

# THE GROWING RIVALRY BETWEEN AMERICA AND CHINA AND THE FUTURE OF GLOBALIZATION

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In this article, Aaron Friedberg considers the ways in which the intensifying rivalry between the United States and China may influence, and be influenced by, the evolving structure of the international economy. After reviewing the evolution of the international economy over the last two centuries, he looks at five possible scenarios for the how the global economy might continue to evolve.

Since the end of the Cold War, political, business, and opinion leaders in the advanced industrial democracies have tended to accept as an article of faith that expanding cross-border flows of goods, capital, information, ideas, and people are inevitable, irreversible, and, for the most part, positive developments. It has been widely believed that globalization, the ever-closer integration of the world's economies and societies, would lead to improvements in efficiency, rising levels of income and well-being in all nations, and a narrowing of the gap in living standards between rich and poor countries. These tendencies, in turn, would promote cross-cultural understanding, encourage the spread of liberal democratic norms and institutions, and enhance the prospects for international cooperation and peace. Even if these broader political benefits were not immediately forthcoming, it has still generally been assumed that the process of globalization would continue, driven forward by technological progress, market forces, the pursuit of profits, and the relentless logic of competition.<sup>1</sup>

In the last several years, a number of developments have begun to call these assumptions into question. First, the rise in nationalist, populist, anti-immigration, and protectionist sentiments in a number of advanced industrial nations have raised doubts about the durability of popular support for

continued economic and societal openness.<sup>2</sup> The recent COVID-19 pandemic has also served to highlight the risks of relying on complex, widely dispersed production networks that may be efficient in normal times but could prove fragile in the face of natural disasters or disruptive political events.<sup>3</sup> Finally and, for our purposes, most important, the growing friction between the United States and China over trade, investment, and technology, and their intensifying military, diplomatic, and ideological rivalries have raised the prospect of “decoupling” between the world's two biggest economies.<sup>4</sup> After decades spent promoting engagement with China, U.S. policymakers have begun to question its net effects on the nation's long-term welfare and security.<sup>5</sup> Concerns about the potentially harmful impact of China's economic policies, its repressive political system, and its increasingly aggressive external behavior are also causing a reexamination of existing ties in other advanced industrial democracies, both in Europe and Asia.<sup>6</sup>

These developments serve as a reminder that, while economic and technological factors are important, politics will ultimately play the decisive role in determining the future of globalization. With that insight in mind, the purpose of this article is to consider the ways in which the intensifying rivalry between the United States and China may influence, and be influenced by, the evolving structure

1 For a summary of what they term the “establishment narrative” regarding the virtues of globalization, see Anthea Roberts and Nicolas Lamp, *Six Faces of Globalization: Who Wins, Who Loses, and Why It Matters* (Cambridge: Harvard University Press, 2021), 35–54.

2 For an overview, see Harold James, “Deglobalization as a Global Challenge,” Centre for International Governance Innovation, CIGI Papers No. 135, June 2017, [https://www.cigionline.org/static/documents/documents/Paper%20no.135WEB\\_1.pdf](https://www.cigionline.org/static/documents/documents/Paper%20no.135WEB_1.pdf).

3 On the impact of the pandemic, see Harold James, “A Pandemic of Deglobalization?” *Project Syndicate*, Feb. 28, 2020, <https://www.project-syndicate.org/commentary/covid-19-deglobalization-pandemic-by-harold-james-2020-02?barrier=accesspaylog>; Shawn Donnan, “Globalization Faces a Bend-But-Won't-Break Crisis on Coronavirus,” *Bloomberg*, March 6, 2020, <https://www.bloomberg.com/news/articles/2020-03-06/globalization-faces-a-bend-but-won-t-break-crisis-on-coronavirus>; Henry Farrell and Abraham Newman, “Will the Coronavirus End Globalization as We Know It? The Pandemic Is Exposing Market Vulnerabilities No One Knew Existed,” *Foreign Affairs*, March 16, 2020, <https://www.foreignaffairs.com/articles/2020-03-16/will-coronavirus-end-globalization-we-know-it>; and Richard Fontaine, “Globalization Will Look Very Different After the Coronavirus Pandemic,” *Foreign Policy*, April 17, 2020, <https://foreignpolicy.com/2020/04/17/globalization-trade-war-after-coronavirus-pandemic/>.

4 Finbarr Bermingham, “US-China Feud Is Accelerating the Biggest Shift in Trade Since the Cold War, Away from Globalization,” *South China Morning Post*, July 6, 2019, <https://www.scmp.com/economy/china-economy/article/3017358/us-china-trade-war-accelerating-biggest-shift-trade-cold-war>.

5 For background, see Charles W. Boustany Jr. and Aaron L. Friedberg, *Answering China's Economic Challenge: Preserving Power, Enhancing Prosperity*, National Bureau of Asian Research, NBR Special Report #76 (February 2019), [https://www.nbr.org/wp-content/uploads/pdfs/publications/special\\_report\\_76\\_answering\\_chinas\\_economic\\_challenge.pdf](https://www.nbr.org/wp-content/uploads/pdfs/publications/special_report_76_answering_chinas_economic_challenge.pdf).

6 Regarding European reactions, see Andrew Small, “The Meaning of Systemic Rivalry: Europe and China Beyond the Pandemic,” European Council on Foreign Relations, May 2020, [https://www.ecfr.eu/page/-/the\\_meaning\\_of\\_systemic\\_rivalry\\_europe\\_and\\_china\\_beyond\\_the\\_pandemic.pdf](https://www.ecfr.eu/page/-/the_meaning_of_systemic_rivalry_europe_and_china_beyond_the_pandemic.pdf).

of the international economy. I begin with an overview of the academic literature on the question of the interrelationship between the distribution of power within an international system and the pattern of economic relations among its members. This is followed by a discussion of the evolution of the international economy over the last two centuries, a period that encompasses what can best be described as two and a half eras of globalization.

In closing, I examine five alternative scenarios for the evolution of the global economy, offering a judgment about the probability of each occurring, as well as an assessment of its implications for American power and prosperity. In brief, I argue that, although the post-Cold War era of U.S.-led globalization is coming to a close, and previous trends toward increasing integration (“Reglobalization”) are unlikely to reassert themselves, neither the total collapse of the world economy (“Deglobalization”) nor the creation of a new, Chinese-led global system (“Globalization 3.0”) is probable, at least for the foreseeable future. What seems more likely is the emergence of partially closed trading blocs organized either geographically (“Regional blocs”) or around shared strategic interests and common political values (“Value-based blocs” or “Globalization 2.5”). Of these two possibilities, the last is clearly the most desirable from an American perspective. Abandoning the dream of a fully integrated world economy, the object of U.S. policy should therefore be to reconstruct a *partial* liberal trading system, much like the one put in place during the early years of the Cold War.

### **Geopolitical Hegemony and Economic Openness**

The interplay between politics and economics in international relations is elegantly and succinctly summarized by the late Princeton political scientist Robert Gilpin in his 1975 book *U.S. Power and the Multinational Corporation*:

The relationship between economics and politics ... is reciprocal. On the one hand, politics largely determines the framework of economic activity ... . On the other hand, the economic process itself tends to redistribute power and wealth ... . This in turn leads

to a transformation of the political system, thereby giving rise to a new structure of economic relationships. Thus, the dynamics of international relations in the modern world is largely a function of the reciprocal interaction of economics and politics.<sup>7</sup>

Here and in later work, Gilpin elaborated on the idea that the structures of the international political and economic systems were linked and, specifically, that a world in which power was heavily concentrated in a single state was more likely to give rise to an open and thus highly integrated global economy than a world in which capabilities were more evenly distributed.

Speculation along these lines grew out of an observation by economic historian Charles Kindleberger. In his classic 1973 study *The World in Depression, 1929–1939*, Kindleberger concluded that world trade collapsed and the international economic system unraveled in 1929 because Britain was unable to take the steps that might have stabilized it (including keeping its domestic market open to imports and continuing to lend money overseas), and the United States was unwilling to do so. “The world economy was unstable,” Kindleberger concluded, “unless some country stabilized it.”<sup>8</sup>

Gilpin and other political scientists sought to generalize this insight, developing it into what came to be referred to as the “theory of hegemonic stability.”<sup>9</sup> In this view, a hegemon, defined as a state with a disproportionately large portion of the total wealth and power in a given international system, is necessary in order to establish an open global economy and to manage it under normal circumstances, as well as to step in to stabilize it during periods of unusual stress. The hegemon favors openness in large measure because it expects to benefit from it. The size and relative technological sophistication of its industries makes their products highly competitive in both foreign and domestic markets. As a result, the hegemon has little to fear from opening its own economy to imports and much to gain from persuading (or compelling) other countries to open theirs. Access to comparatively inexpensive food, raw materials, and other imported goods will help to raise the standard of living of its domestic consumers while enabling manufacturers to keep their costs down. Possessed of a large pool of capital and a sophisticated finan-

7 Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975), 21–22.

8 Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 2013), 292.

9 On the origins of the term and some of the debates surrounding it, see Robert O. Keohane, “Problematic Lucidity: Stephen Krasner’s ‘State Power and the Structure of International Trade,’” *World Politics* 50, no. 1 (October 1997): 150–70, <https://www.jstor.org/stable/25054030>.

cial system, the hegemon will also be eager for new opportunities for overseas investment.<sup>10</sup>

While a hegemonic power may be able, for some time, to enjoy its dominance over the open system it has created, it cannot expect to do so forever. Indeed, the natural workings of an open international economy tend to erode the political foundations on which it was built. As Gilpin explains:

In time the diffusion of industry and technology undermines the position of the dominant power ... . Through the spread of technology and know-how, the industrial leader, over a period of time, loses more and more of its comparative advantages relative to its rising competitors. As a result, a gradual shift takes place in the locus of industrial and other economic activities from the core to the periphery of the international economy ... . The consequence of this tendency is a gradual redistribution of wealth and power within the international system.<sup>11</sup>

A change in the distribution of wealth and power, in turn, will give rise eventually to shifts in the structure and functioning of the global economy. Unless another hegemon emerges with the power to preserve openness, the system will tend to become more closed as states pursue more narrowly nationalistic policies, imposing tariffs, limiting foreign investment, and restricting the export of technology to try to gain or maintain advantage over one another.

This basic framework has been debated and amended in a variety of ways, several of which are of particular relevance here. First, as some scholars have pointed out, the policies that a hegemon pursues may be a function not only of its relative power but of the character and functioning of its domestic political system. Over the course of the last 200 years, the international order has been strongly shaped by two dominant powers, both of which happened to be committed to the principles of economic liberalism. The leaders of Britain

and then the United States favored an open global economy because they assessed that it served their material interests, but also because they believed that private property and freely functioning markets were the best way of organizing economic activity and that free trade among nations would be conducive to international peace. Not all hegemonies will share these liberal beliefs, however, and while some illiberal hegemonies might still prefer openness, other outcomes are more probable.<sup>12</sup> As Gilpin notes, "Hegemony without a liberal commitment to the market economy is more likely to lead to imperial systems and the imposition of political and economic restrictions on lesser powers."<sup>13</sup>

Modern nations are not unitary actors but instead are made up of a variety of societal groups. Because the particular interests of these groups do not coincide perfectly, the international policies that states actually pursue will be shaped by bargaining and contention among them, rather than solely (or even primarily) by a common, convergent conception of the national interest. Depending on their relative strength, the pulling and hauling among these groups may produce policies that deviate significantly from the predictions of hegemonic stability theory. Thus, if influential economic actors come to believe that they no longer benefit from openness, they may be able to lobby successfully for at least a partial shift away from it, even if their country remains a hegemon by some aggregate measures of national power. Conversely, powerful interest groups that benefit from the *status quo* may be able to preserve openness, even after their country has lost some of its previous advantages, and even if a posture of continued openness arguably no longer serves the interests of the nation as a whole.<sup>14</sup>

A related set of questions has to do with the underlying causes and presumed inevitability of hegemonic decline. Gilpin describes the spread of technology and the diffusion of industrial capacity and economic power as essentially unstoppable natural processes and, in the long sweep of history, this does appear to be the case. Yet, here too the

10 For an elaboration of these arguments that focuses on what the author describes as "potential economic power," measured by the hegemon's per capita income and aggregate size, as compared to those of other economies, as well as its shares of world trade and investment, see Stephen D. Krasner, "State Power and the Structure of International Trade," *World Politics* 28, no. 3 (April 1976): 317–47, <https://www.jstor.org/stable/2009974>.

11 Gilpin, *U.S. Power and the Multinational Corporation*, 42 and 44.

12 Thus, although the Mongols were anything but liberal, they did support an open trading system of sorts. As a recent history of the global economy points out: "periods of sustained expansion in world trade have tended to coincide with the infrastructure of law and order necessary to keep trade routes open being provided by a dominant 'hegemon' or imperial power, as in the cases of the *Pax Mongolica* and *Pax Britannica*." Ronald Findlay and Kevin H. O'Rourke, *Power and Plenty: Trade, War, and the World Economy in the Second Millennium* (Princeton, NJ: Princeton University Press, 2007), 540.

13 Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987), 72.

