

# THE **NEW** BAZAAR

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## The US-China Trade War: Causes and Consequences

*EVAN MEDEIROS ON HOW CHINA PREPARED FOR EXACTLY THIS MOMENT*

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**CARDIFF GARCIA:** Hey everyone, Cardiff here. We are taping this episode on Thursday, April 24th, and I am joined now by Evan Madeiros in the studio. Evan, welcome to the New Bazaar.

**EVAN MEDEIROS:** Thanks, Cardiff. Great to be here. Can't wait to see what today's conversation will—

**CARDIFF:** Oh, it's gonna be fun, and especially it's gonna be relevant. But we should introduce you first to our audience. Because you really have the perfect background to be discussing what's happening right now between the US and China and the trade war. You are a political scientist and a professor at Georgetown University

**EVAN:** School of Foreign Service.

**CARDIFF:** School of Foreign Service. We'll start there. Longtime US-China scholar, correct?

**EVAN:** Yeah. Pretty much my entire professional life, I've been studying the US-China relationship from—

**CARDIFF:** (CHUCKLES) Building up to this moment! Yeah.

So you're a professor. The reason I wanted to talk to you is because you wrote this really fascinating article, this really fascinating report titled “China's New Economic Weapons”. And on top of that, you've also edited a book that you also contributed to, a book of essays about the US and China from a year or two ago called “Cold Rivals”.

You've published a number of other essays and articles that I think are fascinating. We're gonna include all those in the show notes. And beyond that, you also have practical experience in the US-China relationship.

**EVAN:** It depends what you define as practical.

**CARDIFF:** (LAUGHS)

**EVAN:** First, I've gotta give a shout out to my co-author of the article, "China's New Economic Weapons", Andrew Polk. Because it was very much a joint project.

So let's see, you asked about my practical experience.

**CARDIFF:** Yeah, you've worked in the White House, in the Treasury Department, I think, the National Security Council. Tell us about that.

**EVAN:** Yeah. So, I started my professional career at the RAND Corporation after I got a PhD, and so I spent a year away from RAND as a Council on Foreign Relations fellow at the Treasury Department in the Bush administration. That's when Secretary Hank Paulson was the Treasury Secretary and he had started something called the Strategic Economic Dialogue.

And they needed some people that actually knew about Chinese politics, how the US-China relationship operated, at Treasury. So I spent a year there sort of trying to help Paulson structure the thing, talk with the Chinese, and that was a pretty wild ride. And then when Obama came in, I joined the staff of the National Security Council.

That's sort of like the beehive at the White House that just advises the President and the Vice President on national security issues.

**CARDIFF:** Yeah, but I mean, it goes beyond that, because you specifically were Special Assistant to the President and Senior Director for Asia under President Obama. You were the guy when they wanted to know something about the Asia-Pacific region and China specifically. They turned to you, right?

**EVAN:** Yeah, that's right. I started out as Director for China, so managing the US-China relationship. And then after a few years, got promoted, very fortunately to be Senior Director for Asia. So yes, covering Northeast Asia, Southeast Asia, Oceania, et cetera.

**CARDIFF:** Let's catch people up on what's happening right now between the US and China as of this recording.

**EVAN:** Not much.

**CARDIFF:** (LAUGHS) Well, that's a problem because, I say that, as of this recording, because things could well change. In fact, I've had to start saying this on all our episodes because day-to-day these things swing so wildly.

**EVAN:** That's right.

**CARDIFF:** But in the course of the last month, President Donald Trump has raised tariffs on China to about 145%. They've announced some exceptions to those tariffs for things like electronics, I think certain car parts, meanwhile on the Chinese side, they have suspended exports to the US of rare earths, which are these like minerals or metals or something like that, that we need to make certain electronic goods and weaponry and things of that nature.

The Chinese have also, I think for the moment at least, stopped buying US soybean and aircraft from Boeing. So things have ratcheted up, right? And I guess one question I have for you is just how do you describe the state of things right now? Like to a normal person, somebody who doesn't have their face buried in the news all the time, or who doesn't have a wonky background in political science or economics.

Like what do you tell people about where things are?

**EVAN:** Yeah, I mean it's both simple and complex. The simple answer is: we're at a moment of stalemate. That's it. Both sides are not talking. Both sides believe that they hold the high hand. Both sides believe that they can withstand more pain and we're at the precipice of what could be a very, very dangerous moment, between the two largest economies in the world.

