

FOREIGN AFFAIRS

DECEMBER 31, 2025

The Case for a Grand Bargain Between America and China

How Trump and Xi Can Reset Relations

WU XINBO

The Case for a Grand Bargain Between America and China

How Trump and Xi Can Reset Relations

WU XINBO

Over the last half century, Washington and Beijing have twice faced turning points that redefined the terms of their relationship. The first came during President Richard Nixon's visit to China in 1972, when the United States abandoned its policy of containment and instead sought rapprochement with Beijing. This was an effort to work together against the threat of Soviet expansion, but when the Soviet Union disintegrated at the end of the Cold War, so, too, did this accord. The second occurred in the mid-1990s, when the Clinton administration decided to engage a rising China and support its economic modernization. Beijing, for its part, sought to join the U.S.-led international system and play a constructive role in world affairs. But this understanding collapsed during the first Trump administration, when Washington viewed China as the United States' primary challenger and replaced engagement with competition.

The second Trump administration is uniquely well positioned to mark a third key turning point, one which sees China and the United States forge the kind of steady relationship that they need at this moment. Given the havoc that the first Trump administration wreaked on U.S.-Chinese ties, it may seem counterintuitive to argue that President Donald Trump's return to office can improve relations. But the chemistry exists for a productive bond between Trump and Chinese leader Xi Jinping. Unlike President Joe Biden, who framed the contest with China as one between democracy and authoritarianism, Trump does not view China through an ideological lens. In fact, he frequently praises Xi as a political strongman. More broadly, Trump seeks a world order in which the major actors—namely China, Russia, and the United States—should respect one another's national interests and seek to avoid conflict, which reflects China's position, as well. In other words, leaders in Beijing and Washington agree that a concert of power (active coordination between China and the United States), not just a balance of power between the two countries, is necessary in today's world.

This suggests the conditions are in place for a grand bargain between China and the United States. Such a grand bargain should include reform of the current international system to create more space for rising powers, long marginalized by the United States and Europe, to pursue their own interests. It should also promote a new approach to bilateral relations that prioritizes cooperation over confrontation, which requires a deliberate effort to manage economic competition and jointly address security challenges in the Asia-Pacific. The goal, if not outright partnership between Washington and Beijing, should be peaceful coexistence and productive power sharing.

For Beijing, such a deal would ensure China's continued access to American markets, capital, technology, and institutions of higher education and research, which are key to sustaining its economic growth. It would also prevent tensions about Taiwan from spilling over into active conflict with the United States. Washington similarly wants to prevent a large-scale, high-risk, and unaffordable war in the western Pacific, and a

grand bargain would benefit the U.S. economy by maintaining the United States' access to China's expanding market, hard-to-replace supply chains, and investment capital. Moreover, coordination and cooperation with Beijing will reduce the United States' international responsibilities, which is one of the Trump administration's goals. Offloading some international burdens onto China will allow the United States to shift more of its resources to domestic priorities.

Any attempt at collaboration will face major challenges, especially when it comes to working out the details on issues connected to deep-seated disagreements between China and the United States. But now is the time to pursue such a deal. If Washington and Beijing fail to strike a grand bargain soon, the risks of a “Thucydides trap”—the tendency for war to break out when a rising power threatens to usurp an existing great power—will continue to grow, with Taiwan a likely flash point. If a conflict occurs, both economies would suffer tremendously, and the fragmentation and disintegration of the international system would make cooperation among other global powers almost impossible. To offset this danger, China and the United States can build on the positive momentum established at the Xi-Trump summit in October 2025 and work to fundamentally reset relations for the better.

SHARING THE STAGE

When Nixon took the unexpected step of improving U.S. relations with China, he was driven not only by an urgent foreign policy agenda—ending the Vietnam War and countering Soviet expansion—but also by the knowledge that the world was moving toward multipolarity. He recognized that U.S. diplomacy had to adapt to a new global reality in which Washington shared the world stage. During Nixon's 1972 visit to China, the two countries issued the Shanghai Communique, a historic document that outlined a roadmap for their future relationship and stipulated the principles that would guide their interactions in a changing world. These principles included “respect for the sovereignty and territorial integrity of all states, nonaggression against other states, noninterference in the internal affairs of other states, equality and mutual benefit, and

peaceful coexistence.” The agreement helped build mutual trust and allowed their nascent relationship to strengthen over the next two decades.

