A SYMPOSIUM OF VIEWS

Did China "Destroy" Globalization?

Globalization arrived as a giant paradoxical force that created enormous wealth (particularly for those with stock portfolios), brought millions of developing-world citizens out of poverty, but in the West led to economic hardship among working-class families. According to this view, U.S. politicians in the 1990s made a mistake in giving the premature green light to China's entry into the World Trade Organization. China's failure to play by the rules gradually undermined globalization's political credibility. Now a deglobalization movement is in full force.

China's representatives respond that they are being unfairly blamed for a failure by American plutocratic elites to protect their working class. Western experts in global finance and trade became what economist Rob Johnson calls "marketing agents for the wealthy and powerful," not unbiased experts shedding the light of their wisdom. Chinese leaders counter that they had no power or influence over U.S. distributional failures in the adjustment to globalization particularly when, at the starting gate, the per capita income of China was one-fortieth that of the United States. Why, they say, wasn't China named by the U.S. Treasury as a currency manipulator? Because Walmart, Nike, and other Western corporate giants lobbied to keep the Chinese currency relatively weak. Beijing argues that American corporate selfishness, protected by a compromised meritocratic elite, caused economic injury to so many American working families, not the rise of the Chinese economy.

Do you buy the Chinese analysis? Or is this just "spin" given the Chinese by their ubiquitous Washington, D.C., political advisers?

Twenty noted observers offer their views.

Globalization did not raise millions out of poverty—most of those millions were in China, and it was China that pulled them out.

JAMES K. GALBRAITH
Professor, University of Texas at Austin, and former Chief Technical Adviser for Macroeconomic Reform and Strengthening Institutions, State Planning Commission of the People's Republic of China, 1993–1997

The laws of social physics normally place causes before effects. That being so, if the American deindustrialization that took off in the early 1980s was caused by China, then by inference Ronald Reagan and Paul Volcker were secret agents of Deng Xiaoping. And so were the strong-dollar men Robert Rubin and Larry Summers in the 1990s, not to mention that old China hand George H.W. Bush and his son, George the Second, under whom China finally entered the World Trade Organization. Such things are possible, I suppose. It's also possible that Victoria Nuland takes secret orders from Sergey Lavrov. But the probabilities are low.

Building on the 1949 revolution and on campaigns for literacy and public health under Chairman Mao, China has pursued the most successful strategy of national development in world history, including the eradication of mass poverty and the containment, so far, of Covid-19. Opening and globalization were important, but they were not the sole or even leading drivers of this effort. Credit goes to the pragmatism and determination of the Chinese state, supported by the will and energy of ordinary Chinese people. Globalization did not raise millions out of poverty—most of those millions were in China, and it was China that pulled them out.

Meanwhile in the United States, dreams of military invincibility, of technological and financial supremacy, of national indispensability and world leadership—these things mixed, over time, into a witches' brew of deindustrialization, precarity, and polarization. No Chinese, however observant, however malicious, could have worked out such a scheme. The destruction wreaked by globalization, for ordinary Americans, was an American thing, inflicted by American elites, educated at Harvard and Yale, trained in the trenches of Wall Street and Silicon Valley. Only such great talents could have so successfully destroyed the prosperity of so great a nation.

Success has a hundred fathers but failure is an orphan.

DESMOND LACHMAN
Senior Fellow, American Enterprise Institute

It is said that success has a hundred fathers but failure is an orphan. The same seems to be true of globalization. While many would like to claim credit for the great post-war economic prosperity spawned by globalization, no one wishes to assume responsibility for globalization's current unraveling.

To be sure, China's repeated flouting of international trade rules has raised serious questions abroad about globalization's fairness. Especially egregious was China's prolonged manipulation of its currency for competitive advantage, its more recent Plan 2025 to artificially promote its high-tech industries through state subsidies, and its systematic resort to intellectual property theft and forced technology transfer.

However, if China's unfair trade policies have eroded support for globalization, the United States should not be the first to cast the stone.

Not only was belief in a rules-based trade system thrown into question by Donald Trump's "my way or the highway" approach to international trade issues and by Joe Biden's failure to roll back the Trump tariffs. Popular domestic support for free trade was undermined by inadequate policy efforts at home to redistribute the large gains from trade toward wage earners. By fueling populist political waves both at home and abroad, repeated boom-bust-cycles through macroeconomic policy mismanagement were hardly helpful in avoiding public displeasure with free trade.

Also playing a major role in globalization's present unraveling have been the once-in-a-century Covid-19 health crisis and Russia's invasion of Ukraine. By seriously disrupting global supply chains, these events have highlighted the downside of increased global integration and have accelerated calls for increased domestic sourcing.

The breakdown in globalization following World War I ushered in two decades of real economic misery. If we hope to avoid that economic fate, we would do better to focus more on the great mutual benefits from international trade rather than to point fingers at who might be most responsible for globalization's current unraveling.

China is effectively destroying globalization.

DEREK SCISSORS
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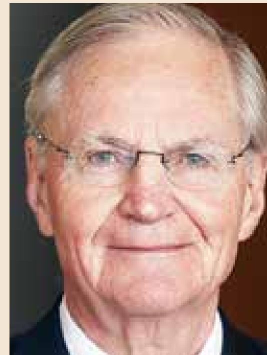
China, with ongoing aid from sometimes naïve foreign partners, is in the process of effectively destroying globalization. It didn't start this way. In the late 1990s, it was entirely reasonable to support China's accession to the World Trade Organization. The country initiated a second wave of reform in 1992, extending to urban housing and notable modification of the corporate sector. Unfortunately, policy began to tilt away from encouraging competition with the arrival of new Communist Party leadership in late 2002 (after WTO accession) and a burst of state-financed investment that unbalanced the macroeconomy. This tilt worsened by late 2006, when state prerogatives were formalized.

Ascending to Party leadership in 2012, General Secretary Xi and his subordinates have more extensively re-centralized the economy (among other things). They explicitly see globalization as a tool to enhance both control of China and China's position in the world. The aim for nearly a decade has not been to destroy globalization outright but to warp it, such that the benefits to China outstrip those of the United States and others perceived as rivals, such as India currently. Comparative advantage takes on a sinister hue if one side participates only when believing it will achieve the larger gains, otherwise undermining market transactions through large-scale subsidies, state coercion, and theft.

