi might have been expected to remain firm against the dollar given China's significant current account surplus. But many exporters are reportedly not repatriating dollars, and strong capital outflow pressures reflect U.S. and Chinese interest rate differentials. Low Chinese rates are also reportedly influenced by deflationary pressures, restrained use of fiscal policy, and low confidence given housing sector woes and other growth headwinds.

The renminbi-dollar exchange rate has remained stable, at around 7.2 renminbi to the dollar.

Concurrently, other currencies are falling versus the dollar. Thus, the trade-weighted renminbi is appreciating.

The People's Bank of China has used its daily fixing and other guidance to promote renminbi-dollar stability and signal that depreciation against the dollar is unwelcome. Some analysts believe the People's Bank is concerned that any abrupt renminbi depreciation versus the dollar could trigger massive capital outflows, as occurred in 2015-16.

To date, U.S. authorities have generally recognized that the strong dollar is the main source of downward pressure on other currencies, including the renminbi. U.S. concerns have focused on Chinese macro policies and structural features (overcapacity), reflecting the long-standing U.S. view that the Chinese growth model relies on external demand.

U.S. analysts have expressed apprehension that China's manufacturing trade surplus is around 10 percent of gross domestic product. Moreover, U.S.-China tensions, including on trade, are already fraught, and further weakening of the renminbi versus the dollar could cause U.S.-China currency tensions to surge.

An easing of the generalized upward pressure on the dollar would help alleviate exchange rate pressures but is unlikely given the persistence of U.S. inflationary pressures. China, for its part, would not likely run the risk of a self-feeding capital outflow, as in 2015-16. Thus, avoiding renminbi depreciation could prove critical for managing the U.S.-China economic relationship in the period ahead.

Section IV

Decarbonization and Development

18

Acting in Parallel on Debt and Development before It is Too Costly and Too Late

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Emerging markets and developed countries must meet their shared climate and development goals to avoid the catastrophic costs of inaction. The social and environmental costs of inaction are five times the investments required, or 20 percent of global gross domestic product.[15] The many shocks that have plagued developing countries since 2020—the Covid-19 pandemic, climate shocks, war and conflict, and interest rate movements in high-income economies—have blown this effort off course and into dangerous territory.

In 2023, developing countries experienced net-negative capital inflows. Today, 3.3 billion people live in countries that spend more on external debt service payments than on education or health.[16] The International Monetary Fund (IMF) estimates that 26 low-income countries are in debt distress or default, and new academic estimates say this number will double if countries mobilize the level of investment needed to reach climate and development goals.[17] The development and debt crisis is creating lost decades for developing countries, slowing the growth of the world economy and preventing crucial action on climate change that will yield global impacts.

In different statements preceding and alongside the IMF-World Bank spring meetings, U.S. undersecretary for international affairs Jay Shambaugh and People's Bank of China (PBOC) governor Pan Gongsheng each acknowledged the severity of these issues.[18] Both pointed out the need to reform the IMF's debt sustainability analysis (DSA) and other IMF policies. Each also expressed the need to reform the G20 Common Framework. While the current environment may not warrant bilateral cooperation on these matters, it is in each country's interest to multilateralize its cooperation in some areas and engage in parallel coordination in others.

The solution to these problems entails a combination of new international financial flows and an opening of fiscal space to invest in new growth paths aligned with climate and development goals. Space for growth will propel economies to both sustainability and prolonged solvency. Some cases may require debt restructuring, and others debt suspension. While U.S. and Chinese official development finance institutions and related multilateral finance institutions have made some positive contributions to this end, each country has struggled to incentivize its private and commercial sectors to meaningfully engage in positive action.

To that end, China and the United States could engage in multilateralized cooperation accompanied by parallel coordination. Through the following processes, the countries could work together to fix the flawed tools at the IMF and in parallel bring their respective commercial sectors in line with climate and development goals.

Create Multilateralized Cooperation

Reform the DSA and subsequently divide developing countries into three categories:

- those that face insolvency problems
- those that face liquidity issues
- those that do not have solvency or liquidity concerns and do not need assistance

Bring Parallel Coordination Efforts into the G20 Common Framework

PARALLEL COORDINATION: CHINA

- Implement debt suspension or reduction (depending on whether a country is insolvent or illiquid after DSA) with a reward for Chinese commercial actors through guarantees on newly converted bonds from PBOC or Sinosure. A weaker version would be reward for "staying in" developing countries during downturns.
- Create net inflows and credit enhancements from China-related development finance institutions, such as the China Development Bank and the Export-Import Bank of China, and exercise China's voice and vote at the Asian Infrastructure and Investment Bank and New Development Bank.