14 The role of domestic interest groups in shaping both British and American policy during their periods of rise and relative decline features prominently in Jeffrey A. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (New York: W.W. Norton, 2006).

character of the hegemon's domestic regime can make a difference. A liberal hegemon, committed to openness for reasons of principle, may be reluctant to take steps to slow the process of diffusion by strictly regulating flows of goods, capital, people, and information between its economy and society and those of potential competitors. Ideology aside, if restrictive policies run counter to the interests of powerful groups, it may be difficult for the government of a liberal democracy to implement them effectively, despite the fact that there may be sound arguments for doing so on strategic or national interest grounds.

Hegemons with different social and political structures, or at different stages in their development, may also have varying capacities for sustaining their own growth and prolonging their dominance. Societies in which public and private consumption crowds out investment will have fewer resources with which to promote innovation, and those in which an accretion of interest groups locks in existing policies will become less flexible and less capable of adaptation. Similarly, a hegemonic power that has taken on an array of costly external commitments may find it difficult to recalibrate its strategy, redirecting scarce resources toward domestic renewal.<sup>15</sup>

Of the various issues surrounding hegemonic stability theory, none has received more attention than the question of whether, in fact, a preponderant power is essential to the maintenance, as opposed to the creation, of an open international economy. Although the theory's broad outlines are still widely accepted, since its earliest articulations this claim in particular has been called into question. In an influential 1982 essay, John Gerard Ruggie asserted that continued openness was possible, even in the absence of a hegemon, provided that there was "a congruence of social purpose," or a convergence on liberal economic principles, among the leading powers.<sup>16</sup> In a similar vein, Robert Keohane argued that, by enabling cooperation, international institutions could help to keep an open economic system functioning even "after hegemony," in other words, after what was expected in the early 1980s to be a continuing relative decline in American power. At least

insofar as the institutions of international economic coordination were concerned, Keohane, like Ruggie, assumed that the participating states would share a broadly similar ideology. Writing in 1984, he anticipated that "the common interests of the leading capitalist states, bolstered by the effects of existing international regimes [i.e., institutions] ... are strong enough to make sustained cooperation possible, though not inevitable."<sup>17</sup>

## **A Brief History of Globalization**

Since the start of the industrial age, changes in technology have progressively lowered the costs of communication and transportation, easing cross-border flows of trade and investment and clearing the way for greater economic integration. Growth and development have shifted the balance of political power among different industries, interest groups, and social classes within nations, causing the formation and dissolution of coalitions that support (and oppose) greater openness. And, over time, differential growth rates have progressively altered the distribution of wealth, and thus of potential power, among nations. Far from being smooth and gradual, however, the transition from one global economic order to the next has, thus far, always been punctuated by dramatic, discontinuous geopolitical events; in particular, by the beginning and end of wars, both hot and cold.

The last 200 years have seen two eras of full globalization, periods in which virtually the entire planet was integrated into a single economic unit. The first, sometimes referred to as "Globalization 1.0," began during the opening decades of the 19th century, in the aftermath of the Napoleonic Wars, and was brought to a sudden, catastrophic conclusion by the outbreak of World War I. The second — "Globalization 2.0" — which may now be drawing to a close, dates its origin to the collapse of the Soviet Union and the end of the Cold War.

The interval between these two eras can itself be divided into two distinct periods. Between 1914 and 1945, the global economy fragmented and, for a time, nearly collapsed. By contrast, from the end of

15 These issues are discussed in Robert Gilpin, *War and Change in World Politics* (New York: Cambridge University Press, 1981), 156–85. The idea that "imperial overextension" is responsible for relative decline is the thesis of Paul Kennedy, *The Rise and Fall of the Great Powers* (New York: Random House, 1987).

16 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>.

17 Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984), 43. Others argued that openness depended, not on the coercive power of the hegemon, but on bargains and compromises with other countries which required the leading state to bear a disproportionate portion of the costs of preserving it. "[T]he hegemon's decline makes it more difficult for it to continue paying the price of asymmetric openness. Closure comes when the hegemon, which will no longer bear the costs, defects because others refuse to redistribute the costs." Arthur A. Stein, "The Hegemon's Dilemma: Great Britain, the United States, and the International Economic Order," *International Organization* 38, no. 2 (Spring 1984): 386, <https://www.jstor.org/stable/2706445>.



World War II to the close of the Cold War, the United States led the way in creating a highly integrated economic system that eventually included all of the advanced industrial nations of Western Europe, the Western Hemisphere, and East Asia. This was a limited or partial open system, dominated by an American hegemon, from which the communist powers of continental Eurasia were largely excluded and from which, for the most part, they excluded themselves. The Cold War years comprise a period of “partial globalization” — “Globalization 1.5.”

### Globalization 1.0, 1815–1914

Britain’s victory over France in 1815 destroyed its main maritime competitor and ushered in over half a century during which the Royal Navy enjoyed virtually unchallenged command of the seas. As Paul Kennedy writes, “If there was any period in history when Britannia could have been said to have ruled the waves ... it was the sixty or so years following the final defeat of Napoleon.”<sup>18</sup>

While the British now had the means with which to build and defend an open international trading system, they did not move immediately to do so. This shift was driven instead by the onset of the Industrial Revolution and the changes that it wrought in the nation’s political economy. The rise of a new urban middle class engaged in manufacturing and finance was accompanied by the spread of liberal ideas about the virtues of free trade and the evils of mercantilism, the gradual democratization of British politics, and a dilution in the authority of the landed aristocracy. These trends, in turn, combined eventually to produce major alterations in tax and commercial policy. The abandonment of tariffs on agricultural goods (the so-called “Corn Laws,” repealed in 1846) and of regulations governing shipping and trade with Britain’s colonies and other countries (the Navigation Acts, repealed in 1849) signaled the start of the nation’s enthusiastic embrace of a policy of free trade.<sup>19</sup>

British industrialists wanted cheap imports of raw materials and food to help to hold down wages and production costs, and they were also increas-

ingly eager to gain access to overseas markets for their manufactured goods. To this end, the British government sought to persuade its foreign counterparts that they, too, should lower their barriers to trade. In response to varying combinations of pressure, proselytizing, negotiation, and the power of England’s successful example, many did so, at least for a time.<sup>20</sup> Britain, a liberal hegemon, created a liberal international economic order.

The same technological innovations that helped to transform Britain into the “workshop of the world” also propelled revolutionary changes in transportation and communications. The substitution of steam power for sails reduced the time and cut the cost of moving large cargos across the world’s oceans, while the development of the locomotive and the extension of rail lines across Europe and North America had a similar impact on land.<sup>21</sup> The combination of railways and steamships made possible massive shipments of grain and other bulk goods from the heartlands of the two continents to virtually any place on earth, causing prices to converge and creating, for the first time, a single global market for many commodities.<sup>22</sup> The invention of the telegraph and the laying of transoceanic cables slashed the time it took to deliver messages from weeks or months to hours, greatly facilitating trade and enabling the increased integration of financial markets. Last, but not least, starting in the 1870s, most industrializing nations followed Britain’s lead in pegging the value of their currencies to gold. As economic historian Barry Eichengreen explains, “Industrialization rendered the one country already on gold, Great Britain, the world’s leading economic power and the main source of foreign finance. This encouraged other countries seeking to trade with and import capital from Britain to follow its example.”<sup>23</sup> The near universal adoption of the gold standard meant that most nations shared what was, in effect, a single currency, further easing flows of trade and investment and knitting together the disparate parts of a global economy.

The trend toward globalization did not go unchallenged. In the last decades of the 19th century, some of the continental European powers raised

18 Paul M. Kennedy, *The Rise and Fall of British Naval Mastery* (London: Allen Lane, 1976), 149.

19 These developments are discussed in Frieden, *Global Capitalism*, 2–6 and Patrick K. O’Brien and Geoffrey Allen Pigman, “Free Trade, British Hegemony and the International Economic Order in the Nineteenth Century,” *Review of International Studies* 18, no. 2 (April 1992): 89–113, <https://www.jstor.org/stable/20097288>. See also J.H. Clapham, “The Last Years of the Navigation Acts,” *The English Historical Review* 25, no. 99 (1910): 480–501, <https://www.jstor.org/stable/549885>.

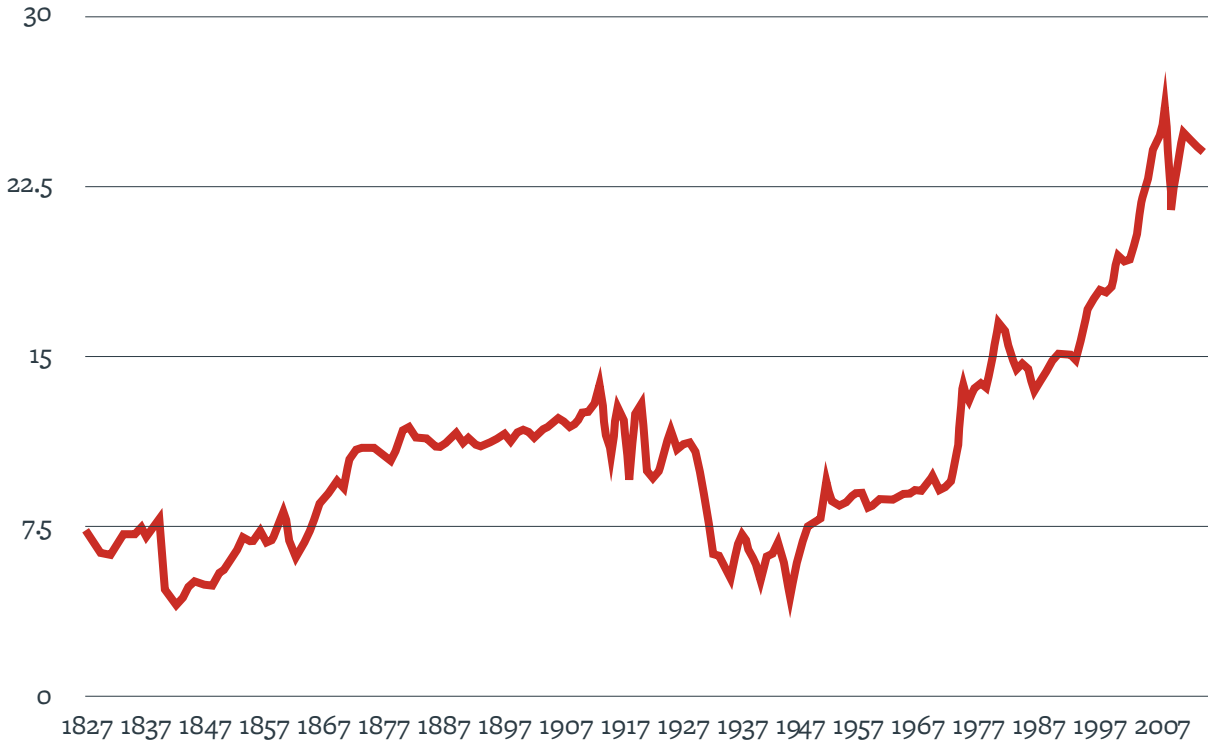
20 Regarding the role of negotiations, and British concessions, in encouraging other nations to lower trade barriers, see Stein, “The Hegemon’s Dilemma.”

21 By 1900, the cost of land transportation had fallen by more than four-fifths, while transport by sea fell by more than two-thirds. Frieden, *Global Capitalism*, 5.

22 Findlay and H. O’Rourke, *Power and Plenty*, 402–08.

23 Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton, NJ: Princeton University Press, 2019), 16.

Figure 1. Value of Merchandise Exports as Share of Global GDP, 1827–2014<sup>29</sup>



import barriers to protect their landed interests against an influx of cheap grain from Russia and the Western Hemisphere.<sup>24</sup> As they raced to catch up, newly industrializing nations like Japan, Germany, and the United States also imposed tariffs on manufactured imports, especially those from Britain, even as they continued to benefit from access to its markets, capital, and technology.<sup>25</sup> In part as a direct result of Britain's own policy of openness, countries that had once been her best customers were "transformed into ... her chief competitors. They invaded not only third markets but the British market as well."<sup>26</sup>

At the turn of the century, as the foundations of the system it helped to create began to erode, even the British government contemplated responding in kind, using the threat of retaliatory tariffs to force foreign competitors to open their markets, or imi-

tating them by walling off colonial markets behind protective barriers to ensure continuing demand for domestic goods. In the end, however, Britain held firm to its commitment to free trade, a tribute to the enduring appeal of liberal ideology but also to the growing political influence of a financial sector that had come to rely on profits earned from investing overseas rather than in domestic industry and infrastructure.<sup>27</sup> Britain's continued adherence to free trade helped to prevent a downward spiral into protectionism. As a result, as Jeffrey Frieden concludes, "while infant industry protection was common in the decades before World War One, it did not fundamentally interfere with the overall openness of the international economy."<sup>28</sup>

Openness enabled an expansion in flows of goods and capital and a dramatic acceleration of global growth. Between 1855 and 1913, aggregate world

24 Findlay and H. O'Rourke, *Power and Plenty*, 395–402.

25 The intellectual underpinnings for various defensive responses to British economic and technological dominance are described in Eric Helleiner, *The Neomercantilists: A Global Intellectual History* (Ithaca, NY: Cornell University Press, 2021).

26 Gilpin, *U.S. Power and the Multinational Corporation*, 88.

27 Between 1870 and 1913, Britain's foreign direct investment grew by 250 percent and absorbed over half of its total savings and somewhere between 4 and 9 percent of net national income. On the economic impact of these developments, see Gilpin, *U.S. Power and the Multinational Corporation*, 85–98. Regarding the turn of the century debate over protectionism, see Aaron L. Friedberg, *The Weary Titan: Britain and the Experience of Relative Decline, 1895–1905* (Princeton, NJ: Princeton University Press, 1988), 21–88.

