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Correspondence: Fixing the Current System or Moving Toward a Value-Based Globalization?

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In this issue's correspondence section, Mathew Burrows and Robert Manning respond to Aaron Friedberg's article on the future of globalization, published in Vol 5, Iss 1 of TNSR. Friedberg, in turn, offers his own rebuttal.

Taking Exception: The Problems with a "Partial Liberal" Order

Mathew Burrows and Robert A. Manning

Aaron Friedberg recently published an important, thought-provoking article in these pages that examines the evolution of the international economy over the last two centuries and possible scenarios for how the current era of globalization may fail or be reconstructed.[1] We commend the analysis of past phases of globalization but take issue with the likelihood and desirability of his proposed "value-based" free world trade bloc, which he calls "Globalization 2.5." Friedberg dismisses the possibility of repairing and updating the current international system to reflect the redistribution of wealth and power from West to East and North to South. While he discusses a region-centric global economic order, his preferred outcome is a U.S.-led "partial liberal" order. However, such a framework would institutionalize a fragmented, conflict-prone world based more on power and less on rules.

The notion of a "democracies only" world order reflects the logic of the Biden administration's "democracy vs. autocracy" strategy, but with respect to it fashioning a stable and prosperous world, it is a dubious proposition. For starters, China is the world's largest trading power (its total export-imports were $4.2 trillion in 2021), the leading trade partner of U.S. allies and partners in Europe and Asia, and a major exporter of capital.[2] Moreover, the neutral response to Russia's invasion of Ukraine by most of the world — including democracies such as India, Brazil, Mexico, Indonesia, and Turkey — shows that these countries are more motivated by interests than by democratic values. Beyond fashioning legal and institutional frameworks for global trade and investment to operate in, the administration's requirement now is to make sure that such trade and investment favor U.S. interests. The Biden administration, for example, wants to prevent any new trade regimes from hurting the middle class, even though there are inevitably going to be some losers when openings in trade are made.

The United States could do better by closing the skills-job opening gap and helping the American middle class compete by providing improved retraining and more life-long learning opportunities, as well as a stronger social safety net, including portable healthcare, universal daycare, and more generous unemployment insurance linked to retraining. Of course, trade politics include a significant amount of market intervention and managed trade — imposing quotas and voluntary export restraints, or putting in place tariffs when another's trade practices are deemed to be unfair or in order to protect strategic industries — and demonstrate clear results from such measures.[3] Yet, there seems to be an increasing temptation among foreign policy strategists to believe that China will either acquiesce to perpetual U.S. primacy or that it can simply be isolated from U.S.-led political and economic structures. This implies that the United States and its allies can redesign the world to please their preferences for democratic liberalism without regard for other countries. But when, over the past several centuries, has there been a stable world order absent the inclusion or a considered balance of the major economic and military powers, particularly China and Russia?

Technology, Economics, and Politics

To our minds, the proposal for a "partial liberal trading system," is inconsistent with Friedberg's elegant summary analysis of how periods of globalization over the past 200 years have come about and operated: namely that economics, in terms of market trends and other forces such as technology, has historically been the driver of globalization. Politics, on the other hand, may have established a favorable framework for globalization, but it has

1 Aaron L. Friedberg, "The Growing Rivalry Between America and China and the Future of Globalization," *Texas National Security Review* 5, no. 1 (Winter 2021/2022): 95–119, https://doi.org/10.15781/b0sb-py52.

2 "China (CHN) Exports, Imports, and Trade Partners," Observatory of Economic Complexity, November 2021, accessed Sept. 30, 2022, https://oec.world/en/profile/country/chn.

3 "Managed Trade and Quantitative Restrictions: Issues for Congress," U.S. Congressional Research Service, Jan. 25, 2022, https://sgp.fas.org/crs/misc/IF11035.pdf.

been unable to orchestrate it fully.

We take the point in Robert Gilpin's prescient assessment, cited by Friedberg, regarding the reciprocal relationship between politics and economics, wherein economics redistributes wealth and power, which leads to political changes and reordered politico-economic relationships. But this model overstates the role of politics and underestimates the role of technology. Politics does create the framework in which economics operates, but within that framework — the enabling security structures and sets of rules and regulations — economics is driven by its own imperatives that redistribute wealth and power. In Britain in the 19th century and the United States in the 20th century, economic expansion led to the development of external markets for Western exports and imports of commodities and other essential goods. These economic exchanges helped America's trading partners — including China — to grow and compete. Some forecasts anticipate that China will outgrow the United States as measured in market exchange terms by the early 2030s.[4] China's stunning ascendency since 1978 is testimony to how economic growth upsets power balances,[5] in this case triggering a U.S. backlash and a corresponding shift of U.S. views of China that Friedberg ably chronicles.

