



PODCAST

Ep. 10: Rethinking U.S.-China Trade

For decades, American companies have profited by outsourcing to China — but supply chain disruptions have laid bare the risks and hidden costs. A new book explores how to strike a better balance in U.S.-China trade.

MARY KAY MAGISTAD — JULY 2, 2024

ECONOMY



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The U.S.-China trade relationship, over the past 30 years, benefited from China’s efficient supply chains and cheap labor, creating wealth for U.S. companies and investors, and upward mobility for Chinese factory workers. In 2023, U.S.-China trade was worth [\\$575 billion](#). But there have been losers as well as winners in the deal, including millions of U.S. workers. Meanwhile, supply chain disruptions during Covid made clear the risks to the U.S. of outsourcing to China, a country with which it has been in superpower competition and, during the Trump administration, a [trade war](#).

In this episode, the China Books podcast talked to Peter Goodman, a former China correspondent and current global economics reporter at *The New York Times*, who is author of the new book [How the World Ran Out of Everything: Inside the Global Supply Chain](#). Goodman uses the supply chain disruptions as a jumping-off point to explore how China became the world’s top exporter, and biggest trading partner of most countries; why “just in time” outsourcing to China made sense to U.S. companies for so long, but reduced domestic manufacturing expertise; and how the answer is not a wholesale U.S. “decoupling” from China’s efficient supply chains, but making better choices at home to build resilience and restore faith among disillusioned Americans in the U.S. economy and democracy:



Ep. 10: Rethinking U.S.-China trade

China Books



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Guest



Peter Goodman is the global economics correspondent at *The New York Times*, and has also been the *Times*' London-based Europe economics correspondent, and U.S. national economics correspondent. Earlier, he was *The Washington Post*'s China-based Asia economics correspondent (2001-2006), and its telecommunications reporter. His other books are *Davos Man: How the Billionaires Devoured the World* (2022) and *Past Due: The End of Easy Money and the Renewal of the American Economy* (2009).

“ There are all sorts of things to complain about in the [U.S.-China trade] relationship. But the fact that Americans have concluded that this is a bad deal reflects home cooking more than anything. ”

— *Peter Goodman*

Transcript

Look around your home, and you'll likely see a fair number of "Made in China" tags – some recent, some going back years or decades – in an era when off-shoring to China and taking advantage of its cheap costs and super-efficient supply chain seemed to many companies to be a pretty great idea – a win-win, as Chinese government officials like to say.

Even now, in an age of more wariness about China, of more tariffs and trade barriers, China was still, in 2023, the world's second largest exporter to the United States, behind Mexico and just ahead of Canada. In other words, or all the talk of "decoupling" over the past few years, it takes time to disentangle U.S. demand from what China has long had to offer, and to come up with viable alternatives.

There's of course the U.S. consumer demand – for good quality and low prices. There's the U.S. corporate demand for high profits, and the U.S. investor demand for high returns. But a new book argues that there's been a steep price paid for all of this by American workers, and by America in general, in the form of a growing wealth gap, growing political polarization, anger, resentment, and despair felt by way too many Americans. How did this happen, and how can it be fixed? Big questions, with some possible answers, coming up.

(Music up)

This is the China Books podcast, a companion of the China Books Review. I'm Mary Kay Magistad.

(Music under)

And my guest in this episode is Peter Goodman, the global economics correspondent for The New York Times, and author of the new book *How the World Ran Out of Everything: Inside the Global Supply Chain*. The title comes from looking at what happened to the global supply chain during the COVID pandemic, but that's just a jumping off point to look more deeply and broadly at how China came to play such a central role in the global supply chain – as the top trading partner for most of the world's countries including, for a long time, the United States, how international shipping companies profiteered during the COVID crisis by jacking up prices as much as ten-fold, and at what rethinking – some of it already underway – is prudent, to make the global supply chain, and the U.S. economy, more resilient.

Peter was a correspondent in China in the early 2000s, for The Washington Post, as China's growth and exports were accelerating. He has since been The New York Times' Europe economics correspondent, and a U.S. national economics correspondent. His earlier books were *Davos Man: How the Billionaires Devoured the World*, which came out in 2022, and *Past Due: The End of Easy Money and the Renewal of the American Economy*, published in 2009, and focusing on what led to the 2008 financial crisis. In other words, Peter's been thinking and writing about the issues in his new book, and how they pertain to the U.S.-China trade relationship, for many years. Here's our conversation.

(03:21): **MARY KAY MAGISTAD:** So your book is called *How the World Ran Out of Everything*, as in, during the COVID pandemic, how was it possible that so much of the global supply chain got so messed up? But the bigger story you tell is how the world, and especially Americans, came to take for granted that we could import whatever we need with a "just in time" supply chain that was heavily reliant on China, and what it cost us, not just at the height of the pandemic, but in the long term. What has it cost us?

(03:49): **PETER GOODMAN:** Yeah, that's a very concise description of what I set out to tell. What has it cost us? It's cost us resilience. So every time there's a shock to the system, every time shipping prices go up significantly because there's some change in demand, there's something like, well, this pandemic we've lived through, or the Fukushima nuclear disaster in Japan back in 2012, we have shortages of all sorts of goods throughout the supply chain. And the story of global supply chains is that a lot of stuff is moving around that's really just parts of other things. You know, cars involve tens of thousands of parts that are frequently crossing borders dozens of times. They get some chemical treatment in one place. They get attached to something else in another place. They get shipped back to the place that started making the part to begin with before they're turned into a finished car. So we miss one part of the link, and production is shut down.