28 Frieden, *Global Capitalism*, 67.

29 "Value of exported goods as share of GDP, 1827 to 2014," Our World in Data, accessed Dec. 30, 2021, <https://ourworldindata.org/grapher/merchandise-exports-gdp-cepii>.

trade grew at 3.8 percent a year,<sup>30</sup> and the value of exports as a share of total global GDP rose from under 5 percent in the 1840s to close to 15 percent on the eve of World War I.<sup>31</sup> Whereas per capita incomes had grown by only 0.5 percent per year during the half century from 1820 to 1870, between 1870 and 1914 they increased nearly three times as fast, at an annual rate of 1.3 percent.<sup>32</sup>

While both Britain and its rapidly industrializing competitors grew, they did not do so at an equal pace. The result, as the 20th century began, was a major shift in the global distribution of wealth and potential power, with first the United States and then Germany overtaking Britain in terms of total economic output and industrial capacity.<sup>33</sup> The second of these developments, the rise of Germany, helped to destabilize the international system, polarizing Europe into opposing camps and leading eventually to the start of World War I. But the first trend, the growth of American wealth and potential power, ultimately enabled Britain and its European allies to tip the balance and win the war against Germany.<sup>34</sup>

Despite optimistic predictions by liberal evangelists like Norman Angell, economic growth and increasing integration not only failed to make war impossible, but in certain respects they also contributed to its outbreak. Rapid shifts in power were a source of uncertainty and insecurity in all of the major players in the European state system. Despite their close ties, friction over economic issues was a factor in the growing estrangement between Britain and Germany.<sup>35</sup> Perhaps most important, the expansion of trade and the increasing international division of labor meant that many of the European powers had grown heavily reliant on overseas sources of food and raw materials as well as

export markets for their goods. As war approached, anxiety over possible disruptions in international trade fueled naval buildups and a scramble for colonies, and these, in turn, led to further friction and yet more tension. There was a growing recognition, in the words of James Macdonald, that “industrialization makes countries vulnerable even as it makes them wealthy.” Although it did not reverse the larger trend toward global integration, in the late 19th and early 20th centuries, “the common response to dependence on trade was an attempt to reestablish self-sufficiency by creating colonial empires that would provide the materials and markets that were lacking at home.”<sup>36</sup>

### Globalization 1.5, 1945–1991

Trade collapsed during World War I and, despite a partial recovery, it disintegrated again in 1929 with the onset of the Great Depression. Ironically, efforts to restore the gold standard, a cornerstone of the prewar system, served to make matters worse, inhibiting governments from expanding the money supply or using deficit spending to revive economic growth.<sup>37</sup> With London unable to lead and Washington unwilling to do so, the global economy crumbled as countries retreated either into autarky or tightly closed blocs, the largest of which were centered on Britain and Germany.<sup>38</sup> By the late 1930s, trade’s share of global GDP had fallen back to where it had been a century before, standing at around 5 percent of total world output.<sup>39</sup>

Where the first era of globalization emerged organically, the second period of partial globalization was a product of deliberate design. Convinced that trade was essential to restoring growth, and that growth was the key to rebuilding stable demo-

30 Findlay and H. O'Rourke, *Power and Plenty*, 458.

31 See Figure 1.

32 Paul Collier and David Dollar, “The New Wave of Globalization and Its Economic Effects,” in *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (Washington: World Bank, 2002), 25.

33 For various measures, see Kennedy, *The Rise and Fall of the Great Powers*, 300–02.

34 See Adam Tooze, *The Deluge: The Great War, America and the Remaking of the Global Order, 1916–1931* (New York: Penguin, 2014), 3–30.

35 Paul M. Kennedy, *The Rise of the Anglo-German Antagonism, 1860–1914* (London: George Allen and Unwin, 1982), 291–320.

36 James Macdonald, *When Globalization Fails: The Rise and Fall of Pax Americana* (New York: Farrar, Straus and Giroux, 2015), 4. These concerns, and the tension between international economic integration and national security, persisted into the interwar period. Writing in the late 1930s, E.H. Carr observed that, thanks to falling transportation costs and mass production methods, “we live in a world where, for the first time in history, it might from the standpoint of cost, be possible – and perhaps even desirable – to grow all the wheat consumed by the human race in Canada, and all the wool in Australia, to manufacture all the motor cars in Detroit and all the cotton clothing in England or Japan.” Whatever their economic appeal, however, such arrangements would be “fantastic and ... unacceptable” from a political standpoint. Rather than accept the consequences of an “absolute *laissez-faire*” policy, Carr concluded that states would naturally seek to enhance their security by engaging in the “artificial promotion of some degree of autarky [or self-reliance].” E.H. Carr, *The Twenty Years' Crisis, 1919–1939* (New York: Harper and Row, 1964), 121.

37 See Frieden, *Global Capitalism*, 173–94; and Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1944), 20–30.

38 See David S. Jacks and Dennis Novy, “Trade Blocs and Trade Wars During the Interwar Period,” National Bureau of Economic Research, Working Paper 25830, May 2019, <https://www.nber.org/papers/w25830>.

39 See Figure 1.



cratic societies, at the end of World War II British and American policymakers (with the latter group increasingly in the lead) set about to create new mechanisms that could sustain an open international economy. The simultaneous collapse of the wartime alliance with the Soviet Union and the onset of the Cold War lent added urgency to these efforts but also served to constrain their scope. Instead of trying to construct a fully integrated *global* system, the architects of the postwar order focused on a group of countries that initially included the United States, its wartime allies, and its erstwhile enemies in Western Europe and East Asia.

The “Western” or liberal democratic economic order that began to be put into place at the end of World War II evolved through two distinct phases. At the start of the first phase, which ultimately extended from 1945 to the early 1970s, the United States enjoyed a margin of material advantage over its allies and major trading partners that exceeded even Britain’s at the peak of its supremacy during the 19th century. With its homeland untouched and most of the other industrial economies bankrupt or in ruins, the United States accounted for roughly half of total global output in the early postwar years.<sup>40</sup> In terms of raw economic capacity and military capabilities, the Soviet Union may have been the world’s other “superpower,” but within its own sphere American hegemony was unchallenged.

The U.S. position of overwhelming preponderance gave it leverage, but also enabled Washington to bear the costs and shoulder the burdens of rebuilding a partial (as opposed to global) and partially open trading system. American taxpayers provided much of the capital needed to reconstruct the devastated societies of Western Europe and Northeast Asia. Putting aside early plans to have the newly created International Monetary Fund regulate exchange rates and maintain reserves, Washington took on responsibility for managing a new semi-flexible system in which the dollar was tied firmly to gold, while other governments linked their currencies to the dollar. These arrangements

gave others the option of making occasional exchange rate adjustments in order to manage their national economies while restricting the ability of the United States to do the same. As regards trade, American policymakers had begun to take steps to remove trade barriers during the 1930s and they emerged from the war committed to shedding their country’s history of protectionism, adopting policies more in keeping with its liberal ideology and persuading others to follow suit. At least for a time, however, Washington was willing to tolerate the use of tariffs by its allies to enable them to rebuild their domestic industries and repair their war-ravaged economies.<sup>41</sup>

Undergirding all of the arrangements that made up the so-called Bretton Woods system was the perceived necessity of building a strong united front to contain communist expansionism. Prosperous societies would be less susceptible to subversion and better able to expend the resources needed to modernize their militaries and contribute to the common defense. Both in Europe and in Asia, trade would also have the desirable effect of easing tensions between former enemies, enhancing their willingness to cooperate with one another and with the United States.

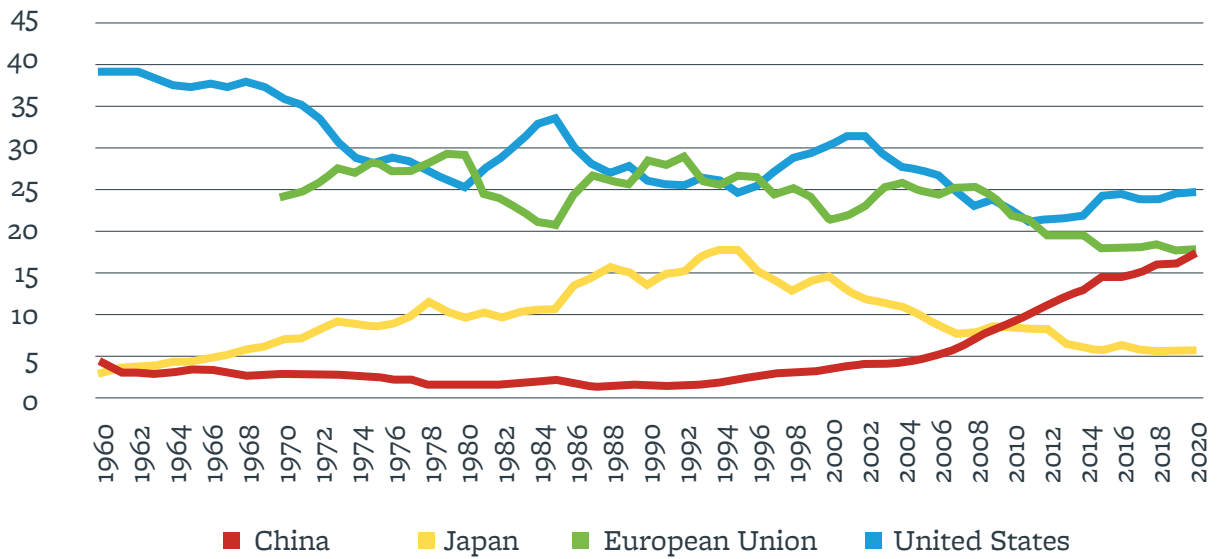
As during the first era of globalization, technological innovations, including satellites, jet aircraft, and the humble but ingenious shipping container, helped to further cut the costs and increase the speed of transport and communication.<sup>42</sup> Compared to the 19th and early 20th centuries, during the first decades after the war these changes were not as dramatic. The postwar push toward greater economic integration, at least among the advanced industrial nations, was thus “much more political in origin,” driven less by new technology than by the gradual but deliberate dismantlement of many trade barriers.<sup>43</sup> Successive rounds of negotiations during the 1950s and 1960s under the auspices of the General Agreement on Tariffs and Trade resulted in a marked reduction in tariffs and an increase in the ratio of trade to GDP in most rich

40 Kennedy, *Rise and Fall of the Great Powers*, 368–69.

41 On the scaling back of initial U.S. plans for an integrated global economy, see Stewart Patrick, *The Best Laid Plans: The Origins of American Multilateralism and the Dawn of the Cold War* (Lanham, MD: Rowman and Littlefield, 2009), 231–66.

42 While the changes were not as dramatic as during the second half of the 19th century, between 1950 and the late 1970s, sea freight charges did fall by one-third. Collier and Dollar, “The New Wave of Globalization and Its Economic Effects,” 28. Air freight “did not really get going until the mid-1980s.” See Richard Baldwin, *The Great Convergence: Information Technology and the New Globalization* (Cambridge, MA: Harvard University Press, 2016), 85. However, the cost of shipping a kilogram of cargo by air did drop by an order of magnitude between 1995 and 2005. David L. Hummels and Georg Schaur, “Time as a Trade Barrier,” *American Economic Review* 103, no. 7 (December 2013): 2935–59, <https://www.jstor.org/stable/42920676>. Regarding containerization see Marc Levinson, *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger* (Princeton, NJ: Princeton University Press, 2016).

43 Findlay and O’Rourke, *Power and Plenty*, 502. By one set of measures, by the late 1950s or early 1960s, most Western nations had reduced tariff and non-tariff barriers sufficiently to be characterized as having an open economy. See the table in Jeffrey D. Sachs and Andrew Warner, *Economic Reform and the Process of Global Integration*, Brookings Papers on Economic Activity (1995), 25, [https://www.brookings.edu/wp-content/uploads/1995/01/1995a\\_bpea\\_sachs\\_warner\\_aslund\\_fischer.pdf](https://www.brookings.edu/wp-content/uploads/1995/01/1995a_bpea_sachs_warner_aslund_fischer.pdf).

Figure 2. Shares of global GDP, 1960–2020 (in US\$)<sup>49</sup>

countries.<sup>44</sup> Merchandise trade among the industrial nations grew at an average of 8 percent per year between 1950 and 1975, double the rate of GDP growth during the same period.<sup>45</sup> By the late 1970s, global export-to-GDP ratios were finally back up to 15 percent, roughly where they had been in 1914.<sup>46</sup>

The Bretton Woods system was, by any standard, a remarkable success, fueling growth and helping to unleash what has been described as a “wave of ‘economic miracles’” across both Europe and Asia.<sup>47</sup> During the 1950s and 1960s, Japan and the nations of Western Europe were able to recover, outstripping U.S. growth rates and narrowing the gap between its GDP per capita and their own. While the United States was still wealthier and had a far larger economy than any of its allies, thanks in large measure to the success of its policies, it was no longer as dominant as it once had been. In 1960, America still accounted for around 40 percent of total world output. By 1975, its share had dropped to 29 percent.<sup>48</sup>

The relative decline of American hegemony set the stage for the second phase of the Cold War era of partial globalization. Unlike Britain, the United States did not actually lose its standing as the

world’s largest national economy during this period. In contrast to the British case, however, pressure for significant adjustments in the rules of the system over which it presided came primarily not from other rising powers, but from the hegemon itself.

