

Fenced in: The need to move beyond America's new containment

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Introduction

Washington is deploying a “small yard, high fence” strategy toward China; that approach amounts to a re-branded version of “containment”. And this approach risks translating to an ineffective US approach toward competing with Beijing.

The growing United States-China geopolitical competition has inspired a return of “Cold War” rhetoric. This rhetoric – especially without alternative, updated frameworks – has also resurrected Cold War tactics.¹ Washington is deploying a “small yard, high fence” strategy toward China; that approach amounts to a re-branded version of “containment”. And this approach risks translating to an ineffective US approach toward competing with Beijing, particularly in competition for control over critical technologies and, more broadly, the global economy.

As the US has woken up to a rising threat from China over the past decade, Washington has resorted to a familiar toolkit for economic and technological competition that draws from the models used to compete with the Soviet Union in the wake of World War II. While this toolkit has been brushed off and updated, these changes have been mainly tactical. It remains premised on the same assumptions and reliant on the same typology of tools as that of the Cold War period. Those assumptions and tools are ill-suited for today’s technological and geopolitical environment. The Cold War competition was one against a localized adversary in a pre-globalization world. Thanks in large part to information technology, today’s geopolitical landscape is defined by global supply chains and markets.

The US might be facing off against an adversary in China, but China’s influence is pervasive, extending even into the US itself. Containment, in this dynamic, is not an option. If Washington’s strategy does not update for that, the US is likely to fail. And that failure will have ill effects for the global trading system.



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A “small yard, high fence”-centered approach to China also threatens to have a deleterious effect on the broader global economic system. Both for America’s competitive edge and for the sake of the global trading system’s future, Washington needs a strategic refresh.

Further compounding this problem, even updates to America’s competitive toolkit are based on a framework ill-suited for contemporary US-China competition: These updates have primarily leveraged the economic statecraft logics of America’s counter-terrorism campaign. The “first resort” that emerges from that logic is a search for decisive competitive advantage in financial sanctions and technology export restrictions.² That approach can certainly work in delivering punitive and deterrent effect against isolated economic actors. The same is not true of highly diversified and globally integrated economies – let alone those, like China, that account for nearly as much international trade volume as any other actor.

The implicit goal motivating the current US strategy toward competition with China is a matter of debate. Some camps in Washington argue for a maximalist approach aimed at regime change in Beijing while others advance a more limited and less escalatory approach meant to “manage” competition and decrease the probability of outright conflict with a rising power in China.³ That debate about *ends* is, certainly, an important one. But it also obscures a general agreement about *means* – and the perils of that agreement: Bipartisan consensus in Washington appears to be coalescing around the continuous and incremental escalation of “containment” tactics.

These tactics have been summarized under the label of a “small yard, high fence” approach. The Biden administration has even put an official stamp on the strategy with National Security Advisor Jake Sullivan conveying in October 2022 that “many of you have heard the term ‘small yard, high fence’ when it comes to protecting critical technologies. The concept has been cited at think tanks and universities and conferences for years. We are now implementing it.”⁴ This approach fits squarely in the intellectual lineage of the Cold War “containment” strategy. The problem is that this strategy will do little to help Washington win a contemporary fight – and, part and parcel of that, win the fight for the future of critical technologies.

A “small yard, high fence”-centered approach to China also threatens to have a deleterious effect on the broader global economic system. China’s distortive, state-backed industrial policy requires a more systemic response. A full-throated American defense of free trade and economic prosperity would better mobilize the private sector and American allies if it were paired with an affirmative vision for the future – as opposed to an approach that relies solely on tactical restrictions on trade and investment.

Both for America’s competitive edge and for the sake of the global trading system’s future, Washington needs a strategic refresh.

Small yards aren't big sticks

The proactive, or offensive, element of the US consensus playbook – the efforts to mimic China's state-led, enterprise-driven approach – face its own obstacles, these ones generated by the US system itself, as well as that of the international market the US seeks to protect.

The world has changed since the Cold War.

Yes, the US once again faces a Communist nation-state peer challenging it for global hegemony. But the international environment is very different than it was during the Cold War, and today's near-peer adversary has a very different presence in that environment than the Soviet Union did.