Economics has also driven calls in the United States and, to a degree, other Western countries, for changing how globalization operates in order to better protect their interests. In a sense, having pressed liberalization on everyone else and then lost the agency to run the global economy after World War II, Washington wants to re-work who's in and who's out to ensure continued hegemony. Friedberg's solution to the problems with the current trading system would be a "world in which the advanced industrial democracies of Europe, Asia, and the Western Hemisphere band together to form a free trade area and perhaps a full economic bloc." This is wishful thinking. Such an alternative to the current global economy is unrealistic and would be disruptive, ultimately undermining U.S. and Western prosperity and potentially increasing the risk of great-power conflict — a risk that is already unacceptably high.

The historical cases that Friedberg supplies illustrate the importance of economics and technology over politics. This is strengthened if one considers the first cycle of economic globalization that took place more than two millennia ago under the Han dynasty, a case that Friedberg omitted: the Silk Road, which connected Asia and the Middle East to Europe with variations (e.g., Venice's maritime empire) until roughly 1500.[6] There were minimal rules in this system, and it was driven mainly by power, ambition, and the desire for profit. Friedberg's "Globalization 1.0," (1815–1914), facilitated as much by rapid technological change (the telegraph, railroads, steam engines) as by a post-Napoleonic political framework, was largely based on Britain's and other Western countries' comparative advantage and thirst for the raw materials that were provided by Europe's colonies in Africa, Asia, Caribbean, and other regions. It was the politics of nationalism and anti-colonialism more than redistributed wealth that produced World War I, thus ending that period of globalization.

The post-World War II Bretton Woods system was a wildly successful partial-liberal order centered in the United States, Western Europe, and Japan. The crafters of this system were intent on learning from the mistakes of hyper-nationalism and protectionism that characterized the inter-war period. The system had a rules-based architecture that was open and mutually beneficial and that worked to no small degree because of relatively open U.S. markets and a hegemonic enforcer that underpinned the system. The self-imposed separation by the Soviet Union and Warsaw Pact countries helped set its limits. As John Ruggie argues (which Friedberg cites), one reason for the post-Cold War resilience of the Bretton Woods system, current problems notwithstanding, is that even absent a hegemon, if there is a sense of common purpose and shared interests, a multilateral structure can still function.[7] Bretton Woods partners felt they were receiving enough mutual benefit to sustain the system, regardless of whether a hegemon was involved. But as Europe and Japan rebuilt and became industrial competitors by the 1980s, the generosity of America's relatively open markets became increasingly problematic for Americans who saw those whom they had defeated gaining economically on the United States. Washington struck back, as showcased in the 1980s

4 "China Set to Surpass U.S. as World's Biggest Economy by 2028, Says Report," *CNBC*, Dec. 25, 2020, https://www.cnbc.com/2020/12/26/china-set-to-surpass-us-as-worlds-biggest-economy-by-2028-says-report.html; and Ralph Jennings, "China's Economy Could Overtake US Economy by 2030," *VOA*, Jan. 4, 2022, https://www.voanews.com/a/chinas-economy-could-overtake-us-economy-by-2030/6380892.html.

5 Erich Weede, "Geopolitics, Institutions, and Economics: On the Rise and Decline of Civilizations," *Geopolitics, History, and International Relations* 8, no. 1 (2016): 177–220, https://doi.org/10.22381/ghir8120168.

6 Roger Crowley, *City of Fortune: How Venice Won and Lost a Naval Empire* (London: Faber, 2012).

7 John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36, no. 2 (Spring 1982): 384, https://www.jstor.org/stable/2706527.

U.S.-Japanese trade wars in which Japanese auto companies were pressured into investing their profits in building new factories in America.

