



# The U.S.-China Relationship Heads Toward Stabilization

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## Executive Summary

In May 2026, NCAFP convened American and Chinese experts for its annual U.S.-China Track II to assess the state of bilateral relations just ahead of the delayed Trump-Xi summit in Beijing and to identify opportunities to reduce the risks of long-term strategic competition. Although participants differed on the causes of current tensions and the appropriate path forward, stabilization emerged as the most realistic and achievable near-term objective for the relationship. Both sides recognized that competition would persist and agreed that an unmanaged rivalry carries far too many significant geopolitical, economic, and military risks.

Economic security has become a central arena of competition, as both governments increasingly view trade, technology, and investment through a national security lens. Regional security risks, especially over Taiwan, continue to pose the greatest threat to regional stability, while miscommunication and misperceptions increase the risk of crisis escalation. Despite these challenges, participants identified several areas where cooperation remains not only possible, but desirable, including the significant economic relationship, AI safety, crisis management, military-to-military communications, and fentanyl enforcement. The conference underscored that major breakthroughs are unlikely, even as they welcomed the steadying effects of multiple envisioned leader-level bilateral meetings in 2026.

## Key Takeaways and Recommendations

- Competition must be managed to avoid worst-case outcomes.
  - Mutual misperceptions and inadequate communication are increasing the risk of escalation.
  - Institutionalize economic, diplomatic, and security communication channels that can survive political transitions.
  - Establish high-level communication channels for maritime, space, cyber, and AI-related incidents.

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<sup>1</sup> This report reflects the notes and observations of the authors alone and is not a consensus document.

- Key to managing competition is to reestablish guardrails and find areas of constructive collaboration.
- Taiwan remains the most dangerous source of potential U.S.-China conflict, but experts do not expect a direct confrontation in the short term.
  - U.S. executive branch rhetoric on this issue has been more toned-down and disciplined.
  - Expand military-to-military communication and crisis-management mechanisms, as existing ones remain insufficient.
  - Enhance channels for managing spillover effects from third-country tensions (Japan)
- Trade and economic issues are likely to remain the dominant focus of diplomacy.
  - Commerce remains the obvious de facto area of collaboration and needs focus beyond “managed trade.”
  - Prioritize achievable agreements on trade and fentanyl enforcement.
  - Expand bilateral cooperation on AI safety, governance, and crisis prevention.
  - Increase transparency regarding export controls and investment restrictions.
  - Distinguish clearly between genuine national security concerns and broader commercial competition.

### **Stabilizing the Bilateral Relationship**

Chinese and U.S. participants at the NCAFP conference foreshadowed outcomes of the U.S.-China summit, arguing that the relationship has become too complex and too competitive for a return to the engagement paradigm, but that the costs of unmanaged rivalry are rising as distrust deepens. The lack of mutual constraints and limited official communication risks an escalatory cycle that can spin out of control, as has occurred in both Trump administrations (COVID-19, tariff war) and the Biden administration (spy balloon). As a result, conference participants strongly advocated increased communication and mutual constraints to enable managed competition and to avoid worst-case outcomes.

Chinese participants prioritized “respect for China’s core interests,” greater predictability in relations, and continued to express consternation over “U.S. efforts to contain China’s technological development.” U.S. participants, on the other hand, highlighted their concerns over supply chain dependencies, technology competition, and the need for tangible outcomes from leader-to-leader engagement. Participants noted that neither side appears prepared to make first-mover concessions, and both governments believe they hold strategic advantages over the other. Several participants advocated the concept of “mutual vulnerability” to reflect the ongoing entanglement between the two sides in many areas and thought that this may serve as a stabilizing force for the bilateral relationship. Chinese dependence on advanced semiconductors and American reliance on critical minerals create incentives for restraint. Rather than reducing competition, these vulnerabilities may encourage both governments to pursue managed competition while avoiding actions that would trigger severe economic disruption.