Today, these principles remain relevant, and many of the concerns that gave rise to them are once again at play. The world is moving into another multipolar era, with multiple conflicts raging and many others on the verge of breaking out. Geopolitical rivalries are becoming more intense, the international system is under extreme strain, and China and the United States, as two leading countries, have an opportunity to recalibrate the global order. If Beijing and Washington can reiterate their commitment to the principles of mutual respect and cooperation that guided their last rapprochement, they can reduce the trust deficit between them and begin building a new relationship that is productive for both powers.

One key challenge that the United States has faced in recent decades is its obsession with unipolarity and the impulse to shape the world according to its own preferences. The second Trump administration’s departure from post–Cold War thinking about American hegemony suggests that Washington is ready to change course. U.S. Secretary of State Marco Rubio described unipolarity as an “anomaly” and has stressed the importance of pragmatism and balance in U.S. foreign policy. And during a speech in Saudi Arabia in May 2025, Trump announced that although he intends to defend and promote “the fundamental interests of stability, prosperity, and peace,” he does not believe it is the job of the United States to intervene in the rest of the world.

Concern over China’s rise and the decline of U.S. superiority have pushed many American policymakers toward a more confrontational approach in recent years. But this fear is misguided. Although China could overtake the United States in some metrics (such as GDP) in the near future, even if China were to become the world’s largest economy, the United States would retain its lead on many other fronts—among them technological innovation, military might, and influence in the international institutions and alliance networks that it crafted. Despite China’s ascendance, the United States will remain the world’s most

powerful country for the foreseeable future. In short, there's enough room on the world stage for both countries to prosper.

For China, multipolarity comes with greater responsibilities as well as greater influence. China has benefited from the stable and economically open U.S.-led world order over the past 40 years, which allowed it to pursue a low-key foreign policy and focus on domestic growth. As Beijing becomes more powerful, however, it must overcome its hesitancy to spend more of its own resources to mediate global conflicts, provide a variety of public goods, and work with countries that are deeply skeptical of its intentions and political system. Xi has signaled an interest in doing this by introducing efforts such as the Global Development Initiative, the Global Security Initiative, and the Global Governance Initiative, but China must do much more to translate its words into deeds and deliver tangible results that can convince skeptical countries that its rise is a positive development.

MONEY MATTERS

Efforts to secure a U.S.-Chinese grand bargain must begin with a compromise on trade and investment. Economic ties are at the core of U.S.-Chinese relations and have been a major source of friction between Beijing and Washington since the first Trump administration. But the two countries complement each other economically. Chinese imports of U.S. products and services benefit the American farming, manufacturing, energy, and service sectors, and increased access to China's rapidly expanding market for American companies generates greater profits for U.S. enterprises. The kind of direct Chinese investment that has marked the past two decades of U.S.-Chinese economic relations boosts the U.S. economy and helps employment, and China's purchase of U.S. federal bonds helps stabilize the American financial market. In 2016, for instance, the year before Trump first took office, direct Chinese investment in the U.S. economy peaked at between \$45 billion to \$50 billion, and China was the largest overseas holder of U.S. federal debt from 2008 to 2018, when Japan surpassed it for the greatest share.

China also benefits from economic links with the United States. For decades, the United States has been China's top single export market, a major source of foreign direct investment, and Beijing's most significant technology partner. Trade and economic ties with the United States remain robust despite the 2018–19 trade war, the tit-for-tat tariff escalation in April 2025, and efforts to decouple or “de-risk” launched by both the first Trump administration and the Biden administration. During bilateral talks in Geneva the following May, China and the United States recognized the importance of sustaining their economic and trade relationships long term. U.S. Treasury Secretary Scott Bessent declared that “generalized decoupling” would be a mistake, and the reality is that the two economies are now so interdependent that operating separately is not only undesirable but impossible.

The chemistry exists for a productive bond between Trump and Xi.

Beijing and Washington can carry the success from bilateral negotiations held throughout 2025 into further negotiations focused on a comprehensive agreement covering trade, technology, investment, and market access. In each of these realms, reciprocity must be the basis for any possible deal. Rather than seeking to eliminate the trade imbalance, which is a highly unlikely outcome because of structural factors (the U.S. economy operates with low rates of saving and high rates of spending, and the U.S. dollar is the dominant international currency), China can reduce its trade deficit by purchasing more U.S. products. In return, the United States can loosen China-specific export controls and remove civilian Chinese firms from the Commerce Department's Entity List, a collection of foreign companies and organizations against which Washington applies strict export restrictions for national security purposes. These civilian firms, such as Huawei, should not be targeted simply because they are technologically competitive. Dialing back export controls will increase the shares of U.S. products and technologies in Chinese markets and help shrink the U.S. trade deficit with China.

