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What Have We Learned from the Past
25 Years of U.S. Economic Policy on China?

REMARKS BY

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It is an honor for me to deliver the Susan Shirk annual lecture. I have long admired Susan for her critical contributions to our understanding of China and to high level U.S. policy on China, and for her work training the next generation of China scholars. It is also a privilege to share this discussion with Charlene Barshefsky.

Sustaining America's edge relative to China in strategic sectors of the future is one of the most important policy challenges facing America. Since 2000, U.S. economic policy making has veered from encouraging China's integration into the international trade and financial system, to pressing China to be a responsible stakeholder of that system, to countering China's efforts to reorder the system. Today, I will reflect on what we have learned from past economic policy toward China before turning to a consideration of current policy and how it could be strengthened.

U.S. administrations from both parties took a calculated bet that integrating China into the global trade and financial system would pay off for the United States and lead China to a liberalization path similar to South Korea. Instead, China's unbalanced export expansion and extensive ongoing nonmarket practices, together with the lack of an effective U.S. policy response, harmed America's factory towns and soured public attitudes to trade not just with China but the world. China's rapid rise as a strategic competitor exacerbated the U.S. political costs.

In effect, the United States took a bet that China's integration into the rules-based trading system would change China, but China's massive imbalances instead severely tested the system. China's WTO entry effectively expanded the global labor supply by more than one-third and caused a massive manufacturing supply shock.

During this period, the United States failed to mount an effective policy response. U.S. negotiators had used significant leverage to secure a special "Section 421" safeguard that authorized restrictions on Chinese imports in U.S. industries that could meet a relatively low bar of market disruption. To my surprise, the Bush administration never invoked the Section 421 safeguard despite a [greater than three-fold surge](#) in imports from China and substantial damage to U.S. manufacturing. Although the Obama administration invoked Section 421 for the U.S. tire industry in 2009, it declined to use it to recapture America's lead in solar panels, a key future-oriented sector. The special 421 safeguard expired in 2013.

Second, the United States did not secure enforceable restrictions on forced technology transfer. Since joining the WTO, China has engaged in extensive [intellectual property theft](#), including through forced technology transfer and cyber intrusions, which have been documented in U.S. government [investigations](#). This has had important costs for the United States in the national security arena as well as commercially.

Finally, not only did U.S. policy insufficiently protect American businesses, workers, and technologies, but it also declined to promote investments at home to counter China's industrial policy. When it became clear China would maintain extensive state involvement in industrial policy, the United States should have implemented its own domestic investment policies to level the playing field. When companies from one jurisdiction are backed by state support, it is difficult for competitors elsewhere to secure market financing in capital-intensive areas like semiconductor fabrication and future-oriented areas where investments may need to be made before demand materializes at scale.

These trade challenges were compounded by international financial challenges. During the Asian Financial Crisis, there was a brief moment when the interests of China and the United States were largely aligned. China maintained a fixed peg against the dollar to safeguard its own financial stability, and this reinforced U.S. efforts to stop a downward spiral of competitive currency devaluations.

But a much longer period of divergence followed, as China intervened to maintain its currency at an increasingly undervalued value, despite its WTO accession pledges. As a measure of the extent of intervention, China's foreign exchange reserves grew rapidly from [\\$0.2 trillion in 2001 to \\$3.3 trillion in 2012](#). The undervaluation of the RMB against the dollar contributed to a more-than-threefold increase in the [U.S. trade deficit with China](#) from 2000 to 2008 and a massive expansion in [China's overall current account surplus](#) from 1.7 percent of GDP in 2000 to over 10 percent in 2007. Indeed, [experts](#) highlighted the contribution of China's excess savings glut to the global imbalances that led to the Great Financial Crisis (GFC).

During the recovery from the GFC, torturous negotiations led to partial liberalization of China's exchange rate mechanism, along with a [16 percent appreciation of the RMB](#) against the dollar and a reduction of China's current account surplus to 2 percent of GDP. At the 2010

G20 Summit in Seoul, Korea, Chinese leadership sharply [criticized U.S. quantitative easing](#), admonishing the U.S. to run “responsible” monetary policy taking into account the interests of foreign countries, which are outside the Federal Reserve’s statutory remit. In turn, U.S. policymakers pressed China to delink from U.S. monetary policy and allow market-based appreciation of the RMB and also to strengthen domestic consumption. China’s leadership instead leaned on domestic investment to meet growth targets, which contributed to a massive property bubble.

Since that time, China has become an increasingly assertive challenger to the dollar-based system, despite being accorded the rights of a major stakeholder. China’s RMB internationalization agenda started as a technocratic project to liberalize the exchange rate. But it has morphed into a de-dollarization agenda to promote the RMB as an alternative to the dollar. China is championing cross-border central bank digital currencies (CBDCs) and seeking to set the rules and standards governing cross-border CBDC transactions by capitalizing on America’s absence from this arena. This de-dollarization agenda is in part a reaction to the increasingly effective use of the dollar international payments system for sanctions by the United States and its allies, particularly in the wake of Russia’s invasion of Ukraine.

