

Q & A

Fred Bergsten on Rewriting the Rules of the U.S.-China Relationship

The influential economist talks about China's effect on the U.S. psyche, why globalization has been on the defensive for 25 years, and why economic leverage doesn't work to change China's behavior.

BY DAVID BARBOZA — JULY 29, 2022

C. Fred Bergsten has for decades been one of the most influential economists in the U.S., having served under several presidents and having founded, in 1981, the [Peterson Institute for International Economics](#). Among his official roles, he was assistant secretary for international affairs for the Treasury during the Carter administration and assistant for international economic affairs to Henry Kissinger at the National Security Council. He remains a senior non-resident fellow and director emeritus at the PIIE. Dr. Bergsten has authored, co-authored or edited nearly 50 books, his latest being [The United States vs. China: The Quest for Global Economic Leadership](#). He spoke to The Wire recently about the book and the prospects for U.S.-China cooperation in running the global economy. The following is a lightly edited transcript of that interview.



C. Fred Bergsten.

Illustration by Kate Copeland

Q: China is being portrayed as a rising power about to unseat the United States as the world's biggest economy, and there's no question it is having a disruptive influence on the American psyche. Can you put this moment in perspective for us?

A: China's rise poses a totally different challenge for the United States. Since the U.S. became the world's supreme economy, a little over a century ago, it has basically had no competition. No other country has been anywhere close to the U.S. in terms of economic size and ability to lead the world economic system.

[China's rise changes all that.](#) On many metrics, China is already bigger than the United States. On all reasonable projections, even if their growth slows considerably, they will still be growing two to three times as fast as the U.S.. Their relative position to the U.S. will keep growing. To me, it doesn't make too

much difference who is ahead or behind, or who makes a few more or few less semiconductors. The bottom line is rough equivalence. China and the United States are roughly equivalent economic powers. And together, they will soon account for more than half of the world economy. Nobody else is even close to them in terms of economic clout, and therefore the ability to influence global economic events. So it is imperative that the United States and China find ways to cooperate, work together, at least on economic issues, if the global economic order is to be sustained and preserved. And certainly if we're going to be able to solve any of the big global economic issues, like climate change, pandemic responses and restoring an open trade system and avoiding trade wars down the road.

China's rise has been swift, no doubt, but what did the scholars and foreign policy experts expect to happen after [Nixon's trip to China in 1972](#) began the process of integrating China into the global economy? Could anyone have predicted back in the 1970s or 1980s that we would be where we are today?

I do not think it was clear in '72, [when Nixon and Kissinger went to China](#). At that time, China was an economic backwater. It was so poor that I don't think anyone could foresee it. I have to say, though, when I was in graduate school in the late 1950s, early 1960s, we had a textbook, which basically said that population is destiny. China and India will, over time, become the world's superpowers, simply because they're so big. We all scoffed at that. And probably rightly so at the time. But by the time the Chinese economic reforms from the late 1970s began to take off in the late 1990s, when Zhu Rongji really went into high gear with the economic reform system, after China joined the WTO and they began to be fully integrated into the world economy, at that time one could see that China was going to become a superpower. They were growing at 10 percent a year, and did for about three decades. By that time, 20 years ago, one could begin to foresee this outcome.



From left to right, Zhou Enlai, interpreter Tang Wen-sheng, Mao Zedong, Richard Nixon, and Henry Kissinger. 21 st of February, 1972. Credit: manhhai via [Flickr](#)

Looking back, could things have been done differently, or was this more or less the way things would have evolved, with a dynamic nation adopting market measures and educating its people and building itself into a superpower on par with the U.S.? In short, was this the right path?

Yes, it was basically the right path. Even the super [China] hawks of today acknowledge that while it was a risky strategy, it was probably the right strategy to pursue at the time. Some call it a gamble, but it was worth taking. Remember, the U.S. had always taken the view that economic strength in other countries was good for the United States. We had embraced former enemies, like Japan, Germany after the second World War. We went way out of our way to help them recover. Now, a lot of that had to do with the Cold War, but it was also because we believed that economic prosperity abroad contributed to economic prosperity at home. So we had a history and a very successful record of supporting economic progress and development in the rest of the world, on domestic prosperity grounds as well as broader foreign policy grounds.