PARALLEL COORDINATION: UNITED STATES

- Implement debt suspension or reduction (depending on whether a country is insolvent or illiquid after DSA) with a voluntary enhancement guarantee for the private sector from a U.S. guarantee program or the World Bank for participation, and through regulatory measures that have been deployed in the past.[19] A weaker version would be reward for "staying in" developing countries during downturns.

- Create net inflows and credit enhancements from U.S.-related development finance institutions, such as the International Development Finance Corporation and the U.S. Export-Import Bank, and exercise the United States' voice and vote at the World Bank and similar institutions.

As the two largest economies, two largest creditors (from a public and private perspective), and two largest CO_2 emitters, the United States and China have strong interests and responsibilities related to solving this problem.

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U.S.-EU-China Cooperation on Green Infrastructure in the Global South

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Developing countries need $40 trillion for infrastructure by 2035 to meet economic and sustainability goals.[20] With limited domestic financial resources, most of the funds must be sourced internationally, and the United States, European Union, and China should all aim to contribute. Most Global South countries look past geopolitical tensions when prioritizing their development needs and welcome financing from all external sources. The U.S. financing model can be conceptualized as "host country de-risking," in which Global South countries provide political, currency, and project guarantees to reduce project risks and attract private capital.

The World Bank also applies this approach but on concessional lending terms. The European Union follows the model of overseas development assistance (ODA) bargained de-risking, or de-risking through guarantees by both the host and origin countries in combination with substantial financial aid and technical assistance. Such designated guarantee mechanisms of the European Union and its members are growing in number and scale. Given the drastic reduction in Chinese overseas financing, China now has less of a financial role but instead plays a key role in providing price-competitive engineering, procurement, and construction (EPC) contracting and technology.

The differences in financing among the United States, the European Union, and China might be compatible at the project level. As the world's largest financial market, the United States can mobilize private capital. As the largest provider of ODA, the European Union can de-risk projects. And as home to large state-supported green industries, China can provide construction and equipment. While no large-scale projects appear to combine all three components, an increasing number of projects encompass two of the three. The world's largest solar farm is being built in the United Arab Emirates in a partnership that includes France's EDF and China's Jinko Solar. The EU-funded Peljesac Bridge in Croatia is being built by the China Road and Bridge Corporation, and Chinese companies win a large proportion of World Bank construction contracts. Simultaneously, numerous small- and medium-scale projects already combine capital from the United States and European Union with Chinese equipment, such as distributed solar projects across Africa. While the U.S. Trade and Development Agency advocates the use of U.S.-made equipment, this practice is far from competitive and therefore not financially feasible. Positive experiences with smaller projects could form the basis for gradually developing larger projects.

Interviews with stakeholders from Global South countries, the United States, the European Union, and China reveal that a central obstacle to collaboration is implicit and perceived political sensitivity. Interviewees expressed concerns about current and future political dynamics influencing project development and operations over the coming decades. The larger the scale of the project, the greater the government involvement and the more politically sensitive projects are perceived to be. Consequently, a concrete mechanism for advancing cooperation is a joint statement that supports joint green infrastructure development and includes, in particular, the United States and China—as EU public and private organizations already cooperate with both parties in the Global South. The Sunnylands Statement on Enhancing Cooperation to Address the Climate Crisis, issued in November 2023, emphasizes cooperation on climate issues but does not mention project-level cooperation in Global South countries. A similar statement in the future could explicitly endorse project-level cooperation to overcome the current obstacle of perceived political sensitivity.

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The United States, China, and Multilateral Development Bank Reform

The Case for Shared Interests

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Do China and the United States share an interest in a bigger, better system of multilateral development banks (MDBs)? At a time of rising bilateral tensions and zero-sum mindsets in bilateral relations, this is an area with major potential for gains that would benefit both countries, as well as the rest of the world.

Why Focus on MDBs?

MDBs are the largest public source of external climate finance, collectively committing $75 billion in 2023 to low-income and middle-income countries.[22] The World Bank's window for the poorest countries, the International Development Association (IDA), is the largest single source of concessional climate finance for countries highly vulnerable to climate change. Financial intermediary funds, another important source of concessional finance, direct most of their climate finance to middle-income countries.[23]

But huge global climate and development finance gaps dwarf MDBs' current financial capacity. The Independent Experts Group (IEG)'s report to the G20 projects that developing countries will need an additional $3 trillion annually by 2030 to meet both development and climate-related needs.[24] The report outlines a plausible scenario for reaching that goal, with $2 trillion coming from domestic revenue and local finance and $1 trillion a year in external flows.