And this is something that we've known for a long time. But the financial incentives of going lean, of not putting lots of parts and materials and warehouses as a hedge against inevitable trouble, and instead pocketing the savings and giving them to corporate executives in the form of compensation, or to investors as dividends and buybacks, that's just been such an appealing proposition for the people running our multinational companies, that that's how we've done it. We have played "make believe" with the global economy because it's been highly enriching for the investor class. It's been pretty good for consumers most of the time, but with significant shocks. And of course, we're having this conversation while we're still dealing with significant inflation. This is one of the costs of the cheap costs that we've had over time.

And I will just say, finally. that when you wake up in the middle of a pandemic to discover that you're relying on 95 percent of your protective gear from a far-away country on the other side of the Pacific, a country you happen to be having a trade war with, or when you discover that you're reliant on China for huge components to make ventilators and you can't make ventilators, you can't really say "well, at least our share prices have been high for a long time." That's a fundamental cost of low costs.

(06:00): **MARY KAY MAGISTAD:** Beyond all of that, it seems from all that you say in the book that you're arguing that the polarization that we're dealing with in the United States now, comes in part from all of the assumptions that were built into the "just in time" lean manufacturing era – that workers got screwed over, got alienated. There was more wealth disparity, less trust in democracy, more distrust of elites. And thus we're in the political moment we're in.

(06:35): **PETER GOODMAN:** Yeah I mean, there's a lot of overlap with my last book, which is *Davos Man: How the Billionaires Devoured the World*, which is really about what happens when we decide we don't have to regulate, we don't have to tax, we don't have to worry about antitrust enforcement. We can just count on the "good billionaires" to solve all of the world's problems, from climate change to economic inequality to racial and gender imbalance. Where that plays out in terms of the supply chain is that we have downgraded basic jobs that it turns out we're really depending on, in ways that most of us never think about.

(07:08): You know, we do have lots of polarization, and we don't agree on a lot in the United States. But one of the things I think we have agreed on is the magic of e-commerce. You click the "buy" button on Amazon or whatever site you like, and you wait, sometimes just a few hours, sometimes a couple days, and eventually someone shows up at your door with the thing that you purchased. And you don't have to think about it any more than you tend to think about what happens when you flip on the light switch. You just take it for granted.

Well, when that breaks down, it's a moment to realize that there's this unseen army of people who I've spent a lot of time with now, you know, I rode in a long-haul truck through the United States. I spent time talking to dock workers. I visited with traveling rail crews who were separated from their families, constantly missing out on births of children, deaths of relatives, have to postpone important surgeries because they are living under the tyranny of the "just in time" existence. When they're needed, they're just sort of fungible parts fed into the machine by these monopoly railroads who are not touched by antitrust law. Because until Joe Biden came along, we were marinated in this idea that scale was good for consumers, good for dynamism and innovation. And so we've got so many people we're counting on to do jobs that are somewhere between miserable to untenable. And the minute there's a shock to the system, the minute there's an alternative to go and do

something else, we somehow run out of people. You know, these supposed labor shortages, that’s really just a way of saying we’ve run out of people willing to sign up for the miserable bargain that a lot of these jobs entail.

And as Henry Ford, who’s a problematic figure for all sorts of reasons, but who I draw on heavily in the book because he knew a thing or two about supply chains, once put it – and this is somebody who once doubled wages at his factories in the 19 teens (1910-1919), when he was trying to drive prices lower on his own mass-assembled vehicles – he said any business that’s built on low wages is inherently unreliable. And that’s something that we really need to reflect on now.

(09:16): **MARY KAY MAGISTAD:** Of course, China’s approach to being the factory of the world, to supplying the United States and many others, was to rely on low wages. That that was sort of their competitive advantage, and that kind of worked for the Chinese worker over time.

PETER GOODMAN: It did for sure. I mean, there’s no question, at the center of the Chinese economic miracle and the growth of exports is very low wage labor that doesn’t have the right to bargain for a better share. Unions are banned. Workplace safety standards can be gotten around very easily, if Communist Party officials were cut in the deals. And this is of course a major reason why multinational companies like Walmart found China such a hospitable place to do business, and ended up entrusting Chinese factories with so much of their manufacturing production.

I mean, one of the great ironies of our time is, I argue in the book, the ultimate global joint venture is the People’s Republic of China, this institution formed by peasant-led revolution, and Walmart, from the citadel of capitalism. But I think it’s important to realize that you have to look at what is the relative deal. There are all sorts of reasons to think about the exploitation that has been part and parcel of China growing into this factory export-led juggernaut. And we shouldn’t dismiss that, and certainly unions ought to be taking account of that, and consumers ought to be thinking about it as well. And that’s something for policymakers to grapple with.

(10:49): But I think it’s worth reflecting on books like Leslie Chang’s *Factory Girls*, which came out, what, 20 some odd years ago, but that I think is kind of a classic, in arguing that yes, it’s a tough life when young women –she was focused on young women – leaving rural areas, go to cities, pack into dormitories, give up any freedom over their schedule, taking orders from the boss, doing very difficult, sometimes dangerous work to assemble products that end up getting exported around the world. But it’s also upward mobility. And the problem with comparing the American wage laborers’ situation to the Chinese wage laborers’ is: the Chinese story, it’s messy. It’s got lots of seamy undersides. It’s not a system that any of us lucky to have been born in places like the United States or Europe or Japan would yearn for. But it is nonetheless upward mobility.

