China Has Already Remade the International System

How the World Adopted Beijing's Economic Playbook

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Trucks loaded with shipping containers outside Shanghai, February 2025Go Nakamura / Reuters

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In early February, as he flew in Air Force One above the body of water he'd recently renamed the Gulf of America, President Donald Trump declared that he would levy tariffs on all imported steel and aluminum. Two weeks later, he issued a presidential memorandum laying out new guidance for screening investment from Chinese firms in the United States and U.S. firms into China. And throughout the early weeks of his administration, Trump has emphasized the importance of bringing manufacturing back home, telling firms that, to avoid tariffs, they should make their products in the United States.

Tariffs and protectionism, restrictions on investment, measures designed to drive domestic production: Washington's economic policy suddenly looks an awful lot like Beijing's policies over the last decade or so—like Chinese policy with American characteristics.

The U.S. strategy of engagement with China was based on the premise that, if the United States incorporated China into the global rules-based system, China would become more like the United States. For decades, Washington lectured Beijing about avoiding protectionism, eliminating barriers to foreign investment,

and disciplining the use of subsidies and industrial policy—with only modest success. Still, the expectation was that integration would facilitate convergence.

There has indeed been a fair degree of convergence—just not in the way American policymakers predicted. Instead of China coming to resemble the United States, the United States is behaving more like China. Washington may have forged the open, liberal rules-based order, but China has defined its next phase: protectionism, subsidization, restrictions on foreign investment, and industrial policy. To argue that the United States must reassert its leadership to preserve the rules-based system it established is to miss the point. China's nationalist state capitalism now dominates the international economic order. Washington is already living in Beijing's world.

OPENING UP?

In the 1990s and the early years of this century, there was every indication that China was on an inexorable march toward economic liberalization. Building on a process that began in the late 1970s under the Chinese leader Deng Xiaoping, China opened up to foreign investment. President Jiang Zemin and Premier Zhu Rongji then kept China on a remarkable, if painful, path of economic reforms. They restructured state-owned enterprises and fired tens of millions of their workers, created more space for private sector activity, allowed businesses to adjust prices in response to market conditions, and ushered in China's entry to the World Trade Organization.

Jiang and Zhu declared repeatedly that China would inevitably continue to open up. Many in the West went so far as to believe that this economic liberalization would lead to China's political liberalization, that a capitalist society would become a more democratic one over time. That assumption proved false. China's leaders never seriously contemplated political reform, but China's economic advancement was impressive nonetheless. The country's GDP grew from $347.77 billion in 1989 to $1.66 trillion by 2003 to $17.79 trillion in 2023, according to the World Bank. Hopes were high that integrating China into the rules-based trading system could lead to a more peaceful and more prosperous world. Globalization did lift more than a billion people out of poverty, an astounding feat. But the benefits of that progress were not evenly shared, and some workers and communities in industrialized countries ended up paying the price for the rise of the rest.

Then President Hu Jintao entered the picture, followed by President Xi Jinping. China's economic trajectory turned out to be less linear and less inevitable than initially expected. Under Hu, China leaned more heavily into state intervention in the economy by aiming to create "national champions" in strategic sectors through massive subsidies. In other words, the government expanded its role rather than pursuing further market liberalization. At the same time, a flood of cheap Chinese imports accelerated the trend toward deindustrialization in the

United States—and did so at a rate that few, if any, fully anticipated. China became the world's manufacturing floor, overtaking the manufacturing giants of Japan and Germany in the first decade of this century. In 2004, China made up nine percent of the world's manufacturing value added, leapfrogging to a massive 29 percent in 2023, according to the World Bank.

HOW CHINA WON

Washington pressed Beijing to deliver on its reform agenda throughout this period, urging China to open its markets and refrain from imposing high tariffs and other barriers on products being exported from the United States. It advocated for U.S. firms to be allowed to invest in China without being excluded from certain sectors or required to enter joint ventures with—and transfer U.S. technology to—local firms. And Washington demanded that the Chinese government stop subsidizing the production and export of goods, which distorted the global marketplace. But this litany of complaints was largely ignored.

In 2009, the Obama administration led an effort to terminate the Doha Round—a multilateral trade negotiation under the World Trade Organization launched in 2001. It did so in large part because the resulting agreement would have enshrined China permanently as a "developing country" under WTO rules. This would have allowed China to enjoy "special and differential treatment," which meant that China would have been able to avoid assuming the same level of obligations and disciplines—on market access, intellectual property rights protection, and other issues—as the United States and other industrial countries. Washington faced near-universal criticism at the time for encouraging a rethink of the premises of the negotiation. But it was clear even then that, left unaddressed, China's economic practices would significantly disrupt the global trading system.