So we're living through history.

**CARDIFF:** Yeah. It's interesting 'cause you didn't describe it yet, at least, as a crisis. Things are very tense. We don't know exactly what the outcome's gonna be of the trade war itself, or the ramifications it could have elsewhere, but it seems like we haven't yet crossed some red line beyond which there's no pulling back from. Is that right?

**EVAN:** Not yet. But we could get there. As you rightly pointed out, the Trump administration shifts on tariffs in China on almost an hourly basis.

**CARDIFF:** In terms of the negotiating styles of the two sides, what do you think the Chinese are thinking when they're seeing that Donald Trump, the US President, keeps shifting back and forth on this. That one second, it looks like these tariffs are gonna be super high forever. It might drive trade with China down to like 10 to 20% of what it has been, and then the next day it looks like they're signaling a potential deescalation. To what extent does that keep Chinese negotiators or officials off balance? I mean, how do you think they're regarding that?

**EVAN:** I think it's validating all of their assumptions about the Trump administration. I think they look at the Trump administration and the President, and they think that there's no strategy here, that he's just operating based on bravado and

impulse, and that what they really believe is they can withstand a lot more pain than the Americans' hand.

I think right now when they look at the Trump administration, they see him blinking and blinking and blinking, before the real pain is even started.

**CARDIFF:** Hmm. Yeah, that's interesting. And I've heard the perspective that, because at the moment the Chinese government has a lot of stability, or at least Xi Jinping, right? There are no direct perceived threats to him at the moment.

He's consolidated his power, that kind of thing.

**EVAN:** Very much so.

**CARDIFF:** That he is able, as you said, to withstand pain for longer than say, the American economy can withstand pain before there's a political backlash in the US. Is that an accurate description of how things are, of how the Chinese side might be looking at this?

**EVAN:** That's certainly an accurate description of how they're looking at it, how they're perceiving it. Nobody really knows if it's true or not. I mean for sure, because Xi Jinping is the top leader in an autocratic political system, he doesn't have to worry about an election, right? He doesn't really have to worry about a political opposition, and he has so many tools and levers at his disposal that he can use to juice the Chinese economy through this trade war.

So he's got a lot of arrows in his quiver. He has a lot of structural advantages to engaging in the trade war. So that's why they believe they can withstand more pain than we can. Nobody's ever really tested the proposition. Of course, the Chinese economy has been slowing and faces a series of both short-term and long-term economic challenges.

Youth unemployment is particularly high, for example. So we don't really know whether or not their assumptions are correct. But, that's certainly how they see the US.

**CARDIFF:** How they see it.

**EVAN:** Yeah.

**CARDIFF:** I was reading your introductory essay to this book of essays called "Rivals" that you also edited, and you said something really interesting about the long-term evolution of the US-China relationship. And I'm just gonna read a brief quote here. You were talking about how the relationship had evolved over roughly the last four decades and how there were times when the two countries really did have some shared economic interest, for example, or diplomatic goals. But then you

said at the same time, I'm quoting you now, "at the same time, the sources of stability in the relationship and the buffers against seeing the other as an inevitable rival began to fade away," unquote.

What were those sources of stability and what happened to them that they've been dissolving over time?

**EVAN:** Yeah. I'm glad you raised this, Cardiff, because I think it's one of the most important structural changes in the US-China relationship, and it helps explain how we went from a relationship that had sort of elements of cooperation and competition to where we are today, which is a relationship that is much more competitive in a whole variety of different arenas. We compete on security issues and economic issues, technology, even sort of ideas about domestic and global governance.

So there were a variety of buffers and stabilizers in the relationship. Going back to normalization in '79, I would say from a historical perspective, probably the first and the most important stabilizing force has been the role of political leaders. The intervention of top leaders, Deng Xiaoping and Jiang Zemin on the Chinese side, Ronald Reagan or George H.W. Bush, Bill Clinton on the US side, that either decided to prioritize and effectively save the relationship during periods of major instability or deciding to pay political costs to drive the relationship in a particular direction.

So at the very moment of normalization in '79, we now know that there was a basic disagreement between the US and China about what we actually had agreed to regarding arm sales toward Taiwan.