As globalization took off at the end of the Cold War, the Bretton Woods trade and financial system, fueled by the IT revolution and global supply chains, expanded exponentially to former Warsaw Pact nations and to emerging economies like Brazil, India, and East Asia writ large, as well as China and even Russia itself. The result was a new global middle class, but also new vulnerabilities that manifested in financial crises in Latin America (most pronounced in the 1980s but episodic and ongoing in Argentina and several other countries), the 1998 Asian financial crisis, and eventually the meltdown of the whole system in the 2008 Western financial crisis.[8] All of this affirms Gilpin's point about trade redistributing wealth and, in turn, leading to changes in political fortunes, such as America's relative decline. While it is still a work in progress, we have seen some change in the character and scope of globalization. Capital controls are one such shift, as well as a proliferation of regional and extra-regional trade arrangements. A polycentric world also faces unprecedented uncertainty about the future of the World Trade Organization's (WTO) role as the arbiter of global trade, as the failure of the Doha Round of global trade liberalization underscored.[9]

At present, the Fourth Industrial Revolution and rapid digitization have shown that economics tends to race ahead of governance. This was illustrated by China's unprecedented economic success in recent decades, outgrowing the political framework of the trading system, going from $150 billion in GDP in 1978 to $18 trillion in 2021 with an average 10 percent annual growth from 1978 to 2021.[10] China's gaming of the system led to a shattering of U.S. myths that economic reform leads to wider liberalization and a realization that China's state-centric model was a different type of capitalism, something that President Donald Trump called out.[11]

Repairing the Current System

Instead of proposing an improbable strategy for a return to a partial globalization centered on the "free world," Friedberg may have done better to show that the current, flawed system of globalization can be repaired. This would preserve, if not boost, current benefits for the United States and the rest of the world. In Friedberg's account of the breakdown of "Globalization 2.0," China is largely at fault. Nobody denies that China has never fulfilled the promises it made to liberalize its internal market at the time of its 2001 accession to the WTO. Beijing is also, as Friedberg charges, engaged in rampant intellectual theft to help it become a tech giant, but this is not the most important factor in its rapid technological ascent. Missing in Friedberg's analysis are U.S. causes for America's disenchantment with globalization. As Adam Posen has argued in a recent *Foreign Affairs* article, the "United States has, on balance, been withdrawing from the international economy for the past two decades."[12] The jobs lost to Chinese competition have, in fact, been relatively small — namely, two million jobs lost between 2000 and 2015 out of a workforce of 150 million, or roughly 130,000 workers a year.[13]

So why the public backlash against globalization and China? Part of the reason, Posen argues, concerns the "fetishization of manufacturing jobs." The United States has been steadily losing manufacturing jobs, with many of the losses coming from electorally important states, giving the issue more prominence. But why shift *all* the blame onto China? While Beijing bears much of the blame, the United States has been woefully remiss in helping redundant workers find new employment through retraining. Policies encouraging U.S. offshore investment in global supply chains until very recently also contributed to the problem. According to a 2021 study by the American Enterprise Institute, U.S. "federal spending on worker training has fallen over the past few decades as a share of

8 For Latin America, see Ernesto Talvi, "Thirty-Five Years of Recurring Financial Crises in Latin America: Toward a New (and Better) Paradigm?" Brookings, June 4, 2015, https://www.brookings.edu/opinions/thirty-five-years-of-recurring-financial-crises-in-latin-america-toward-a-new-and-better-paradigm/. For Asian financial crises, see Alice D. Ba, "Asian Financial Crisis," Britannica, last updated Sept. 28, 2022, https://www.britannica.com/event/Asian-financial-crisis.

9 For an assessment of the Doha Round failure, see "The Doha Round Finally Dies a Merciful Death," *Financial Times*, Dec. 21, 2015, https://www.ft.com/content/9cb1ab9e-a7e2-11e5-955c-1e1d6de94879.

10 Mark Purdy, "China's Economy, in Six Charts," *Harvard Business Review*, Nov. 29, 2013, https://hbr.org/2013/11/chinas-economy-in-six-charts.

11 China "ripping off" the United States by cheating on trade has been a signature political theme since the 2016 presidential campaign. See, for example, Jeff Cox, "Trump Says China Cheated America on Trade, but He Blames US Leaders for Letting It Happen," *CNBC*, Nov. 12, 2019, https://www.cnbc.com/2019/11/12/trump-says-china-cheated-america-on-trade-but-he-blames-us-leaders-for-letting-it-happen.html.

12 Adam S. Posen, "The Price of Nostalgia: America's Self-Defeating Economic Retreat," *Foreign Affairs* 100, no. 3 (May/June 2021), https://www.foreignaffairs.com/articles/united-states/2021-04-20/america-price-nostalgia.