The outcomes of the Xi-Trump summit in Beijing reflected the concerns and advocacy of conference participants, with the agreement framing the relationship as seeking “constructive strategic stability.” Both sides went into the meeting stating that they sought greater stability in the relationship and increased communication channels. It is not clear, however, that Beijing and Washington have similar views on the meaning of this term or its expected implementation. Beijing envisions mutual restraint and positive-sum competition, while Washington’s addition of “based on fairness and reciprocity” conveys continued mistrust and potential for cycles of escalation. Nevertheless, the framing of “stability” acknowledges the bottom line for both sides: the overriding interest in avoiding conflict. Hopefully, the two sides can move to concretize this vision in the coming months by establishing regular communication and negotiation channels.

### **Communication is Key for Regional Security and Conflict Prevention**

Regional security discussions highlighted the growing danger posed by misperception, poor communication, and competing understandings of deterrence. Uncertainty itself has become a strategic risk. Participants widely agreed that Taiwan remains the most dangerous flashpoint in the U.S.-China relationship. Chinese interlocutors made strong objections to continued, unprecedentedly large U.S. arms sales to Taiwan and noted that the fixation and media hype around such sales is destabilizing and impossible for China to accept. They defended Beijing’s actions as efforts to deter independence and preserve prospects for eventual reunification, while American participants argued that Beijing’s increased military pressure and coercive activities risk creating a cycle of escalation and mutual provocation. These competing interpretations have become increasingly difficult to manage as communication channels have weakened and political distrust has deepened. Several speakers emphasized that years of reduced engagement, compounded by the pandemic, have significantly eroded mutual understanding.

Beyond Taiwan, participants agreed that the broader effects of regional dynamics involving Japan, the South China Sea, North Korea, and the Middle East cannot be ignored. Japan’s evolving security posture and growing involvement in Taiwan-related security discussions were a major concern for the Chinese participants. Some expressed frustration that the Taiwan issue is increasingly seen as part of a broader geopolitical contest involving Japan and the United States, and as a “containment card,” rather than solely as an issue of cross-Strait relations. From the U.S. perspective, however, support for Japan’s increasing security role is a central component of regional deterrence and, under the Trump administration, efforts toward burden-shifting in alliance management.

Moreover, if left unmanaged, regional conflicts can spill over into the broader U.S.-China relationship, creating additional pathways for escalation and destabilization. Discussions surrounding Iran illustrated both the limits and possibilities of U.S.-China cooperation. While few participants expected Beijing to assume a major security role in the Middle East, some suggested that China could contribute diplomatically to support broader stability. The conference underscored the urgent need for stronger crisis-management mechanisms, expanded military-to-military dialogue, and dedicated communication channels to manage incidents in maritime, cyber, and emerging technological domains before they escalate into larger confrontations.

These issues and concerns were front and center at the Xi-Trump summit, with extensive discussions between the two leaders, particularly on Taiwan and Iran. Trump’s subsequent comments on Taiwan reinforce that he 1) understands the importance of the issue, 2) wants to

preserve “strategic ambiguity,” 3) is sympathetic to the notion that some in Taiwan may try to “push the envelope,” and 4) understands that the optics of a huge arms sale will cause problems for a Xi visit in the fall. Allegations in the U.S. Congress about Trump’s violations of the Six Assurances are likely overblown, as Xi and Trump did not “negotiate” the details of arms sales and Trump did not commit to any specifics. The reality is that the Chinese raise arms sales in every leader-level encounter, and Trump would have expected it. Now the ball is in Trump’s court; his handling of this issue will provide a clear near-term indication of the salience of “constructive strategic stability” in U.S.-China ties.

On Iran, the assessment by conference participants of China’s reticence to become positively involved in resolving the conflict was borne out at the summit, although China has subsequently worked with Pakistan to lend support to its mediation efforts, and the U.S. has refrained from further sanctioning of Chinese companies in connection with Iranian oil imports. China usefully restated its opposition to Iran’s possession of a nuclear weapon and to the collection of tolls on shipping in the Strait of Hormuz.