The Americans thought that they had just agreed to a suspension for one year, the first year of normalization, '79 to '80. The Chinese had believed that we had agreed to stop all arm sales, period. And it was Deng Xiaoping at the 11th hour that just said, look, let's just move forward with normalization. This is too big, it's too important. Let's go ahead.

**CARDIFF:** We'll just leave that kind of ambiguous.

**EVAN:** Yeah, and I mean, of course that ends up being one of, and it continues to be one of the most significant challenges at the heart of the relationship. So, fast forward to 1989, after the Tiananmen massacre of June 4th, you had George H.W. Bush, who because of his worldview and his relationship with China, decided that he didn't want to let the relationship bottom out.

And so he, we now know, famously sent two secret missions of his National Security Advisor. The memcons of all of these conversations are now declassified. It's absolutely fascinating, riveting reading. So if you wanna know what a political

scientist does on Saturday night, they read memcons of conversations between American and Chinese senior officials.

**CARDIFF:** I can think of nothing better.

**EVAN:** Right, exactly. I mean, you pair it with a single malt, it's actually not bad.

**CARDIFF:** (CHUCKLES) It's not bad, yeah.

**EVAN:** Not bad. So you had George H.W. Bush that really put a floor under the deterioration in the relationship, creating the predicate for stabilizing relations and building the relationship.

In the 90s, you had a situation where Bill Clinton, now very controversially, pushed forward with negotiating China's accession into the WTO. You had, in 1999, after NATO accidentally bombed the Chinese embassy in Serbia, during the Kosovo War, Jiang Zemin, basically sort of saved the US-China relationship and used WTO accession, which hadn't been completed in May of '99, when NATO accidentally bombed the embassy, sort of used WTO accession, resuming negotiations, as a way to put the relationship back on track. So at different times, political leaders have played a key role.

A second major force would be, as you pointed out, just the economic relationship and the role of the business community on both sides.

It created this incredible sense of shared interest, and that really has faded away in a very significant manner. I mean, there were periods in the 90s where you had this interesting coalition, political and business coalition of moderate Democrats and moderate Republicans, in the House and the Senate, who would cooperate with business leaders in the United States to advance legislation that would expand the US-China relationship.

And there are no longer moderate pro-trade Democrats or Republicans interested in that agenda related to China, or the world really, and the business community, I think is probably, at best, ambivalent about China.

Of course, there's still plenty of big American companies that make a lot of money in China. One of the most important ones that's always been sort of a rock solid supporter of the relationship has been Boeing.

But of course you pick up the news today and you have the Chinese government telling airlines not only to not purchase new Boeing planes, but the ones you've bought, you should give them back and Boeing, I think a day or two ago, publicly went out and said, "Fine, if the Chinese don't want our planes, the planes we were building in the pipeline for China, we're just gonna sell 'em to somebody else."

So, to have one of the most iconic American companies, that has been at the heart of the political economic coalition for building and expanding the US-China relationship, sort of now at the heart of the trade war, saying that we're gonna take the planes that were slotted for China and sell them to others, I think it captures what an exceptional extraordinary moment we're in, in the relationship, and we should all find it deeply worrisome.

**CARDIFF:** And what a big shift too, because there's a couple things I take away from what you just said, and that was a great history there. One is that if in the past we were relying on leaders on both sides to take moments where there could have been a crisis and to say, "No, no, we're not gonna let it get to that crisis point. We're gonna actually do something to deescalate things. Now we do have enough shared interest that we're gonna move past it. We'll stick to our script or whatever, but we're gonna move past it for the sake of the relationship."

In the last, I'd say decade or so, we've had almost kind of the opposite approach. Where the leaders on both sides seem to be themselves escalating a situation where there was no sort of crisis thing to begin with, or potential crisis. They're sort of inflicting a new problem. So if you look at the first Trump administration, which was what I would consider to be sort of the start of the trade war with China, or at least recently.

Obviously there've been issues there the whole time, but—and then you look at Joe Biden, he actually accelerated it.

And then fast forward obviously to what's happening now, where now it's really escalated to a whole new level. So it's American leaders essentially escalating it. And simultaneously, you have the ascendancy of Xi and his consolidation of power.

You have, I think, the plan on China's side to rapidly catch up as fast as possible, technologically, to move as close to the technological frontier as possible. You certainly have a lot of what I would consider to be credible allegations of things like corporate espionage, the Chinese government making it harder for American businesses to operate in China, the way that they had in the past.