13 David H. Autor, David Dorn, and Gordon H. Hanson, "The China Shock: Learning from Labor Market Adjustment to Large Changes in Trade," *Annual Review of Economics*, no. 8 (September 2016): 205–40, https://doi.org/10.1146/annurev-economics-080315-015041.

GDP."[14] U.S. states have traditionally played an important role in trade adjustment, but in the aggregate, there has also been a decline in trade funding assistance since the 1980s. Other advanced economies do much better in terms of funding both social safety nets and skills training: The United States is second to last in the Organisation for Economic Co-operation and Development's ranking of countries that provide public spending to support job readiness and matching skills to jobs.[15] Fashioning a more robust social safety net and better equipping the workforce with the skills needed to advance in a rapidly changing 21st-century workplace might restore trust in freer trade.

It is not only on trade that the United States has turned against the rest of the world. Anti-immigrant feeling has also exploded, although there is little evidence that unskilled immigrants are going to take away highly paid jobs.[16] In fact, the U.S. economy can't run without immigrants. The turn inward and opposition to globalization is as much cultural and psychological as it is based on rational interests. Disregarding history and the distributive effects of trade, Americans always tended to assume that their country would be an outright winner of globalization.

European countries have been much less enamored with globalization, fearing that their industries would lose out. As Friedberg points out, globalization was sold in the mid-1990s by President Bill Clinton as the motor for achieving the "end of history." But there was little understanding of how globalization leads to more — not less — strategic competition. One reason for this may be that America's rise to become one of the great economic powers by the end of the 19th century came about because of Britain's embrace of free trade and its support for globalization. A better appreciation at the outset of the challenges of economic competition might have pushed the United States toward a Sputnik-like "self-improvement" program, rendering it better prepared for the inevitable competition from China and other emerging markets.

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14 Rachel Lipson et al., "The Search for Stability: A Review of Worker Transitions," American Enterprise Institute, Feb. 17, 2021, https://www.aei.org/research-products/report/the-search-for-stability-a-review-of-worker-transitions/.

15 See data from the Organisation for Economic Co-Operation and Development: "Better Life Index," OECD, accessed Sept. 30, 2022, https://stats.oecd.org/Index.aspx?DataSetCode=BLI.

16 This poll is fairly typical of growing anti-immigrant views: Joel Rose, "A Majority of Americans See an 'Invasion' at the Southern Border, NPR Poll Finds," *NPR*, Aug. 18, 2022, https://www.npr.org/2022/08/18/1117953720/a-majority-of-americans-see-an-invasion-at-the-southern-border-npr-poll-finds.

Instead of throwing the globalization baby out with the bath water, America can still try to repair the flaws in globalization's workings. What's wrong with putting pressure on China by rounding up allies to force Beijing to mend its ways on IP theft and lack of market access or risk losing global markets? China's growth remains dependent on trade, and China is the biggest trading partner of many U.S. allies.

Sacrificing Globalization 2.0 and trying to build a partial replacement anchored in the "free world" carries a number of risks. For starters, it is not a given that the United States can harmonize its views on trade and regulation with those of the European Union, which has been integrating its trade with Asia and Latin America. Globalization 2.0 has also been the vehicle for many developing countries to enrich themselves, reduce poverty, and build middle classes, which, over time, can bolster the chances of democratization and liberal market reforms. A partial liberal trade system that leaves out a good part of the world would increase the chances of conflict and make authoritarianism more likely, leaving the developing world more dependent on China.

In all of this, there needs to be a better understanding of the limits of America's power to impose its will. It may have worked for Dean Acheson, but that time is long past. It is U.S. hubris and concern over America's unreliability that has prompted Europe and much of Asia to hedge against the United States. Look at E.U. trade and investment deals with Japan, China, and other Asian and Latin American states,[17] and consider Asia, with its new Regional Comprehensive Economic Partnership accord,[18] which does not include America. Though Friedberg minimizes the effort required to achieve consensus, he is right about the importance of mobilizing democracies and other like-minded states to forge a common position on trade issues, but that should not be an end in itself. Precisely because of the limits of U.S. agency, working with allies and partners makes sense in order to maximize America's leverage to shape global rules and norms, but it should not be a substitute for global rules.