With the recovery of their European allies and the remarkable rebirth of Japan as a major industrial and technological power, American policymakers became less willing to bear what many had come to regard as a disproportionate share of the costs of maintaining an open Western trading system. In the late 1960s and early 1970s, increasing inflation due to the combined costs of the Vietnam War and the Great Society social welfare programs caused U.S. prices to rise even as the value of the dollar against foreign currencies was held constant. This had the effect of artificially strengthening the dollar, making imports relatively inexpensive while U.S. exports became less competitive. After years of surpluses, the U.S. trade balance slipped into deficit. American labor unions, and the makers of some products faced with rising competition from imports, began to clamor for protection.<sup>50</sup>

Realizing that the real value of the U.S. currency was eroding, and anticipating that it would even-

44 Sachs and Warner, *Economic Reform and the Process of Global Integration*, 506–07.

45 Gilpin, *The Political Economy of International Relations*, 192.

46 See Figure 1.

47 Findlay and O'Rourke, *Power and Plenty*, 516–18.

48 See Figure 2.

49 Source for Figure 2 is Mikkel Barslund and Daniel Grow, “Europe’s Place in the Global Economy — What Does the Last Half Century Suggest for the Future?” *Intereconomics*, no. 1 (2016), Figure 5, <https://www.intereconomics.eu/contents/year/2016/number/1/article/europes-place-in-the-global-economy-what-does-the-last-half-century-suggest-for-the-future.html>.

50 The collapse of the Bretton Woods system is described in Frieden, *Global Capitalism*, 339–60.

tually have to be formally devalued, foreign investors began to exchange their dollar holdings for gold. This left the U.S. government with a choice: It could raise interest rates and cut spending in order to slow the economy and bring prices down, thereby restoring the purchasing power of the dollar and preserving the gold standard, or it could abandon gold. With a reelection campaign looming, in 1971 the Nixon administration unsurprisingly chose autonomy over austerity, in the process moving the world closer to a system of floating exchange rates.<sup>51</sup> The specifics of timing aside, the pressure on the dollar that forced this move was, as Frieden explains, “a measure of systemic success ... . [I]t was largely due to the growing importance of Western Europe and Japan. When the United States dominated the world economy, nobody questioned the reliability of the U.S. dollar. But as the American share of the world economy shrank, the divergence of American monetary conditions from those of its partners became untenable.”<sup>52</sup>

Faced with mounting import competition from its friends and allies in Europe and Asia, the United States did not abandon the pursuit of multilateral trade liberalization. During the latter stages of the Cold War, however, Washington resorted to a variety of coercive, unilateral tactics in an attempt to counteract what it regarded as the unfair trading practices of some of its partners. These efforts were focused primarily on Japan, which some had come to regard as the leading challenger to America’s continued dominance within the Western economic bloc.

At the start of the 1980s, President Ronald Reagan’s decision to cut taxes while launching an unprecedented peacetime defense buildup resulted in large budget deficits and higher interest rates. These, in turn, encouraged an influx of foreign capital, an appreciation in the value of the dollar, and a renewed widening of the trade deficit. Increasing imports of Japanese-made cars, electronics, and other goods led to more appeals from American industry. The struggles of a widening array of domestic manufacturers also fueled growing concern over a possible long-term trend toward the “de-industrialization” of the U.S. economy.<sup>53</sup>

Hoping to blunt demands for protectionism, and notwithstanding the fact that its own fiscal policies were at least partly responsible for the growing trade imbalances, the Reagan administration responded by pressuring the Japanese government into engineering a sharp increase in the value of the yen. In addition, instead of imposing tariffs, Washington demanded that Tokyo accept “voluntary” restraints on certain exports while committing to improve access to its own domestic market by removing so-called “structural impediments” to trade, eliminating non-tariff barriers, and altering business practices that allegedly discriminated against American companies.<sup>54</sup>

Friction over trade issues between the United States and Japan continued throughout the 1980s and into the early 1990s. In a foreshadowing of subsequent debates over how to deal with China, some analysts argued that the slow resolution of trade disputes through existing mechanisms was leaving U.S. firms fatally exposed to Japan’s predatory practices. Using their protected home market to achieve large profits and economies of scale, Japanese companies were allegedly in the process of “capturing one high-tech industry after another.”<sup>55</sup> Seeking to strengthen the hand of American negotiators in the face of such tactics and impatient with multilateral mechanisms for resolving trade disputes, Congress gave the Office of the U.S. Trade Representative the power to impose retaliatory measures on foreign firms found by the office’s investigators to have engaged in unfair trading practices.<sup>56</sup>

The relative decline in America’s economic preponderance within the Western bloc was thus accompanied by an increase in tensions between the United States and some of its key trading partners. Yet, despite the concerns expressed by some observers in the 1970s and early 1980s, the partial liberal system that the United States had built and sustained since the end of World War II did not fall apart. The reasons for this are threefold: First, as Ruggie, Keohane, and other political scientists had anticipated, there was sufficient commonality of “social purpose” among the industrial democracies to hold the system together even after the United States had lost some of its earlier margin of ad-

51 The suspension of convertibility was supposed to be temporary but by 1973 the dollar and all other major currencies were free to float against one another. “The End of Bretton Woods (1972–1981),” International Monetary Fund, accessed Dec. 30, 2021, <https://www.imf.org/external/about/histend.htm>.

52 Frieden, *Global Capitalism*, 343.

53 See, for example, Barry Bluestone and Bennett Harrison, *The Deindustrialization of America* (New York: Basic Books, 1984).

54 The shifts in U.S. economic strategy during the 1980s and early 1990s are described in Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton, NJ: Princeton University Press, 2000), 227–64.

55 Gilpin, *The Challenge of Global Capitalism*, 254.

56 These powers were first included in Section 301 of the 1974 Trade Act and subsequently strengthened in 1988. The Trump administration would later use the so-called “Super 301” provisions to justify the imposition of tariffs on Chinese goods. Gilpin, *The Challenge of Global Capitalism*, 236.

vantage. Second, in addition to shared values and broadly convergent economic interests, the members of the Western system also shared a common enemy. The continued presence and threatening capabilities of the Soviet Union meant that America's allies were still dependent on it for their security, thereby putting limits on how far they could go in opposing Washington's wishes on economic issues. Finally, despite its relative decline, the United States remained by far the most powerful member of the Western bloc. Although it was no longer as dominant as it had been at the end of the war, within the partial liberal system that it had created the United States was still a hegemon.

The Cold War "free world" system proved to be cohesive, productive, powerful, and, in the end, strategically successful. Over a period of four decades, the integration and dynamism of the Western market-oriented democracies enabled them to far outstrip the East in total economic output, quality of life, and, increasingly, technological capabilities. These factors contributed to the demoralization of the people and the elites of the Eastern bloc countries, leading in rapid succession to the fall of the Berlin Wall, the collapse of the Soviet Union, and the end of the Cold War.

### Globalization 2.0, 1991–2018 (?)

By the early 1990s, commentators had gone from fretting over the consequences of relative American decline to speculating about the likely duration of the new age of unipolarity. The final demise of the Soviet Union at the end of 1991 left the United States unrivaled as the world's sole military and technological superpower. At almost the same moment, the sudden end of a five-year run up in asset prices brought Japan's growth to a grinding halt, marking the start of what would come to be referred to as a "lost decade" of stagnation.<sup>57</sup> This development allowed a relaxation of trade tensions and eased fears that Japan might someday be able to displace the United States as the world's largest economy. Although the early 1990s also saw the creation of a new and potentially powerful economic actor in the European Union, it appeared at the outset to lack the institutional capacity or the sense of common political purpose required to ag-

gregate the resources of its disparate members and challenge American preponderance.<sup>58</sup>

Having fallen from a peak of around one-third of global GDP during the Reagan years to a low of roughly one-quarter at the start of the 1990s, the United States entered a period of healthy growth relative to many of its advanced trading partners and began to regain some of its share of total world output. By the end of the century, this figure had climbed back to over 30 percent, roughly where it had been 15 years earlier.<sup>59</sup>

With its hegemonic position seemingly secure, the United States began a deliberate campaign to expand the perimeters of the largely open, highly integrated, but still partial Cold War economic system until it encompassed the entire planet. This effort was an integral part of what President Bill Clinton's national security adviser, Anthony Lake, described in 1993 as a new national strategy of "enlargement." Containment had fulfilled its purpose. The Iron Curtain had crumbled and now, according to Lake, "billions of people on every continent are simply concluding that democracy and markets are the most productive and liberating ways to organize their lives." The primary purpose of American policy should now be to assist in this process, promoting the spread of "democracy and market economics." Doing so required incorporating formerly illiberal states into an open global economy organized around the World Trade Organization, a new institution established in 1995 to help to negotiate lower trade barriers, resolve disputes, and promote the further expansion of international commerce. Former communist states willing to undertake the necessary reforms could also seek membership in multilateral political organizations (like NATO and the European Union) based on democratic principles.<sup>60</sup>

The push for globalization was propelled by a mix of ideas, interests, and rapid technological progress. As good liberals, American policymakers were confident that economic and political development went hand in hand. Markets and trade would generate growth and growth would help to expand and strengthen the middle-class constituency that had historically provided the impetus for liberalizing political reforms. Globalization was thus a means by which to achieve "enlargement" and build a truly global liberal system, the ultimate

57 These events were linked to the revaluation of the yen, under U.S. pressure, in 1985. In order to counteract the contractionary effect of increased interest rates, Japan's Ministry of Finance increased the money supply, leading to inflation and eventual bursting of an asset bubble. Gilpin, *The Challenge of Global Capitalism*, 230–31.

58 On European integration see Gilpin, *The Challenge of Global Capitalism*, 193–226.

59 See Figure 2.

60 Anthony Lake, "From Containment to Enlargement," Remarks at Johns Hopkins University, School of Advanced International Studies, Sept. 21, 1993, <https://www.mtholyoke.edu/acad/intrel/lakedoc.html>.



aim of America's post-Cold War grand strategy.<sup>61</sup>

At a somewhat less lofty level of abstraction, the apparent demise of socialism reinforced the confidence of Western analysts that liberal, free-market principles were the only reliable way of generating sustained economic growth. This belief was evident in the so-called "Washington Consensus" regarding the policies recommended for developing countries and in the advice given by Western experts to leaders in the former Soviet republics, Eastern Europe, and China.<sup>62</sup>

Dramatic shifts in the structure of world power were accompanied and, in part, caused by rapid changes in technology. During the Cold War, the U.S. government had invested heavily in the development of ever-smaller semiconductors and increasingly capable computers and communications systems. By the 1970s and 1980s, these were starting to be incorporated into new weapons and concepts of operation that the Soviet Union was ultimately unable to match,<sup>63</sup> but they had also begun to spin off into the civilian economy, forming the basis for a widening array of commercial products.

The information communication technology revolution played an important role in ending the Cold War, but it was also an essential enabler of the new era of globalization that came in its wake. Among its other effects, the explosive growth in the volume and speed of telecommunication and the accompanying collapse in the costs of data transmission that began in the late 1980s and accelerated in the 1990s permitted the near-instantaneous movement of vast quantities of capital and a deeper integration of financial markets than had previously been possible. Cheap, reliable communication also made possible what the economist Richard Baldwin has described as the "internationalization of production."<sup>64</sup> Complex manufacturing processes that had previously been concentrated in a handful of advanced nations

could now be coordinated, even after having been broken into pieces and spread around the globe to places where they could be done most cheaply. The integration of widely dispersed "global value chains" created unprecedented opportunities for developing countries with adequate infrastructure and large pools of reasonably well-educated, low-cost labor.

In the United States, as in other advanced industrial nations, the impetus to exploit these new possibilities came primarily from international banks in search of fresh investments and large multinational companies seeking new markets, low-cost intermediate goods, and low-wage workers to assemble their finished products.<sup>65</sup> The proponents of globalization were met by an opposing coalition of labor unions and older industries fearful of being displaced or undercut by foreign competitors and thus skeptical of the benefits of bringing new members fully into an expanded global economy.<sup>66</sup>

At least as regards China, the struggle between these two sets of divergent interests was quickly resolved in favor of the globalizers. In 1994, the Clinton administration dropped its previous requirement that the annual renewal of China's most favored nation status be predicated on improvements in its performance on human rights.<sup>67</sup> At the end of his second term, Clinton took the additional step of establishing permanent normal trading relations with Beijing, thereby clearing the way for its entry into the World Trade Organization. The elimination of annual most favored nation reviews, and with them the risk of much higher tariffs, encouraged more American companies to invest in manufacturing facilities in China.<sup>68</sup>

By the turn of the century, with the inclusion of many parts of the former Soviet empire and the full incorporation of China into the international trading system, the process of "reglobalization"

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61 The assumptions underpinning the U.S. and Western policy of engagement are discussed in Aaron L. Friedberg, *Getting China Wrong* (London: Polity Press, forthcoming spring 2022).

62 The phrase was first introduced in 1989. See John Williamson, "The Washington Consensus as Policy Prescription for Development," Lecture Delivered at the World Bank, Jan. 13, 2004, <https://www.piie.com/publications/papers/williamson0204.pdf>.