China is of course correct to say, "couldn't have done it without ya." The American business community first acted on the basis of poorly founded hopes of durably open Chinese markets and now consciously elevates shorter-term profits over longer-term. By now, U.S. technology companies know the clock is ticking on market access—Xi doesn't even trust Chinese technology companies. American financials should not possibly imagine they will be allowed to meaningfully develop the Chinese financial system, which is a core tool of Party control. Yet this summer, these firms are working to shelve policy actions to make supply chains more resilient and ordinary Americans less vulnerable.

Since firms act for shareholders, the ultimate failure lies with the U.S. government. China shot globalization in the stomach, American politicians shot themselves in the foot. Democrats and Republicans have had multiple cracks at controlling Congress and the presidency this century and miserably failed either to protect Americans or punish Chinese behavior. Those purporting to defend open markets became dishonest as Sino-American economic relations became more distorted. They also became more foolish. Donald Trump's protectionism, Hillary Clinton's rejection of the Trans-Pacific Partnership, abandonment of open trade by many Republicans, the Biden administration's fear of trade negotiations—all can be traced in part to watching while China undermines globalization.

The situation is more likely to get worse than better. Xi does not intend to go quietly into the good night. CEOs can aspire to exercise stock options and run before their China business collapses; policymakers have less cover. Globalization could survive in altered form or end with a whimper. But it could end with a bang, blasting an unprepared U.S. economy. Xi's China is the most likely culprit, with many accessories on the other side of the Pacific.



The death of globalization has been much exaggerated.

WILLIAM R. CLINE
President, Economics International Inc., and Senior Fellow Emeritus, Peterson Institute for International Economics

To paraphrase Mark Twain, reports of the death of globalization have been much exaggerated. U.S. non-oil imports from emerging market and developing countries rose from 3.7 percent of GDP in 2001 to 6.1 percent in 2011 and then plateaued, averaging 6.1 percent for 2011–2018. In 2019 they were 5.7 percent, hardly "broken."

Similarly, reports of devastation to the U.S. working class from globalization have been much exaggerated. The widely cited estimate of two million jobs lost to imports from China, which featured prominently in the runup to the 2016 election, turns out to have been about three times as large as the appropriate figure after taking

account of substitution away from non-China suppliers, induced additional exports to China, induced exports to China's trading partners, and lower costs of imported intermediate inputs into U.S. production.

Moreover, U.S. consumers benefited in terms of real income from lower prices. Thus, one 2014 estimate found that the cost of components of an iPhone would have risen from $190 to $600 if it were produced in the United States instead of assembled primarily in China using inputs from around the world.

Although China's current account surplus was high in 2005–2010, averaging 7 percent of GDP, by 2011 the surplus had fallen sharply and it has averaged only 1.7 percent since then. This level is below the U.S. Treasury Department's 2 percent threshold for monitoring currency manipulation. U.S. Section 301 fair trade legislation and countervailing duty laws provide scope for confronting intellectual property theft and industrial subsidies, potential issues in view of China's push for technological supremacy.

The pandemic has called globalization into question by casting doubt on reliability of international supply chains, with disruption from China's no-Covid policy and lockdowns a major example. More ominously, Russia's invasion of Ukraine has raised the specter of economic rupture between the West and China if China eventually invades Taiwan. Yet there are high stakes in maintaining global cooperation with both Russia and China on efforts to curb global warming. It will be important to maintain incentives for China to pursue peaceful growth with mutual benefits from trade that adheres to international rules and respects intellectual property rights.

Americans understand that the major global player today is a cheat.

ROBERT D. ATKINSON
President, Information Technology and Innovation Foundation

In 2001, John Williamson—who famously coined the term "the Washington Consensus"—argued that "the whole of the world is increasingly behaving as though it were a part of a single market, with interdependent production, consuming similar goods, and responding to the same impulses." The idea was technology, as well as politics, had finally enabled a globally integrated production system. Indeed, the view was that we were poised to enter a John Lennon-like world in which we not only imagined "there's no countries … and imagine all the people livin' life in peace," but we would realize it.

This vision was never going to be realized for the simple reason that with the exception of the Anglo-American bloc, most nations viewed trade not through the lens of Ricardo (finding and exploiting their comparative advantage), but Friedrich List, who viewed countries in intense competition for advantage in strategic industries, and believed that the state had to play a key role in ensuring victory.

When China joined the World Trade Organization in 2001, it built not only on List, but on Zheng Guanying, whose writings between the 1870s and 1890s were very widely read in China both during his time and after. As one author notes, "Zheng became most famous for his idea that China was caught up in a new kind of 'commercial warfare' (*shangzhan*) in which states around the world fought not just for territory but also for market shares and profit." This was not Adam Smithian pacifism, it was commercial war, and it is how China continues to view the global economy.

Since China's accession, they have flaunted WTO rules and norms, knowing that as long as they put few regulations on paper and enforced mafia-like threats of punishment against Western companies that might think about complaining about China's "innovation mercantilist" practices, that they would be "in like Flynn."

The results, to anyone who holds a modicum of objectivity, are clear: the loss of millions of U.S. manufacturing jobs, dampening global innovation, and the transformation of many economies into natural resource colonies.

No wonder many Americans have rejected globalization and supported the Trumpian vision: they understand that the major global player today is a cheat and that no one will stop it.

To be sure, some American companies turned a blind eye to China's predatory practices, either because they benefit from them or because they are too terrified to complain. But that only made it harder for the U.S. government to get China to cease and desist. That doesn't absolve China from its economic predation.

Nor is this to say that if China had behaved like a normal, law-abiding WTO nation all would be well with America. Income inequality was not caused by China. Low productivity and wage growth were only partially caused by China. If China had lived up to its obligations, however, the world's faith in globalization would have suffered nowhere near as much as it has.

The "retreat from globalization" is not in full force.

ANNE O. KRUEGER
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The "retreat from globalization" is not in full force, although the world economy's momentum toward further integration has definitely diminished. Both arguments are partially right and partially wrong.

Globalization has been a huge success in the "west" over the past two centuries. The first among the "rest" to liberalize their economies and abandon policies of import substitution and high levels of protection were Hong Kong, Singapore, South Korea, and Taiwan. Their experience showed what a dramatic difference trade can make for social and economic wellbeing.