So it seems like the escalation has been driven by leadership rather than leadership trying to deescalate something that could become a conflict. Is that sort of how you see this?

**EVAN:** Yeah, you're absolutely right. I mean, leaders go from being a source of stability to a source of instability. Now, to be fair, the leaders are reflecting fundamental changes in behavior. And the fact that China, basically beginning around the mid 2000s, started to adopt a much more competitive approach to doing business with the international community, subsidizing national champions in China, creating all sorts of non-tariff barriers to shrink the market share of American

companies, ramping up IP theft and technology theft. And a big issue we dealt with in the Obama administration was cyber-enabled economic espionage.

I know that's sort of a jumble of words. I usually have to repeat it a couple times to my parents so they understand exactly what I'm talking about. But basically what it means is the Chinese realized, in sort of the late 2000s, that they could sort of leapfrog in the intelligence collection world by getting really good at hacking.

**CARDIFF:** And by stealing secrets and by trying to steal, in particular, I think secrets that would enable them to create their own versions of technologies that were a little bit more advanced than what they had at the time.

**EVAN:** Yeah. It's even worse than that because what they did was you had government agencies in China with all the cyber capabilities a government has at its disposal, hacking into American companies, and then either giving or selling the trade secrets, the confidential business information that they took from American companies, to Chinese companies to allow them to compete better.

**CARDIFF:** Yeah. What's interesting about all this too is that we're describing the deterioration in the diplomatic relationship at least, and yet, at least as of last year, the US was still importing a lot of stuff from China, a ton. It's still, I think, our third biggest trading relationship after Canada and Mexico.

**EVAN:** Oh, it's massive. \$600 to \$700 billion a year, right? I mean, I think it peaked out at \$700 billion in, I wanna say 2022.

**CARDIFF:** Yeah, and the sort of economic data sleuths have also looked at some of the discrepancies in the import export numbers between the US, China, and then third countries. And essentially they've concluded that there's also a lot of transshipping going on, where even with some of the tariffs and other trade barriers there, some American and Chinese companies seem to be getting around those by shipping through third countries and things like that. So the relationship might even be deeper than the official numbers suggest.

**EVAN:** Oh for sure. Yeah, I mean, if you look at the import data, the American imports from Southeast Asia, so Vietnam, Malaysia, et cetera, the fact that trade with China has decelerated a little bit, but it accelerated dramatically with Southeast Asia captures that dynamic that you're talking about.

And we should point out, since this is an economics podcast that we're only talking about trade in goods. None of this data captures trade in services which, it's possible, I've seen some estimates that suggest could actually put the US closer to having a surplus.



**CARDIFF:** And, I guess the thing that I'm sort of driving at is that even though, as you mentioned, the business community has become more ambivalent about its relationship with China, doing business in China, setting up factories and whatnot in China to import things back here, importing other intermediate products from China, and of course American consumers having the ability to buy a lot of goods more cheaply than they would if they were shopping for those goods in other countries or domestically, right? There is still a lot to lose, I think, on both sides from a big deterioration in the trade war in economic terms, this is still a massively important relationship.

**EVAN:** A hundred percent. I mean, in the Cold War we used to talk about the uncomfortable realities that inform the competition between the US and the Soviet Union. The most obvious one being the mutual vulnerability to each other's nuclear weapons, right? It's called Mutual Assured Destruction.

And that whole idea, MAD, was fundamentally a source of stability in the relationship depending on what era in the Cold War you're talking about. But my point is, there are uncomfortable realities at the heart of the US-China relationship as well, and one of them is the nature of the economic interdependence.

**CARDIFF:** Yeah. And you mentioned in one of your essays that the US-China relationship is a really good example of something that's now called weaponized interdependence, which is, I guess, the idea that the world is so interconnected now that, in addition to that bringing a lot of benefits, making the economy better, more efficient, more varied, more interesting in many ways, it also means that that interdependence creates these kind of political pressure points where you can hurt each other in certain ways by applying that pressure.

I think the sort of canonical example here is just that the US dollar is so widely used throughout the world for various transactions that that means that a lot of those transactions, including ones that have nothing to do with the US, those transactions are nonetheless susceptible to US law because they're being transacted in the dollar.