Where will these external flows come from? The report suggests that half can come from private investors and the other half from public sources, mostly MDBs. To play their critical role and to have a realistic chance of meeting global needs, MDBs as a system must triple their annual concessional and non-concessional finance to $390 billion by 2030.

Why Should the United States and China Collaborate on MDBs?

The United States and China both stand to benefit from greatly expanded MDB financial capacity and adaption of the MDB model to meet the needs of the twenty-first century. First, they both have an interest in the aid burden sharing that MDBs offer. The United States and China are the two largest economies and greenhouse gas emitters. The world rightly looks to them to shoulder substantial responsibility for funding climate mitigation and adaptation investments in developing countries. Aid volumes for both are constrained, but for different reasons. U.S. fiscal space and congressional support for increased aid are limited, while China favors a development strategy focused more on commercial opportunities than on aid.

Second, the MDB financial model is efficient, which should be attractive to both countries. One dollar of MDB capital leverages three to five dollars of lending capacity. Further, only a small share of shareholder capital must be paid in. The IEG report estimates, for example, that to triple lending capacity at the International Bank for Reconstruction and Development (IBRD)—the World Bank arm that performs non-concessional lending—all shareholders together would need to pay in capital totaling only $24 billion over five years.

Third, the MDBs are better positioned than bilateral development finance institutions to help countries integrate development and climate-related objectives into their investment and policy choices. MDBs have the global presence; strong project origination capacity; ability to combine climate and development diagnostics; best-practice environmental, social, and governance (ESG) standards; technocratic credibility; and financial and nonfinancial tools to engage the public and private sectors. MDBs offer degrees of political separation that make their policy prescriptions more palatable to country clients. Policy and investment priorities perceived as driven by other governments, including the United States and China, inevitably and understandably raise political hackles.

Fourth, the United States and China bring complementary strengths as shareholders of the MDBs. The United States (along with other G7 countries) brings an essential focus on private finance, policy, and institutional reforms to build sound investment climates and strong ESG standards. China, for its part, has a long track record of pursuing infrastructure-driven development at home and abroad and has learned some hard lessons about project quality and debt sustainability along the way.

Finally, both countries share an interest in strengthening the current underperformance of the MDB system to help boost sustainable growth in countries that should be rapidly growing export markets. At a time when many countries face a high-debt, slow-growth scenario, MDBs should act countercyclically, offsetting private capital outflows.[25] Yet, net transfers for non-concessional lending from MDBs in 2023 were negative, with repayments exceeding new loans, adding nearly $40 billion to private net outflows of $200 billion. (Fortunately, MDB concessional flows, especially from IDA, showed a small net inflow.) That said, countercyclical MDB finance is no substitute for more action on debt relief from China; both are necessary given the magnitude and urgency of development and climate-related investment needs, including adaptation and resilience investments in the most vulnerable countries.

What Near-Term Decisions Offer Key Chances for Bilateral Cooperation?

- **IDA Replenishment:** Donor contributions need to rise to $30 billion or more to reach a three-year IDA21 replenishment totaling at least $100 billion.[26] The United States, as the largest donor, must lead. China, now the sixth-largest donor, should take its rightful place as a top donor. The 2025 IBRD shareholding review can address rightsizing China's IBRD share as a separate issue.
- **Capital Adequacy Reforms:** There is still more space to stretch existing MDB capital, as outlined in the capital adequacy framework (CAF) report to the G20.[27] Doing so would expand combined MDB lending capacity beyond the $300-$400 billion over 10 years already announced by MDB heads.[28] The United States has led here, but China could make a real difference by reinforcing the importance it attaches to efficient capital utilization.
- **MDB General Capital Increases (GCIs):** China has been a strong voice in making the case for a GCI in the World Bank. The United States has already supported GCIs for the Inter-American Development Bank's private sector arm, IDB Invest, based on its new strategy, and for the European Bank for Reconstruction and Development to respond to Russia's invasion of Ukraine. No one would expect the two countries to have identical agendas for MDB evolution and financial size. But U.S. fears of larger MDB shares for China ignore the win for the United States if China takes on more responsibility for increasing MDB capital and lending capacity. Why should China not be expected to contribute capital to these institutions commensurate with its economic size and share of global emissions? The United States remains the world's largest economy and will maintain its preeminent share of capital in most MDBs and its dominant voice in their governance. (It is the largest, or largest nonborrowing, shareholder in all of the major MDBs in which it is a member.) For China's part, the importance and value of MDB investment origination and policy strengths should now be very clear, as the political and financial consequences of China's unsustainable bilateral loans unfold.