China, with her huge population, finally followed their example, removing high walls of protection and then joining the World Trade Organization around the turn of the century. The Chinese lowered their tariffs and other trade barriers sharply and eagerly embraced globalization. There was a huge jump in the growth rate and China's exports, especially of goods produced using unskilled labor intensively, boomed.

For the west, economic growth has been sustained by globalization itself, by reliance on the private sector with governments providing investment in physical and human capital, the rule of law, relatively market-friendly policies toward the private sector, and innovation. Most researchers have concluded that innovation drove above 80 percent of the increase in inequality that occurred in advanced countries and that globalization played at most a secondary role. Certainly imports from China were not the major factor in increased inequality in the west, although some towns and villages were hard hit when their few factories were shut down.

It is ironic that the claims about Chinese "unfair competition" center on the more upscale industries, while the inequality issue focuses on unskilled labor. Well before Chinese exports boomed, the industries that had to adjust most in the west were those using unskilled labor intensively, such as textiles, clothing, footwear, and assembly activities. With China's opening, the pressures on those industries in the west intensified.

The response should have been to create incentives and support for the mobility and relocation of those adversely affected by the shift out of "old" industries into new ones. Instead of addressing the problem (which, after all, was more the result of innovation than of more imports) that way, the response in the west was to weaken the policies that had led to so much success over the years.

There have been abuses by China of some of the rules of the game under the WTO. The best strategy for the United States and the west would have been to raise issues with the Chinese multilaterally through the WTO. Instead, the Trump administration launched a trade war with China. The Chinese, the United States, and most of the rest of the world have lost as a result.

It is in the interests of the United States and other countries to accelerate the upgrading of labor force skills and to increase the flexibility of their economies. China has much to gain by access to the open trading system. Multilateral negotiations through the WTO on alleged violation of WTO rules offer more promise than unilateral confrontations.

There is potentially a win-win situation in which the international economy continues to liberalize and globalization proceeds. Multilateral pressures on the Chinese would lead them to "play by the rules" and the world would continue to integrate. The Chinese and the west have much to gain by negotiating resolutions to actual problems. The west is shooting itself in the foot if it attempts turn protectionist and cut trading ties. If that happens, the situation will be lose-lose.

China's faults, legion that they are, did not destroy globalization.

GARY CLYDE HUFBAUER
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Americans who do not denounce China will soon be dismissed as panda-huggers or worse. But China's faults, legion that they are, did not destroy

globalization nor undermine American prosperity. To be sure, China's rise challenges the United States as the leader of frontier technology. That's a different matter. The U.S. response requires reforms at home, not "decoupling" from China—a polite term for launching a new Cold War.

U.S. objections to Chinese economic policies focus on three related grievances: state-owned enterprises, murky subsidies, and technology theft. These are important matters for the United States, Europe, and other advanced countries. They are far less important for China's trading partners in Asia, Africa, and Latin America.

Most countries are happy to buy cheap Chinese steel, solar panels, or semiconductors. They are not technological competitors with China. When Chinese subsidies deliver lower prices, that's just fine. And when China's Belt and Road initiative finances port and rail improvements, that's even better.

Countries that engage in international commerce, whether with China, the United States, or Europe, improve their living standards; countries that isolate stay poor. Expanding Chinese trade and investment was a major globalization driver between 2000 and 2020, to the great and mutual benefit of China and its partners.

Going forward, the United States should concentrate on specific Chinese policies that conflict with market norms, as Petros Mavroidis and André Sapir argue in their 2021 book, *China and the WTO*. The United States will neither benefit itself nor change China through a broad decoupling campaign.

But the United States can improve its own technology game by welcoming foreign engineers and scientists, budgeting more public funds for basic research and development, and enhancing corporate research and development tax credits. As Euijin Jung and I documented in our November 2021 report "Scoring 50 Years of U.S. Industrial Policy," research and development delivered the greatest American triumphs.

While building on its proven research strength, the United States can improve its sense of fairness by funding tertiary education for low-income families, by imposing 75 percent taxes on incomes above $20 million annually, and by extracting 75 percent death duties on estates above a billion dollars.

China's WTO behavior clearly impacted the growing U.S. trade deficit—a factor in the reduction in well-paid blue-collar jobs.

MARINA V. N. WHITMAN

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Globalization, as it is usually defined, has been in retreat since the financial crisis of 2008, for the first time since World War II. How much responsibility does China's accession to the World Trade Organization, and its subsequent behavior, bear for this development?

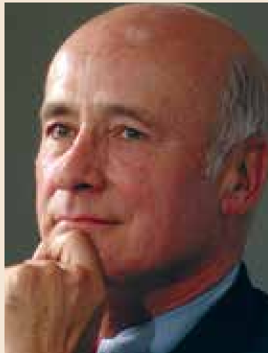
Initially, China apparently regarded WTO membership as a stimulus to domestic economic reform. But it quickly reverted to its proclivity toward theft of intellectual property and massive subsidies to domestic export products. To what extent did these "sins" contribute to the acceleration of U.S. "deindustrialization" and accompanying increase in this country's growing inequality in income, thereby becoming a factor in undermining globalization's political credibility?

China's WTO behavior clearly impacted the United States' growing trade deficit with that country, although by just how much remains controversial. And this development contributed to the outsourcing of American manufacturing activity. This, in turn, was a factor in the reduction in well-paid blue-collar jobs that underpinned this country's middle class, and acquired some of the blame for increasing income inequality in the United States.

A few considerations must be borne in mind, however, in making China the major scapegoat for these developments. China did not join the WTO until the end of 2001, whereas income inequality had been increasing in the United States since the 1980s. Furthermore, inexpensive Chinese imports reduced the cost of consumer goods in the United States, particularly for those goods whose consumption was weighted toward consumers at the lower end of the income scale. As China's income has rapidly increased, the type and quality of imports from China have moved upscale along with it. But when China first joined the WTO, its per capita income was only about 2 percent of that in the United States.

As for today, U.S. unemployment is extremely low; more jobs are available than there are job seekers, creating a situation widely felt as labor shortage.