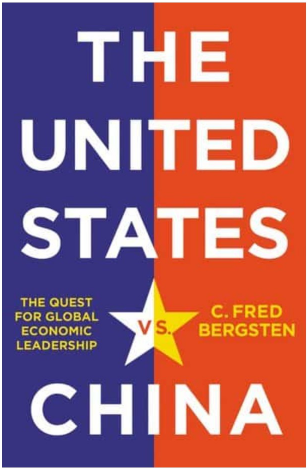
Now, China at that time was already an adversary, but not one that we regarded as a mortal threat to U.S. security. So the downside risks were not so great. It probably was naive to think that economic liberalization would produce political liberalization, let alone democracy. But again, probably a gamble. Could we have done it differently? I argue strongly in my book that containment is not an option today. China's too big, too strong, too dynamic and perhaps more critically, other countries would not go along with us and decouple from China. And those same considerations held 20 years ago. Could we have slowed their growth if we had gone to a Cold War mentality, say in 2000, taking the extreme counterfactual, instead of letting them into the WTO? Could we have tried to erect a new Cold War curtain between China and the rest of the world? I don't think it would have worked, because not many other countries would have gone along with us; certainly the Asian countries would not. So if the U.S. had done it alone, maybe it would have retarded their growth a little bit. [But the fact is], they're catching up to us and achieving peer status. I don't think it could have had a monumental or sea change effect in stopping what was inevitable once the Chinese themselves integrated with the world.

China was slowly integrated into the so-called international rules based order led by the U.S. and benefited greatly from it, attracting huge investments from the U.S. and Europe, and building its economy with the aid of huge inflows of foreign capital and trade surpluses. The system worked well for China, isn't that right?

The way I characterize China's strategy vis a vis the world economy is [that it is] trying to get the best of both worlds. They took full advantage of the open economy and markets that were available to them. (They were a little more cautious on portfolio capitalism.) At the same time, they deviated from the trade and investment rules of the game when they thought doing so would be beneficial to them, so that's why I say the best of both worlds.

BIO AT A GLANCE	
AGE	81
BIRTHPLACE	Brooklyn, NY, USA
POSITIONS	Founding Director (1981-2012), Senior Fellow and Director Emeritus for the Peterson Institute for International Economics.
MARITAL STATUS	Married to Virginia W. Bergsten since 1962.

percent of GDP by 2007-2008, something unheard of for a major country. So they were taking advantage of the open world economy but cheating on the most fundamental rule of the international monetary system, i.e.: "Thou shalt not competitively devalue your currency." They finally saw the wisdom of backing away from that a few years later, but now they have deviated from major trade investment rules, with widespread subsidies and with the theft of intellectual property and requiring technology transfer as a price for market access. So all those things either violate the explicit rules of the game, or where there are no rules, as is the case in many places, rejecting the norms that underlie the existing international economic system.



The United States vs. China: The Quest for Global Economic Leadership, by C. Fred Bergsten. Published in April of this year by Polity.

The first big example was [currency manipulation](#). From the early 2000s and for about a decade they intervened massively in the currency markets, adding up to \$4 trillion worth to keep their currency relatively weak and thereby enhancing their competitiveness and growing their trade surplus to a maximum of 10

However, with their achievement now of superpower size and status, they are running a huge risk of triggering a backlash against themselves, thereby undermining their access to the markets of other countries. And that could harm their development objectives.

You also write that China's growth didn't so much come at the expense of the U.S., and that China is hardly to blame for America's job losses and inequality. So is a lot of that a fallacy? Can you explain how China's rise did or did not affect the U.S. economy?

That's right. Over the last 30 years, since the end of the Cold War, the U.S. has actually done better than all of the other high income industrialized countries. Far from suffering any generalized economic decline, the U.S. has actually grown faster than Europe or Canada or even Japan over the last three decades. So even in relative terms, it would be hard to say that the U.S. has been disadvantaged by the rise of China or anything else. In absolute terms, we've had our ups and downs, our economic cycles. We've had a couple of crises during this period. But on the whole, it's been a period of great prosperity for the U.S. – great income growth, great job creation, record low levels of unemployment in the late 90s, before the financial crisis and before the pandemic hit again. The aggregate U.S. economic performance has been very good over this period, and so it's very hard to say we've been victimized.