If China and the United States can find enough common ground, they can accelerate agreements on both additional MDB capital and reforms. Speed matters: the planet's climate clock is ticking ever more loudly.

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A New Strategy for U.S.-China Climate Relations

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U.S.-China economic competition has seeped into the energy transition, undermining the foundations of bilateral climate cooperation and upending climate ambition globally. Both countries have embraced an energy agenda that hinges on industrial policy and domestic growth. Although this approach has led to some undisputable successes, it also sets up the two countries for protracted trade conflict.

As demand for technologies related to the energy transition increases, traditional trade and unfair competition-related concerns will increasingly become intertwined with climate talks. On the one hand, the energy transition requires low-cost climate technologies, which Chinese companies excel in. On the other hand, a world where all energy transition value chains are concentrated in China is unacceptable to other countries for economic and security reasons. Not only are overly concentrated supply chains more vulnerable to disruptions or weaponization, but they could also lead to serious political backlash from constituencies that expect more economic returns from investment in the energy transition. The United States is also concerned that Chinese competition fueled by industrial policy could undermine its efforts to build a domestic industry through the Inflation Reduction Act (IRA), among other initiatives.

Trade tensions between the United States and China will make it very difficult to find areas of cooperation. Moreover, the incoming Trump administration is expected to deprioritize climate policy and may even withdraw from the Paris climate agreement a second time. This would have global ramifications since U.S.-China cooperation on climate plays a guiding role in UN climate negotiations. To seek improved climate outcomes, the two countries should seek to accomplish the following:

- **Find new areas for actionable climate cooperation.** The framework for climate cooperation outlined in the Sunnylands Statement from November 2023 increasingly focuses on parallel action, offering only circumscribed areas for cooperation at the subnational level and in advancing carbon capture technology.[29] This focus leaves many less controversial areas of cooperation untapped. Policymakers should seek new and creative ideas for engaging on topics that may be mutually beneficial on economic grounds as well as climate, ranging from standards for carbon accounting, company disclosures, and transparency to cooperation on climate adaptation, especially in the developing world. Ideas to consider include a global target for financing of new projects for climate-resilient infrastructure in developing countries.
- **Address issues related to trade and industrial policy to build trust and reduce areas of conflict.** Given that trade policy has global repercussions and many of the United States' concerns are mirrored by other countries, there is space for discussions in multilateral, as well as bilateral, settings.
- **Undertake the following trust-building measures unilaterally:**
    - Beijing should demonstrate willingness to address global concerns about overcapacity and surging exports to reassure trading partners. To build goodwill, it could rebalance industries such as steel and aluminum or signal a broader shift in structural reforms. The Chinese government should also explore opportunities for negotiated political deals in the automotive sector and other cleantech industries. These deals could be inspired by those reached in the 1980s during the rise of Japanese automotive companies.
    - The United States should identify how Chinese companies can operate in compliance with U.S. objectives. A helpful move would be for the government to identify core national security concerns and clarify its position on joint ventures, inbound investment, and the role of Chinese companies in supply chain diversification globally.
- **Explore areas of cooperation on trade between the two countries:**
    - Engage in discussions about best practices to address the looming overcapacity in legacy industries such as internal combustion engine vehicles and harmonization of global standards on carbon intensity.
    - Data security and cybersecurity have emerged as key areas of concern. While recognizing the national security imperative that demands restricting the use of certain technologies, the two countries could initiate discussions on how to create reassurances and confront potential threats from non-state actors and natural disasters.

- Conduct discussions to improve transparency in supply chains for critical minerals in ways that can inject more predictability and stability in the markets. A key part of the discussion is how to facilitate diversification in ways that benefit both countries.

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U.S.-China Climate Cooperation

Challenges and Policy Suggestions

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The United States and China face several challenges on climate cooperation. China must address carbon emission reduction and the urgency of transitioning to carbon neutrality. Doing so will require smooth operation of power systems through large-scale grid connections of wind and solar power and, hence, capacity losses from the early retirement of coal-fired power plants. In the United States, the Democratic and Republican Parties use climate policy as a political tool to attack each other. Cooperation is further challenged by the development of renewable energy technologies, increasing supply risks for critical minerals and causing a new wave of resource nationalism. Renewables have also increased trade frictions between the United States and China in solar, wind turbine, and electric vehicle production.