And incomes at the lower end of the scale are increasing more than the overall average. Yet globalization continues to be on a downward track, particularly where the United States is concerned. This suggests that increasing globalization is not always and everywhere associated with economic prosperity.



Xi Jinping is more to blame for the current sour phase of relations than Trump.

JOSEPH S. NYE, JR.
University Distinguished Service Professor, Emeritus, Harvard University, former U.S. Assistant Secretary of Defense, and author, Do Morals Matter? Presidents and Foreign Policy from FDR to Trump *(Oxford, 2020)*

While Chinese analysts blame the current sour phase of relations on former President Donald Trump, Xi Jinping is more to blame. By rejecting Deng Xiaoping's prudent policy of maintaining a low international profile and by proclaiming his nationalistic "China Dream," Xi might as well have been wearing a red hat reading, "Make China Great Again." The conventional wisdom on globalization and the benefits of engagement with China had already begun to sour before the 2016 presidential election. Trump's rhetoric and tariffs were merely gasoline poured on a smoldering fire that China had lit.

The liberal international order and the American policy of engagement helped China sustain rapid economic growth and reduce poverty dramatically. But China also tilted the trade field to its advantage by subsidizing state-owned enterprises, engaging in commercial espionage, and requiring foreign firms to transfer their intellectual property to domestic "partners." Moreover, China's growing military strength added a security tension to the bilateral relationship.

It is a mistake, however, to talk about a policy of decoupling and deglobalization. China has become the leading trade partner of more countries than the United States. Partial decoupling on technology issues with security implications, such as that of Huawei, makes sense, but total economic decoupling would be very costly and few allies would follow suit.

Moreover, with regard to the ecological aspects of interdependence such as climate change and pandemics, the laws of physics and biology make decoupling impossible. No country can solve these transnational problems alone. The politics of global interdependence involve power with others as well as over others. For better and for worse, the United States is locked in a 'cooperative rivalry' with China, in which it needs a strategy that can accomplish two contradictory things at the same time. As borders become more porous to everything from illicit drugs to infectious diseases to terrorism, the two largest economies will have to cooperate to cope with these threats.

The key question is whether the United States is capable of thinking in terms of a managed competition. Can we walk and chew gum at the same time? In an age of populist nationalism, it is much easier for politicians to create fear about a new cold war.

China didn't "destroy" globalization because globalization hasn't been destroyed.

RICHARD JERRAM
Chief Economist, Top Down Macro

On most matters, it pays to disbelieve any denials by the Chinese government—"we won't militarize the islands" or "there is no persecution of Uighurs"—but in the case of the supposed destruction of globalization, the picture is less clear.

China's entry into the World Trade Organization was premature, but understandable. With thinking that now seems naïve, American politicians believed rising income would bring a shift toward democracy. And broadly speaking, globally there is a correlation, even though it hasn't worked out that way in the case of China.

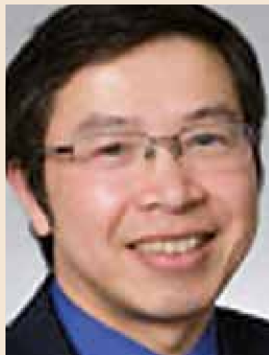
In economic terms, it's not clear China bent the rules much more than those that had gone before on the development ladder and shouldn't be blamed for acting in self-interest. We might point to intellectual property theft, abusive labor practices, and environmental

damage, but hundreds of millions have been lifted out of poverty. In aggregate, there isn't much doubt that the United States also benefited from its trading relationship with China, but there are certainly questions over the distribution of gains.

Here is where the picture becomes murkier. Globalization and stagnating incomes for the American working class certainly coincided, but causality is far less clear. Other factors—decline of unions, structural changes towards low-skilled services jobs, fiscal policy, technological shifts, and (as always) demographics—help to explain the rise in U.S. income inequality. Globalization has received more than its fair share of the blame.

Moreover, the entry of China into the global trading system was essentially a one-off shift (which took almost two decades) and seems to have run its course. This removes one of the dynamics behind globalization, but doesn't cause it to reverse. Similarly, technological changes and supply-chain concerns suggest globalization is reaching natural limits.

So these are the problems. First, it isn't clear that globalization shares too much of the blame for rising U.S. income inequality. Second, it isn't clear that policy changes in response to that inequality (which are hard to find, apart from non-participation in the Trans-Pacific Partnership) are making much of a contribution towards de-globalization. Indeed, it's even hard to argue there has been much de-globalization—more accurately, the process has stalled. China didn't "destroy" globalization, not least because globalization hasn't been destroyed.



Until the United States and China can remedy the wealth gap and China progresses in market liberalization, both will be confronted with domestic grievances on inequalities and trade issues.

HONGYI LAI
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The global economy today is densely interconnected and highly financialized. Distribution of these benefits, however, tends to be unequal within and among nations. Backlashes against such an inequality have held back globalization. This is manifest in the negative effects of named elements on China-U.S. economic exchange (the latest addition being the Russian-Ukraine war).

First, China has yet to live up to the expected liberalization of its market and subject state-owned enterprises to a level playing field. Chinese leaders such as President Jiang and Premier Zhu, who oversaw China's entry into the WTO, were more receptive to liberalization than their successors. President Xi Jinping has yet to materialize most of the economic reforms he promised years ago. Second, U.S.-China economic ties produce uneven benefits for social groups in both countries. Consumers, especially in the United States, enjoy the provisioning of inexpensive manufactured goods, certain ingenious products, and useful services. U.S. multinational corporations, especially tech and financial firms, have reaped the lion's share of the benefits, followed by their employees, political elites, middle-class consumers who can afford a great variety of Chinese products, and lastly low-income groups and small business in manufacturing sectors. In China, the benefits of linkage with the United States are felt by businesses with global ties, tech firms and their employees (including many rural migrants), as well the middle-class families who send their children to study in the United States and who purchase U.S. goods and services. However, family members of political elites and politically connected businesspeople are viewed as the most prominent beneficiaries. Wealth inequalities have increased in both nations in the recent decades.