63 This is the so-called "second offset strategy." See Robert Martinage, *Toward a New Offset Strategy: Exploiting U.S. Long-Term Advantages to Restore U.S. Global Power Projection Capability*, Center for Strategic and Budgetary Assessments, 2014, <https://csbaonline.org/uploads/documents/Offset-Strategy-Web.pdf>.

64 Baldwin, *The Great Convergence*, 79–110.

65 The role of the U.S. financial services industry in pressing other countries to relax controls on capital flows is discussed in Jonathan Kirshner, *American Power After the Financial Crisis* (Ithaca, NY: Cornell University Press, 2014), 59–81.

66 Frieden, *Global Capitalism*, 400–05.

67 See James Mann, *About Face: A History of America's Curious Relationship with China, from Nixon to Clinton* (New York: Alfred Knopf, 1999), 292–314.

68 See Justin R. Pierce and Peter K. Schott, "The Surprisingly Swift Decline of US Manufacturing Employment," *American Economic Review* 106, no. 7 (July 2016): 1632–62, <https://www.jstor.org/stable/43861108>.



was effectively complete. For the first time since before World War I it could truly be said that “the globe was once again capitalist, and capitalism was once again global.”<sup>69</sup>

### China’s Challenge to U.S. Hegemony

There was one important caveat. Capitalism might now be “alone,” as economist Branko Milanovic puts it. But, as he also points out, there were now two distinctly different forms of capitalism. The older and still dominant “liberal meritocratic” variant had “developed incrementally in the West over ... two hundred years” and combined market-centered economics with democratic politics. The second, newer form of “state-led political, or authoritarian, capitalism,” exemplified by China, began to come fully into its own only after the end of the Cold War.<sup>70</sup>

## Contrary to what the American architects of the new era of globalization expected, and what the proponents of engagement assumed, China’s integration into the international trading system did not lead to the liberalization of its economic and political systems.

Contrary to what the American architects of the new era of globalization expected, and what the proponents of engagement assumed, China’s integration into the international trading system did not lead to the liberalization of its economic and political systems. At Deng Xiaoping’s direction, China began, in the 1980s, to move away from autarky, rigid central planning, and state ownership of the means of production and toward greater reliance on trade, markets, and a form of private enterprise. But, instead of succumbing gradually to the irresistible charms of liberal democratic capitalism, the Chinese Communist Party held fast to its determination to maintain a monopoly on domestic

political power and, toward this end, to retain ultimate control over the nation’s economy.

Having for all practical purposes abandoned Marxism, the communist party elite became adherents of what might be called “mercantilist-Leninism.” In this conception, in sharp contrast to the precepts of liberalism, economics must always be subordinated to politics. While markets and the private sector are useful tools, their role can be expanded or circumscribed as needed to serve the ends of policy. Those ends, in turn, are defined in terms of relative gains in power, as opposed to absolute gains in welfare. The party’s economic policies are thus intended to secure its control at home while enhancing China’s “comprehensive national power” relative to all countries, especially the American global hegemon.<sup>71</sup> It would take the better part of two decades following China’s entry into the World Trade Organization for U.S. policymakers to fully acknowledge the existence of Beijing’s alternative form of capitalism and to begin to wrestle with its implications.

The information communication technology revolution and the internationalization of production that it made possible benefited many developing nations in the global South, especially in Asia, but the greatest portion of the gains went to China. Baldwin estimates that between 1990 and 2010, the world began to experience what he describes as a “shocking share shift.” During this period, the share of global GDP generated by the G7 group of advanced industrial nations declined by 17 percentage points from 66 percent to under 50 percent, while that produced by what he refers to as the “Rising Eleven” grew by 14 percentage points from just around 11 percent to roughly 25 percent. Fully half of these gains went to China, with the other 10 fast-growing countries combined taking the rest.<sup>72</sup>

While China’s share of global GDP grew from 2 percent to 9 percent during this period, the U.S. portion dropped sharply from over 30 percent in 2000 to 23 percent in 2010.<sup>73</sup> The U.S. share of manufacturing output followed a similar trajectory, rising from 20 percent in 1990 to 23 percent in 2000 before falling back to 20 percent. Meanwhile,

69 Frieden, *Global Capitalism*, 412.

70 Branko Milanovic, *Capitalism, Alone: The Future of the System that Rules the World* (Cambridge, MA: Harvard University Press, 2019), 5.

71 This description is drawn from Boustany and Friedberg, *Answering China’s Economic Challenge*, 7.

72 Baldwin, *The Great Convergence*, 89–96. The “Rising Eleven,” China plus India, Indonesia, Korea, Brazil, Nigeria, Australia, Mexico, Venezuela, Poland, and Turkey, are all the countries whose global output shares gained at least .3 percent during the period 1990–2010.

73 See Figure 2.



China's manufacturing output skyrocketed from 3 percent of the world's total in 1990 to over 18 percent in 2010. In Baldwin's words, "China's fantastic, epoch-defining industrialization took off around 1990, fueled by foreign firms bringing factories and jobs to China ... . In just two decades, a sixth of the world manufacturing 'pie' moved from outside China to inside China, even as total world manufacturing was growing steadily."<sup>74</sup>

The magnitude of the changes underway was also manifest in the rapidly evolving bilateral trade relationship between the United States and China. In 1990, the United States was importing \$10 billion more in goods from China than it exported. By 2010, the deficit had grown to over \$273 billion, and it would continue to climb, reaching a peak of nearly \$419 billion in 2018.<sup>75</sup> Most U.S. imports from China were manufactured goods and, with the passage of time, the mix of these goods evolved from a heavy concentration of simpler items, like shoes, clothing, and furniture, to a growing volume of increasingly sophisticated products, including electrical machinery, computers, and communications equipment. By 2010, U.S. imports from China had grown to \$364 billion, of which 40 percent were semiconductors, computers, communications equipment, and other manufactured commodities, with apparel accounting for only 7 percent. Meanwhile, U.S. exports to China in that year amounted to only \$92 billion, of which 21 percent was made up of oilseeds, grains, waste, and scrap and 9 percent consisted of motor vehicles, planes and aircraft parts, and electronic measurement and control instruments.<sup>76</sup>

By the end of the first decade of the 21st century, China was thus poised to replace the United States as the world's leading manufacturing nation and appeared on track to displace it as the world's biggest economy. And yet, far from liberalizing, even before the rise to power of Xi Jinping at the end of 2012 there were already clear signs that China's economic and political policies were moving in the opposite direction. This was a threat to America's hegemonic position unlike any it had faced in the postwar period.

## The U.S. Response

A comparison of the challenges that China and Japan posed to American hegemony reveals a mix of similarities and differences. As was true of Japan, U.S. policymakers see China as engaging in unfair trading practices that benefit its firms and national economy at America's expense. While its use of subsidies, non-tariff barriers, and other instruments of industrial policy appear familiar in certain respects, China's behavior has aroused additional resentment because it involves direct violations of Beijing's World Trade Organization commitments. To a far greater degree than was true of Japan, China's strategy for promoting innovation also depends on a massive, systematic, state-supported effort to steal technology and other intellectual property from the United States and other Western countries.<sup>77</sup> And where Japan's "techno-nationalism" was focused primarily on developing new commercial products, China is intent on becoming a high-tech superpower, at or near the frontier in virtually every area of science and technology, including (or especially) those with potential military utility.

Compared to Japan, the size of China's population also makes it a more plausible contender for the position of the world's largest economy and potentially the next global hegemon. In 1980, as it approached its demographic peak, Japan had only around half as many people as the still-growing United States. To overtake America in total output Japan's productivity would have had to outstrip its competitor's by a factor of two, a feat that, at least in retrospect, appears to have been highly implausible. With a population four times as large, China only needs to increase its productivity to one-quarter of that of the United States in order to match its GDP. If China succeeds eventually in approaching the output per capita of the advanced industrial nations, its economy could grow to be as much as four times bigger than America's.<sup>78</sup>

Finally, and most important in the long run, whereas Japan was a treaty ally of the United States, China has emerged with increasing clarity as a geopolitical and ideological rival and potential military opponent, as well as a commercial competitor. The increase in trade tensions

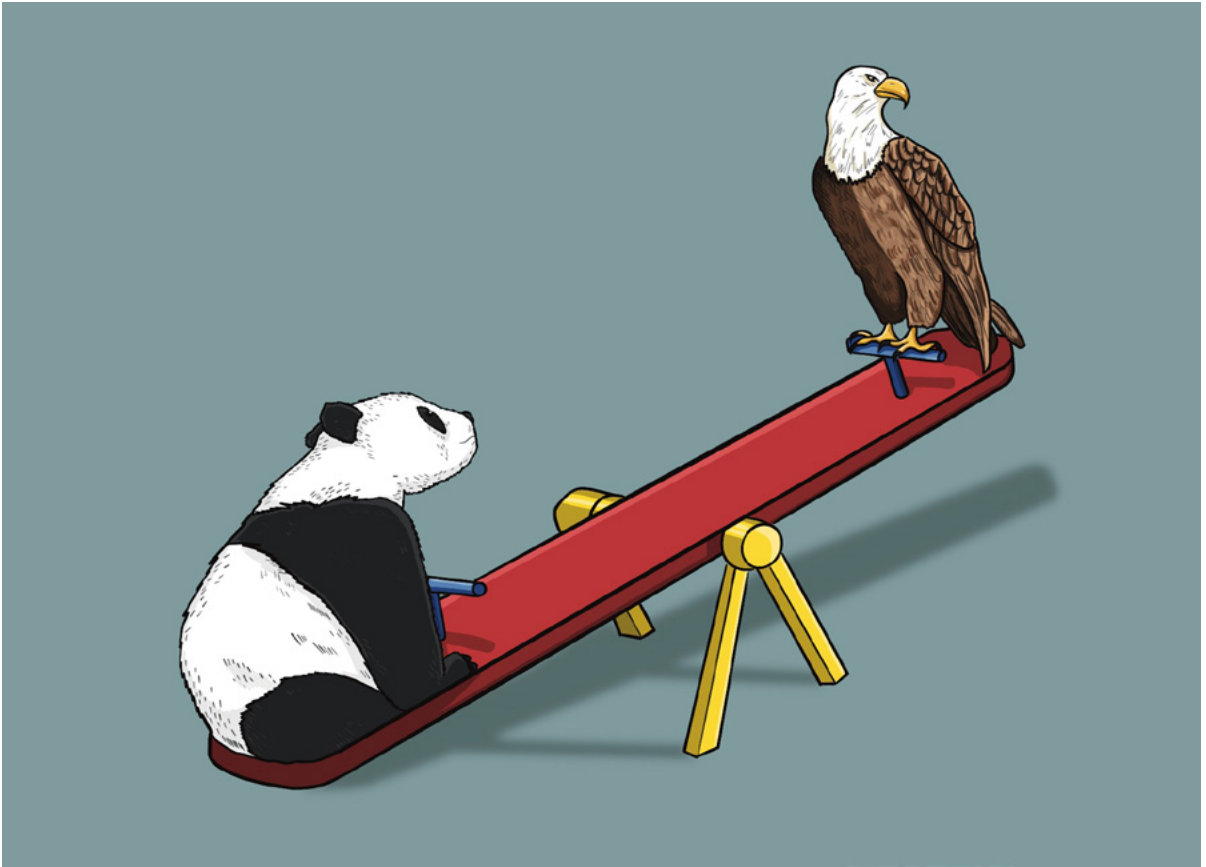
74 Baldwin, *The Great Convergence*, 91.

75 "Trade in Goods with China," United States Census Bureau, May 2020, <https://www.census.gov/foreign-trade/balance/c5700.html>.

76 *2014 Annual Report to Congress, U.S.-China Economic and Security Review Commission*, 2014, 89, <https://www.uscc.gov/annual-report/2014-annual-report-congress>.

77 See *The IP Commission Report: The Report of the Commission on the Theft of American Intellectual Property*, National Bureau of Asian Research, 2013, [https://www.nbr.org/wp-content/uploads/pdfs/publications/IP\\_Commission\\_Report.pdf](https://www.nbr.org/wp-content/uploads/pdfs/publications/IP_Commission_Report.pdf).

78 See Robert Fogel, "\$123,000,000,000,000\*," *Foreign Policy*, Jan. 4, 2010, <https://foreignpolicy.com/2010/01/04/123000000000000/>.



between Washington and Tokyo during the first half of the 1980s coincided with the intensification of the Cold War, a development that served to highlight America's continuing role as the ultimate guarantor of Japanese security. This fact enhanced Washington's negotiating leverage and put limits on how far the Japanese government was willing to go in resisting its demands.

The situation that now prevails between the United States and China is obviously very different. Instead of providing guardrails that help to prevent a downward spiral in flows of trade and investment and a major change in the structure of the global economy, as they did during the 1980s, geopolitical factors appear to be making such an outcome more likely. As was true for Germany and Britain before World War I, instead of promoting harmony and stability, the high degree of interdependence between the United States and China and the potential strategic vulnerabilities that may result have become a source of growing anxiety and mistrust. Tensions over trade, investment, and technology are thus both a contributing cause of the general deterioration in relations between the two Pacific powers and one of its more significant effects.