If China encourages more investment in the U.S. manufacturing industry as a way to enter the U.S. market, it will help reduce bilateral trade imbalances and create more job opportunities for American workers. In response, the United States should remove obstacles to Chinese direct investment, some of which have been in place since 2017. This will attract more Chinese capital in both U.S. manufacturing and service sectors. And where Washington can reduce the limit on U.S. investment in China, Beijing can further open its service industry to American investors. As China's growing middle-class population cares increasingly about its health, for instance, U.S. investors have opportunities to profit from medicine and health care in China.

A reciprocal approach will also work for technology, which has been a major source of competition between the United States and China in recent years. Washington, wary of China's advancement, continues to tighten its restrictions on technology transfers. But this strategy has backfired; Beijing has enhanced its investment in domestic tech innovation, resulting in major revenue losses for U.S. firms operating in Chinese markets. For the United States, the short-term gain of slowing down China's tech progress can't outweigh the long-term pain of losing both access to Chinese markets and its lead in technological innovation. If Washington tempers its tech war against Beijing by reducing its ban on technology flows to China, Beijing can exercise similar self-restraint with its own limitations on the export of rare-earth elements and critical minerals, which are essential for the production of both commercial and defense products such as batteries, radar, or consumer electronics.

GIVE PEACE A CHANCE

The geopolitical contest between the United States and China in the Asia-Pacific is a major obstacle to any grand bargain between the two powers. Military aircraft and ships from both countries encounter each other increasingly frequently, contributing to high levels of tension and low levels of trust. Under such circumstances, any accidental clash can easily escalate into a major crisis, or even war. Both sides, however, should be cognizant of their own limitations. China can expand its regional

influence, but it cannot dominate the Asia-Pacific in the face of resistance from the United States, Japan, and other regional powers, nor can it drive the United States out of East Asia entirely. And although the United States might want to contain China's reach, Beijing's economic and military capability and its active diplomatic outreach to its neighbors means Washington cannot stymie China's momentum as a leading regional power.

On the Korean Peninsula, both China and the United States share a goal of stability. Given that North Korea has emerged as a nuclear power despite strict international sanctions, it is unlikely that any country can reverse Pyongyang's moves toward nuclearization. Thus, managing the situation requires shifting from deterrence to establishing a peace mechanism that both China and the United States guarantee. Washington and Beijing should also work together to dissuade South Korea from pursuing its own nuclear capability, which Seoul is considering but would risk making the peninsula even more dangerous. If South Korea goes nuclear, Japan would very likely follow suit, and neither Beijing nor Washington would welcome such proliferation. This is an ideal moment to relaunch the Four Party Talks—a diplomatic initiative from the 1990s involving China, North Korea, South Korea, and the United States—to work out a security arrangement that can reduce tensions on the peninsula and increase Seoul's confidence in its nonnuclear security. The dialogue prompted by the initial Four Party Talks helped improve relations among all four powers and resulted in meetings between leaders of North and South Korea as well as mutual visits by high-level individuals in Pyongyang and Washington.

Control over territory and resources in the South China Sea is another flash point between China and the United States that risks spiraling into a broader conflict. As China's power in the region increases, Beijing must clarify what rights and interests it claims. It should reassure the United States and neighboring countries such as Brunei, Malaysia, the Philippines, and Vietnam that it has no intention of expanding its claims further and turning the South China Sea into an "inner lake" surrounded

by Chinese territory. To do this, China should refrain from using its military superiority to expand control and instead rely on bilateral and multilateral consultations with other regional powers to manage and resolve disputes. Beijing should also demonstrate greater flexibility in its negotiations with Southeast Asian countries over the code of conduct in the South China Sea, an effort to establish shared norms in the region.

As part of a deal with China, the United States should reduce its interventions in the South China Sea. To Beijing, the United States lacks the credibility to act as an arbitrator in the conflicts between China and Southeast Asian powers because it is not a signatory to the UN Convention on the Law of the Sea. Nor does the United States have the resources to keep China in check by policing the South China Sea in perpetuity. A more constructive and realistic U.S. role would be to encourage, through direct statements of support, China's bilateral and multilateral efforts to manage disputes peacefully, negotiate the code of conduct, and enhance maritime cooperation with Southeast Asian countries.

The terms of a successful grand bargain could counteract zero-sum thinking.