Both governments have not yet effectively reined in this alarming trend. The fact that the top 1 percent of U.S. families own fifteen times more wealth than the bottom 50 percent combined is a painful reminder. In today's highly financialized economy, the wealthier groups enjoy the Matthew Effect—the rich get richer and the poor get poorer—more than ever and increase their wealth more rapidly than other groups. The super-rich can generate exceptional returns from their assets through investment in stocks, prime real estate, and a variety of financial schemes; they can pay off their corporate and personal expenses in non-tax-liable financial forms such as bank loans, and can move their assets across borders seamlessly to avoid taxes and fees. Governments around the world have not yet been able to reduce the wealth gap despite Biden's progress toward the global minimum tax rule. Xi attempts to mend this wealth gap by cracking down on corruption, calling for common prosperity, and extracting wealth from the high-tech and real estate sectors, but his efforts only serve to depress those sectors and the Chinese economy overall. Until governments in the United States and China can find an effective way of remedying the wealth gap and until China progresses in market liberalization, both governments will be confronted with domestic grievances on inequalities and trade issues in addition to rising living expenses and political upheavals. Populist schemes could be convenient responses but could hardly remedy the root causes of the problems.

China's emergence has created two huge positives and two huge negatives.

STEVEN B. KAMIN
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China's emergence onto the global economic scene has created two huge positives and two huge negatives. Starting with the positives, China's rapid development has not only reduced the number of its own citizens living in extreme poverty by almost a billion, but has also helped hundreds of millions of people in other developing countries rise out of poverty. And by adding so many workers to the global labor force and channeling them into tradable goods production, China's development has contributed to lower prices and higher consumption throughout the world.

But there have been huge negatives as well, and these have figured prominently in the backlash against globalization. Most obviously, the flood of cheap imports from China, along with advances in labor-saving technology, have undermined the livelihoods and social conditions of low-skilled workers in advanced economies, leading to rising support for protectionism. Additionally, the success of China's industrialization has helped fuel its global political and military ambitions, which under President Xi Jinping are becoming a serious threat to liberal democracy around the world. Both of these developments have undermined support for free trade and chilled relations between China and the West, as exemplified by President Biden's maintaining of the Trump tariffs on China.

Who to blame? Certainly, Western policymakers encouraged China's integration into the global economy, but the downsides were hardly obvious at the time, and the prevailing view that greater commercial engagement would beget greater democratic behavior made plenty of sense. Western policymakers also failed to adequately penalize China's currency manipulation and unfair trade practices. This was less justifiable, but most likely did not significantly alter the course of economic history—China's huge reserves of cheap labor, combined with the authorities' aggressive support of export-led industrialization, nearly guaranteed that China would become the new workshop of the world.

Rather, the most egregious shortcomings of Western policymakers undoubtedly were their failures to provide adequate financial support, retraining, and social services to those most injured by the globalization process. Such actions would not have made these people "whole"—the losers from disruptive economic change rarely regain their former status—but it would have helped to tamp down the anguish and resentment that has fueled backlashes against trade, immigration, and, in some cases, liberal democracy itself.

So if China wants to argue that Western policymakers dropped the ball, so be it. But China's policymakers have done plenty to spur the backlash against globalization as well. China's extensive barriers to entry, violations of intellectual property, and other unfair commercial practices—as well as the surveillance risks associated with its high-tech exports—have hardened the stance of Western trade negotiators. Its use of international lending as a diplomatic and geopolitical weapon threatens to undermine global financial stability. And its suppression of minorities and violations of human rights have made political rapprochement with the West more challenging. These issues, coupled with the failure of Western policymakers to tamp down protectionism, will make cooperation to reinvigorate the globalization process very difficult indeed.

The failure of globalization is a failure of care by American elites for vulnerable people and communities.

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The principal reason for the backlash against globalization in the United States and Europe is domestic policy failure, not Chinese malpractice. The economic dislocations in the United States that are often blamed on "unfair" Chinese competition—erosion of stable high-wage manufacturing employment, the hollowing out of industrial cities in the interior, rising income

and wealth inequality—have many sources, many dating back long before China's entry into the World Trade Organization. These include: technological change that reduced labor needs in manufacturing and enabled the rise of high-value services; the dramatic fall in shipping costs due to containerization, which made possible globalized supply chains; and regulatory and tax changes in the 1980s that disabled worker union power and enabled entrepreneurs and managers to greatly increase their share of national income through stock options and the monetization of intellectual property.

These technological, trade, and policy changes produced many benefits in aggregate, but also created dislocations and localized suffering. In general, the response of U.S. elites to these problems was to ignore them—unlike in Europe, where more generous social welfare systems afford an "automatic stabilizer" against economic shocks, or in China, where the government responded to the wrenching inequalities caused by its economic reforms with large-scale regional redistribution programs.

Cyclical macroeconomic policy errors also played a role. In the aftermath of the 2008 financial crisis, fiscal stimulus was relatively tepid, and the government made little effort to restore construction jobs lost during the crisis, which had provided high-wage employment to people without college degrees. Instead, it relied on ultra-easy monetary policy, which inflated asset prices, intensified the trend for economic activity to concentrate in a handful of coastal cities, and increased income inequality.

Finally, a key source of anti-globalization sentiment revolves around immigration, with communities under economic stress also fearing that the influx of newcomers will lead to a loss of status and power. Virtually none of this anti-immigration sentiment is directed at China. In Europe, it reflects a perception that EU leaders failed to properly manage the integration of East European countries, or to control refugee flows from the Middle East and Africa. In the United States, it mainly reflects anxieties over control of the southern border with Mexico.

Hence the idea that the erosion of support for globalization can be pinned entirely on China's WTO accession and subsequent sharp practices is frankly bizarre. China's terms for joining the WTO took fifteen years to negotiate and were far more onerous than for any other country. True, China played the advantages of global integration to the hilt, and found many ways—notably in subsidies—to get around the market-centric spirit of the WTO while complying with the letter of its obligations. Yet in many cases, the main victims are U.S. corporations, who find themselves with less market access than they want, rather than U.S. workers. The failure of globalization in the United States is a failure of care by American elites for vulnerable people and communities, not a failure by China to play by the rules.

No one has "destroyed" globalization.

RICHARD KATZ

Senior Fellow, Carnegie Council for Ethics in International Affairs, and author of a forthcoming book on how to nurture new, high-growth companies in Japan

So far at least, no one has "destroyed" globalization. The ratio of trade to GDP, for example, has not declined in the United States, merely leveled off, and it is still increasing in Europe. What has been derailed is the ability of governments in the United States and Europe to pursue new trade agreements and some, including in Washington, have engaged in episodes of outright protectionism.