Over the past decades, breakthroughs in information technology have created a globalized environment in which global supply chains and markets, while they might not erase borders, entangle the international system in a common web. And they do so in an enduring way. This system cannot be altered overnight.

Beijing has taken advantage of the globalization trend. China is orders of magnitude more economically integrated into the international system today than was the Soviet Union during the Cold War. Soviet policy and economic action sought a self-sufficient and truly independent national economy. That approach typically delivered Moscow a minimal international trade volume accounting for around 5% of overall economic activity. Beijing, too, seeks self-dependence. But Beijing seeks to pair that with internationalization, such that the self-dependence is one-sided. Since the early 1990s, China has maintained a trade-to-gross domestic product ratio above 30%.⁵

US strategy has not updated for a change in the strategic environment. The dominant, consensus playbook for competing with China is one of technology and



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America's inability to isolate the distortive effect of China's non-market practices as the primary target of its containment toolkit has diminished goodwill with global allies and partners and the multilateral fora at which they sit.

capital restrictions paired with efforts to mimic China's state-led industrial policy. This is the "small yard, high fence" suite of tactics. At best, current debate in the US focuses on how best to finetune and ramp up that playbook – not how to develop a drastically different and new one.

This reflexive complacency may well be strategic malpractice. Today's "small yard, high fence" dovetails, in both means and objectives, with the tactics adopted by the Coordinating Committee for Multilateral Export Controls (COCOM) during the Cold War. Those worked for that era. Today, these measures are an ill-timed refutation of contemporary market forces. They yield a near-certain path to ceding strategic advantage in critical technology fields and the economic and security competitions that depend on them.

First, the impossibility of the defensive side – the technology and capital restrictions aimed at containing China. In today's globalized environment, goods and capital move quickly and in patterns that can be difficult to detect or monitor. That creates an obstacle to restricting their flow without changing the overall system in which that flow takes place.

This environmental challenge is compounded by an adversarial one. Beijing has deliberately positioned to avoid, and even manipulate, the "containment" restrictions most likely to be adopted by policymakers in Washington. China has done this by building international outposts, developing partnerships with actors that have preferred access to the US system, whether those are third-party countries that benefit from favorable trade agreements or stakeholders in the US with commercial, financial, or political heft, and gaining leverage over the networks and platforms that shape the global operating environment. Take, for example, China's now well documented "localization" in Mexico as a means to evade tariff and non-tariff barriers, as well as its influence campaign in international governance, standard-setting, and market organizations.⁶

In addition, the proactive, or offensive, element of the US consensus playbook – the efforts to mimic China's state-led, enterprise-driven approach – face its own obstacles, these ones generated by the US system itself, as well as that of the international market the US seeks to protect. The US is a decentralized system defined by separation of powers, not only within government but also between government and the private sector. China's scale and relative centralization produce more effective outcomes than a mimetic American industrial policy can fathom, let alone exceed.

Moreover, such an approach imperils the free and open economic system in ways that cede advantage. America's inability to isolate the distortive effect of China's non-market practices as the primary target of its containment toolkit has diminished goodwill with global allies and partners and the multilateral fora at which they sit. The European reaction to the Inflation Reduction Act proves the point with a tit-for-tat of industrial policy reflected in the launch of the "Green Deal Industrial Plan."⁷

High fences make for bad neighbors: Advanced technology as a case

Beijing has positioned and structured itself to be a global actor for the contemporary global environment, its integration into the international technological system is a strength.

The weaknesses of the contemporary US containment approach toward China are borne out in the specific case of efforts to defend America's technological edge and prevent advanced technology from finding its way to China. This objective is at the heart of Washington's defensive measures vis-à-vis Beijing – Critical advanced technologies are the “small yard.” And yet, both the strategic reality of the country's positioning and precedent over the past decade have suggested that the approach cannot work. Even the highest fence will be riddled with holes.