What we’ve lived through in the United States, in terms of factory workers, is *downward* mobility. And it’s been downward mobility that has not been arrested by the sorts of government programs that are there to cushion the people who get affected by trade. I mean, globalization, China-centric globalization, U.S. engagement with China, business with China, has by and large been bountiful for Americans. We’ve gotten lower-cost goods. Educated people have seen their incomes go up. Opportunities have grown. We have exported some, not enough. There are all sorts of barriers to real free trade, but American companies have exported into Chinese growth.

(12:30): Though, again, especially under Xi Jinping, there have been all sorts of ways in which that is not a fair deal. It’s never been fully transparent. It’s never been fully fair. There are all sorts of things to complain about in the relationship. But the fact that Americans have concluded that this is a bad deal, reflects home cooking more than anything. We in the United States, having accepted the terms of the 2001 deal that brought China into the World Trade Organization, which is really a landmark, failed to fund trade adjustment assistance, which was supposed to help workers who lost their jobs, transition to something better. You know, Nordic countries have done a much better job. There are other places where they get this right.

And this is central. This “China Shock” that’s now much in the literature – David Autor at MIT has done really fine work with his colleagues, Gordon Hanson, identifying the fact that roughly 10 years after China enters WTO, we see a million direct lost manufacturing jobs in the United States, and two million if you include the truck drivers not driving stuff, the catering firms not making stuff because the factory’s gone.

That’s a huge shock. But we left those people entirely to their own devices. And so we saw, again, a downgrading of living standards throughout much of American industry, with a lot of people who used to make 20 bucks an hour in a factory, now lucky to make nine dollars an hour at a warehouse somewhere working in a Walmart Superstore. That’s going to leave a lot of people angry. If you take away large numbers of people’s ability to feed their families and to feel secure about their economic future – it could play lots of different ways. It’s probably not going to play well. And it certainly lays the ground for political opportunists who tell very simplified stories like, you know, China is just this malevolent force. And that’s where we are now.

(14:20): **MARY KAY MAGISTAD:** Yeah. And interestingly, this is not a “let’s blame China” book, though China is, of course, a central part of the story. So what do you think would be a good corrective in thinking about the role China has played and is playing related to some of these issues?

PETER GOODMAN: Yeah, I love that question. You know, I think there's this tendency now – and I'm speaking specifically in our political discussion on this side of the Pacific in the United States – to discuss China like it's just this inherently nefarious force, there's this well-organized centrally led plan to steal American living standards. And that's the story, end of story. Therefore, we treat China like an enemy.

And the story I try to lay out in the book is that the ultimate beneficiary of U.S. trade with China is the American investor. Let's remember that Bill Clinton comes into office in 1992, having criticized George H. W. Bush for coddling the butchers of Beijing after the massacre that put down the demonstrations in Tiananmen Square in 1989, promises things are going to be very different in his Administration. There are going to be all these human rights requirements. He threatens very steep tariffs, not all that different than the ones Donald Trump actually imposed, if China doesn't get with his program.

(15:40): Less than a decade later, as I lay out in the story, Bill Clinton and Hillary Clinton, then First Lady, are at the Great Hall of the People, across the street from Tiananmen Square, eating grilled beefsteak with Jiang Zemin and his wife, listening to the People's Liberation Orchestra serenade them through this banquet, where he (Clinton) toasts the Chinese leadership for its great strides. Clinton's there. Why is Clinton there? He's there because he's pushing the Chinese government to assent to terms on WTO entry for China, and then he's going to go back to Washington and lobby to get this thing done in Congress. And he's really there because the donor class, large retailers, are just itching to get a crack at China. They want to make use of the ultimate exploitable labor.

And this is a long current in American history. One of the things I try to remind people of in the book is that, it's not that we're somehow being taken over by China. Our corporate power has always looked to Chinese labor as a solution to their problems. You go all the way back to the construction of the railroads. Chinese workers are actually recruited by American railroads, brought over to undercut mostly Irish labor chafing at horrible working conditions – you know, building the transcontinental (railroad), people are just dying by the score. There's close to famine and disease in these miserable camps. People are freezing to death There's industrial accidents. And so the Irish laborer is itching for a better deal. And the railroads go over to China, and set up recruitment shops, and bring Chinese labor over. And then they actually send the bones of Chinese workers back across the Pacific in boxes. I mean, this is not some sort of outlier. This is the nature of our engagement with Chinese labor.

(17:33): And this is why Bill Clinton is at the Great Hall of the People, representing the interests of retailers who want the lowest possible cost for the making of their goods, because that allows them to drop prices. If they're in competitive markets, they can lower their prices. If they've got any monopoly power, it's just going to fatten their margins and allow them to be kinder to themselves through executive compensation, kinder to investors through dividends. And that policy carries the day.