Those who say China is the cause of rising protectionism contend that, by keeping the renminbi woefully undervalued, Beijing has destroyed jobs and lowered wages in import-competing manufacturing sectors, thereby inciting a backlash. The reality is that, although Beijing has certainly practiced mercantilism at times, China, NAFTA, the European Union, and immigration are being blamed for problems that mainly originate at home.

Yes, for a while, China's currency was greatly undervalued, and its global trade surplus soared to a peak of 9 percent of GDP in 2007. However, China reversed that policy years ago. During 2013–2020, its trade surplus averaged just 2 percent of GDP and, last year, JPMorgan rated China's currency the most overvalued among the thirty-two that it tracks. There is still a very serious problem with China regarding technology and intellectual property rights, but that's not what's driving populist politics.

Technology, not trade, is the main reason manufacturing jobs have plunged, including in trade surplus countries such as Japan and Germany. Just as it takes fewer farmers these days to feed a whole country, it also takes fewer factory workers. In 2015, it took 30 percent fewer American workers to produce 44 percent more output of autos and auto parts than in 2000 (measured in constant dollars). Even without a trade deficit, automotive jobs would have fallen almost as much: 27 percent. If one does a chart of the trend in factory jobs as a share of all American jobs over the past decades, there's not even a blip in the trend line following China's entry into the World Trade Organization.

Why, then, do imports and immigration get so much blame? Mostly because workers don't want to be told they are losing jobs and wages to some impersonal force; they prefer a more personal target for their outrage. Studies of the United States and France show that, in locations where automation is demonstrably the biggest factor in lost jobs and wage cuts, there is an upsurge of nationalist sentiment blaming imports and immigrants. Across rich countries since the 1980s, real wages per hour have not kept up with real GDP per hour of work, as they traditionally did. This is not due to imports but to labor's loss of political power.

What is needed are not lectures on free trade but measures that address the real causes of worker anguish. This would include adjustment measures for those who lose their jobs, whether to imports or technological improvements, as well as measures to overcome wage suppression. When employers and politicians who oppose such remedies seek the source of anti-trade populism, they can find the answer by looking in the mirror.

The discussion here is not about globalization, but about geopolitics.

CHEN ZHAO
Founding Partner and Chief Global Strategist, Alpine Macro

China-bashing is closely linked to anti-globalization, and both were espoused by former U.S. President Donald Trump, who actively promoted the idea that it is China that has stolen American jobs and destroyed the U.S. manufacturing industry. The argument has been largely motivated by U.S. domestic politics, particularly the 2016 and 2020 presidential campaigns.

Unfortunately, the anti-China narrative, false accusations, and misinformation have been continued by the Biden administration, and become widely accepted by the Western public, media, and both sides of the aisle in the U.S. Congress.

I want to make three quick points.

First, China has been and continues to be a transitional economy moving from a centrally planned system to a market-based economy. Compared to ten, fifteen, and twenty years ago, the Chinese economy is much more open and a lot closer to a market-based system than at any time in its own history. It is not that the United States did Beijing a favor by allowing China to enter the World Trade Organization, as many are arguing now. It is because the U.S. government saw growing business opportunities for the West in opening the Chinese market, and Beijing saw the WTO membership as an opportunity to expand China's manufacturing businesses.

There is no question there are unfair trade practices from China, but is the West completely playing fair either? There have long been strict export restrictions to China, and many Chinese goods have been off-limits to the U.S. market. President Trump's trade war with China and Europe further ripped globalization apart, and his administration even threatened to quit the WTO. To blame Beijing for destroying globalization is both untrue and unfair.

Second, globalization is all about gaining economic efficiency, period. It can bring about economic prosperity, but it cannot resolve the problem of income equality. If domestic policies cannot address the issue of income inequality, neither can globalization. In fact, globalization, while creating an enormous amount of wealth for trading partners, can make income distribution even more uneven and lopsided.

Between 1990 and 2010, America's per capita GDP growth was the fastest in her entire postwar period and U.S. corporate profits chronically outgrew nominal GDP by large margins, leading to a huge rise in corporate profits as a share of GDP. This had much to do with corporate outsourcing, labor cost arbitrage, and a sustained fall in inflation which had much to do with globalization. It is also true, however, that since 2000, labor compensation as a share of GDP has plummeted and real wages have stayed virtually unchanged.

Is China to blame, or is it U.S. domestic policy? Why do similar problems not exist in many other OECD countries? Moreover, until the most recent decade, Chinese exports were primarily low-value-added, labor-intensive products. How has China stolen jobs from the United States where low-cost, labor-intensive industries have been long gone since the 1960s and 1970s?

Finally, from banning Huawei to blacklisting several hundred Chinese tech companies for security reasons without providing a shred of evidence, to recent reports of the Biden administration pressuring ASML to stop selling chipmaking machines to China, all these actions have moved far beyond the boundaries of the commercial and trade arena.

These American actions are clear efforts to contain the Chinese economy, so we should deal with the issue as it is: The discussion here is not about globalization anymore, but about geopolitics. Can the West tolerate China

having a dominant economy in the world, particularly given that China is a country where the civil laws that govern, the cultural laws that value, and the political laws that regulate are all vastly different from the West?

So far, the answer seems to a no. This will guarantee persistent geopolitical tensions, which will continue to fuel de-globalization and economic decoupling in years to come.

To argue that China has destroyed globalization is crazy.

JIM O'NEILL

Former Commercial Secretary to the Treasury, United Kingdom, and former Chairman, Asset Management, Goldman Sachs International

I am surprised that serious analysis thinks like this, to be quite candid. From a U.S. perspective, it has structurally had a very low domestic savings rate, and with it, relied on net overseas capital for its additional capital. As the overall balance of payments is merely an accounting identity, this means the United States keeps running structural trade and current account deficits, where other countries typically export more to the United States than they import.

Throughout my forty years of thinking about this question, Germany has often been criticized for its role in this problem for the United States, Japan, of course even more, and for the past twenty years, China. Unless or until the United States starts to boost its domestic savings rate more, there is always going to be another country to blame. The fact that the current country is some weird, hard-to-understand communist-led one simply adds to the ease with which it can be blamed.