With only 18 percent of the world economy, is it not possible that China would alter its policies to sustain access to global markets,[19] particularly now, as it faces unprecedented challenges due to a state-centric, investment-driven economic model that no longer works?[20] The same Chinese Communist Party of the Great Leap Forward disaster and the maniacal cultural revolution self-corrected by enacting Deng Xiaoping's economic reforms. It is worth exhausting diplomacy to test this idea before concluding that there is no difference between China's grandiose ambitions and what it is willing to accept. That's where coordination among democracies and the like-minded can build leverage to test the proposition. Friedberg is too quick to eliminate any role for the United States and its partners working together to update global trade and tech rules, as well as the WTO. At present, however, the mutual demonization between China and the United States, and America's assumption that China can't change, render such an effort difficult.

Domestic Obstacles to a Value-Based Globalization

Friedberg also ignores the growing domestic obstacles when he calls for a return to a partial, value-based globalization. President Joe Biden may have eased Trump-era steel and aluminum sanctions against European allies, but he angered those allies with his Buy American rule, using federal procurement to support American manufacturing. Biden also dismayed America's United States-Mexico-Canada-Agreement partners, when he proposed electric car subsidies for unionized U.S. carmakers,[21] although it's unclear how the subsidies will be implemented in the recently enacted Inflation Reduction Act. The episode has left a bad taste in the mouths of America's closest trade partners, such as South Korea and Japan, who have been encouraged to build auto factories in the United States, and it reinforces the impression that the United States is becoming more protectionist, even with its allies.

Moreover, the Biden administration is so divided it is hard for it to make any move on trade. A recent *Politico* article describes the difficulty plaguing administration efforts to develop a trade

17 Steve Woolcock, *The Role of the European Union in the International Trade and Investment Order*, Dahrendorf Forum, Working Paper No. 10, April 11, 2019, https://www.dahrendorf-forum.eu/wp-content/uploads/2019/04/EU-international-trade-investment.pdf.

18 Kate Whiting, "An Expert Explains: What Is RCEP, the World's Biggest Trade Deal?" World Economic Forum, May 18, 2021, https://www.weforum.org/agenda/2021/05/rcep-world-biggest-trade-deal/.

19 See "China's Share of Global GDP," World Economics, accessed Sept. 30, 2022, https://www.worldeconomics.com/Share-of-Global-GDP/China.aspx.

20 Michael Schuman, "Washington Is Getting China Wrong," *The Atlantic*, Oct. 11, 2021, https://www.theatlantic.com/international/archive/2021/10/evergrande-china-us/620360/.

21 See "Fact Sheet: President Biden's Economic Plan Drives America's Electric Vehicle Manufacturing Boom," The White House, Sept. 14, 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/14/fact-sheet-president-bidens-economic-plan-drives-americas-electric-vehicle-manufacturing-boom/.

strategy with Asian countries, despite the eagerness of America's Asian allies and partners for the United States to take a more active role in trade.[22] In one corner of the three-way administration division are the trade expansionists who want to tie Asian nations closer to the United States with trade deals. Then there's the more labor-friendly faction, which wants to use tariffs and quotas to protect U.S. workers. The third camp worries that scrapping with China economically could undermine administration priorities to ease inflation and decrease supply chain bottlenecks. Even smaller trade deal ideas, such as a digital trade agreement, have met with opposition. A U.S. Trade Representative plan to launch a trade case against China's use of industrial subsidies has also been dropped.

Then there's Congress, which is increasingly anti-trade. Trumpist Republicans and progressive Democrats oppose any effort to resurrect the Trans-Pacific Partnership and would block America's entry into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Both parties are fighting the last war, blaming foreign trade as the main cause of the decline of union workers and the loss of manufacturing jobs, when technological change is a major driver of job gains and losses. The problem is more the mismatch of skills to labor, one reason why the United States has some 10 million unfilled jobs.[23]

Administration paralysis in moving forward with any trade initiative combined with growing protectionism make it hard to envisage a "free world" free trade agreement being workable. While such an accord would seem to be in line with the administration's anti-China and pro-democracy focus and popular with the growing anti-China congressional consensus, it would mean crafting a trade agreement that is larger than any of the administration's smaller initiatives. Friedberg has rightly focused on the problems that China poses to the functioning of the world trading system. Yet, the current political disorder at home is as much the issue when it comes to remaking the global trading system. The fundamental problem with Friedberg's advocacy for a free world trading system is that we cannot just wipe the slate clean and start anew.