Starting with the first Trump administration, American economic policy has taken a more confrontational approach on China. Starting in 2018, the first Trump administration imposed unilateral tariffs on China that ranged between 7.5 to 25 percent on [over one half of U.S. imports from China](#). In the Phase One deal that was agreed in February 2020, China agreed to make an additional \$200 billion in U.S. purchases, but there was no enforcement mechanism, and actual [purchases fell short](#).

The Biden administration continued the more confrontational approach with China but focused it on strategically and commercially important sectors. It combined trade protection with domestic investment promotion for the first time, as well as with export restrictions for sensitive technologies. In a handful of key sectors, it implemented domestic incentives for investment and R&D and coupled this with tariffs of between 25 and 100 percent on Chinese imports.

The second Trump administration differs notably on China policy from not only the Biden administration but also the first Trump administration. My own assessment

is that current policy is poorly designed for the present-day realities of competing with China. Advancing U.S. economic and technological leadership relative to China calls for a better approach to U.S. economic policy on China in 5 areas:

First, current U.S. tariff policy is designed to achieve aggressive revenue targets to compensate for tax revenue losses associated with the administration’s megalaw, rather than to counter growing Chinese dominance in strategic sectors per se. As Secretary Bessent [explained](#), “There is an equilibrium rate of tariffs...This will lead to several hundred billion dollars a year of revenue, which will correlate to several hundred billion less bonds that the Treasury has to issue.” Tariff policy designed to maximize revenues raises costs for American businesses as well as consumers and may hurt rather than help American businesses competing against China in key sectors of the future.

A stronger approach would make sustaining American preeminence in vital sectors the core objective of tariff policy—instead of the [administration’s goal of raising over \\$300 billion](#) in tariff revenues each year. An America-first trade policy would strategically target tariffs on Chinese and Chinese-related imports in vital sectors to enable U.S. producers to develop resilient supply chains that avoid a Chinese chokehold on any stage of production, instead of raising prices on baby strollers and children’s toys for American families with no benefit to U.S. jobs and businesses. An America-first approach would apply tariffs based on a detailed mapping of supply chains and vital inputs to promote domestic producers and workers. Instead, under current tariff levels, America’s Big 3 auto producers face a significant cost disadvantage on auto parts and steel relative to Japanese, British, and other European automakers that benefit from lower tariff-adjusted input costs. Indeed, GM [reported](#) a \$1.1 billion loss in profits due to tariffs in the second quarter of 2025.

Second, at a time when [we need allies and partners more than ever](#) in the competition with China, the administration’s focus on maximizing tariff revenues has led to high tariffs on all trade partners, including allies and friends. The administration increased tariffs fourfold on Britain, which is a close ally and with which we have a trade surplus. The administration appears to be calibrating tariffs on each country in proportion to the size and growth of the bilateral goods trade deficit, magnified for special irritants, rather than to promote the competitiveness of

U.S. producers relative to China in vital sectors. Indeed, current tariffs on security ally Canada are higher than those on China in a number of products. The focus on aggressive revenue targets and a hodge podge of special irritants is leading to Smoot-Hawley level tariffs that risk driving our allies and partners into trade and supply chain arrangements to reduce exposure to the United States.

A more effective approach to sustain American preeminence would attract rather than attack our allies and partners. While China 2.0 is bolstering production networks and investing in infrastructure with countries in Southeast Asia, we are hitting these countries with high unilateral tariffs. A winning strategy would instead strengthen the position of the United States at the center of the world's preeminent tech stack and associated supply networks by partnering with friends and avoiding excess dependence on China.

Third, the Trump administration has terminated the domestic production, investment, and sales incentives that were legislated to counteract China's industrial policies in strategic sectors. This is jeopardizing strategic private sector investments and the good jobs they are creating in factory towns.

Strengthening American preeminence cannot be achieved by tariffs alone: We must counter China 2.0 industrial policies with domestic policies of our own. This means investing in our strategic industries, promoting not punishing our science and tech ecosystem, and seeking to attract, develop, and retain the best talent in the world. Instead of systematically firing federal researchers, canceling university R&D grants, and ending visas for foreign students and researchers, we should invest in the partnership between government, industry, and academia that has made American innovation the envy of the world. We should continue to attract and develop the best talent in the world.

Securing American leadership in the most advanced AI models will require massive amounts of advanced chips along with compute power from all energy sources, so we should extend the investment, production and R&D incentives for advanced chip manufacturing and new forms of energy that were legislated in several important investment laws. Without the CHIPS Act and extensive diplomatic and commercial engagement, TSMC would not be producing advanced semiconductors in the United States today, which is a key requirement for the resilience

of our advanced manufacturing supply chains. Far from undercutting U.S. auto producers, the carefully designed incentives for EVs, batteries, and materials, along with innovative protections such as the connected cars rule that was the first use of the important ICTS authority, provide the best shot for U.S. auto manufacturers to counter China's growing dominance of the global EV industry. In the absence of targeted protection and promotion, we will cede dominance of the global EV industry to China, along with the attendant benefits for advancements in autonomy and batteries.