Now, there's a dressing up of this policy in a way that now seems deeply cynical. I think it's fair to say that there were believers of this policy. This was the policy that said “yes, letting China into the WTO will involve American companies making lots of money. And that's really great, because we all like money. But that's not the point. The point is, this is going to democratize China. It's going to give Chinese consumers a taste of freedom. It's going to make Chinese businesses dependent upon access to global supply chains, global capital. It's going to expose them to international thinking. Essentially, you give them a taste of Kentucky Fried Chicken, and then Chinese people are going to demand the ballot box.”

This was essentially what Bill Clinton was saying, Bob Rubin, his Treasury Secretary, who goes on to run Citigroup and manages to open a bunch of branches in China – what a coincidence. Larry Summers, his deputy treasury secretary, was saying similar things. “It's not about money. It's about freedom, and once the freedom genie is out of the bottle, it can't go back in the bottle.” You know, every kind of tortured metaphor, lots of techno-talk, that the internet makes it impossible to run an authoritarian state. So Microsoft's going to get a crack at the software market.

And it all sounded fantastic. And there were real believers, because, of course, trade had been the linchpin of American foreign policy for decades and quite successfully. I mean, Europe post-war certainly becomes more stable, peaceful. Peace has reigned as countries have traded with one another.

But it was very clear. I tell the story of a congressional hearing over China's entry to the WTO, where there's a lot of dark talk of forced labor, forced sterilization of women. And then some guy from the National Retail Federation takes a seat and says, “listen, our job is to go find the lowest-cost goods for American consumers. China can do that better than any other. Case closed.” And that's what carried the day.

(20:03): So why am I telling this story? Because I think it's important, as we engage with China, as we discuss China, we have real issues with the Chinese government. We should not look past the forced labor that Uyghurs in Xinjiang are engaged in, making cotton goods that end up around the world. We should not look past systematic human rights violations. Those of us who value democracy should not hold our tongues. But we should have a more expansive view in terms of understanding where *we* fit in to it. The idea that somehow we are playing fair and doing right, while this nefarious regime is trying to steal our livelihood just doesn't – it

doesn't withstand the most basic scrutiny.

The biggest reason why Chinese industry has hurt those affected by trade in the United States is because of decisions made not in Beijing, but in boardrooms in Seattle, in New York, in Congress, in Washington. This is something we have done to ourselves, because we live in a democracy that is largely dominated by shareholder interests.

(21:13): **MARY KAY MAGISTAD:** One of the early reviews of your book was positive on many counts, but suggested that you don't support free trade.

PETER GOODMAN: Yeah, this is Marc Levinson, who's actually a hero of mine. He wrote this incredible book that I draw on. He's an economic historian – wrote a book called *The Box* (published in 2008, subtitle: *How the Shipping Container Made the World Smaller and the World Economy Bigger*) which is the story of the shipping container and how it's changed global trade. And, yeah, I was excited that he reviewed my book. I was excited that he found it colorful and readable, and said some other nice things. But yes, he does basically paint me as a Luddite who thinks that international trade is bad, globalization is bad, and we should just try to make everything here, which is kind of a cartoonish dismissal of my book.

I've been writing about trade for 30 years. Trade is good. I mean, let's just get real. If we didn't have trade, we'd all be sitting around trying to figure out how to knit sweaters for the winter. We wouldn't be writing screenplays and making art or doing whatever it is that we do. We'd be worrying about not starving to death. Trade is what allows us to get blueberries on the shelves in the middle of winter. Trade allows companies to export and make more money. It allows them to pay their workers more. Exporters generally do pay higher wages than companies that don't export. It's given us tremendous consumer choice. It's driven the prices down.

(22:30): But you can say all that and still say what to me seems pretty obvious, but somehow doesn't get said a lot. There are going to be losers in trade. There's always winners and there's losers as well. And the question is, what happens to the losers? Do you take the bounty of trade and distribute it widely enough that you then have the wherewithal to help those people move on to other stuff? Maybe help them with housing in the short term that they're dealing with that, give them robust enough unemployment benefits that they're not threatened with homelessness. We don't have national health care in the U.S., so if you lose a job, boy, it's a long way down. And I think it's fair to say, unlike Levinson, who would seemingly have us believe one of these false binaries, that we either have the globalization that we've got, China is the factory floor to the world, not a lot of regulation, not much labor mobilization – we either have that or, we all are sort of scrounging around for bark to eat and fiber that we can spin into something that will keep us from freezing to death in the winter.

(23:40): I think there's a middle ground. Like, we can keep the innovation of global supply chains, we can keep the consumer benefits of trade, we can keep the dynamism of global capitalism – I'm a card-carrying capitalist – and still say, we'd better do more to share the benefits. And we'd better make sure that the most vulnerable people, those actually put out of work by trade, are cushioned and helped onto the next way they're going to make a living. And if we don't do that, then we're going to see a breakdown in any kind of political consensus for trade. I mean, we may be there already. We're living in a time where every day there's some new – today it's the European Union with tariffs on Chinese imports of electric vehicles, following after a similar move from Joe Biden. No one talks about the World Trade Organization anymore. It's essentially irrelevant, largely because the U.S. has refused to reappoint judges. I mean, the U.S. has undermined the rules-based trading system, even as it is happy to lecture other countries about violating the rules. So if we don't make sure that the benefits of trade are distributed more fairly, then there's no political consensus for trade.

(24:56): **MARY KAY MAGISTAD:** You talked about some areas where it's important to recognize what China's doing, and criticize it – like, for instance, forced labor of Uyghurs in Xinjiang. Another area where China has taken a lot of flack over time is, protectionism and industrial policy, both of which the United States has been doing some of over the past two Administrations. Where do you think that China actually deserves criticism on those fronts?