Conclusion

There is much uncertainty about the future of the global trading system, and Friedberg nicely sketches possible alternative futures. The WTO's role will almost certainly be diminished. There may be sector-specific global trade liberalization to come, but most likely no future global trade rounds. Trade liberalization has become more region-centric and trans-region centric, such as is the case with the U.S.-Japan Economic Partnership Agreement.[24] Nonetheless, because of its near universal membership (it covers 96 percent of global trade), and its role as the only over-arching dispute settlement mechanism, the WTO remains critical to maintaining a rules-based trade regime, although both aspects of the organization are in need of major reform if the WTO is to remain relevant.[25]

Recent trends of regional trade clusters and the reorganization of supply chains suggest that the most probable scenario is one in which the WTO and U.N. standard-setting bodies create a loose global umbrella over regional accords. But continued trade and financial fragmentation cannot be dismissed. Protectionism — managed trade in key sectors like steel and aluminum — is on the rise. For the very reason that Friedberg highlights via Gilpin — that economics alters politics — we cannot rule out that today's authoritarians could become tomorrow's market-oriented democracies, as internal forces, such as growing middle classes, push for more political participation and liberalization over time.

Apart from the inertia of U.S. trade policy, market forces pose a strong obstacle to any effort to reorder trade along ideological lines that cuts out the world's largest market and trading power. We are already seeing hints of a prospective mirror-image response to "democracies only" efforts in the February joint statement from Chinese leader Xi Jinping and Russian President Vladimir Putin, promising closer affiliation between Russia's Eurasian Economic Union and China's Belt and Road

22 Bob Davis, "Biden Promised to Confront China. First He Has to Confront America's Bizarre Trade Politics." *Politico*, Jan. 31, 2022, https://www.politico.com/news/magazine/2022/01/31/biden-china-trade-politics-00003379.

23 Heather Long, Alyssa Fowers, and Andrew Van Dam, "Why America Has 8.4 Million Unemployed When There Are 10 Million Job Openings," *Washington Post*, Sept. 4, 2021, https://www.washingtonpost.com/business/2021/09/04/ten-million-job-openings-labor-shortage/.

24 See "Japan," European Commission, accessed Sept. 30, 2022, https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/japan_en#:~:text=The%20EU%20and%20Japan%20have,between%20the%20EU%20and%20Japan.

25 "Accession in Perspective," World Trade Organization, 2022, https://www.wto.org/english/thewto_e/acc_e/cbt_course_e/c1s1p1_e.htm#:~:text=Their%20membership%20of%20the%20WTO,99.35%20percent%20of%20world%20population.

Initiative.[26] Similarly, Beijing has proposed a new Global Security Initiative.[27]

There is a complex network of trade and investment with China. U.S. corn and wheat farmers are attracted to the Chinese market, and shale producers welcome selling to the Chinese liquefied natural gas market. Boeing enjoys the Chinese commercial airline market, and Qualcomm and others like selling low-end chips for Chinese cellphones. None of this necessarily poses national security risks. A circumscribed, partial liberal trade order would defy market forces that benefit American businesses and consumers.

Strategic competition is leading to decoupling by both the United States and China where national security interests are deemed at risk, particularly in the tech sector. Fixing a global system that economics has overtaken, however problematic, still seems the most sensible strategy. Finally, with regard to the broader systemic consequences, it is worth recalling a recent cautionary note from Henry Kissinger: "Differences in ideology should not be the main issue of confrontation, unless we are prepared to make regime change the principal goal of our policy."[28]

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Response to Mathew Burrows and Robert A. Manning

Aaron L. Friedberg

I appreciate the many thoughtful points that Mathew Burrows and Robert Manning raise in their reply to my article, and I am grateful for the opportunity to continue this important discussion.

In the interest of concision, I will sum up my main points in response to their arguments as bluntly as possible. First and foremost, I believe that the authors misunderstand the motivations and strategy of China's Communist Party regime and, as a result, understate the dangers that its economic policies now pose to the welfare and security of the United States and the other advanced industrial democracies. The approach that Burrows and Manning propose, which is essentially a continuation of the one that the West has been following for the past three decades, cannot achieve the objective they set for it. The narrowing gap in power between Washington and Beijing, and the yawning divergence in their interests and values, mean that "reglobalization" is infeasible, at least for the foreseeable future. In the meantime, clinging to past policies and continuing to pursue the dream of a truly open, integrated global economy will only lead to mounting costs and risks for the United States and its like-minded partners. Creating a *partial* (as opposed to an all-encompassing *global*) economic subsystem that operates on liberal principles will have costs of its own, and its construction will require overcoming significant domestic political and diplomatic obstacles. Under present circumstances, however, it is the best available alternative.