Fred Bergsten (second from left) at the second annual China Economic Forum, "China's Economic Situation and Financial Reform: Stabilization or Stalling?", 5th of October, 2016. Credit: [Peterson Institute for International Economics](#)

MISCELLANEA

BOOK RECS	The Avoidable War by Kevin Rudd and 2034 by Admiral James Stavridis and Eliot Ackerman
FAVORITE MUSIC	Oldies Rock, Chuck Berry, and Simon and Garfunkel
FAVORITE FILMS	Lawrence of Arabia, Butch Cassidy and the Sundance Kid, and 2001: A Space Odyssey
PERSONAL HEROES	Paul Volcker and Jean Monnet

Now, having said that, there certainly have been big sectoral effects, from the rise of China and globalization. Certainly, China's integration into the world economy has speeded up the adjustment process. But the net effect of that for the U.S. has been quite favorable. We've done big studies at the Peterson Institute that show that the U.S. economy in the aggregate is more than \$2 trillion per year richer as a result of the

globalization of the last 50 years. And that's really irrefutable. And it's been cited by presidents and secretaries of the treasury and economic leaders in the U.S. since we've been producing those numbers over the last 15 to 20 years. But again, with the caveat, there have been sectoral effects. It has hit some communities and some groups of workers more adversely, and has led to more disruptive adjustment in certain sectors of the economy.

Now, the right response to that was to help those disadvantaged sectors of the economy directly, with things like trade adjustment assistance and other targeted relief programs. But we never took it seriously. The big underlying gap in U.S. trade policy and open world economy policy was the failure to take care of the disadvantaged sectors of the economy. And that created the inevitable political backlash and the undermining of the political foundation to maintain an open trade policy and support for globalization. And that's why as I say in the book that globalization itself has been on the defensive over the last 25 years.

But to be clear, those parts of the U.S. that relied on low-skilled manufacturing jobs were affected by the shift of those jobs offshore and to China, right?

It certainly added to the growing inequality of income distribution in the country. What does international trade do? It enables you to do more of what you do best, that's what comparative advantage is all about. So we make more Boeing airplanes and we import more T-shirts. We're better and more cost effective at building airplanes than we are at manufacturing T-shirts, but that's not much comfort to the people who manufacture T-shirts.

“ **Even without any rewriting of the rules, the de facto rules that cover our economic policies, our trade or investments are being inexorably affected by China.** ”

Globalization is only a minor part of the overall mosaic of increased income inequality in the U.S. over the last several decades, but it adds to it. And since it comes from abroad, it's easier to attack. Automation is a big factor in increasing inequality. Nobody proposes legislation to block robots, but you can credibly propose legislation to block imports from China or somewhere else and claim, like Trump said, that the foreigners bear the cost when they really don't; domestic U.S. consumers bear the cost. But it's a more plausible political response to income inequality than dealing with the real problems. The real causes of income inequality are productivity growth, differential tech, technological advances and the benefits that come to the higher income and more skilled part of the labor force than the lower income and low skilled part of the economy.

If China has not always adhered to the rules of international trade and finance, and now is poised to set the rules, what can we expect of a global economy that is dominated by two nations that don't quite see eye to eye on the rules of the game?



Chinese Vice Premier Liu He meeting with the then U.S Trade Representative, Robert Lighthizer, for the U.S.-China trade talks, 30th of January, 2019. Credit: Andrea Hanks/Trump White House Archived via [Flickr](#)

China is already affecting the way the rules are implemented. Take [the trade war](#) that Trump initiated. What Trump basically had the U.S. do was emulate China by increasing this country's trade management. The U.S. has always stood for free and open markets. It hasn't always lived up to that, but on the whole it has [been fairly close]. Whereas China, though it's gone a long way towards a market oriented approach, still manages much of its trade. Well, what Trump said to the Chinese was: "We want you to manage [your] trade. We want you to buy more soybeans from us. We want you to buy more semiconductors from us. Forget about market forces. We're not really asking you to reduce your tariffs. We're asking

you to buy a couple \$100 billion more from us.” How do they do that? You manage trade. The Chinese accepted it with alacrity. They said, “Well, we recognize all this: the Americans are telling us to increase our management of trade. Sure, we can do that. We’ll sign up.” So here’s the U.S. in an extreme form under Trump, but it’s a broader phenomenon, it’s being induced to emulate China’s own practices to compete with China. And all the people who say, “Well, China has this very extensive industrial policy. And the only way we can cope with that is to create our own industrial policy.” There’s legislation in the Congress now that attempts to go down that road on semiconductors and on some other key technologies. So China’s influence on policies in the United States and around the world is profound. Even without any rewriting of the rules, the de facto rules that cover our economic policies, our trade or investments are being inexorably affected by China.

And what role should China have in rewriting the rules of global trade and finance?