PETER GOODMAN: China deserves criticism for, post-WTO, subsidizing large state-owned companies – this has really accelerated under Xi Jinping – pushing away the private sector, and at the same time refusing to implement commitments that it's made to the international community about the trajectory of its reforms.

MARY KAY MAGISTAD: Isn't pushing away the private sector kind of an own goal, though? Because the private sector was responsible for most of the economic growth in China in the '90s and the 2000s?

(26:00): **PETER GOODMAN:** Yeah, I mean, this is the big puzzle of China now. at a time when, unfortunately, there are fewer and fewer journalists in China to get – discussions I know you've had on this podcast – the consequences of not having people on the ground. But, yes, I think it's fair to say that there's a huge amount of growth and dynamism that's come from the private sector. And if you're concerned about Chinese living standards and Chinese growth, you should be concerned about that.

People running multinational companies are increasingly looking to at least reduce their heavy reliance on Chinese industry. They're now perplexed by what's driving policy in China. You know, I've been thinking about

China since the late 1990s, more or less. And in all of that time, conventional wisdom was politics is tricky. It's not a democracy, so it's harder to understand who the power players are. There have often been periods where there's significant journalism being produced, but it's not what we would call a free press.

So it's always been very tricky to understand what's really happening on the inside. And those people who've managed to produce inside accounts, people like Richard McGregor, whose book *The Party*, I think, is just part of the canon, James Kynge of *The Financial Times* has done some tremendous work. My colleague when I was based in China, John Pomfret, Beijing bureau chief of the Washington Post. These were a handful of people who actually did seem to get inside the bureaucracy. The rest of us were talking to analysts willing to talk to us, testing out the big ideas that were flowing in the dialogue in Beijing, by traveling widely and talking to regular people, talking to companies to try to get a sense of what was going on.

(27:40): But the overall frame was that whatever's happening, it's got to be guided by the imperative to continue economic development. Anything you see, whether it's the corruption drive that fells a Party official where we didn't see it coming, where that looks like some political squabble that we don't fully understand, or some decision about tariffs or investment strategy, all of it could safely be fit into the frame that the Party is trying to continue to boost living standards, is trying to accelerate growth and spread the benefits of that growth further and further into the hinterland.

And we can't say that anymore. Maybe that's true, but it sure seems like Xi Jinping is more concerned about his own legacy, his own hold on power vis a vis regional figures. And it used to be that the Party politics seemed to be about the apparatus that was executing on the overall reform trajectory, which was about growth. And now that the reform trajectory has gone backwards, and state-owned enterprises are more powerful than ever, there's less journalism than ever. Dissent is even rarer than it used to be. And now growth itself has slowed, while we've had some very strange rapidly changing policies from, of course, the draconian Zero Covid policies for much of the pandemic to an abrupt lifting.

Well, investors look at all this and they say "hmm. One of the things we loved about China – it's that it's so stable, you know, we know what the exchange rate is going to be. We know who we've got to cut the deal with to get access to land or raw materials or energy. And now we don't really know any of these things. We don't know where the faultlines are. We don't know where we could get in trouble. And so I think the conversation has changed like pretty dramatically.

(29:35): **MARY KAY MAGISTAD:** Yeah. And of course, China also is now dealing with its own pretty significant wealth gap. Its GINI coefficient is quite high. And there is also a sense of alienation among some of the very people whose families moved out of poverty and into the middle class. And now the kids are like, eh, you know, this system isn't doing for me what it did for my parents and perhaps even my grandparents. And I'm opting out. I'm moving somewhere else. I'm moving to the countryside. I'm going to lie flat.

PETER GOODMAN: Yeah. The lying flat phenomenon is really interesting. Again, I'm just giving you the conventional wisdom that's driven the years that I've been thinking about China. But the thought was that there's always been people – and I say 'the thought' from my own time in China, which goes back to 2001 until 2006, and I've tried to keep tabs from a distance since then – the thought has always been that, I mean there's corruption. Of course, it's not a democratic institution, the Chinese Communist Party. It's a very opaque institution. But so long as living standards were increasing, so long as young people could come out of school and feel that they were in a position to do better than their parents, and that there were better things to do than think about bemoaning the lack of democracy, the regime was stable, and the system itself had the capacity to deal with whatever challenges came along.

And the stagnation that has now hit the economy – I mean, there's lots of big things everybody loves to talk about: the overhang of bad real estate, debt levels, money leaving the country, wealthy people taking their money out of the country, increasingly educated Chinese people looking to go pursue opportunities elsewhere if they're able to. These are worrying signs.