And that's just one example. But all of these different mutual interdependencies also give rise to ways that countries in a way can economically hurt each other as well.

**EVAN:** Yeah, that's right. And, to be fair, the US is in the lead of this trend toward weaponized interdependence. In other words, using the fact that countries rely on the dollar, that the dollar is the dominant currency globally, and holding at risk the prospect that a country's banks could be shut out of dollar denominated—

**CARDIFF:** Get sanctioned?

**EVAN:** Right, exactly. So there is a big debate about whether or not the American weaponization of the dollar, the use of financial sanctions to go after all sorts of

countries for all sorts of reasons, may actually have accelerated the trend to move away from the dollar. Though the data suggests that that's not really happening in any significant way.

**CARDIFF:** I wanna ask you about an idea that was very often conjecture in the 90s, and I guess maybe into the 2000s, about what a closer economic relationship between the US and China might lead to. One thing I think people had hoped was that it might lead China to become a little bit more like the countries that it was trading with, a little bit more like the US, a little bit more democratic, more like the US, like Western Europe for example.

Another idea was that more trade would also lead to a more peaceful relationship between the two countries.

It kind of seems like both of those ideas didn't quite work out the way we wanted to. Certainly in the case of China becoming more democratic. If anything, China has gone in the other direction, and I just kind of want to get your thoughts on that idea now that we have the benefit of hindsight. And, what happened?

**EVAN:** Well, I mean, you raise a lot of really big important questions. First, was US policy based on the expectation that more trade with China would lead to a democratic China? The way I would put it is US policy was not based on the expectation, but certainly the hope. In other words, China policy... the idea of reaching out to China, creating stronger diplomatic ties, creating stronger economic ties, trying to shape China's behavior was a big bet, right? And the bet was the more you interact with them, the more you will encourage them to be invested in the rules-based international system, right?

That was the whole theory behind bringing them into the WTO, that they will begin taking actions that sustain the system that not only benefits China, but benefits everybody. In other words, encouraging China to define their interests, not simply in terms of what works for China, but what works for sustaining this rules-based international system.

And the reality is, in retrospect, the Chinese bought into it and it worked for a little while. And then as their power grew, they started to think about, "Hey, how can we use this power?" And not necessarily for sustaining the rules, the norms and institutions at the heart of the international system.

Now this is a complicated story because another part of it is the rise of Xi Jinping, because he was so different. He had different views, perceptions, than some of his predecessors.

**CARDIFF:** Yeah.

**EVAN:** And he was, in other words, he was much more willing to throw elbows, explore the boundaries of Chinese power to accept risk and friction in his relationships with other countries. That I think, put China on this trajectory that it's been on for the past 10 to 15 years of what looks like systematically undermining some of these rules, norms, and institutions that have been so important, at least to the United States.

**CARDIFF:** One perception, I think, on the US side is that one of the reasons that China has been able to become so much richer and elevate its middle class is precisely by selling more things to the rest of the world. And so, in a sense, China's status model, economic model, relies a lot on the rest of the world not pursuing a more protectionist-friendly status model.

And I guess what I'm wondering is, is there a chance that all this might backfire? That if the rest of the world ends up thinking that China has done all these things unfairly, correctly, in many cases, and that if then it's not just the US that ends up pursuing a trade war with China, but the rest of the world as well, then China won't be able to take advantage of that more trade-friendly system and that actually, the thing that would be best for China itself is to be more kind of market-friendly.

And yet it seems to have gone in exactly the opposite direction.

**EVAN:** You're absolutely right. The whole theory behind pursuing TPP, the Trans-Pacific Partnership, which was a big Obama administration policy, was to create this sort of trade agreement where everybody agrees on new what we call "higher standards" that would guide trade and investment.

So, you would create an environment in which if the Chinese wanted to continue to trade and invest with others, they would have to adopt those higher standards. The whole idea was that countries were increasingly concerned about the fact that the Chinese would exploit the openness of the international trade system, which is absolutely right.

In many ways, what the Chinese did was they took advantage of the fact that they were so big, they had so much global market share, they had so much to export. But on the other hand, they didn't really allow reciprocal access to their market. They basically worked the system.