The US has comparative strengths over China. But they are all too frequently frustrated, if not neutralized, by Beijing's asymmetric integration into global markets. For example, the US does have an edge in advanced technology innovation metrics.⁸ But in a globalized environment, that advantage is difficult to protect: Intellectual property and knowledge spillovers confer access to innovation to those best able to scale them.⁹ Beijing has positioned accordingly.¹⁰

First, China has invested to lock in access to advanced sources of technology in the US and elsewhere – whether in the form of upstream supply of raw materials coming from China or in the form of downstream customer relationships where China's manufacturing capacity and market serve as the lure. This creates a strategic reliance, putting US technological crown jewels at risk of flowing to China.¹¹

Second, based on its ability to access foreign advanced technology, Beijing's science and technology policy has tended to prioritize scaling applications of basic research & development rather than the R&D itself. That allows China to skip the high risk and investments associated with basic R&D – and therefore asymmetrically to compete, with scale and price, for technological markets and infrastructures. This distinct approach is reflected in policies and plans, corporate expenditures, and over time in consistent resource allocations by the Chinese government.

This is true competitive strategy.¹²

Washington's response has not been: The US has recognized the risks of China's asymmetric technological play and responded with a containment playbook. This playbook is ill-suited for today's competitive environment, which is defined by openness and integration and, therefore in which containment runs contrary to the trends of the times.

A containment strategy is also ill-suited to the relative strengths and weaknesses of the competitors. It pits an American weakness against a Chinese strength. The US containment bureaucracy is not equipped to carry out a rigorous, defense-oriented containment approach. Washington's oversight of, insight into, and control over industrial and technological supply chains is limited compared to the historical example on which the strategy builds. In contrast, Beijing has positioned and structured itself to be a global actor for the contemporary global environment, its integration into the international technological system is a strength. To assume

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that Washington can leverage a containment strategy against an actor of China's scope and scale is dangerous.

American efforts to contain China via financial and technology restrictions also risk hamstringing enduring US strengths in innovative capacity, commercialization, and global export of breakthrough technologies. A "containment" playbook diminishes the global economic trading system's ability to usher in growth and to isolate the distortive impact of China's non-market instruments.

This reality is borne out by concrete indicators. Advanced artificial intelligent (AI) chips are one of the major priorities of Washington's effort to prevent technology spillover to Beijing. These have been the subject of domestic export controls and restrictions on foreign investment; they've also been the subject of efforts to pressure US allies to adopt parallel defenses. But a slew of recent reports has confirmed that even advanced AI chips from US technology giants like Nvidia – despite being the priorities of the US technology defense campaign – continue to find their way into the Chinese market despite a series of escalating restrictions on their export into China.¹³

And if controlling US private sector actors is a challenge, the story is even more complex when it comes to marshaling allies and partners. The Chief Executive Officer of ASML, the world's leading semiconductor lithography equipment maker based in the Netherlands, has put a fine point on his opposition to America's containment approach: "It makes no sense to stop someone from producing something that you need."¹⁴

This final point underscores an even more dangerous reality. The US efforts to contain China, technologically and more broadly, do not only risk failing if adopted in their current, limited mode. They also risk undermining US positioning – with its allies and with the private sector. The American "small yard, high fence" strategy today neither incentivizes allies and partners to defend market-based principles in their respective home markets nor prioritizes their relative comparative advantages and exposures to non-market forces emanating from China as they engage beyond their borders.

Market-based solutions to non-market distortions

America needs a new competitive strategy that reflects the current strategic environment. As it concerns economic competition, the strategy also needs to accurately account for the compounding effect that market forces can deliver, both in terms of economic returns and narrative value.

For the US, there is a lesson to be drawn from the Cold War. But it is a lesson on how to think strategically – not of what specific strategic levers to adopt. During the Cold War, the US developed strategies tailored both to the competitive environment and the relative strengths and weaknesses of the adversary. Applying that approach to today’s competition generates a strategy that rests on support for the international free trade system and removal of non-market forces from that free trade system. This is a proactive, systemic, and market-based strategy for competing with China – rather than a reactive, tactical, or non-market and mimetic one.

The American victory in the Cold War was ushered by a “competitive strategies” framework.¹⁵ Competitive strategies were instructive in assessing the relative US-Soviet balance and in guiding the development and implementation of corresponding strategic lines of effort. The promulgation of competitive strategies thinking was government led¹⁶ and was also government powered. The instruments of power that American strategy pulled on were well within reach of US government’s influence, including government spending, military research and development (R&D), military force posture, industrial production decisions at home and abroad, diplomatic relations, and kinetic proxy conflicts.