(31:25): And then, of course, lying flat, this idea that young professionals have decided to just go out to places like Yunnan province and retire at 25 to meditate and wander around and contemplate the lake. If the upward trajectory of living standards is something that we can't take for granted anymore, and I think we can't, that is a huge foundational problem for the Party. And it also, I think we can expect, leads to a greater reliance on nationalism, which is the Party's other claim, right? So people could look past the fact that, well, the local Party apparatus sure seems to be corrupt. One of the things that always struck me when I lived in Shanghai was how nobody ever pulled over for ambulances or police cars. And people would say, "yeah, we figure it's just some, you know, corrupt party cadre who's late to go meet his mistress or something. Why should I pull over?" I mean, when you have that kind of cynicism about the basic organs of society, it's pretty hard to govern anything. But nationalism and higher living standards were the way in which the Party seemed to maintain. If higher living standards isn't available, then nationalist confrontation becomes the default strategy at the same time that there's a lot of talk of Chinese overcapacity, trying to generate more economic growth by making more stuff. But demand is weak at home because incomes have stagnated. There's a huge youth unemployment problem. So what do you do with all the stuff that you're making so you can keep people employed? Well, you

dump it on global markets. That's going to make lots of other actors unhappy, from the rest of East Asia to Europe, to North America, to Latin America. So this could be a time where there is more and more nationalist-driven, for domestic political purposes, confrontation with the outside world. And that's, that's volatile.

(33:20): **MARY KAY MAGISTAD:** Another thing that's happening in the current moment is that both sides are sort of recalibrating. I mean – the word decoupling has been overused, suggesting that there was a marriage, and now there's a divorce. And it's far messier than that, and it's far more transactional than that. Each side was looking for a benefit from the trading relationship. And there was also the political relationship. What calibration do you see on each side that you think is worth paying attention to?

(30:45): **PETER GOODMAN:** I think it's interesting that the Chinese government keeps sending out signals that they are very concerned about economic growth. And that's both a healthy thing and a troubling thing. It's a healthy thing in that that's where they ought to be focused, just for the sake of the 1.4 billion people who live in China. And I think it creates the possibility of constructive dialogue with the rest of the world, because the conventional wisdom is whatever tariffs the U.S. applies to China, Americans will pay those tariffs, and trade will not be that affected. I'm not sure I buy that over the long haul. And I don't buy that in part because a lot of reporting I've done in the book, I mean academics love to say we don't actually see any decoupling. Trade with China's still increasing. China's share of global manufacturing is still really high.

That's all true, but data is backward looking. Journalism is forward looking. And I've spent time in places like, I just came back from India, where Walmart is looking to move factory production from China to Indian factories as a way to diversify away from reliance on China. For the book, I spent time with Columbia Sportswear, going to look at factories in Guatemala as an alternative to reliance on factories in not just China, but other parts of Asia – Vietnam, Bangladesh – which they feel like are already played out to some extent. I mean, capacity has been used up.

(35:15): And I spent a lot of time in Mexico, where I ran into actually Chinese companies, that in some cases are setting up in Mexico, because their American customers, like automakers that have plants in the U.S., have said “we're so worried about the shipping crisis.” This is something I write about in the book. Suddenly this international shipping cartel that's totally unregulated, there's a shock to the system and we're paying 10 times as much to move a container of goods from Shanghai to Los Angeles. That's quite a shock.

So customers said, “if you want our business, you've got to set up a factory somewhere that's within a five-hour drive or a rail trip from the place we're making our product. A lot of Chinese companies, Korean companies, are in places like Monterey, Mexico, where they can rail and truck their stuff through Laredo, which is this really important gateway now, up into the warehouses of Texas and across the United States.

And what does this mean for China? Well, If China is going to be dependent on a smaller set of export opportunities because of tariffs, at the same time that the growth of exports begins to wane, the only way they can maintain that growth is to drop the price, which is going to create more trade friction and geopolitical friction in general, as they dump more and more low-cost goods onto world markets.

(36:35): Or they can rely on the domestic market, which is obviously significant. But it's weakening as growth slows, and it's simply not as big as looking at the global market. So that means more diminished living standards, which means more unhappy people. These are not good things.

I think what we're hoping for, if we're paying attention, is getting back to the conversation about mutually beneficial growth and trade, in which we do our part to cushion people affected by trade better than we have, while looking– I think our own industrial policy is a mixed bag. I'm a little concerned about putting barriers on things like solar panels, because climate change is not going to wait around for us to get the rules-based trading system set up. I mean, there is an imperative to move fast. And China makes a lot of really useful gear. But I also see the argument for building up a productive American supply chain, because my whole book is about the pitfalls of relying on one country that's on the other side of the ocean to make stuff we need. So I think it is healthy to have some policies that at least try to generate more of the supply chain in the U.S. or closer to the U.S., like Mexico, like Central America.

(37:53): **MARY KAY MAGISTAD:** Good for the climate as well as good for political and economic reasons.

PETER GOODMAN: Good for the climate for sure. I mean, there's a lot of emissions that come from putting stuff on giant container vessels that move around the globe. And I also think it's important, if we're going to talk about the reorienting of the supply chain, to remember that when we bring in stuff from Mexico – we bring in auto parts, or chemicals, or even apparel from Mexico, typically 30 to 40 percent of the value of those goods was actually made in the United States by American labor, often union labor. Whereas the same number for China is like 3 percent. So 3 percent of the value of our Chinese imports was made in the United States. And of course, Chinese state policy is directed to driving that number as close to zero as possible.

So I think we should embrace this reorienting of the supply chain, while understanding that we're not abandoning China. I mean, the decoupling talk is somewhat silly, because for as long as we could see into the

future, China is going to be a significant center of global manufacturing, because it has an unbeatable combination of infrastructure, labor. Labor's getting more expensive. That's to the good, if you're certainly thinking about pay and working conditions in the U.S. But we're not just going to abandon all of those factories.