Regarding the U.S. response to the challenges from China and Japan, here, too, there are a num-

ber of similarities as well as some notable differences. As was true during the 1980s, the United States, which is still the richest and most powerful state in the system, is the disgruntled party. American policymakers are once again concerned about an erosion of their country's position but, as before, they have tended to focus initially on what they see as the external sources of this trend rather than the domestic factors that may be contributing to it. Washington sees Beijing, like Tokyo before it, as engaging in unfair, predatory trading practices. China is believed to be gaming the international trading system, bending or breaking the rules to its benefit, and failing to live up to the commitments it made upon entering the World Trade Organization. Since the turn of the century, the primary aim of American policy has therefore been to induce China to change its trade and industrial policies in ways that would create what is sometimes described as a more level playing field.

The domestic forces impelling this effort to apply pressure to Beijing were initially rather weak. After all, the decision to incorporate China into the global trading system rested, from the start, on an expectation of gradual, evolutionary change. It would take time for the Chinese Communist Party regime to shed its reliance on currency manipulation, state-owned enterprises, subsidies, and import

barriers. Faced with mounting evidence that this was not happening, the advocates of engagement could always claim reassuringly that the pursuit of efficiency and the pressure of international competition would eventually push China down the road toward full liberalization.

A coalition of interest groups seeking to challenge these assumptions and the policies that flowed from them was slow to take shape. The older manufacturing industries and labor unions in the United States that had provided the impetus for pressuring Japan in the 1970s and 1980s were, by the turn of the century, either greatly weakened or, for all practical purposes, defunct. Workers displaced in part by inexpensive imports made up a larger and more hard-hit group than many economists had predicted, but with both major political parties still committed, in principle, to free trade, there was at first no effort to forge them into a cohesive national voting bloc. The financial services industry, meanwhile, continued to benefit from closer integration with China and thus generally supported a policy of gradualism and opposed measures that might upset a highly profitable *status quo*. For their part, firms in the newer high-tech industries tended to have mixed and conflicting interests. On the one hand, most had suffered from the theft of their intellectual property and faced increasingly capable Chinese competitors in the U.S. market and around the world. On the other, many of those same companies relied on Chinese counterparts to supply components and do the work of final assembly. Many also hoped to profit by tapping China's own large and fast-growing domestic market. Despite these constraints, concern over the effects of Beijing's trade and industrial policies grew deeper and increasingly widespread in the years following its entry into the World Trade Organization.

The Bush and Obama administrations responded with a series of efforts to bring moderate diplomatic pressure to bear in bilateral and multilateral settings — including high-level dialogues and negotiations over specific issues and cases brought before the World Trade Organization for adjudication — coupled on occasion with the application of temporary unilateral measures, such as anti-dumping duties. By the close of President Barack Obama's second term, mounting frustration over the inade-

quacy of these tactics led to proposals for the creation of a new trading bloc, the Trans-Pacific Partnership, the purpose of which was, in part, to bring additional pressure on Beijing to change its ways.

Donald Trump's election marked the beginning of a shift, as yet incomplete, in the American response to China's challenge. Displaying his contempt for both the negotiating skills of his predecessors and the conventional wisdom regarding the virtues of free trade and free trade agreements, one of Trump's first actions as president was to pull the United States out of the Trans-Pacific Partnership. From there, albeit in fits and starts, his administration ultimately wound up pursuing two sets of policies, one focused on achieving adjustments in the overall pattern of bilateral trade and the other, more narrowly, on regulating China's access to American technology.

Each of these initiatives could be seen as having two distinct rationales. In their public statements, U.S. officials generally emphasized the familiar goals of getting Beijing to "play fair," by abandoning its mercantilist practices and creating a "level playing field."<sup>79</sup> This would presumably allow markets to function freely, enabling both the United States and China to grow and Chinese and American citizens to enjoy improvements in their welfare, regardless of which side gained more. At the same time, at least some of Trump's advisers appear to have been thinking in terms of *relative* as opposed merely to *absolute* gains. While they generally did not say so openly, some evidently hoped that even if U.S. initiatives did not achieve their stated objectives, they might succeed in slowing China's pace of technological advancement and overall GDP growth rate, thereby reducing the speed at which it could narrow the gap in potential power between itself and the United States.<sup>80</sup>

In the 1980s, as we have seen, Reagan had some success in extracting concessions from Japan, thereby helping to fend off domestic pressure for more overtly protectionist measures. Trump's negotiators (led by U.S. Trade Representative Robert Lighthizer, a veteran of the Reagan years), followed the reverse course: using dramatic, across-the-board increases in tariffs to try to force structural reforms on Beijing.<sup>81</sup> This strategy was a manifestation of the unconventional attitudes of

79 See, for example, "President Donald J. Trump Is Confronting China's Unfair Trade Policies," White House, May 29, 2018, <https://trump-whitehouse.archives.gov/briefings-statements/president-donald-j-trump-confronting-chinas-unfair-trade-policies/>; and Patti Domm, "Trump Says the US Needs a 'Fair Playing Field' Against China's Weak Currency as Yuan Hits Lows of the Year," *CNBC*, June 10, 2019, <https://www.cnbc.com/2019/06/10/trump-says-china-devalues-its-currency-and-us-needs-fair-playing-field-as-yuan-hits-lows-of-year.html>.

80 Regarding the private skepticism of administration "hardliners" about the stated goals of U.S. policy, see Josh Rogin, *Chaos Under Heaven: Trump, Xi, and the Battle for the 21st Century* (New York: Houghton Mifflin Harcourt, 2021), 76–77.

81 Quinn Slobodian, "You Live in Robert Lighthizer's World Now," *Foreign Policy*, Aug. 6, 2018, <https://foreignpolicy.com/2018/08/06/you-live-in-robert-lighthizers-world-now-trump-trade/>.



the president and some of his advisers regarding the virtues of tariffs, as well as their preference for tough, unilateral measures over resorting to World Trade Organization procedures that they saw as slow and biased against U.S. interests. Although the president himself remained fixated on the idea of reducing the size of the bilateral trade deficit, for the most part his administration's "tariff war" involved the pursuit of familiar aims (i.e., getting Beijing to drop subsidies, cease intellectual property theft, lift non-tariff barriers, etc.) by more forceful, coercive means.

Judged against its stated objectives, this aspect of Trump's trade strategy yielded little. Despite a lack of progress in forcing reform or narrowing the trade deficit, however, the tariffs put into place in 2018 and 2019 may end up having other enduring effects. If all or some of these tariffs become permanent, they will likely constrict the future growth of China's exports to the country that is still the single largest market for its goods.<sup>82</sup> Permanent import barriers, or even increased uncertainty about their possible future imposition, may also strengthen incentives for U.S. and foreign companies to relocate a portion of their supply chains to other countries.<sup>83</sup> Separately and together, these effects could contribute to a slowdown in China's overall growth.<sup>84</sup>

Efforts to constrict China's access to U.S. technology, the other element of the Trump administration's policy, can also be viewed from two different angles. In addition to tariffs imposed for the alleged theft or forced extraction of U.S. intellectual property, controls on exports of critical technologies to Huawei and other Chinese companies, regulations banning the use of Chinese-made equipment in U.S. telecommunications networks, closer scrutiny of proposed direct investment by Chinese firms in American tech companies, and restrictions on visas for some Chinese researchers were all publicly justified as responses to Beijing's bad behavior. The implication of framing the problem in this way was that, if only Chinese economic actors would

stop breaking the rules the U.S. government would have no objection to treating them like any other foreign entities.

In fact, of course, many Trump administration officials seem to have realized from the start that such an outcome was not only unlikely but, for strategic reasons, undesirable. As the U.S. trade representative's detailed 2018 indictment of Beijing's objectionable technology acquisition and promotion policies made clear, these practices are a deeply embedded manifestation of the structure, character, and goals of the Chinese Communist Party regime.<sup>85</sup> Even nominally private actors are ultimately subject to control by the party-state. With its doctrine of military-civil fusion, the regime has deliberately erased the distinction between what might once have been regarded as separate spheres. Beijing sees gaining an advantage in critical technologies, by whatever means necessary, as an essential part of its strategy for eventually attaining both commercial and military superiority over the United States.

China, as presently constituted, is thus incapable of playing by the rules of the global trading system, at least as these are understood by the United States and other advanced democracies. Moreover, even if Beijing were to improve its behavior at the margins, given the nature of the regime's broader objectives the United States would still have sound strategic reasons for wanting to slow China's progress and maintain its own advantages. Although the Trump administration did not fully and openly embrace it, this is a deeper rationale for constricting China's access to technology.

As of this writing (winter 2021/22), the Biden administration has left in place almost all of the tariffs, export controls, and other measures that it inherited from its predecessor. Officials have expressed a desire "not to inflame trade tensions," but they have also acknowledged that China's "plans do not include meaningful reforms" of the sort that would be needed to address U.S. concerns.<sup>86</sup> The

82 In 2019, the United States absorbed close to 17 percent of China's exports. "China Trade Balance, Exports and Imports by Country and Region 2019," World Integrated Trade Solution, <https://wits.worldbank.org/CountryProfile/en/Country/CHN/Year/2019/TradeFlow/EXPIIMP>.

83 The impact to date of U.S. tariffs on supply chains, and the question of how best to separate these effects from those of the COVID-19 pandemic, are topics of debate among economists. For a skeptical assessment, see Jack Zhang and Samantha Vortherms, "Unstoppable Force Meets an Immovable Object: U.S.-China Supply Chains in the Age of Decoupling," *Asia Dispatches*, Wilson Center, Aug. 10, 2021, <https://www.wilsoncenter.org/blog-post/unstoppable-force-meets-immovable-object-us-china-supply-chains-age-decoupling>.

84 While Trump administration officials did speak openly of their desire to shift some supply chains out of China, they generally framed this as part of an effort to reduce vulnerability to supply disruptions and to encourage the "reshoring" of manufacturing capacity back to the United States, rather than an attempt to slow China's long-term growth. See Humeira Pamuk and Andrea Shalal, "Trump Administration Pushing to Rip Global Supply Chains from China: Officials," *Reuters*, May 4, 2020, <https://www.reuters.com/article/us-health-coronavirus-usa-china-idUSKBN22G0BZ>.

85 "Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974," Office of the United States Trade Representative, Executive Office of the President, 2018, <https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF>.

86 "Remarks as Prepared for Delivery of Ambassador Katherine Tai Outlining the Biden-Harris Administration's 'New Approach to the U.S.-China Trade Relationship,'" Office of the United States Trade Representative, Oct. 4, 2021, <https://ustr.gov/about-us/policy-offices/press-office/speeches-and-remarks/2021/october/remarks-prepared-delivery-ambassador-katherine-tai-outlining-biden-harris-administrations-new>.



administration evidently hopes that, by working more closely with friends and allies, it can eventually mobilize sufficient multilateral pressure to succeed where Trump's unilateral tactics failed. In the meantime, stronger defensive measures and a greater degree of separation between the U.S. and Chinese economies are likely to be the order of the day. Regarding technology, Commerce Secretary Gina Raimondo has already said quite bluntly that the United States should work with Europe to "slow down China's rate of innovation."<sup>87</sup>

## Friction over economic issues and rising geopolitical tensions have constricted flows of trade and investment between the United States and China but they have not brought them to a halt.

Belatedly and reluctantly, American policymakers are thus starting to think about economic relations with China much as their counterparts in Beijing have always done: as one more arena in an all-encompassing struggle for power, and therefore as an area in which the goal should be to generate relative, as opposed to simply absolute, gains.

### Alternative Futures

In most important respects, the evolution of the global economy since the end of World War II has followed the trajectory that Gilpin sketched out nearly half a century ago. When it had the opportunity to do so, the United States sought to build an open international economy, first among the advanced industrial democracies and then on a global scale. In doing so, the liberal American hegemon enabled and encouraged the rapid growth of other nations, even though this resulted in a relative decline in its economic dominance. That erosion was

tolerable when the potential challengers were other democracies dependent on the United States for their security (and thus susceptible to pressure for adjustments that helped it to shore up its position) and when it became clear that none of them posed a real danger to its primacy.

China is different both because of the absolute size of its economy and, even more important, because of the character of its regime and the nature of its objectives. As the shift in attitudes and policies that has become evident over the last several years suggests, the United States is now moving toward a more vigorous defense of its relative position in the global economy against the challenge posed by a rising China. How is the contest between these two powers likely to affect the structure and functioning of the global economy?

#### 1. Deglobalization

Hegemonic stability theory assumes that a single preponderant power is needed to build an open international trading system and predicts that, while not inevitable, the hegemon's relative decline is likely to lead to systemic breakdown and closure. At the extreme, an open world economy could collapse completely, fragmenting into a collection of states, each pursuing autarky or narrow national self-reliance. While there have been fluctuations in the degree of openness over the last 200 years, only the period from 1929 to 1945 comes close to approximating full fragmentation and, even then, there was significant trade among members of several blocs and, during the war, within the opposing alliances.

Despite some rather loose uses of the term, there is, at present, no reason to expect a downward spiral toward anything that could accurately be labeled "deglobalization." Since the financial crisis of 2008–09, there has been a slowdown in the rate of growth of international trade and a leveling off in the ratio of trade to total world output. However, the volume and value of trade remain vast and trade's share of global GDP is down only slightly from its historic peak of around 60 percent.<sup>88</sup>

Although the COVID-19 pandemic caused a sharp initial contraction in global commerce, its full ef-

87 Amanda Macias and Kayla Tausche, "U.S. Needs to Work with Europe to Slow China's Innovation Rate, Raimondo Says," *CNBC*, Sept. 28, 2021, <https://www.cnbc.com/2021/09/28/us-needs-to-work-with-europe-to-slow-chinas-innovation-rate-raimondo-says.html>.