Yes, China is guilty of many things, including in this regard a far-too-high domestic savings rate, so it has to send capital overseas and with it, run current account surpluses. Would the United States be so concerned if China, as it has shown signs occasionally of a structurally lower domestic savings rate since 2008, had less money to send overseas, and with it, more balanced trade, despite all the other supposed evils continuing?

Now think about it from the perspective of other countries. Many have seen exports to China being so powerful that China is their number-one export market. Germany, the cornerstone economy of the euro area, just reported its sixth consecutive year of China being its number-one overall trade partner, including both exports and imports.

As suggested in part of the question, it is the case that China has taken hundreds of millions of people out of poverty. In its urban areas, many have such wealth that I reckon there are probably four to five times as many Chinese people enjoying the same incomes as the average British citizen, an astonishing achievement for such a country.

To argue that China has destroyed globalization is really quite crazy, in my view. Many countries' overall GDP per capita has risen significantly as China has become bigger, that of the United States included. It is not China's fault that productivity has weakened in so many western economies, almost definitely the main reason for such disappointing progress in real income growth, unless you can really argue that China's rise in manufacturing has directly reduced manufacturing activity in other countries, and exposed the non-manufacturing sector, which is incapable of improving productivity.

As for the never-ending accusation of China manipulating its currency to be weak to maintain artificial benefit, it is very questionable, and at times, laughable. Those few, my old firm included, and myself historically that undertook statistical analysis to assess the equilibrium value of currencies, generally show that the RMB stopped being undervalued quite a few years ago.

The West needs to better deploy the WTO to discipline China.

SIMON LESTER

President, China Trade Monitor, and Non-Resident Fellow, Baker Institute

Some argue that China's system of state-oriented capitalism is incompatible with the market-oriented economic systems of the United States and other countries, and this situation effectively means that China

doesn't "play by the rules." China's policies and behavior, they say, undermine the world trading system and globalization more generally, and as a result the decision to allow China into the World Trade Organization was a mistake.

The problem with this argument is that the counterfactual of China not joining the WTO would leave the United States and the rest of the world in a worse position. Without the WTO to provide disciplines, China would be able to act without any significant constraints.

WTO rules provide the same basic disciplines on Chinese trade and regulatory policies that they do on every other member of the WTO. As part of its accession, China agreed to lower tariffs and comply with principles such as non-discrimination in its treatment of imported goods. When governments believe China is not complying, they can file a complaint at the WTO, and many have done so successfully over the years.

But WTO rules go even further than that for China. The countries that negotiated with China on its accession were aware of China's non-market practices and came up with special rules to address them. For example, if a government is concerned about the behavior of Chinese state-owned enterprises, China's accession documents confirm that China will "ensure that all state-owned and state-invested enterprises would make purchases and sales based solely on commercial considerations."

But the WTO agreements are not self-enforcing. Governments need to bring complaints against other governments when they see a violation. On the issue of state-owned enterprises, governments simply have not pressed China through formal complaints.

Why not? One part of the answer seems to be about evidence gathering, and while that is a real problem, the WTO's dispute settlement procedures do allow adjudicators to seek evidence from the parties and find against them if it is not forthcoming. Another part of the explanation is that the United States was distracted with the War on Terror in the time period immediately following China's WTO accession. If the United States had made China's trade practices a primary focus back then, things could have turned out very differently.

It would have been better if people had focused on these issues earlier, but it's not too late to use existing tools. WTO obligations offer a number of possible avenues for governments seeking to challenge China's practices (although these rules might benefit from some refinement). How far can these obligations go in addressing the concerns? The answer is unclear, but nevertheless this avenue is worth a try, especially given that no one has proposed alternatives that could work better. By taking these actions and showing how the WTO can discipline Chinese behavior that is perceived as "unfair," the United States could help restore faith in globalization.

It is simply not the case that globalization "led to economic hardship among working-class families."

STAN VEUGER
Senior Fellow, American Enterprise Institute

Instead of accepting either of the views presented here as correct, I would strongly dispute the premise underpinning the disagreement. It is simply not the case that globalization "led to economic hardship among working-class families." In fact, if we think of the modern era of globalization as having started around 1990—around the fall of the Berlin wall and the dissolution of the Soviet Union—the opposite holds true.

My colleague Michael Strain likes to use July 1990, a business cycle peak, as the base period for comparisons along these lines. Average real wages for production and non-supervisory jobs have grown by around 20 percent between then and now using the CPI, or by about 40 percent using the PCE. In fact, it's the twenty years before 1990—with price and wage controls in the United States, no NAFTA, and closed, centrally planned economies in eastern Europe and much of Asia—that were a disaster of wage stagnation.

Of course, the ebbs and flows of the free-enterprise system do not benefit everyone on any given day, and one can easily find people whose economic circumstances were negatively affected by import competition. But no cost-benefit analysis worth its salt should count only those costs.

What is true is that disastrous land use policies across much of the West have made it difficult for the benefits of globalization to materialize fully. Restrictions on the construction of new housing in superstar regions have excluded many less-privileged workers from reaping the fruits of agglomeration economies. At the same time, immigration restrictions and dropping fertility have contributed to the depopulation of other regions. Not coincidentally, those are often regions where cultural maladies have led to significantly intensified or even self-inflicted economic harm.

But those are errors wholly unrelated to the attitudes and policies typically associated with globalization—openness, freedom of movement, free trade, liberalized capital flows. Similarly orthogonal are the cruel and authoritarian domestic policies of Chinese dictatorship. It is those policies that should be the target of our ire, not the recipe for success that is globalization.

China's rapid integration into the world economy is a sad case study of globalization done the wrong way.

GREG MASTEL
Senior International Trade and Tax Adviser, Kelley, Drye & Warren

Over the course of only a decade or so, "globalization" went from being the catch phrase of America's elite to one of the new dirty words of American politics. Rarely has a word managed to plunge from "riches" to "rags" in such a short time. The early champions of globalization mostly failed to even acknowledge that the economic churning brought on by increased trade and investment across national borders offered opportunity mostly to the already wealthy and well-educated while increasing economic uncertainty for most others.