(39:18): **MARY KAY MAGISTAD:** Do you see a future where there would be the political will, both from the U.S. and from China, in terms of having the kind of trade relationship you describe, given that China's been focused on indigenous innovation, Made in China 2025 and those sorts of policies, to basically favor Chinese companies, encourage Chinese innovation, which is a good thing, it could help the world, but basically to preference Made in China products and ideas and technologies over anything coming from the outside.

PETER GOODMAN: You're asking, do I see the possibility of a deal?

MARY KAY MAGISTAD: Well, not a deal exactly, but political will, which is kind of more fundamental. If Xi Jinping and the Communist Party have had these policies in place for 20 years, toward a long-term goal of China being more self-sufficient, and if anything, having the technologies that others need that they could use both for economic and political leverage, economic gain and political leverage, which they *have* used. To what extent do you see a future where there's still room to have the kind of mutually beneficial trading relationship that you describe?

(40:27): **PETER GOODMAN:** I don't think at the high level and at the level of large companies engaged in critical parts of the supply chain, like semiconductors or electric vehicles, there's any political space for that at all. Now, I say that with the strong caveat that I think only a fool would imagine that you could sit in New York, not visiting China for a decade, and think that we could make sense of the internal machinations of Xi Jinping's government and the CCP in general. So I'm at the mercy of the best information I can tease out, what's actually driving Chinese policy. And I don't pretend to have a good handle on that.

I think I have a better handle on how things are going in the US. And it is dismaying, the extent to which, there is unity on this idea that we should be constraining China. I think that actually makes our problem bigger. I think the more that we have a conversation, where we're openly talking about constraining China's development, that is easily absorbed and served up to a Chinese public as very rich, potent propaganda that the U.S. is the enemy, and that we are actually trying to halt the increase in Chinese living standards. And that, I assume, strengthens the hand of the hardliners in Xi Jinping's government, who are all about self-sufficiency and building an alternative order and challenging American authority.

(41:54): Now, that said, you know, it's interesting, the history of China's economic reforms and questions around how China was so successful in turning itself into this export powerhouse tend to operate at the high level, you know, Clinton across the table, Zhu Rongji hashing out deals with his American counterparts on WTO entry. That stuff's really important. But the story in China is often like, well, what's the private sector doing with whatever space it's been given, often by neglect? Often, the history of Chinese economic reforms is, time and again, the story of the center catching up with what's really happening on the ground.

And I think where we can be most hopeful is that businesses that operate below the level of Amazon and Target and Walmart are still talking to one another, and still doing deals. And they're having to deal with a much more complicated geopolitical arrangement. They have to anticipate, you know, if Trump comes back, as seems entirely possible in November, what is the tariff picture going to look like? How will China retaliate for these tariffs on EV imports and other industrial policies, coming out of not just the United States, but Europe?

But at the level at which somebody running a business in the United States needs something made, and they're looking at the globe trying to figure out the best place to make that thing, China's still more often than not the answer to that question. And that is both a problem and a potential opportunity. It's a problem if we don't learn from the crisis that we've just lived through in terms of the pandemic, and take heed of the degree to which we're dependent upon exploited labor, totally unregulated industries like this international shipping cartel. But at least it's some continued interaction that gives us hope that a day could come again where there could be some dialogue about mutual economic interest as opposed to where we are now, where essentially we're in a new cold war.

(44:01): **MARY KAY MAGISTAD:** Even though the Chinese government in its rhetoric, both internally and to some extent externally does seem to see the U.S. as a competitor, like this is a zero-sum competition.

PETER GOODMAN: These two superpowers *are* competitors. But that doesn't mean it has to be zero-sum. It is now. This is how the terms are being drawn, but mostly because that's useful politics for an American audience that's looking for simplistic explanations for the decline of the middle class, right? But it's sort of similar to the conversation around Biden and the economy, right? Lots of pundits now are talking about "why is it that the economy is so good, but everyone's so unhappy?" And then we talk about inflation. And inflation actually is something that I write about in the book, because a lot of the inflation is driven by supply chains. And we often don't dig deeper than that to realize that a lot of people are unhappy for reasons that don't have anything to do with Joe Biden's tenure. There's been 30 years of downgrading of work, economic stagnation for

large numbers of wage earners, increased cost of living, and this is a fundamental problem that we have to think about. And so China becomes another comic book-like explanation for what happened to America.

And so that's where we are now, where neither side particularly understands one another. There's much more room for misunderstanding. We're not really sure what the frame is for each society, in part because, the US now has an industrial strategy, but we're about to have an election in November. Who knows what comes after that? China is as opaque as ever to the outsider. We don't really know what's driving policy there, but we do know that confrontation and animosity is politically useful in both countries. And that, that's a dangerous dynamic.

(45:51): **MARY KAY MAGISTAD:** So then, given all that, how hopeful are you that a decade from now, the U.S. and China will have found a better way to co-exist in terms of trade and just in general?

PETER GOODMAN: I have no idea. I mean, it could go lots of different ways. It depends upon what Xi Jinping is really trying to achieve here. It depends upon who's running the American government. It depends upon whether we do a better job taking care of our own house, and creating new economic opportunities for people who are struggling in the United States. It depends upon whether the Europeans manage to get their economic growth model in a healthier place than it is now, because of course in Europe, there's a similar dynamic. And China is just – I mean, let's get real. We have serious beefs with China. They're real. There are real issues of trade that have to be looked at. And then there are these racist tropes that have been with us, again, since the time we brought Chinese laborers across the Pacific to construct the railroads. And it's a very convenient, politically rewarding place to criticize, and it's hard to see how that goes away, absent greater living standards, really just about everywhere.