And there's a great article by Mike Froman, the President of the Council on Foreign Relations, that makes this exact point, how it was really China that wrecked the global trading system. The Trans-Pacific Partnership was sort of a way to get at this. The Trump administration withdrew the US from the TPP, but yet, the antibodies toward China's very aggressive, very predatory economic practices—the antibodies to that were growing. The Biden administration did a lot to sort of try to create

coalitions of the willing internationally to try and address Chinese predatory practices, especially when it came to technology.

And I think momentum was growing. I would say that there has been a lot more convergence between the Americans and the Europeans, the Americans and key Asian economies, Japan and Korea in particular. But of course, all of that falls apart when America becomes the most hostile trade power in the world by launching a trade war against everybody else.

**CARDIFF:** Against all the other people, all the other allies with whom we might form a coalition of the willing.

**EVAN:** That's right. And it's even more complicated because, we didn't just launch a trade war against everybody else. We also start calling into question the credibility of our—we start calling into question our commitment to our security assurances. So you go to Europe, and I've been to Europe a bit in the past few months, and the operating assumption is that NATO is effectively dead.

Which, of course, is just a trauma, it's a shock to European policymakers. I would say that they're still dealing with the fact that the US is not only unreliable, but now potentially hostile to them as well.

**CARDIFF:** Were you still in the Obama administration when TPP was being designed? Did you get to work on it?

**EVAN:** Yes, yes, I did work on it. I worked specifically on Vietnam and Malaysia.

I was not a trade negotiator, but there's a lot of politics involved—

**CARDIFF:** Oh, sure.

**EVAN:** In persuading, at that point, the Vietnamese political leadership and the Malaysian political leadership to join. We really wanted to have developing countries in Asia who were major trading partners in part because we knew that if we didn't have them, China would use them as massive transshipment points, but we also wanted them in there to sort of demonstrate that TPP was just not a rich person's club.

**CARDIFF:** That had to be, in hindsight, a huge disappointment: the fact that it didn't get there. How would you describe sort of the missed opportunity of not—

**EVAN:** Yeah, I mean, 'missed opportunity.' It is a vast understatement in the history of vast understatements.

**CARDIFF:** (CHUCKLES)

**EVAN:** In other words, TPP could have been a strategic gamechanger, because economic policy in Asia is strategy simply because of the nature of the strategic preferences of most leaders in the region.

In other words, they express their strategic preferences, who they want to align with, who they're gonna cooperate with, not by simply who you conduct military exercises with, who you buy advanced fighters from, but really who you align with economically. I remember very vividly sitting in the Oval Office in this historic meeting between President Obama and President Sang of Vietnam.

And it was historic because we had signed, for the first time ever, a comprehensive partnership with the Vietnamese, which for them was a huge deal. I was told after the fact that the Vietnamese Politburo did something like 10 different readings of the comprehensive partnership document before they finally agreed on it.

And in the meeting, President Sang said, "I'm so glad we're doing this. This takes our relationship in a fundamentally different direction. I want to ensure that this comprehensive partnership is a success and endures. So, let's figure out a way for us to buy lots of American planes and maybe even some nuclear power reactors too."

In other words, they were sort of expressing their effort at strategic alignment in economic terms. That's how important TPP was.

**CARDIFF:** Well, that's a bummer. The way you just described is that's a huge bummer.

**EVAN:** Huge, phenomenal lost opportunity. And now of course the United States, not only looks like it's pulling back from the sort of WTO system and giving up on it, but sort of actively hostile to it.

**CARDIFF:** When I was reading your essay about China's new economic weapons, the thing that struck me was that in some ways, China has been preparing for exactly this moment that we find ourselves in right now. For the last seven years or so, it has been—

**EVAN:** Since 2018.

**CARDIFF:** Since 2018, it is essentially been thinking, "Well, if the US is gonna ramp this up on us now, we better be ready for future ramp ups, future escalations in the trade war."

And so now that Donald Trump has raised tariffs to such an extraordinary level, and not just raised tariffs but also made these kinds of bellicose statements about trade and about the US being ripped off and so forth, China was ready for it. And I want to go through some of the economic weaponry that it can now actually deploy in response to what it is that we're doing.

Some of these some of these individual weapons, which mostly as I understand it, relate to legislative changes in Chinese law. Is that about right? In designing these weapons, the Chinese government essentially gave itself a little bit more discretion to maneuver with more precision and less bluntness. Is that an accurate statement?