Now the US finds itself in another great power competition. The strategic environment in which this battle takes place is different. The Chinese Communist Party (CCP) has refined a strategy optimized for today’s context and for the relative weaknesses of the US and the US-led global system. The center of gravity



China’s “state-led, enterprise-driven” economic model and its “military-civil fusion” strategy both ensure government influence over, and the ability to weaponize, economic engagement.

As the US accelerates its response to today's competition with China, there is a temptation to embrace centralization and non-market tools. The lure of centralization serves China's strategy, exploiting US weaknesses by pitting them against Chinese strengths.

in today's US-China competition is more diffuse than it was in the Cold War. Government matters less. Non-governmental realms play a more significant role, and the US government has less reach into them.

Moreover, the adversary is asymmetrically able to co-opt these non-governmental realms. China's "state-led, enterprise-driven" economic model and its military-technology strategy of "military-civil fusion" both ensure government influence over, and the ability to weaponize, economic engagement. They build on strengths of the Chinese system and target weaknesses of the US approach to competition – all, from the Chinese perspective, informed by the historical lessons of the Cold War and a deliberate study of the US system.

America needs a new competitive strategy that reflects the current strategic environment, and challenges posed by its adversary. As it concerns economic competition, the strategy also needs to accurately account for the compounding effect that market forces can deliver, both in terms of economic returns and narrative value with key allies and partners.

A contemporary American competitive strategy must develop a new competitive framework and activate new instruments of power. This involves rejecting two temptations. First, simply to dust off the competitive strategies approach developed for competing with the Soviet Union; second, to mimic the Chinese economic model through centralization. Such mirror imaging would guarantee certain defeat. The Chinese economic model is positioned and structured for such a reflexive response.

China is a centralized system, but one that is integrated globally and structured internally for a competition in which the center of gravity has shifted toward non-governmental and non-military domains. As the US accelerates its response to today's competition with China, there is a temptation to embrace centralization and non-market tools – both as a knee-jerk reaction to mimic the adversary and because government, when it sees problems, inclines toward governmental solutions.

These impulses, invariably, have a difficult time orienting toward explicit recognition of the threat – and underlying distortive force – in today's marketplace of global supply chains. For example, protection and promotion of the semiconductor supply chain that carries economic and security significance has been led by government intervention – at some delay to the market signals that surfaced early in the Covid-19 crisis and with ineffective recognition of upstream dependencies on China and respective comparative advantages of global allies and partners.

Ultimately, the lure of centralization serves China's strategy, exploiting US weaknesses by pitting them against Chinese strengths. It also simultaneously erodes the value of strength that resides in America's alliance network and its market-based manifestations.

The enduring – and profoundly simple – beauty of the Cold War-era competitive strategies framework is its dependence on and elevation of empiricism. The questions guiding competitive strategy development were of a comparative persuasion: How do competing forces benchmark against each other at present? What relative strengths or weaknesses do they reveal? Can relative strengths be

A new competitive strategy for the US would rest on two main pillars, which, together, amount to a proactive, systemic, and market-based strategy for competition with China – rather than a reactive, tactical, or non-market one that, at best, aims to replicate China’s approach.

leveraged further? Can relative weaknesses be protected? What is the adversary’s competitive approach and their bureaucratic or societal tendencies? Can such an approach be targeted by relative strengths and induced into more favorable behaviors, investments, and outcomes? Crafting strategy in response to honest and empirical assessment of such questions guarantees external validation of assumptions about the broader competitive environment.

Such empiricism is necessary today. Now that the US has recognized the presence of a new adversary, it is time for a clear, coherent, and actionable framing of the competitive environment, the adversary, and a strategic response. Without that, the US risks falling into either mimicry of its adversary or reliance on outdated strategies. The US needs a new path tailored to a new competition.

A new competitive strategy for a new international competition would rest on two main pillars. The first, offensive thrust would protect and support the free and fair global trade system to catalyze compounding forces and resources, and therefore achieve outsized impact. This is an opportunity to garner asymmetric reward. The American private sector, along with allied and partner markets, derives value from the international system of free trade. Strengthening this system is an opportunity to mobilize those actors, and their resources, which might be otherwise captive to Chinese non-market inducements.