The United States is already living in China's world.

Similar concerns motivated the Obama administration to pursue the Trans-Pacific Partnership, a high-standard trade agreement negotiated among 12 countries around the Pacific Rim. This initiative was designed to give countries in the Asia-Pacific region an attractive alternative to the model China offered. It brought together a group of diverse countries that were willing to set strong labor and environmental protections, limit the use of subsidies, impose discipline on state-owned enterprises, and address various China-specific concerns, such as intellectual property rights protection. By the time the TPP negotiations were completed in 2015, however, trade agreements—even those designed to counterbalance China—had become politically toxic at home, and the United States ended up pulling out of the agreement.

From 2009 to 2017, I served first as deputy national security adviser for international economic affairs and then as U.S. trade representative. During that

time, I consistently warned my Chinese counterparts that the benign international environment that had enabled China's success would disappear unless Beijing modified its predatory economic policies. Instead, China largely maintained its course of action. If anything, it doubled down on its approach. When Xi came to power in 2012, he effectively ended the era of "reform and opening" that had already stalled under Hu, set China on a course to dominate critical technologies, increased production to the point of overcapacity, and committed to export-led growth. Today, as the economist Brad Setser has noted, China's export volume is growing at a rate three times as fast as global trade. In the automotive sector, it is on a trajectory to have the capacity to produce two-thirds of the world's automotive demand. And its dominance extends beyond cars; China also produces more than half the global supply of steel, aluminum, and ships.

Eventually, even American businesses, which had always been the ballast in the bilateral relationship, soured on China as their intellectual property was stolen or forcibly licensed, their market access to China was severely restricted or delayed, and China's subsidies and preferences for domestic firms ate into their opportunity. Without any semblance of reciprocity, the relationship deteriorated. Politicians of both parties and the American public hardened their stance on China. European and major emerging economies grew hostile to Beijing's policies, as well. In short, the benign international environment disappeared.

Working on an electric vehicle production line in Zhejiang Province, China, March 2025Florence Lo / Reuters

Washington, having failed to convince Beijing to change its predatory economic policies or to move forward with an alternative trading bloc to counterbalance China, was left with one option: the United States had to become more like China. After decades of berating China for imposing high tariffs and other restrictions on U.S. exports, the United States is now putting up the same barriers. As calculated by the economist Chad Bown, Trump imposed tariffs that

increased the average rate on imports from China from three percent to 19 percent in his first administration, covering two-thirds of all imports from China. President Joe Biden maintained those tariffs and added tariffs on other Chinese products, including personal protective equipment, electric vehicles, batteries, and steel, slightly increasing the average tariff on imports from China. Less than two months into his second administration, Trump has imposed an additional 20 percent tariff on all U.S. imports from China—a bigger move than the tariffs of his first administration and the Biden administration combined.

Similarly, the United States changed its approach from opposing barriers to most bilateral investment flows to severely restricting China's investment in the United States and U.S. investment in certain sensitive sectors in China. Annual Chinese investment in the United States plummeted from $46 billion in 2016 to less than $5 billion in 2022, according to the Rhodium Group. And having urged Beijing to abandon subsidy and industrial policies, Washington itself went all-in on industrial policy during the Biden administration, laying out at least $1.6 trillion on the 2021 Infrastructure Investment and Jobs Act, the 2022 CHIPS and Science Act, and the 2022 Inflation Reduction Act.

IF YOU CAN'T BEAT THEM, JOIN THEM

To take the Chinese approach one step further could mean adopting a key tool in Beijing's toolbox: requiring Chinese firms that invest abroad to establish joint ventures with domestic firms and engage in technology transfers. Such a strategy could enhance not just American industrial competitiveness but also that of other countries negatively affected by China's overcapacity, including many in Europe.

Take the clean energy sector as an obvious example. China's electric vehicle manufacturers innovate faster and produce high-quality vehicles far more cheaply than U.S. firms; some Chinese vehicles are as much as 50 percent less expensive than their American equivalents, and China accounts for nearly 60 percent of global electric vehicle sales worldwide. China's battery producers, solar panel manufacturers, and clean energy equipment companies have similar advantages.

In the United States, China's market share in electric vehicles is nearly nonexistent. Current tariffs and other restrictions are likely to prevent any future influx of imports. At the same time, European auto manufacturers, particularly those in Germany, are getting squeezed by domestic preference policies and the competitiveness of domestic firms in the Chinese market, which they have depended on for growth. And lately, China has been making inroads in the European market, too. The European market share of Chinese electric vehicles grew from virtually zero percent in January 2019 to over 11 percent in June 2024.