Still, some forms of globalization have had real benefits for the United States. The NAFTA is one good example of a positive globalization initiative for the United States. Ironically, the 1993 Free Trade Agreement between the United States, Canada, and Mexico was vilified by globalization's harshest critics after the agreement was struck. The increased economic ties with our moderately sized North American neighbors, however, allowed the United States to expand markets for U.S. companies while integrating production lines across borders to better match Asian competitors. It also increased the wealth of the "neighborhood" which had economic and social benefits.

China's rapid integration into the world economy is a sad case study of globalization done the wrong way. With a growing population now numbering 1.4 billion citizens, China's enormous size probably always made it inevitable that integrating China into the world economy would create shocks and suffering. Moving forward with integration quickly with the United States granting China most-favored nation status in 2000 and China joining the World Trade Organization in 2001 created a painful adjustment tidal wave that hit the American working class hard.

That shock, however, was made much worse by China's mix of authoritarianism, state control of industries, technology theft, forced prison labor, and a mercantilist trade policy that denied the United States the benefits it was due from freer trade with Beijing. China remains almost the worst imaginable trading partner for the United States.

Most of the blame for the ongoing policy disaster of integrating China into the world and U.S. economies lies with Beijing. We should, however, not forget the seeming legion of American China apologists, many of whom were CEOs of leading companies, who criticized anyone who even questioned the full-fledged China embrace. The ongoing realization that China employs an extensive prison labor system built on the literal backs of ethnic minorities and religious dissenters has devastated the reputation of many global brands that happily relied on that system for key products. More recently, western companies that relied on Chinese sourcing have experienced severe supply chain disruptions as U.S. authorities began enforcing laws against imports produced by China's slave labor system.

Though the change has come far too slowly, the dreams of the golden Chinese market have gradually been replaced with the reality that Beijing intends to preserve the Chinese economy for the benefit of China. Simply put, those that do business with China do so at their own considerable risk.

A deglobalization movement now is unlikely to gain traction.

JAMES E. GLASSMAN
Head Economist, JPMorgan Chase & Co., Commercial Bank

The nation's economic destiny is solely in the hands of domestic economic policies and domestic forces. It isn't shaped (harmed) by the economic ambitions of others who choose to open their borders to outsiders in hopes of raising the living standards of their citizens. Economic opportunity is not a fixed quantity. The economic successes of underdeveloped economies do not come at the expense of the developed economies. In fact, the economic successes of developing economies, which are lifting global living standards at an extraordinary pace, benefit everyone because they expand global economic opportunities as well.

Globalization, including China's economic rise, has been challenging for some industries. Many furniture

and apparel businesses relocated elsewhere, many to China at the turn of the new millennium. Foreign competition has been challenging for workers in the United States who are competing with lower labor costs elsewhere. And protection of intellectual property rights is always a challenge in times of rapid economic development, mostly as a result of disparities in the stage of economic development. But economic progress typically promotes a growing appreciation of the need for rules to protect intellectual property. It is important to recognize, however, that the benefits of globalization, although difficult to quantify and not always visible, are greatly underappreciated by the general public.

The rise of China's presence on the global scene has little to do with the economic hardship among working-class families. The widening distribution of income that is symbolic of the plight of American workers has more to do with technological innovation—the digital revolution—that has been transforming economic life for decades. The strains associated with technological innovation in the United States and frankly all advanced economies—approximated by the widening distribution of income—began in the late 1960s, referring to the rise in the Gini Coefficient (a popular metric that traces the evolution of the distribution of income).

In other words, the challenges for American workers emerged long before China's entry into the World Trade Organization in 2001. The robots on the factory floor, the shift from brick-and-mortar retail outlets to e-commerce, and the spread of artificial intelligence come to mind. It's not surprising that the criticism of globalization tends to be directed at China, owing to the sheer scale of her economic progress that has created an economy the size of the U.S. economy in the span of two decades.

Notably, China's emergence onto the global scene has less to do with the decision by U.S. politicians in giving a green light to her entry into the World Trade Organization and more to do with China's decision to open her borders and allow global businesses to operate in her markets. That is a reminder that globalization has been and will continue to be dictated by others, not those in the developed economies, to open borders and join the global community. The sobering disparity in global living standards, which is driving the economic ambitions of emerging economies, is a reminder that the economic incentives powering globalization remain powerful.

Ironically, the U.S. economy has performed spectacularly over these past two decades since China joined the World Trade Organization in 2001, according to the broad metrics of economic performance. Unemployment has declined to the lowest level in half a century, despite the disruptions from the pandemic. Although unemployment at 3.5 percent is well below consensus estimates of the level consistent with stable inflation (the NIIRU), inflation was stable for two decades, baffling experts. Today's inflation pressures likely will prove to be as temporary as the pandemic collapse was, because most of the pressures are rooted in temporary supply-side dislocations or are a temporary result of the Ukraine war. China's progress can't be described as stealing jobs from America when domestic businesses have 11.3 million jobs they can't find people for.

The U.S. current account deficit, the broadest measure of commerce with others, is no different today as a percent of GDP than it was the day China joined the WTO. A rise in exports of services (mainly education and financial services) has counterbalanced a modest expansion in the trade deficit in merchandise. Globalization has enabled manufacturing businesses to improve operations by breaking up processes and offshoring lower-value-added segments to emerging economies. And profits of American companies have climbed far above post-World War II norms.

All of this has occurred at a time of unprecedented demographic challenges in the United States. The stock market echoes these favorable macroeconomic trends. Despite this year's setback from record-high valuations at the start of the year, in the face of the Ukraine war and the Federal Reserve's policy shift to more normal interest rates, the value of the equity market has climbed in this millennium to 1.5–2 times the size of the U.S. economy, far above parity in the best of times for most of the last century.

A deglobalization movement now is unlikely to gain traction, because the economic benefits of globalization far outweigh the challenges. America's growing labor shortage—businesses say they have more than eleven million jobs they cannot staff with American workers and manufacturers have one million unfilled jobs—and rising cost of labor relative to elsewhere add to incentives to move some production elsewhere. And those choosing to withdraw from the growing integration of the global economy will miss out on significant economic opportunities in emerging markets. The economic ambitions of underdeveloped economies have been and remain in the drivers' seat of globalization. ◆

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