The second, defensive thrust is to ensure that the free trade system functions properly and sets disincentives for allies, partners, and potential geopolitical rivals from engaging in a race to the bottom of non-market behavior. Neither the American private sector nor allied and partner markets should be incentivized to benefit at the same time from the advantages of the US-led free trade system and non-market inducements, whether offered up from Beijing or Brussels.

Examples of that first pillar would include lowering barriers to trade and providing supporting infrastructures. Examples of the second would include making the perks of access to US and allied markets contingent on rigid defenses against non-market features of China’s economy – up to and including more systemically removing China from the free trade system if it continues to distort markets. Practical steps in the right direction that could prevent the necessity of that escalation include efforts like rejuvenating and re-arming the dispute settlement process at the World Trade Organization.¹⁷

Together, these two pillars amount to a proactive, systemic, and market-based strategy for competition with China – rather than a reactive, tactical, or non-market one that, at best, aims to replicate China’s approach.

This strategic template has concrete implications – and implications that differ from assumptions of the “small yard, high fence” strategy – both for the role of the US government in competing with China and implications for free market norms. In today’s contest, the government does have a role to play, but it is different from during the Cold War. It involves creating an environment in which the private sector can compete, both by lowering barriers and providing a supporting infrastructure, while defending against China’s market distortions.

Applying a proactive, market-based strategy to technology competition

Leveraging this framework rather than the “containment” path of the “small yard, high fence” framework – can produce a more proactive approach to technology competition, one that harnesses, rather than distorts, market forces.

With a vibrant, world-leading economy, China’s relative centralization appears to grant it greater relative ability to develop and scale the capital-intensive systems necessary for deploying emerging critical technology capacity. Chinese centralization may also grant Beijing greater control over its critical technology resources – whether the fruits of basic research, high-tech infrastructures, or standard-setting entities – resulting in an asymmetric ability to siphon or co-opt external, even competing, resources, networks, and capacities.¹⁸

But a proactive, market-based strategy to today’s technological competition with China provides a real opportunity against those Chinese strengths.

This would involve an approach in which the US government strengthens the free and fair international trade system by deregulating and activating private sector incentives to encourage global scale in high-tech and industrial infrastructures and platforms. At the same time, the US would defend against Chinese co-option by focusing government resources on shoring up core values (e.g., privacy). This approach is in stark contrast to the reflexive strategies recently adopted by US policymakers that focus on hands-on, direct investment in basic R&D with inadequate defenses and little investment in the commons, infrastructures, and deregulations conducive to private sector application and scaling.¹⁹



A proactive, market-based strategy to today’s technological competition with China provides a real opportunity against Chinese strengths.

Conclusion

The US needs a strategy of activation – accompanied, in both narrative and operations by a new freedom and prosperity agenda – to solidify and sustain American strength over China and to re-establish the market-based vitality of the global trading system.

The US needs a strategy of activation – accompanied, in both narrative and operations by a new freedom and prosperity agenda – to solidify and sustain American strength over China and to re-establish the market-based vitality of the global trading system. Those ambitions should overtake the debate over whether today’s containment strategy is set to usher in regime change in China or simply “manage” contemporary great power relations. Such a strategy would prioritize creating an environment in which the private sector can compete, both by lowering regulatory barriers and providing a supporting infrastructure, while defending against China’s market distortions, especially in concert with allies and partners.

Such an approach would also be a sharp departure from the legacy of “containment.” While the US needs to “protect” against China’s illicit means for competing globally, it is equally important to protect the global free trading system. That system has been tarnished – and rendered feckless – by one distortive apple. The US containment playbook is ill-suited for appropriately targeting that single bad actor today. In a modern economic environment shaped by global supply chains and information technology, US policy must prioritize activating the private sector and engaging like-minded allies and partners.



While the US needs to “protect” against China’s illicit means for competing globally, it is equally important to protect the global free trading system.

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She has testified before the Senate Banking Committee and US-China Economic and Security Review Commission. Emily's work was the first Western analysis to document Beijing's China Standards 2035 national plan. She is at the cutting edge of US analysis on China's military-civil fusion strategy and platform geopolitics, as well as their implications for global security and the economic order. She uses primary-source, Chinese-language materials to provide insight on geopolitical, technological, and economic change for decision-makers.

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