Following the United States' lead, Europe introduced tariffs on Chinese-made electric vehicles late last year. This slowed the growth in China's market share. But just holding off a rise in imports may not solve the European auto industry's problems. To maintain jobs and manufacturing capacity, Europe appears to be open to Chinese investment in electric vehicle production in Europe. (By contrast, it is unclear whether Trump would welcome such investment or would continue to ban Chinese electric vehicles in the U.S. market because of their potential to track citizens' movements or shut down traffic.) If Europe is to avoid becoming merely a destination for final assembly of Chinese electric vehicles, it might have to borrow a tactic from Beijing and require Chinese companies to enter into joint ventures with European firms and transfer technology and know-how to them.

HOW TO OUT-CHINA CHINA

It is not yet clear whether the United States can outmaneuver China with its own playbook. Beijing seems to have near-unlimited capacity to mobilize capital and manipulate trade and investment policy in service of its long-term objectives. Washington's Inflation Reduction Act and the CHIPS and Science Act, meanwhile, were more likely historic anomalies than first steps in a broader trend toward greater industrial policy, given the uneasiness among Republican lawmakers over their passage. Indeed, even as he seeks to boost the U.S. semiconductor industry, Trump has called for the repeal of the CHIPS and Science Act, which provides subsidies for semiconductor manufacturing. The subsidies provided by the Inflation Reduction Act are likely to face political challenges, too.

There is an active debate over whether the Biden administration got sufficient bang for its industrial policy buck beyond a few key sectors. U.S. investment in manufacturing has surged, and arguably industrial capacity has expanded. But as the economist Jason Furman pointed out in *Foreign Affairs* earlier this year, "The proportion of people working in manufacturing has been declining for decades and has not ticked back up, and overall domestic industrial production remains stagnant—in part because the fiscal expansion Biden oversaw led to higher costs, a stronger dollar, and higher interest rates, all of which have created headwinds for the manufacturing sectors that received no special subsidies from the legislation he championed." Wherever one comes down in this debate, one thing is clear: even in the sectors that the Biden administration subsidized, such as semiconductors and green energy, the path to regaining global leadership is long and uncertain.

The United States may play the protectionist game as well as others, but soon, inflation, higher costs of living, and job losses in industries or sectors affected by other countries' retaliation will begin to bite. Trump appears to believe that a wall of tariffs—as well as the uncertainty about whether tariffs are on or off at any particular moment—is a powerful incentive for companies to locate their

production in the United States, where they can be sure their goods will not be subject to tariffs. But as a general matter, companies that consider making the necessary capital investments to spur industrial production in the United States are looking for predictable policy environments, not tariffs that are imposed in the morning and withdrawn in the afternoon. Most may decide to sit on the sidelines, keeping their powder dry, until it becomes clearer what tariffs are going into effect, against whom, and for how long.

After berating Beijing for its restrictions, Washington is putting up the same barriers.

The historical record of tariffs driving expanded production and manufacturing jobs in the United States is far from definitive. Take, for example, the tariffs imposed by Trump in 2018 on Chinese imports. As a 2024 paper by Federal Reserve researchers Aaron Flaaen and Justin Pierce found, “Tariff increases enacted since early 2018 are associated with relative reductions in U.S. manufacturing employment and relative increases in producer prices. In terms of manufacturing employment, rising input costs and retaliatory tariffs account for the negative relationship, and the contribution from these channels more than offsets a small positive effect from import protection.” Some research has suggested that 75,000 downstream manufacturing jobs have been lost as a direct result of the tariffs, not to mention additional losses from retaliatory tariffs. The economic experts Benn Steil and Elisabeth Harding have also found that productivity in the U.S. steel industry tanked while productivity in other sectors rose since Trump imposed 25 percent tariffs on steel imports in March 2018. Output per hour in the U.S. steel industry has tumbled by 32 percent since 2017.

Perhaps Trump’s approach to moving production back to the United States will bear fruit, but for that to happen, the U.S. government would have to permit foreign firms to actually make such investments. Both Biden and Trump opposed the Japanese company Nippon Steel’s acquisition of U.S. Steel, and U.S. policymakers are still debating whether Saudi Arabia’s Public Investment Fund can acquire a controlling stake in the PGA Tour, which organizes U.S. golf tournaments—hardly a critical industry.

The United States and others are imitating China in large part because China succeeded in a way that was unexpected. Its success in electric vehicles and clean technology did not come from liberalizing economic policies but from state interventions in the market in the name of nationalist objectives. Whether or not the United States can compete with China on China’s playing field, it is important to recognize a fundamental truth: the United States is now operating largely in accordance with Beijing’s standards, with a new economic model characterized by protectionism, constraints on foreign investment, subsidies, and industrial policy—essentially nationalist state capitalism. In the war over who gets to define the rules of the road, the battle is over, at least for now. And China won.