International relations theory and the last 200 years of economic history suggest that the creation of an open global trading system requires the presence of a liberal hegemon; that the normal functioning of such systems will result in uneven rates of growth and a redistribution of wealth and power among the states that comprise them; and that the hegemon's relative decline will give rise to pressures that can lead to an open international economy's collapse or its fragmentation into blocs.[29]

Scholars have also pointed out that it may still

26 "Joint Statement of the Russian Federation and the People's Republic of China on the International Relations Entering a New Era and the Global Sustainable Development," President of Russia, Feb. 4, 2022, http://www.en.kremlin.ru/supplement/5770.

27 See Michael Schuman, "How China Wants to Replace the U.S. Order," *The Atlantic*, July 13, 2022, https://www.theatlantic.com/international/archive/2022/07/china-xi-jinping-global-security-initiative/670504/.

28 See Ed Luce, "What the CIA thinks: William Burns on the New World Disorder," *Financial Times*, May 13, 2022, https://www.ft.com/content/03860857-e160-4920-9e81-28527dda5560.

29 See Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975), 253–58.

be possible to sustain openness "after hegemony," as Robert Keohane famously put it, provided that there is a convergence of outlook and interest among the leading powers and, in particular, a shared commitment to liberal economic principles.[30] If China's full incorporation into a globalizing world economy after the end of the Cold War had led to its political and economic liberalization, as the advocates of engagement promised and believed it would, then such cooperation might be possible.[31] But that is not how things have turned out. The rise of an illiberal China and America's relative decline are already starting to fragment the global economic system. The only questions now are exactly where the lines will be drawn and how deep the divisions will be.

China has profited greatly from the openness of its advanced industrial trading partners — it could not have developed nearly as rapidly as it has without access to their technology, capital, and markets. Instead of embracing liberal economic principles, however, China's communist regime remains deeply committed to a set of mercantilist trade, industrial, and technology promotion policies whose market-distorting effects have now been magnified by the sheer size of the nation's economy.[32] The Chinese Communist Party has succeeded in sustaining growth without surrendering its exclusive grip on domestic political power, at least thus far, and it has no intention of changing course. Rather than let market forces and the principle of comparative advantage shape the evolution of their economy, China's planners aim to use various forms of state intervention to undercut foreign competitors and propel their own companies to positions of dominance in semiconductors, robotics, artificial intelligence, and all of the other sectors that comprise the so-called "Fourth Industrial Revolution."

Burrows and Manning call repeatedly for "repairing and updating" an open global economic order, but they do not explain how China could be compelled to play by the rules of such a revitalized system any better than it does at present. The authors are onto something when they suggest, in passing, that the United States should try "rounding up allies to force Beijing to mend its ways on IP theft and lack of market access." But, if such a plan is to have any chance of success, it will take time and it will involve more than a few rounds of trade talks, or a few more ineffectual legal cases brought before the World Trade Organization. In fact, sustaining significant collective pressure will require creating an advanced industrial trading bloc of precisely the sort to which the authors so vehemently object. As I explain, one of the main functions of such a grouping would be to enable its members to "work together to exert leverage over Beijing, threatening to deny or restrict its access to their common market if it refuses to modify its mercantilist … policies."

The authors make virtually no mention of geopolitics or the intensifying "systemic rivalry" that is now underway between China, the United States, and its democratic allies.[33] Yet, it is impossible to make sense of Beijing's economic policies, or to respond to them effectively, without acknowledging that their purpose is not merely to create wealth, but to enhance the power of the Chinese Communist Party and of the state that it rules. China is not just a normal trading partner that needs to be cured of some bad mercantilist habits. It is a hostile great power pursuing policies that threaten the security of the United States and the other democracies.

Chinese leader Xi Jinping has made clear his intention to reduce China's reliance on the West for technology, capital, and markets. His stated goal is to achieve greater "self-reliance," using any means necessary to acquire and "indigenize" foreign technology, and deploying massive subsidies and all the other tools of industrial policy to help Chinese firms gain advantage across an array of new and emerging sectors.[34] Through his "dual circulation" strategy, Xi aims to boost the role of domestic consumption and exports to non-Western developing nations as drivers of China's future growth, while reducing the country's dependence on the markets of the advanced industrial nations.[35] Even as he

30 See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984), 43.

31 For a discussion of the assumptions underpinning the post-Cold War policy of engagement, see Aaron L. Friedberg, *Getting China Wrong* (Medford, MA: Polity Press, 2022), 27–47.