I advocate that over time China be granted a voice in rewriting some of the rules that don’t apply any more, on the condition that they comply with a lot of the rules that now exist. They can help write rules where there are no rules in existence, like the digital economy and cyber trade. There are lots of areas where China says it can’t be expected to adhere to the current rules because it had nothing to do with writing them. Well, that’s a tough issue. But going forward, there are lots of areas where there are no rules in place. And China ought to be engaged in writing those. Now, as you ask, wouldn’t that mean some rules that we don’t like so much? Wouldn’t it mean less rule of law? Would that mean less reliance on the market and more on centralized state control? Yes, it probably would be that China advocates state control over adherence to markets. So it would be uncomfortable. But what’s the alternative? Fighting them means a new Cold War and maybe worse. And so we have to change our own mindset and recognize that we’ve got to work with them on a cooperative basis.



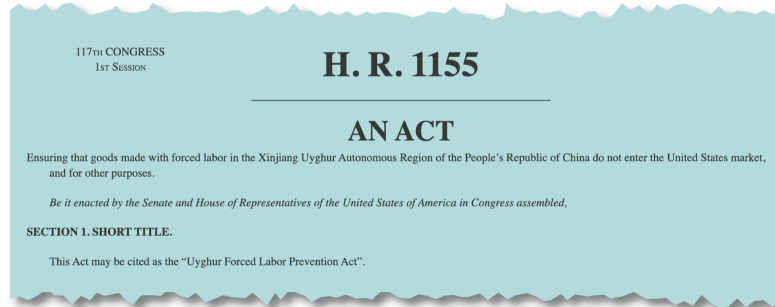
Fred Bergsten speaking at the 2014 Organization of American States roundtable discussion titled “Scholars, Policymakers and International Affairs: Finding Common Cause”. 6th November, 2014. Credit: Juan Manuel Herrera/OAS via [Flickr](#)

Washington seems increasingly worried about Beijing cutting off our supplies of vital goods, or perhaps using it as leverage. And so there’s talk in Washington about decoupling aspects of America’s supply chain from China. Some have dubbed this “friend-shoring,” or effectively reshoring manufacturing and supply chains to friendly shores. Is this a good thing?

Well, decoupling usually means breaking or sharply reducing ties, especially economic ties between the United States and China. And I think that’s a huge mistake. Containment cannot work. China is too big and too dynamic. China has too many countries with which it is the main trading partner, and the U.S. would find it very hard to get very many allies to agree to decoupling or containing China. Some people make a simplistic analogy with what’s happening in NATO. Now, these are aggressive but that is very different from trying to get a global coalition to contain or decouple from China, when most of those other countries trade more with China than they do with us. Certainly the Asians are not about to contemplate a decoupling strategy from China, no matter how nervous they may be about its territorial ambitions and political goals. They’re not about to rile China by siding with the United States against China in some containment or decoupling initiative. So that idea, which is pushed by a lot of the Cold Warriors, simply has to be rejected on pragmatic

grounds. It's a bad idea because it would push China into the arms of Russia. Not the most brilliant foreign policy. I would rest my case largely on the fact that it's simply impractical.

However, I have in mind a different kind of decoupling. What we should do is decouple the economic issues from the other contentious parts of the relationship. By that I mean security issues like the South China Sea and Taiwan, issues like Hong Kong or the Uyghurs. On all those things. I certainly do not want the U.S. to forget about its values, its security concerns, things that have driven our overall foreign policy for a long time.



[H.R. 1155](#), the Uyghur Forced Labor Prevention Act.

We also have to recognize that those differences will continue and may get worse. But it is quite feasible to decouple those issues where confrontation may continue from the economic issues, particularly if we're going to forge a new leadership structure for the world economy and keep the relatively open, international economic order intact. What I advocate is functional decoupling as opposed to national decoupling. There's a question about whether the Chinese will go for it, but if the U.S. headed down that road, they would do so. The Biden administration's foreign policy construct towards China perfectly permits the kind of functional decoupling. President Biden himself has talked about splitting our relationship with China into at least two component baskets: one of competition and one of cooperation.

But isn't the use of economic sanctions and decoupling parts of the supply chain a way to give the U.S. more leverage in the relationship? Some critics have argued that failures in Washington to properly balance the relationship have led to a dangerous situation. Isn't building up leverage a good thing?