The following recommendations will help overcome these challenges and stimulate U.S.-China climate cooperation:

- **Tap the potential of U.S.-China climate cooperation and gradually promote the establishment of a mechanism for dialogue and cooperation.** China and the United States have common interests in key areas to achieve carbon neutrality, such as accelerating the energy transition; promoting low-carbon development in transportation, buildings, and industry; vigorously developing clean energy; increasing technological innovation in key areas, such as electric vehicles, hydrogen energy, energy storage, and carbon capture; and improving carbon-pricing mechanisms. The priority is to restart several working groups, such as the U.S.-China Climate-Smart/Low-Carbon Cities Summit, the U.S.-China Building Energy Efficiency and Green Development Fund, and the U.S.-China Energy Cooperation Program, and resume cooperation at the nongovernmental level, including among academic institutions, think tanks, local governments, industries, and enterprises.

- **Promote bilateral climate cooperation between the United States and China through multilateral diplomacy.** First, continue to use the UN Climate Conference, specifically the COP series, as a platform to strengthen consultations and negotiations among countries on global climate issues. Second, establish an international technical cooperation fund through the Mission Innovation initiative to strengthen technical cooperation on a global scale. Third, link the response to climate change with the UN Sustainable Development Goals (SDGs) and strengthen cooperation with UN agencies and multilateral development agencies. Fourth, make full use of World Trade Organization (WTO) rules to negotiate measures such as carbon border adjustment taxes.
- **Provide a favorable public opinion environment for deepening U.S.-China climate cooperation and avoid the "trap of mutual accusation."** To create a favorable atmosphere for bilateral cooperation, China and the United States should learn from the experience of cooperation during the formulation of the Paris Agreement; strengthen exchanges with relevant UN agencies; make full use of multilateral mechanisms such as the COP series, the G20, and the UN Biodiversity Conference; and place U.S.-China cooperation within the framework of the global climate and environmental agenda.
- **Enhance cooperation in renewable energy industry chains.** First, China and the United States should cooperate to improve global governance in critical minerals, such as by opposing resource nationalism (export bans) and encouraging the application of environmental, social, and governance (ESG) standards in minerals mining and refinement, equity protection in overseas mining investments, and free trade in critical minerals. Second, the United States and China should enhance mutual communication, understanding, and negotiation on issues of production capacity and market entrance of solar panels and electric vehicles, and avoid escalating relevant restrictive trade and investment policies.

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U.S. Monetary Policy and Currencies

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The world economy has been moving in slow motion in recent years. Most of the world's economies have tried to maintain growth momentum after experiencing high inflation rates in the past two years, with the only exception being China, which has been dealing with disinflationary pressure. Major economies around the world, particularly the United States and China, need to put in place more coordinated and cooperative efforts.

First, both China and the United States need to make better efforts to keep their own houses in order. China is running a disinflationary economy, compared with the still inflationary U.S. economy. With the triple impacts of the local government debt problem, real estate enterprises' debt crisis, and the lingering effects of the Covid-19 pandemic on private investment and personal consumption, Chinese consumers have been cautious in expanding their expenditures while maintaining relatively higher savings rates. In China's case, it may be appropriate for the government to implement more active fiscal policy that gives spending a bigger role in stimulating economic growth. The Chinese government also needs to take more measures to stabilize and restore confidence in the real estate market as local governments gradually remove all the administrative measures restricting access to the housing market.

As the world's leading economy with the most important reserve currency, the United States has a unique responsibility in stabilizing global capital markets. In recent years, the strong dollar has been one of the greatest threats to the world economy, causing turmoil in many other economies, including some advanced economies, and has further aggravated the debt crisis in many emerging and developing economies. The "higher-for-longer" interest rate policy has been the major driving force and may be the root cause of excessive spending by the U.S. federal and state governments. According to the Fiscal Monitor, recently published by the International Monetary Fund (IMF), the U.S. government budget-deficit-to-gross-domestic-product ratio reached 8.8 percent in 2023.[30] The U.S. government must rein in excessive spending and execute stricter fiscal discipline. For example, according to U.S. employment figures published in April 2024, more than half of the new jobs created in the previous month were in government, healthcare, and social assistance, which depend heavily on government spending.[31]

Second, China and the United States must make coordinated efforts in consolidating and strengthening regional financial safety net arrangements. The United States and China also need to have close coordination and cooperation in macroeconomic policies to address the spillover effects of the strong dollar on major economies around the world, particularly in the East Asia region. Most countries in this region, such as Japan, South Korea, and Vietnam, have been fighting with the economic and financial impacts of the great depreciation of their local currencies. The situation requires greater policy coordination and coherence among international financial institutions such as the G20 and IMF. The United States and China could show greater support for the establishment and functioning of regional contingency arrangements, such as multilateralizing the Chiang Mai Initiative and increasing the share of available funds under non-IMF-related categories. China also may propose to activate the BRICS Contingent Reserve Arrangement.

