China and the United States: Trade Conflict and Systemic Competition

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The Three Shocks

1. Trump abdication of US global economic leadership
   A. Including attacks on US allies/hegemonic coalition
   B. And Trump is not alone in US in criticizing globalization

2. Xi dash for dominance?
   A. To realize “China Dream” on accelerated timetable
   B. Buttressed by his consolidation of political power
   C. As US creates leadership vacuum
   D. And discredited itself in Chinese eyes with 2008 financial crisis

3. China’s reversal of economic policy: from marketization (1978-2008) to renewed primacy for the state/central control/SOEs
   A. As projected further via “Made in China 2025” program
   B. And plans to dominate global Internet
Three Systemic Alternatives

1. G-0: no national leader
   A. US unwilling, China not yet able or willing
   B. Unstable, replicating “Kindleberger trap” (G0u)?
   C. Or stable, system holds without traditional leader as it has so far (G0s)?
   D. Key supporting role of EU (and China?) and the international institutions

2. G-1
   A. China replaces US as US replaced UK
   B. Providing an international economic order with Chinese characteristics
      i. Less market, more state
      ii. Less rule of law, more voluntary/nonbinding agreements
      iii. Less democracy, more autocracy
      iv. Less globalization, more national sovereignty

3. G-2
   A. China and US cooperate to lead system
   B. Functioning within existing formal institutions (IMF, WTO) and informal steering committees (G-20, APEC)
A Proposed Action Program

1. China to join new US-EU initiative to reform WTO
   A. Write new rules on key issues
   B. Thus resolving some of key current and systemic issues

2. China to join CPTPP, inducing US to rejoin so both could do so together
   A. Reduce barriers
   B. Write new rules on key issues

3. Major reforms of IMF (already scheduled)
   A. To provide it with adequate resources to deal with future crises
   B. And restructure its governance to provide more appropriate role for China (and other emerging markets)