32 Regarding the recent evolution of the Chinese Communist Party's economic strategy, see Friedberg, *Getting China Wrong*, 84–116.

33 A 2019 strategic outlook paper published by the European Union referred to China as a "systemic rival." See Andrew Small, "The Meaning of Systemic Rivalry: Europe and China Beyond the Pandemic," European Council on Foreign Relations, May 13, 2020, https://ecfr.eu/publication/the_meaning_of_systemic_rivalry_europe_and_china_beyond_the_pandemic/.

34 Nigel Inkster, "Xi Steers China Towards Economic and Technological Self-Reliance," International Institute for Strategic Studies, Nov. 11, 2020, https://www.iiss.org/blogs/analysis/2020/11/china-economic-technological-self-reliance.

35 Alicia García-Herrero, "What is behind China's Dual Circulation Strategy," *China Leadership Monitor*, Sept. 1, 2021, https://www.prcleader.org/herrero.

does this, Xi has called for efforts to maintain and deepen the democracies' dependence on China for a broad range of products and materials.

Xi likes to present himself as the defender of globalization against the forces of protectionism. What he clearly has in mind, however, is a very lopsided version of the concept, one in which Western countries remain open for as long as possible while China constricts their access to its economy and builds up a trans-regional subsystem — or bloc — with itself at the center, that extends across much of eastern Eurasia and large swaths of the global South. The purpose of all these policies is not simply, or even primarily, to enhance China's prosperity, but rather to maximize its power: enabling it to build superior weapons and other strategic systems, but also reducing its vulnerability to foreign sanctions, technology "blockades," or other forms of pressure, while enhancing its ability to exert leverage over others.

Contra Burrows and Manning, responding to these challenges by recreating a liberal economic bloc would not mean building a "'democracies only' world order" entirely decoupled from China and excluding the global South. As was true during the Cold War, I argue that a new liberal subsystem would be "nested within a larger global economy." In contrast to the past, however, "trade and investment flows between China and the democratic bloc would continue, but they would be constricted and more closely monitored and regulated." Among other things, the advanced democracies need to work together to maintain their edge in key technologies by coordinating more stringent policies on investment screening, export controls, and scientific and industrial cooperation. To reduce vulnerability to strategically motivated pressure or disruption, the United States and its allies will have to create incentives for private companies to restructure supply chains, minimizing dependence on China for select critical products and materials and constructing resilient networks of trusted producers in friendly countries. Taking the European Union's new counter-coercion instrument as a model, democratic governments in Europe, Asia, and North America should develop a strategy of collective economic defense, making clear in advance how they will respond if Beijing tries to isolate and target one of their members.[36] In addition to these measures, the advanced industrial democracies should promote their own long-term growth and make it less dependent on China's by lowering remaining barriers to trade and investment among themselves. The democracies should also compete more vigorously with China for markets and investment opportunities in the global South, expanding two-way trade with the fastest-growing parts of the developing world.

Nevertheless, I do agree with Burrows and Manning on several points. At least for the moment, policies that would increase foreign access to the U.S. market, even for friendly countries, are political nonstarters. In part for this reason, a new economic strategy for competing more effectively with China should include measures to offset whatever negative effects it may have on American workers, consumers, and producers, and to make sure that the burdens of transition, as well as the long-term benefits, are distributed equitably across society. Even where interests and values converge, harmonizing economic and technology policies with allies will not be easy. Finally, there can be no denying that a segmented global economy will be less efficient than the unachievable ideal of a fully integrated system. Enhanced security will come at a cost. Rather than concluding that these barriers are insurmountable, however, analysts and policymakers should be working on ways to minimize and overcome them.

Burrows and Manning warn that trying to create a partial liberal order would "institutionalize a fragmented, conflict-prone world based more on power and less on rules." But, like it or not, and despite our best efforts, that is the world in which we now find ourselves. The reason for building an economic subsystem based on liberal principles is to carve out a domain in which those principles, and the rules that derive from them, can survive, and to generate the wealth and power necessary to defend it.

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36 Jonathan Hackenbroich, "Europe's New Economic Statecraft: A Strong Anti-Coercion Instrument," European Council on Foreign Relations, April 1, 2022, https://ecfr.eu/article/europes-new-economic-statecraft-a-strong-anti-coercion-instrument/.