The single most consequential challenge to the future of U.S.-Chinese relations is Taiwan. Since Lai Ching-te, a member of Taiwan's Democratic Progressive Party who has expressed support for the island's independence in the past, came to power in 2024, relations between Beijing and Taipei have worsened. Lai has made provocative comments, such as referring to Beijing as a hostile foreign force in a major policy speech. Washington has also increased its support for Taiwan in recent years: in December, for instance, the United States announced an \$11 billion arms package for Taiwan, the largest such deal to date. For its part, Beijing has ramped up its military pressure against Taipei and bolstered its defense preparations for a potential conflict with the United States in the western Pacific.

Avoiding war and securing a grand bargain will require Beijing and Washington to de-escalate their own competition in the Taiwan Strait and

slow the current militarization around the island. For Beijing, the best path to avoid conflict while maintaining its bottom line is to remain committed to its policy of “peaceful reunification”—emphasizing for both Taipei and Washington that while its first resort will not be force, it will also not accept any Taiwanese effort at independence. Taiwan and the United States will have to countenance some military buildup to allow for credible deterrence from China, but Beijing should prioritize establishing economic and social ties across the Taiwan Strait and promoting dialogue between officials in Beijing and Taipei whenever possible, both of which have dried up completely in the past year and made militarization more enticing.

Trump has been notably (and perhaps even strategically) vague about his position on Taiwan, refusing to declare publicly whether he would call for the U.S. military to defend the island in the event of a Chinese attack. Maintaining his restraint on the issue works in favor of a U.S.-Chinese grand bargain, but Washington can and should go further by calling on Taiwan to stand down and using its leverage to ensure that Taipei makes no overt move toward independence. Ensuring that the Lai administration doesn’t cross any redlines—including revising the constitution to pursue *de jure* independence—is one example. Reaffirming that the United States welcomes peace and reconciliation across the Taiwan Strait and would accept any formula that is acceptable to both sides, which remains in line with its existing “one China” policy, is another. If Washington follows through on these efforts, Beijing should offer a good-faith effort to curtail its military activities around the island.

Although instability is an unavoidable part of the U.S.-Chinese relationship—and would continue even with a grand bargain—both sides have an interest in avoiding war. That goal requires the militaries from both sides to work together to improve crisis management. The United States, for instance, can rein in its close-range reconnaissance on the eastern and southern Chinese coasts and its freedom of navigation operations near China’s shores. Such activities have failed to contain Beijing’s military action and instead only raise the risk of clashes. Beijing,

in turn, can be more transparent about its military maneuvers and more forthcoming in military exchanges with the United States, which are aimed at building confidence and preventing crises between the two countries. And in an era of immense uncertainty and new frontiers of conflict, the United States and China should also engage in bilateral strategic dialogues that focus on nuclear, space, cyber, and artificial intelligence threats.

SHIFTING SCALES

A grand bargain between China and the United States is also necessary to clarify their respective roles in the international order. Neither side wants to completely overturn the existing structure. Although the first Trump administration designated China a revisionist power and the Biden administration repeatedly asserted that Beijing has not only the ability but also the intent to reshape the international order, China has reaped remarkable economic benefits and status from the current system. It is now the world's second-largest economy, for example, and has significant influence in the UN Security Council. Rather than entirely overthrow or replace the current U.S.-led international order, China seeks to preserve the overall international system while reforming some of its multilateral institutions to enhance Chinese influence, improve their efficiency, and increase representation of non-Western countries. In other words, rather than burning down the house—or building an entirely new one next door—China wants to renovate what exists to create more space for its interests. Beijing has proved that it can back its constructive intentions with positive actions: it brokered talks between rivals Iran and Saudi Arabia in 2023, for instance, and hosted a meeting between Hamas and Fatah in 2024 to promote intra-Palestinian reconciliation.

The United States, meanwhile, seems to be on a journey of disengagement from the prevailing international system that it leads. Under an “America first” ideology, Trump has orchestrated the U.S. withdrawal from numerous international agreements and institutions, including the Paris climate accord, the World Health Organization, and the UN Human Rights Council. But as Bessent declared before the

Institute of International Finance in April 2025, “America first does not mean America alone.” Regardless of Trump’s isolationist tendencies, American prosperity and security are deeply intertwined with developments outside the country, and they depend on how the United States engages the rest of the world. The United States cannot deal with transnational challenges such as terrorism, public health, or the environment single-handedly; it has to rely on broad international cooperation and resources, often orchestrated by multilateral regimes. Simply put, for the sake of its own survival and well-being, the United States cannot afford to pull away from the international system entirely.