(47:08): **MARY KAY MAGISTAD:** You have a lot of really useful, interesting historical context in your book for how China built up its supply chain, how supply chains have functioned in other places, why, for instance, Henry Ford realized the importance of paying workers a decent wage, and also the importance of having the raw materials or the components that you need to be able to make your supply chain resilient. What books would you recommend that you learned from as you were going through the research for your book?

PETER GOODMAN: Sure. Paul Blustein wrote a book about China's entry to the WTO that was full of interesting details, including Clinton picking up the baton to conduct the People's Liberation Army Orchestra at that banquet in 1998. But you know, I've been reflecting on books that I've already read and then reading new books to try to make sense of China's overall trajectory.

One book that we've discussed briefly, I think it's just a classic, is Leslie Chang's *Factory Girls*, which explains, deeply, how and why so many young women found it in their interests to take the leap, and leave impoverished rural areas and go to cities where they were vulnerable, where they didn't have legal status and were at risk of getting picked up by the authorities for violating the hukou regulations, where they had to sleep in very uncomfortable quarters, packed into dormitories, work crazy hours, often for exploitative bosses in dangerous conditions, but that overall, this was a bargain that they took because they understood that this was a real opportunity. And they went home and started businesses. They kept siblings in school. They took care of older relatives' health care. So in general, it helps explain how this industrialization, which has been very messy, has been truly one of the most successful anti-poverty programs, *the* most successful anti-poverty program in the history of global capitalism.

(49:11): I've been reading a book, by a sociologist out at UC Irvine, Wang Feng – hat tip to Howard French, who wrote a column in Foreign Policy which told me about the book – which tries to deemphasize the significance of things like cheap labor, the Chinese government's very successful build-out of infrastructure – ports, highways, electrical systems – as a way to lay the ground to capture foreign investment, that was significant in turning China into this export powerhouse. And he puts the focus on the human beings who made the journey, as well as great successes in boosting education and literacy in the run-up to the economic reforms, that the reforms then were able to capitalize on. So at the time when China integrates itself into the global economy, you've got not only a huge population, but you've got a population that can read at a basic level, and that has some skills from schooling to go work in a factory, get trained, and do what needs to be done.

(50:14): And then finally I've been reading Yasheng Huang's book, *The Rise and Fall of the EAST*, who takes an even more historical look than Wang Feng at a similar question. He's more interested in how does the Party endure, despite all the predictions of its demise. And he puts a lot of emphasis on the standardized testing system, going back, hundreds and hundreds of years. I mean, we're talking about previous dynasties, long predating the Communist revolution, arguing that this was a way – that also was messy. There was corruption. There was cheating. But you had a system that largely worked as a kind of meritocracy against the kind of petty corruption that exists at the local level, to determine who's in charge. And you have the ability to scale in every kind of institution, especially the Chinese Communist Party, but eventually businesses. And you have, really in the DNA of the country, going back hundreds and hundreds of years, this idea that you'd better have a way to pass on an important body of knowledge, to systematize it. And that puts China in this unique position to mobilize behind whatever it is that it decides it wants to do. So when the time comes to integrate into the

global economy, to figure out how to make stuff really cheaply and efficiently and export, China is in this unique position to do that. Those are just three of the things on my shelf.

(51:41): **MARY KAY MAGISTAD:** Yeah, those are great recommendations And I know Yasheng, who has been on this podcast, would want to include in the title that the EAST doesn't necessarily refer to East Asia, but to (reading subtitle) *How Exams, Autocracy, Stability and Technology Brought China Success and Why They Might Lead to Its Decline*.

PETER GOODMAN: Yeah, that's a very important point. He's very concerned about Xi Jinping's government and the extent to which these components of the Chinese system, especially the exams and the autocracy, are now potentially putting China in a place where it's ossified, and where the Party is hostile to the new sources of dynamism, like the private sector. And that could actually bring about a long-term period of stagnation and social strife.

MARY KAY MAGISTAD: So after decades of having a symbiotic relationship that worked pretty well between the U.S. and China, it's left a lot of work to do on both sides, it sounds like.

PETER GOODMAN: For sure. I mean it's always been a tough relationship. There have always been things to argue about. But I think it's fair to say that for a lot of the reform period, when there were inevitable problems, often over trade, and sometimes over human rights, you had leadership both in Beijing and Washington sort of saying "well, there's stuff I have to say for my political audience, but we understand that these are two great powers that have to get along or we can't solve any of the world's problems. So we have to keep talking." And that seems to have broken down. And that should be a concern to anybody.

MARY KAY MAGISTAD: That's Peter Goodman, author of *How the World Ran Out of Everything: Inside the Global Supply Chain*. It dives more deeply into all we discussed here – with a particular focus on China, on U.S.-China trade, and on decisions that have made it work the way it does.

If you have comments, questions, OR suggestions, I'd love to hear them. Shoot me an email at mmagistad@asiasociety.org.

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That's it for this episode. Thanks for listening. See you next time. ■

Header image: a shipping container with the PRC flag, in port. (Mike Mareen/Adobe)



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