88 See Peter A.G. van Bergeijk, "On the Brink of Deglobalisation . . . Again," *Cambridge Journal of Regions, Economy and Society* 11, no. 1 (March 2018), 59–72, <https://academic.oup.com/cjres/article-abstract/11/1/59/4821285?redirectedFrom=fulltext>; and Alicia García Herrero, "From Globalization to Deglobalization: Zooming Into Trade," *Las Claves de la Globalización* 4.0, Feb. 3, 2020, <https://www.bruegel.org/wp-content/uploads/2020/02/Globalization-desglobalization.pdf>.

fects are unlikely to be permanent.<sup>89</sup> As health conditions improve, factories and transportation networks will begin to function more normally and trade will continue to grow. As for the lingering political aftereffects of the pandemic: The discovery that they are heavily dependent on imports of personal protective equipment and pharmaceuticals, especially from China, has caused many democratic countries to begin to explore the possibility of increasing domestic production capacity for these essential items, or at least seeking to diversify suppliers.<sup>90</sup> But this is a far cry from the pursuit of anything remotely resembling total autarky.

Friction over economic issues and rising geopolitical tensions have constricted flows of trade and investment between the United States and China but they have not brought them to a halt.<sup>91</sup> Even if this were to happen, some portion of previous U.S.-Chinese trade would be diverted to other countries, rather than simply evaporating. While the reversion to tariffs and the turn away from multilateral treaties and institutions during the Trump years represents a marked departure from post-World War II trends, the United States has not embraced protectionism in the way that it did during the inter-war period. Support for trade remains high among the public and, even more, among the many U.S. industries that continue to benefit from it.<sup>92</sup> For its part, Beijing is eager to preserve access to the markets, technology, and capital of the advanced democracies for as long as it possibly can. For these reasons, a total breakdown in U.S.-Chinese trade, or of global trade more generally, appears unlikely.

Unlikely, but not impossible. An actual shooting war between the two powers — a clash over Taiwan, for example — would probably be accompanied by trade embargoes, financial sanctions, and serious disruptions in maritime commerce. As happened in 1914, great-power war could bring the second era of globalization to a sudden and bloody conclusion.

## 2. Reglobalization

Theory suggests that it may be possible to preserve an open global economic order, even in the event of a hegemon's relative decline, provided that the major members of the system work together and, in particular, if they are able to use multilateral institutions to enhance communication and lock in cooperation. Perhaps the current World Trade Organization-centered system could be saved if the United States renounces unilateralism, China commits to follow the path of liberalization, and all parties agree to strengthen existing dispute-resolution mechanisms and abide by their rulings.

This would undoubtedly be the preferred outcome of most mainstream economists and trade experts but, at this point, it appears highly unlikely. Beijing's trade, industrial, and technology promotion policies are not the products of mistakes or misunderstandings. They are deliberately designed to strengthen the communist party's hold at home and to enhance its power on the world stage. China's leaders may be willing to make superficial concessions in hopes of lulling the American side back into complacency but, as U.S. Trade Representative Katherine Tai pointed out in a recent speech, "their plans do not include meaningful reforms" to their "state-centered economic system."<sup>93</sup> Growing awareness of this fact makes it less likely that the United States will abandon its protective measures and revert to business as usual.

The partial open order of the Cold War period did not break down in the 1970s and 1980s, even when American hegemony seemed to be eroding. However, as we have seen, this had more to do with the persistence of U.S. dominance within the Western system, the commonality of ideology or "social purpose" among its members, and the continued presence of a common enemy than with the independent coordinating function of strong multilateral institutions.

89 Zachary Karabell, "Will the Coronavirus Bring the End of Globalization? Don't Count on It," *Wall Street Journal*, March 20, 2020, <https://www.wsj.com/articles/will-the-coronavirus-bring-the-end-of-globalization-dont-count-on-it-11584716305>. After shrinking sharply during the first months of the pandemic, the volume of merchandise trade bounced back quickly during the second half of 2020 before starting to slow again toward the end of 2021 due to supply chain issues and the arrival of the Omicron variant. "Merchandise Trade Volume Declined in Q3 While Trade Values Continued to Rise," World Trade Organization, Dec. 20, 2021, [https://www.wto.org/english/news\\_e/news21\\_e/stat\\_20dec21\\_e.htm](https://www.wto.org/english/news_e/news21_e/stat_20dec21_e.htm).

90 See, for example, Keith Bradsher, "China Dominates Medical Supplies, in this Outbreak and the Next," *New York Times*, July 5, 2020, <https://www.nytimes.com/2020/07/05/business/china-medical-supplies.html>; and Oliver Wright and Lucy Fisher, "Boris Johnson Wants Self-Sufficiency to End Reliance on Chinese Imports," *The Times*, May 22, 2020, <https://www.thetimes.co.uk/article/boris-johnson-wants-self-sufficiency-to-end-reliance-on-chinese-imports-bmlxnl8jl?region=global>.

91 Following the onset of the tariff war in 2018, U.S. exports to China declined from \$120 billion to \$106 billion in 2019 before rebounding to \$124 billion in 2020, while imports shrank from \$539 billion to \$451 billion to \$431 billion. "Trade in Goods with China," U.S. Census Bureau, <https://www.census.gov/foreign-trade/balance/c5700.html>.

92 Although support has declined over the course of the trade war and the pandemic, recent polls show that nearly two-thirds of those questioned still see trade as "an opportunity for economic growth." Mohamed Younis, "Sharply Fewer in U.S. View Foreign Trade as Opportunity," *Gallup*, March 31, 2021, <https://news.gallup.com/poll/342419/sharply-fewer-view-foreign-trade-opportunity.aspx>.

93 "Remarks as Prepared for Delivery of Ambassador Katherine Tai Outlining the Biden-Harris Administration's 'New Approach to the U.S.-China Trade Relationship.'"

The situation is obviously very different today. China continues to benefit from its exploitation of current rules and procedures and the United States, acting alone, lacks the leverage to make it change its ways. Existing institutions are too weak to compel continued openness, but the diffusion of power within the current system, and the divergence between the communist party regime's values and those of the system's other leading members, will make it very difficult to create new ones. Suggestions that China and the advanced industrial democracies might somehow be able to put aside their differences and join together to build a new global order based on a shared "recognition of a principle of sustainability" appear fanciful, at best.<sup>94</sup>

While a complete breakdown of the existing international economic system is unlikely, at least in the near term, so too is a return to the pre-Trump *status quo*. Instead of being rejuvenated, what seems more probable is that the World Trade Organization and other multilateral institutions will live on for some time, despite their diminished utility and notwithstanding occasional efforts at reform. These vestiges of the fading second era of globalization will be supplemented and perhaps eventually displaced by new, smaller groupings organized around the major actors in a less fully integrated, more segmented world economy. The possible shape and composition of these groupings will be discussed in scenarios 4 and 5, below.

### 3. Hegemony with Chinese Characteristics (Globalization 3.0)

Throughout history, the decline of one hegemon has been followed eventually by the rise of a new one, most often in the aftermath of a system-shattering war.<sup>95</sup> The transition from British to American hegemony, the only such shift to have occurred in the last two centuries, is a rare peaceful exception to this rule. That feat was made possible in large measure by a growing sense of cultural and ideological convergence between the two

powers, the opposite of what is happening now between the United States and China.<sup>96</sup>

Even if both countries return to their pre-pandemic growth trajectories, and assuming that both a major war and a willing, harmonious hand-off between them are unlikely, a new era of clear-cut Chinese hegemony could take years or even decades to emerge. If, on the other hand, the United States bounces back smartly from the current crisis while China's growth continues to slow, the crossover point between the two economies may be pushed off indefinitely into the future.<sup>97</sup> The fact that, in addition to its raw economic capabilities, the United States will continue to wield other forms of what political scientist Susan Strange referred to as "structural power" (including its dominant role in international finance and in the production of knowledge) could further extend its run as global hegemon.<sup>98</sup> China's inability to advance "a compelling vision or ideology in support of an alternative international order" will also make it difficult for Beijing to rally a "counterhegemonic" coalition with which to hasten the demise of American preponderance.<sup>99</sup>

With these caveats in mind, it is still useful to speculate about the possible characteristics of a future Chinese-led international economic order. The first thing to recall is that hegemony and openness need not necessarily go hand in hand. Britain and the United States built open systems based on liberal principles because they were themselves liberal powers. The international orders that they sought to create were essentially outward projections of the principles on which their domestic systems were built. If liberal hegemons build liberal orders, then it stands to reason that an illiberal hegemon will want to construct an illiberal order, one that, as Gilpin suggests, more closely resembles a frankly hierarchical, imperial system.

The policies that Xi Jinping has been pursuing provide some clues to what a future Sino-centric global economic order might look like. Despite its self-proclaimed role as the defender of globalization and a high-minded proponent of mutually

94 James, "Deglobalization as a Global Challenge," 10.

95 See Gilpin, *War and Change*.

96 See Kori Schake, *Safe Passage: The Transition from British to American Hegemony* (Cambridge, MA: Harvard University Press, 2017).

97 See, for example, Clay Chandler and Grady McGregor, "When Will China Overtake the U.S. as the World's Largest Economy? Maybe Never," *Fortune*, Sept. 28, 2021, <https://fortune.com/2021/09/28/china-economy-gdp-overtake-us-when-never/>.

98 See Susan Strange, "The Persistent Myth of Lost Hegemony," *International Organization* 41, no. 4 (Autumn 1987): 551–74, <https://www.jstor.org/stable/2706758>.

99 Bentley B. Allan, Srdjan Vucetic, and Ted Hopf, "The Distribution of Identity and the Future of International Order: China's Hegemonic Prospects," *International Organization* 72, no. 4 (Fall 2018): 863, <https://doi.org/10.1017/S0020818318000267>. For a discussion of how China might seek gradually to erode the American-led order, see Daniel W. Drezner, "Counter-Hegemonic Strategies in the Global Economy," *Security Studies* 28, no. 3 (2019): 505–31, <https://doi.org/10.1080/09636412.2019.1604985>.

beneficial, “win-win” economic cooperation, the Chinese Communist Party regime actually favors more lopsided arrangements. In fact, in keeping with Beijing’s zero-sum approach to economics, the animating spirit of its policies can more accurately be summed up with the slogan, “openness for thee but not for me.” The party aims to preserve the maximum possible access to the markets, goods, capital, technology, data, and resources of other countries while reserving for itself the right to modulate their access to its own economy. Rather than letting the free play of market forces and the principle of comparative advantage determine the international distribution of industrial capacity, it seeks deliberately to build “national champions,” helping them to acquire and “indigenize” critical technologies and supporting their efforts to dominate domestic and global markets for cutting-edge products.

Xi’s recently announced “dual circulation” strategy signals his intention to push China further down the path upon which it has already embarked, increasing reliance on domestic demand and emerging economies to fuel future growth, while reducing dependence on the U.S. and other Western markets (and hence vulnerability to future tariffs or sanctions).<sup>100</sup> At the same time, Xi has assigned top priority to achieving the long-sought goal of greater technological self-reliance, thereby reducing China’s susceptibility to future technology “blockades.”<sup>101</sup> As always, the regime’s economic policies will be shaped by considerations of power rather than welfare alone. They will be designed to increase Beijing’s leverage over others while reducing the ability of others to exert countervailing leverage over China in return.<sup>102</sup>

Ultimately, China hopes to sit at the center of the global economy and the top of the technological ladder. As for the United States, in the words of Premier

Li Keqiang (as reported by former National Security Adviser Gen. H.R. McMaster), its role in the future global economy will “merely be to provide China with raw materials, agricultural products, and energy to fuel its production of the world’s cutting-edge industrial and consumer products.”<sup>103</sup>

#### 4. Regional Blocs

Instead of fragmenting entirely into a collection of autarkic states, or being knit back together into an integrated whole, the global economy could become divided into increasingly separate and distinct blocs. This was the scenario that Gilpin considered most likely when he first began to contemplate the possible consequences of the passing of American hegemony in the mid-1970s. He anticipated that “with the decline of the dominant economic power, the world economy may be ... fragmenting into regional trading blocs,” each seeking “through the exercise of economic power ... to increase the benefits of interdependence and decrease the costs.”<sup>104</sup>

Gilpin’s prediction was premature, but some tendencies in this direction have been evident, especially since the end of the Cold War.<sup>105</sup> European policymakers sought to bolster their ability to compete in a globalizing world by creating a unified market and moving toward the adoption of a common currency in 1992. The United States responded in 1994 with the North American Free Trade Agreement, which further lowered remaining barriers to trade and investment with Mexico and Canada. Although the Japan-centered economic bloc that some had anticipated in the early 1990s never took shape, over the past 20 years a number of overlapping agreements have been signed that promote trade among various groupings of Asian countries.<sup>106</sup> Despite Washington’s withdrawal from the Trans-Pacific Partnership,

100 Alicia García Herrero, “What Is Behind China’s Dual Circulation Strategy?” *China Leadership Monitor*, Sept. 1, 2021, <https://www.prcleader.org/herrero>.

101 Nigel Inkster, “Xi Steers China Towards Economic and Technological Self-Reliance,” *IISS*, Nov. 11, 2020, <https://www.iiss.org/blogs/analysis/2020/11/china-economic-technological-self-reliance>; and Matt Ho, “Technological Self-Reliance Is at Heart of China’s Economic Plans, Says Key Xi Jinping Aide,” *South China Morning Post*, Nov. 22, 2020, <https://www.scmp.com/news/china/politics/article/3110885/technological-self-reliance-heart-chinas-economic-plans-says>.