Far from discouraging energy production in the United States, the incentives in the IRA constituted an essential plank in our China competitiveness strategy. Investing in transmission lines and nuclear and geothermal energy is key to the future of U.S. AI predominance. Paradoxically, the administration secured a pledge from Europe to increase their natural gas imports from the U.S. fourfold as a major ask in their bilateral trade deal, but, if implemented, this would lead to higher natural gas costs in the United States, according to Department of Energy [analysis](#), at a time when low cost energy from multiple sources will be key to powering America's growth and AI buildout.

Fourth, the administration reversed export restrictions on advanced chips deemed to be vital in the race for AI leadership in order to secure a trade truce with China. The decision to reverse restrictions on China's access to advanced chips that are vital to inference in large scale AI models has been [described](#) as "a grave mistake at the worst possible time." Instead, to successfully prolong AI preeminence relative to China—which is deemed vital to national security-- the administration should maintain surgically targeted export controls on vital semiconductors, and work with domestic producers and foreign partners to reduce China's chokehold on rare earths and permanent magnets.

Finally, the current administration has taken aim at some of the key underpinnings of dollar dominance at a time when China is challenging the dollar's global status. Dollar dominance conveys important privileges: It enables the United States to borrow globally at a lower rate of interest in our own currency, which is estimated to save the U.S. between [\\$100 and \\$200 billion a year](#) in debt service payments, and it also facilitates the imposition of [targeted sanctions](#) to advance national security objectives. Dollar privilege reflects investor expectations that the United States will remain highly creditworthy, the Federal Reserve

will keep inflation low and stable, and the dollar will hold its value.

But the administration is putting these expectations to the test. The Trump administration signed into law a [\\$4 trillion increase in the national debt](#) – the largest increase seen outside of an emergency. When the Moody's credit rating agency downgraded U.S. creditworthiness in anticipation of the \$4 trillion mega law, the yield on 30-year Treasuries jumped above 5 percent, and the dollar weakened. In addition, the White House has made multiple statements threatening to replace the Chair of the Federal Reserve before his statutory term ends and [calling](#) on the Federal Reserve to lower interest rates in order to save the administration hundreds of billions of dollars in payments on the federal debt. But the Federal Reserve is statutorily mandated to maintain low and stable inflation. And investors would demand higher interest rates on long-term Treasuries if they were concerned that the Federal Reserve was likely to prioritize Treasury debt management considerations at the expense of allowing inflation to rise. Most recently, the administration fired the confirmed head of the Bureau of Labor Statistics following a weak employment report, raising concerns about potential risks to the quality of U.S. official statistics, which are vital for the public to make accurate assessments of the U.S. economy.

To sustain American preeminence, we should strengthen not subvert the foundations of dollar dominance at a time when China is working with other countries to challenge the dollar payments system. Even though I do not believe that the RMB has the necessary attributes to displace the dollar as the dominant currency, China nonetheless has ample capacity to erode the centrality of the dollar, including by establishing alternative payment rails via new payment systems and CBDCs. The risk to dollar dominance will be greater the more that other countries lose trust in the United States as a reliable partner. Thus, America-first policy should seek to sustain the incumbency advantages from the central role of the dollar by demonstrating America's commitment to the dollar-based international financial system, fiscal sustainability, and the independence of the Federal Reserve in controlling inflation and of statistical agencies in collecting and reporting high quality data.

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So in short, over the course of 25 years, U.S. policy has gone from encouraging China's integration into the global trade and financial system to countering China's efforts to reshape the system in areas ranging from advanced manufacturing and AI to the global payments system. While the first Trump administration and the Biden administration sought to counter these efforts, the second Trump administration differs from both of its predecessors in important ways.

Current policy has made tariff revenue maximization the overarching goal of trade policy rather than countering the challenge from China per se. This risks diminishing both the competitiveness of American businesses in important sectors and the hard-earned trust of allies and partners. Current policy has terminated investment incentives and government support for innovation in areas that are vital in countering the China 2.0 agenda and reversed some export controls that are vital in advanced AI. The current administration is raising doubts about the foundations of dollar preeminence at a time when China is promoting de-dollarization.

A better approach would prioritize maintaining America's edge in strategic sectors of the future, where it is vital to have a strong alternative to China 2.0, and couple trade protection with domestic promotion and export controls to enable American producers to compete effectively. We should make sure the U.S. stays at the center of the world's leading tech stack by attracting rather than alienating partners. We should build up not tear down our strong universities and their partnerships with federal researchers and businesses, along with our ability to attract the world's best talent to reinforce our innovation ecosystem. We should recognize that sustaining leadership in AI and other advanced industries requires extensive investment in advanced manufacturing and energy of many forms and extend rather than extinguish domestic investment and innovation incentives in these areas. We should counter China's de-dollarization agenda by actively supporting the institutions and arrangements underpinning the dollar-centered international financial system. In short, it is vital to sustain American preeminence relative to China by strengthening our strong institutions, alliances, and incumbency advantages—instead of undermining them.



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