The fact that China’s growing strength and desire to play a bigger role on the world stage coincides with the United States’ declining interest in sustaining its global dominance makes a grand bargain between the two not only possible but necessary. If the United States wants to reduce its own burden without destabilizing the international system, it needs to be comfortable with China shouldering more responsibility. China can assume a more prominent position in global economic governance and play a larger role in Asia-Pacific security. If China wants to convince Washington (and the world) that it’s right to pick up what the United States puts down, Beijing must commit to using its increasing influence responsibly.

Trump appears to have the political mettle to reset U.S.-Chinese relations.

To accommodate China’s desire to pursue its global interests and encourage mutually beneficial Chinese contributions to the international system, Washington can continue to participate in world affairs and play a leading role without seeking total dominance—a collective effort, rather than a monopoly, over global leadership. China’s cooperation is imperative to addressing major global challenges, and any U.S. attempts to contain China’s potential power will only incentivize Beijing to turn to an alternative (and perhaps antagonistic) order, much as the Soviets did. As a rising power, China won’t look to challenge the existing international system as long as it’s

allowed to thrive. And because the terms of a successful grand bargain could counteract zero-sum thinking, a thriving China would not inherently result in a suffering America. Instead, it could benefit Beijing by accommodating its more ambitious role within the international order while ensuring that the United States still reaps its own rewards.

Given the recent U.S.-Chinese rivalry, a grand bargain between them will also depend on expanding the areas in which the two countries have parallel or common interests. This includes big-picture goals, such as tackling climate change or epidemics. It also includes supporting developing countries as they strive to achieve the UN's Sustainable Development Goals, such as improving infrastructure and alleviating poverty. As permanent members of the UN Security Council and the world's two leading economies, this is a shared obligation. And the two powers can work together to de-escalate conflicts that threaten the two countries' security or stress their resources, such as the war in Ukraine, the Israeli-Palestinian conflict, and militarization on the Korean Peninsula. As Rubio noted during a press briefing in December, the United States and China can cooperate to deal with global challenges. Engaging on common interests does not mean that Washington and Beijing must work toward exactly the same ends, only that they must work in tandem.

But doing this effectively does require reforming multilateral institutions such as the UN, the International Monetary Fund, and the World Bank. The United States is overrepresented in its power and influence in these institutions. Even if China and the United States disagree on the shape of or their role in these institutions overall, the two sides need to have a frank discussion about adjusting the distribution of shares and quotas in the IMF and World Bank (which determine voting rights and other interests of the organizations' members) and about whether to add more developing countries to the Security Council as permanent members, which will make the body more representative of today's world.

LAYING FOUNDATIONS

As the United States turns increasingly inward under Trump, and the U.S.-Chinese contest remains poised to intensify, reaching a grand bargain

between Beijing and Washington is a formidable challenge. But such an understanding is possible, and beneficial, for both countries. Rather than serving the interests of the other side, China and the United States would be supporting their own interests by cooperating. For the United States, this grand bargain would enhance its economic and security interests while reducing its burdens as an international power. For China, the bargain would allow it to play a larger international role while cushioning against shocks in a period of global turbulence. A phased approach is advisable. Negotiations can begin with economic questions, then use the trust built in that stage to support more difficult discussions on regional security and institutional reform.

Trump and Xi have already shown that they can have positive bilateral meetings, and both have expressed willingness to forge a major deal. During their recent talk in Busan, South Korea, for instance, Xi noted that China and the United States can “work together to accomplish more great and concrete things for the good of our two countries and the whole world.” Trump, meanwhile, told Xi that, together, “our two countries can get many great things done for the world.” For Xi, de-escalating tensions over Taiwan and stabilizing relations with the United States would boost his popularity at home. For Trump, securing economic gains and promoting peace and stability in the Asia-Pacific would likewise enhance his political standing. The world is in flux, and while Trump is no Nixon, he appears to have the political mettle to reset U.S.-Chinese relations with a realist, pragmatic perspective.

In 2026, Trump is scheduled to visit Xi in China, Xi is likely to visit Trump in the United States, China will host the Asia-Pacific Economic Cooperation forum, and the United States will host the G-20 summit. These events provide vital occasions for the two leaders, as well as Chinese and U.S. policymakers more broadly, to make deals, build relationships, and begin shaping a grand bargain. If Washington and Beijing can use this moment to bridge their divide, it will not only reset relations between two leading powers but also provide stability and opportunity for the rest of the world.