### **Is Economic Securitization the New Normal?**

Although economic securitization is not a new concept in U.S.-China relations, participants widely agreed that it has become the central arena of strategic competition between the United States and China. Growing securitization of trade, technology, investment, and supply chains is accelerating economic fragmentation and creating uncertainty for businesses. From the Chinese perspective, U.S. export controls on Chinese goods, tariffs, and technology restrictions reinforce the belief that the U.S. is not only seeking to compete with China but also to constrain its development. The expanding range of technologies being classified as dual-use has blurred the distinction between economic and security. Several participants argued that this trend is driven by geopolitical competition, domestic political pressures, and declining confidence in governments’ ability to manage the economic disruptions associated with globalization and technological change. As a result, both Washington and Beijing are playing a more interventionist role in shaping economic outcomes, particularly in sectors of national security and technological leadership.

One potential area of cooperation amid strategic competition lies in the future applications of artificial intelligence, particularly in military use and cyber risks. American participants steered the conversation to emphasize AI leadership, national security implications, and geopolitical competition. Chinese participants were more concerned about technological containment and exclusion from emerging governance frameworks. Participants on both sides agreed that the “AI race” narrative is counterproductive and risks encouraging reckless behavior and undermining opportunities for cooperation on safety and governance. The U.S. and China must work to establish AI-specific communication channels and develop shared principles for AI safety and crisis management.

Lastly, there is a perception in both Washington and Beijing that each can absorb greater economic costs than previously assumed. Participants referenced the concept of “Mutual Assured Economic Destruction” (MAED), arguing that the deterrent effect of economic interdependence

appears weaker than in the past. Neither side appears prepared for complete decoupling despite declining trade volumes and diversification strategies. Instead, the countries are in a state of selective decoupling, concentrated in sectors deemed strategically important, particularly advanced technologies, semiconductors, critical minerals, and data-intensive industries.

Although both the U.S. and China touted economic outcomes from the summit, the results did little to move the needle on specific concerns. As Trump repeatedly noted, the summit was mainly about relationship building, not specific deals, which he implied would come later. Commissions or “Boards” on trade and investment were announced, but the two sides differ in their interpretations of their purposes; the U.S. wants to pursue “managed trade” and specific investment disputes, while China wants to reduce tariffs and restrictions and expand trade and investment. This is another area where the notion of “constructive strategic stability” will be tested in the near-term. Both sides now view agreements as “cards” to be weaponized in the event of escalation. For example, China likely views its agreement to purchase 200 planes as contingent on continued stability or no escalation from the U.S. side, whereas the U.S. side would view China’s failure to consummate the deal as evidence of untrustworthiness, regardless of proximate U.S. actions that may be seen as escalatory. Indeed, this has been the pattern since the first Trump administration. If the two Boards emerging from the summit can help break this dynamic, it would contribute to stability, but it will be difficult.

### **Future Pathways**

The NCAFP dialogue reinforced the fundamental reality of U.S.-China relations: strategic competition is likely to persist, but both sides want to avoid the consequences of an unmanaged confrontation. Discussants broadly agreed that managing the “rivalry” in ways that reduce the risk of crisis and preserve opportunities for limited cooperation is the best way forward. Organizing around the principle of “stabilization” will be a positive marker for the bilateral relationship in the near term. This reflects an understanding that continued deterioration would impose high costs on both countries and the broader international system. Whether discussing Taiwan, trade, AI, or regional conflicts, strong communication, predictability, and crisis management are necessary to avoid greater instability in the region. Greater transparency, stronger institutional dialogue, and expanded confidence-building measures can reduce the risk of miscalculation.

For the near term, U.S. policymakers will need to balance deterrence with stability. Washington and Beijing must focus on expanding cooperation where interests overlap, including on AI safety, law enforcement cooperation, educational exchanges, and crisis management. This offers an opportunity to reduce tensions while preserving U.S. strategic interests. Ultimately, success can be achieved if both countries strive to prevent competition from escalating into conflict and manage the relationship with greater predictability.



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**A U.S.-CHINA BILATERAL TRACK II CONFERENCE**

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(in alphabetical order)**

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