Well, I'm not sure that the so-called leverage has really gotten us very far. I don't see any signs that steps the U.S. has taken so far have deterred the Chinese in the South China Sea or deterred them from cracking down on Hong Kong or on the Uyghurs. After much study at the Peterson Institute, you can't see much sign that the efforts over a long period of time to use economic leverage to get the Chinese to change what they regard as core interest of theirs has worked. We may disagree but very few of those steps have had any positive effects. Having said that, my proposed strategy is conditional, competitive cooperation. I certainly would insist on the conditions I mentioned a moment ago. If the U.S. were ready to end the trade war, it would only do so of course, on a fully reciprocal basis. We should say to the Chinese, well, we'll get rid of our tariffs on you. But you have to get rid of your retaliatory tariffs against us. That would take things back to square one, where it was before Trump started the trade war. He gained nothing.

“ If the U.S. tries to contain China, and goes on a crusade to do it, it'll force the other countries to make a choice. And very few of them would choose the United States. ”

The most complicated part of the picture that I'm trying to paint is where security and

economic issues intersect. That's the Huawei case, for example. Though it's never been demonstrated publicly, several U.S. government officials have argued forcefully that Huawei is a threat to our national security, and therefore should be banned from a lot of activities. They leaned on our allies to do so as well. When it's clear and justifiably a security issue, I would use our controls. But I would try to come to clear agreement on the line between security and economic issues, and where it's complex and fuzzy, as it is in many cases, you may have to tilt toward the security side and say, "Well, there's a security risk and we can't expose ourselves to that."

Given that China is increasingly critical of U.S. foreign and economic policy, and the U.S. has claimed for much of the past two decades that China is engaged in cyber attacks, theft of IP and human rights abuses, how exactly do you see these two nations putting aside their differences and working on a shared global order? There seems to be little trust on either side.



Dai Bingguo and Hillary Clinton at the first U.S.-China Strategic and Economic Dialogue, 28th July, 2009. Credit: U.S. Department of State via [Wikimedia Commons](#)

Yes, that is the overriding issue. And it is very difficult. It is why we're on a path towards a Cold War at the moment, and I'm trying to do my modest part to hit back in the other direction. The mistrust is huge. It's been there for a long time. And it's got a lot of empirical basis. I suspect what will be needed is some kind of gradual evolutionary case by case effort to resolve some of those big problems, find pragmatic solutions and try to build back a modicum of trust of

the type we had 10 to 15 years ago, back when we had a Strategic Economic Dialogue and very elaborate diplomatic and bureaucratic mechanisms. They were exasperating in a sense, but they created extensive networks of contact between two countries that were at least talking to one another. Now that's all disappeared, and it needs to be reinstated. That's one reason I proposed rolling back the trade war. It would be a dramatic step that could help restore some degree of trust.

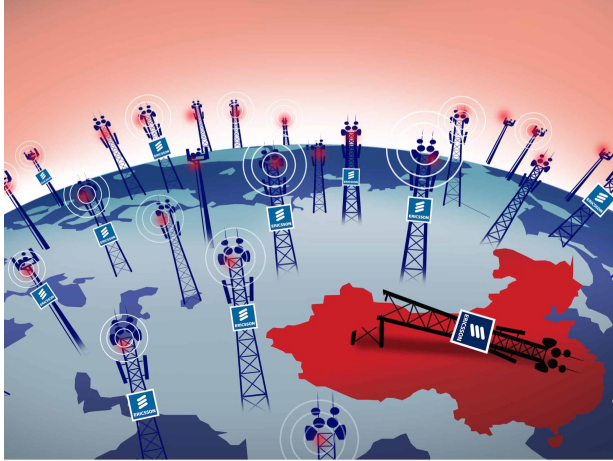
You've argued that Beijing and Washington should re-establish old ties and engagement and work together to resolve the issues that would keep globalization intact. But what if we see more of the same intense animosity? Where will we be if the U.S. cannot accept shared leadership with Beijing in the next five to ten years?

The most immediate effect would be economic costs to the United States itself. We have very extensive interdependence with China. The economic ties are wide ranging. If we cut all that off, even at the margin, we would suffer serious economic costs. However, the bigger costs by far are in foreign policy and national security terms. If we tried to form a global coalition to contain China, we would push most other countries towards China. We would do to China what Russia has done to NATO. Russia invaded Ukraine to try to weaken Western Europe and the Transatlantic Alliance, and it just had the opposite effect. If the U.S. tries to contain China, and goes on a crusade to do it, it'll force the other countries to make a choice. And very few of them would choose the United States. And that includes the Europeans, not to mention the Asians who are in China's neighborhood.



David Barboza is the co-founder and a staff writer at The Wire. Previously, he was a longtime business reporter and foreign correspondent at The New York Times. [@DavidBarboza2](#)

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Q & A



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