102 For an alternative view and the suggestion that China might become a benign “Dutch-style” hegemon, which the authors describe as “mainly motivated by neutral, self-interested, state-centric economic intentions,” see Lukas K. Danner and Félix E. Martín, “China’s Hegemonic Intentions and Trajectory: Will It Opt for Benevolent, Coercive, or Dutch-Style Hegemony?” *Asia and the Pacific Policy Studies* 6, no. 2 (May 2019): 186–207, <https://onlinelibrary.wiley.com/doi/full/10.1002/app5.273>.

103 H.R. McMaster, “How China Sees the World,” *The Atlantic*, May 2020, <https://www.theatlantic.com/magazine/archive/2020/05/mcmaster-china-strategy/609088/>.

104 Gilpin, *U.S. Power and the Multinational Corporation*, 259 and 261.

105 For a critical overview of these trends, see Jagdish Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade* (New York: Oxford, 2008). On the implications for global welfare of large regional trading blocs, see Jeffrey A. Frankel, Ernesto Stein, and Shang-Jin Wei, “Continental Trading Blocs: Are They Natural or Supernatural?” in *The Regionalization of the World Economy*, ed. Jeffrey A. Frankel (Chicago: University of Chicago Press, 1998), 91–120.

106 See the essays in Sanjaya Baru and Suvi Dogra, eds., *Power Shifts and New Blocs in the Global Trading System* (London: Routledge, 2015).



the other members have forged ahead with a free trade area that incorporates countries on both sides of the Pacific rim (the Comprehensive and Progressive Agreement for Trans-Pacific Partnership).<sup>107</sup> Another free trade agreement that is set to go forward without American participation will draw together China, Japan, South Korea, Australia, and New Zealand, as well as the 10 members of the Association of South East Asian Nations. The Regional Comprehensive Economic Partnership is supposed to create an Asian economic unit, centered on China and comparable in size to the European Union or the United States-Mexico-Canada Agreement (the successor to the North America Free Trade Agreement).<sup>108</sup>

Regionalization could be further encouraged by ongoing economic and technological trends, as well as by the aftershocks of the COVID-19 pandemic. Even before the current crisis, companies in a variety of industries, including automobiles, computers, and electronics, were beginning to build shorter and more regionally focused supply chains in order “to make their products close to market to be better able to cater for changing patterns in consumer demand.”<sup>109</sup> Increased reliance on automation will reduce the significance of disparities in labor costs and the incentives for moving some production facilities to low-wage countries. Additive manufacturing (also known as 3-D printing) techniques will make it economical to build some products at or near the point of consumption while simplifying some production processes. It may be possible, for example, to substitute a single molded component for a collection of separate parts that might previously have been manufactured and then assembled in widely separated locations.<sup>110</sup>

Recent events have highlighted the fragility of global supply chains in the face of disruptions caused by communicable disease. The pandemic has also made clear the particular risks associated with excessive reliance on China. Climate change could also increase the frequency of other kinds of natural disasters, including severe weather events, which could have more localized effects. Such considerations are causing many companies to reex-

amine their strategies, diversifying within Asia, in some cases, and contemplating “reshoring” or “near-shoring” to Europe and North America, in others.<sup>111</sup> A further deterioration in U.S.-Chinese relations, perhaps accompanied by increasing tensions over trade and other issues between the United States and Europe, could further reinforce trends toward regionalization, with each bloc trying to protect its own industries, promote its preferred standards, and secure its market.

The construction of more sharply defined economic blocs would not only require that the members lower remaining barriers to trade among themselves, but that they raise barriers to non-members. This would involve a departure from the multilateral principle of reciprocity and an end to any pretense of trying to promote a fully open and all-encompassing global trading system. Because China’s putative bloc would contain countries that are now U.S. allies (like Japan, South Korea, and Australia), as well as others wary of being drawn too far into the Chinese embrace (like India, Singapore, and Vietnam), Beijing could face special challenges in getting others to agree to take this large additional step. If it succeeds, however, it will have created a vast aggregation of economic capacity in which it is the dominant player, and from which the United States could find itself largely excluded.

## 5. Value-Based Blocs (Globalization 2.5)

A final alternative future 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. They might be joined in all or part of this endeavor by a few countries that are democratic but less developed (like India), and possibly by a handful of others that are neither democratic nor highly developed (like Vietnam) or highly developed but not democratic (like Singapore). As the label suggests, such a grouping would resemble the partial, “Western” system that the United States helped to build during the Cold War. Like its predecessor, this bloc would be made up pri-

107 Zachary Torrey, “TPP 2.0: The Deal Without the US,” *The Diplomat*, Feb. 3, 2018, <https://thediplomat.com/2018/02/tpp-2-0-the-deal-without-the-us/>.

108 Yen Nee Lee, “World’s Largest Trade Deal Will Come Into Force in January. The U.S. Won’t Be Part of It,” *CNBC*, Nov. 3, 2021, <https://www.cnbc.com/2021/11/03/worlds-largest-trade-deal-rcep-to-come-into-force-in-january-2022.html>; and “About CPTPP and RCEP,” U.S.-ASEAN Business Council, last updated April 6, 2021, <https://www.usasean.org/regions/tpp/about>.

109 Finbarr Bermingham, “Trade War, Deglobalisation and Technology: Can Container Shipping Weather the Storm?” *South China Morning Post*, July 17, 2019, <https://www.scmp.com/economy/global-economy/article/3018843/trade-war-deglobalisation-and-technology-can-container>.

110 T.X. Hammes, “The End of Globalization? The International Security Implications,” *War on the Rocks*, Aug. 2, 2016, <https://warontherocks.com/2016/08/the-end-of-globalization-the-international-security-implications/>.

111 See Patrick Van den Bossche, Yuri Castaño, et al., “Trade War Spurs Sharp Reversal in 2019 Reshoring Index, Foreshadowing COVID19 Test of Supply Chain Resilience,” *Kearney*, April 2020, <https://www.kearney.com/operations-performance-transformation/article/?/a/trade-war-spurs-sharp-reversal-in-2019-reshoring-index-foreshadowing-covid-19-test-of-supply-chain-resilience-full-report>.



marily, though not exclusively, of democracies and it would command a considerable fraction of the world's wealth and technological capacity. Taken together, the countries of the European Union, the United States-Mexico-Canada Agreement, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, plus India and South Korea, today account for over 60 percent of global GDP, as compared to around 17 percent for China.<sup>112</sup>

A new trading bloc organized along these lines would have a number of economic and strategic benefits for the United States and its partners. Although estimates vary, creating a “mega free trade agreement” made up primarily of advanced industrial democracies would likely increase the growth rates of all of its members while diverting some trade that might otherwise have gone to China. Such an arrangement would thus promote both absolute and relative gains, improving the welfare of the citizens of member states while boosting their rates of growth relative to China's. This would have strategic significance: Even if China continues to grow faster than the advanced democracies, narrowing the gap in growth rates will help them to prolong the period in which they enjoy an advantage in total output (share of global GDP) and thus of potential power over it.<sup>113</sup>

Assuming that they can synchronize their negotiating positions, the members of a democratic trading bloc could 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 trade and industrial policies. In time, sustained collective pressure could eventually succeed in forcing the changes that patient negotiation and unilateral American action have thus far failed to produce. Although a merging of markets would not be necessary to achieve this end, closer integration would also make it easier for the democracies to coordinate their policies on technology transfer, export controls, and the screening of proposed Chinese investments. Agreed standards regarding freedom of expression, data privacy, cyber espionage, and other malicious activity could also result in the formation

of a “digital version of the Schengen Agreement,” a democratic “digital bloc within which data, services, and products can flow freely.”<sup>114</sup>

Having tried to incorporate China into an open global order in the hope that doing so would cause its behavior to conform more closely to liberal principles, the democracies would, in effect, be falling back to a partial system within the boundaries of which those principles would be adhered to and defended. Economic historian Benn Steil has compared this move, from what he describes as a “One World” to a “Two Worlds” model, to the one that the United States and its allies made in the late 1940s once it became clear that the Soviet Union had rejected “the basic American vision of a liberal order.”<sup>115</sup> Much like its Cold War predecessor, the resulting system would be nested within a larger global economy. In contrast to the Cold War, trade and investment flows between China and the democratic bloc would continue, but they would be constricted and more closely monitored and regulated.

## **Conclusion**

Deglobalization and Chinese hegemony would have unfavorable economic and strategic consequences for the United States but, at least for the moment, neither outcome appears very likely. Reglobalization might be desirable, but only if it were accompanied by far-reaching changes in China's domestic system that are presently beyond the realm of possibility. Stronger, more exclusive regional blocs are easier to imagine, including a Sino-centric Asian system that marginalized the United States and did serious damage to its future prosperity and security.

Of the various alternatives considered here, a new, partial liberal system would best serve American interests. Whether, and if so how, such a system can be built are questions that fall outside the scope of this essay, but some movement in this direction is already visible. Reports of “decoupling” may be exaggerated, but flows of goods, capital, and technology between the United States

112 Figures derived from the World Bank's DataBank website: <https://databank.worldbank.org/home.aspx>.

113 See the discussion in Ashley J. Tellis, “The Geopolitics of the TTIP and the TPP,” in *Power Shifts and New Blocs*, ed. Baru and Dogra, 93–120.

114 Richard A. Clarke and Rob Knake, “The Internet Freedom League,” *Foreign Affairs* 98, no. 5 (September/October 2019): 185, <https://www.foreignaffairs.com/articles/2019-08-12/internet-freedom-league>.

115 Benn Steil, “Models for a Post-COVID US Foreign Economic Policy,” in *COVID-19 and World Order: The Future of Conflict, Competition, and Cooperation*, ed. Hal Brands and Francis J. Gavin (Baltimore, MD: Johns Hopkins University Press, 2020), 200.

and China have nevertheless been significantly disrupted in the last few years,<sup>116</sup> and the trend toward greater, strategically motivated separation between the two countries will likely intensify as geopolitical tensions between them grow. While they are as yet less intense, trade frictions between China and some of its other advanced industrial partners have also become more evident.<sup>117</sup> Meanwhile U.S. and European officials have begun to cooperate more closely with one another and to make common cause with Japan in defending themselves against Beijing's mercantilism.<sup>118</sup>

Further efforts to better integrate the economies of the advanced industrial democracies and to insulate them to some degree from China will no doubt face serious resistance: within the United States and, to varying degrees, from its allies and partners, to say nothing of opposition from Beijing itself. The higher the barriers that separate a new bloc, the greater the disruption to existing patterns of trade and investment, the higher the costs of adjustment, and the stronger the objections from firms and sectors that continue to benefit from the *status quo*.

Those who advocate change will have to mobilize a countervailing coalition, making the case not only that a new system is essential for reasons of national security, but also that the costs of transition will be temporary and manageable, and that they will be offset in the long run by the welfare gains arising from closer integration among the democracies and better defenses against China's predatory practices. As has been true in the past so also in the future: The shape of the global economy will be determined by political struggle and by the shifting balance of political power, both within nations and between them. 🇺🇸

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116 For flows of goods, see Ken Roberts, "China Accounting for Lowest Percentage of U.S. Imports Since 2008," *Forbes*, Dec. 23, 2021, <https://www.forbes.com/sites/kenroberts/2021/12/23/china-accounting-for-lowest-percentage-of-us-imports-since-2008/?sh=282d9e743292>. For capital, see Thilo Hanemann, et al., "Two-Way Street: 2021 Update US-China Investment Trends," A Report by the US-China Investment Project, May 2021, [https://rhg.com/wp-content/uploads/2021/05/RHG\\_TWS-2021\\_Full-Report\\_Final.pdf](https://rhg.com/wp-content/uploads/2021/05/RHG_TWS-2021_Full-Report_Final.pdf). For technology, see Yan Luo, et al., "Mapping U.S.-China Technology Decoupling: How Disparate Policies Are Unraveling a Complex Ecosystem," *DigiChina*, Aug. 27, 2020, <https://d1y8sb8igg2f8e.cloudfront.net/documents/DigiChina-Mapping-Decoupling-final1.pdf>.

117 Henry Ridgwell, "EU Suspends China Trade Deal as Tensions Grow Over Xinjiang, Hong Kong," *Voice of America*, May 10, 2021, [https://www.voanews.com/a/east-asia-pacific\\_voa-news-china\\_eu-suspends-china-trade-deal-tensions-grow-over-xinjiang-hong-kong/6205673.html](https://www.voanews.com/a/east-asia-pacific_voa-news-china_eu-suspends-china-trade-deal-tensions-grow-over-xinjiang-hong-kong/6205673.html).

118 Ann Swanson, "U.S. and Europe Announce New Trade Cooperation, but Disputes Linger," *New York Times*, Oct. 1, 2021, <https://www.nytimes.com/2021/10/01/business/economy/us-europe-trade.html>; and Jenny Leonard, Alberto Nardelli, and Bryce Baschuk, "U.S., EU, Japan to Renew Alliance Against China Trade Practices," *Bloomberg*, Nov. 17, 2021, <https://www.bloomberg.com/news/articles/2021-11-17/u-s-eu-japan-to-renew-alliance-against-china-trade-practices?sref=WP8MzmDo>.