Third, China and the United States should expand the scope and effectiveness of bilateral currency swap arrangements. Both countries can expand the existing currency swap arrangements or extend new ones to countries in need. Bilateral currency swaps have proved an effective tool in assisting emerging and developing economies facing the challenges of balance-of-payment impacts. China has signed currency arrangements with many developing countries, with renminbi versus local currency arrangements gradually becoming the most common. In the meantime, the United States has been reluctant to extend the scope of selected arrangements to countries outside the G7 economies. The U.S. Federal Reserve needs to do more in this regard in the future.

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For a Sustainable Climate Partnership Between China and the United States

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The current climate cooperation between China and the United States faces several challenges that require attention. One significant challenge is the competitiveness of their bilateral engagement on climate and green supply chain issues. Another challenge lies in the differences in institution, market, and technology policy between the two sides. Additionally, the uncertainty of the international environment presents a challenge. As the global climate governance process evolves, international perceptions of climate change and response mechanisms may shift, potentially altering the landscape of international climate cooperation. In this context, U.S.-China climate cooperation faces uncertainties and variables from the external environment, necessitating flexible responses.

For the Global Methane Pledge (GMP), China thinks the United States and European Union already control existing methane governance in a "mini-multilateral way." As a developing country with growing noncarbon emissions from fossil fuels, China not only falls behind in terms of its methodology and data surveillance tools for methane but also lacks policy coordination between the central and local industrial sectors. Currently, the United States takes advantage of the GMP in international cooperation and action plans for methane emissions reduction, which is mainly reflected in the development of timelines and quantitative targets, the creation of action norms and standards, and the establishment of international cooperation models. The characteristics of China's energy structure dictate that coal methane and natural gas methane emissions will continue to develop for a long time into the future. Accordingly, the United States should provide China's methane emissions detection technology, and both countries should jointly support the role of the International Methane Emissions Observatory (IMEO) with common but differentiated responsibilities (CBDR). Further, both should jointly track and publish international methane emissions data and methodologies with China's full participation.

To address these challenges, China should play a proactive leading role:

- First, China should emphasize the significant role of coal-fired power plants in reconciling the contradictions among climate, energy, and development issues. It is essential to promptly establish a carbon-neutrality schedule for high-energy-consuming industries such as coal-fired power plants, chemical industry, fertilizer production, cement, and steel, as well as to develop a road map for industrial carbon capture, use, and storage (CCUS) by laying the foundation for carbon data infrastructure and accelerating independent software development for carbon data, among other efforts.
- Second, China needs to establish a green trade zone without coal-fired power plants, addressing the core demands of U.S. and European companies in China, including purchasing green electricity, participating in carbon markets, producing clean energy independently, and coordinating these efforts. Collaboration between China and the United States to promote joint research on methane monitoring, CCUS, and information sharing is crucial.
- Third, China should leverage its massive domestic clean energy production capacity advantage to accelerate the construction of the green Belt and Road Initiative and overseas investments in clean energy. It should collaborate with nations reliant on coal-fired power like India, Indonesia, and Gulf countries, led by the United Arab Emirates, to reach a consensus on phasing out coal, highlighting the impact of insufficient international financial and technological support on the coal phaseout and energy efficiency improvement processes.

For coping with the coming climate crisis, China and the United States can implement several measures:

- First, both countries should cooperate on supporting the Paris Agreement's Global Stocktake, closing the emissions gap, and enhancing dialogue and communication with national determined contributions (NDCs) to foster mutual understanding and resolve existing differences.
- Second, the United States and China can broaden the scope and depth of their climate cooperation through multilateral mechanisms and international cooperation platforms, engaging more countries and stakeholders in areas from noncarbon mitigation to renewables to the carbon recycling economy.

- Finally, both sides can bolster cooperation in technological innovation, policy coordination, and other areas to jointly advance the development of the clean energy industry and address climate change, energy, food, and minerals competition.

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