**EVAN:** Yeah. To be specific, when the first Trump administration initiated the first trade war against China, it was all about trading in goods. And what the Chinese recognized is that they were at a disadvantage because they sell more to the US than they buy.

So getting into a trade war disadvantages them disproportionately. And so what they realized is they said, “Hey, let's develop some weapons where we can use our centrality and global supply chains. We can use access to the Chinese market, which the Americans need and want.”

**CARDIFF:** Yeah.

**EVAN:** “Let's weaponize it in a way that causes them pain, but doesn't cause us corresponding pain. We don't want to get into the game of reciprocal tit-for-tat tariffs with the United States.”

**CARDIFF:** Because it wouldn't work, right? In other words, the US buys so much more from China. If China just did tariffs, the US might say, “Well that doesn't hurt us that much 'cause we don't actually sell that much to you—”

**EVAN:** I mean, that's Donald Trump's theory, right? The reality is nobody wins in a trade war and nobody really knows, “Is it easier to replace lost supply in the case of the Americans? Or is it easier to replace lost demand in the case of the Chinese?” Nobody knows the answer to the question.

**CARDIFF:** I totally agree. I just mean in terms of having something to threaten with, to respond with, it needed something different, right?

**EVAN:** The Chinese view was, “Let's figure out a way to maximize their pain, minimize our costs.”

**CARDIFF:** Mm-hmm.

**EVAN:** And that's why they sort of looked around the world and they said, “Well, let's start doing what the Americans have been doing.” So they create this thing called the Unreliable Entity List.

Which is sort of a mirror image of the corresponding American list. And they decided to start weaponizing all sorts of regulatory reviews. Similar to the FCC reviews, antitrust types of views, for example.

**CARDIFF:** And some of these different weapons go by names like the Unreliable Entity List, which you just mentioned, blocking rules, which are something that already exists in Europe primarily. And now the Chinese have their own version of it.

**EVAN:** They haven't really used them very much. It's interesting. It's one of the things we pointed out in our paper was that they've got them sort of on the books, but we haven't seen them implement.

**CARDIFF:** What is a blocking rule, for example?

**EVAN:** It basically just blocks access for an American company doing business in China because the Chinese believe that company is agreeing to, or implementing American sanctions in a way that disproportionately disadvantages China.

**CARDIFF:** It's interesting that some of these new rules, some of these new weapons are designed to counter the fact that the US has a very powerful sanctions regime that it can use throughout the world and that that can penalize some Chinese companies. And this sort of gives Chinese companies a way to redress, a way to sort of offset the damage of those sanctions?

**EVAN:** So if you have a Chinese company that's dealing with an American company that no longer is providing the Chinese company access to a particular widget because of American sanctions, the blocking rule gives the Chinese company a way out.

**CARDIFF:** A way out, yeah. Instituting things like antitrust to stop an American company from buying a Chinese company, cybersecurity reviews. Blocking exports of critical goods—that seems to be the one that's gotten a lot of headlines in recent weeks because, specifically, China has stopped exporting these rare earths, which are quite necessary, and which China controls, especially the market for refining them before export.

And so American companies in particular, defense or weaponry, companies like Lockheed Martin and a few others, if they struggle to have access to those rare earths, they can't make the things that they make.

**EVAN:** So, I think of these tools as sort of in two baskets: the Chinese either trying to weaponize their centrality in global supply chains or trying to weaponize the need and desire for access to the Chinese market.

And so, when it comes to critical minerals, ones like gallium, germanium, antimony, that are actually important, not just in the production of defense goods, but they can be important in the production of computer chips, semiconductors, certain types of vehicles, et cetera.

And the Chinese not only have a very substantial monopoly, in some cases over 90 percent, on not just mining, but also in specifically processing these as well. And the Chinese have started weaponizing these. And we talk about this in the paper and there's been a lot of press just in the last week about how the Chinese have a monopoly on rare earth heavy magnets, or I should say heavy rare earth magnets. To be honest, I don't know exactly what these are, but they're really important in EV motors.

**CARDIFF:** I've gotten the sense that of the American businesses that are most sort of susceptible to these new Chinese economic weapons, obviously aerospace and defense companies that use these, but also a lot of sort of tech companies.

Tesla comes up a few times, EV companies. Who else has good reason to be especially nervous about China's use of these weapons?

**EVAN:** When you say who else, you mean?

**CARDIFF:** What other businesses or would this include, for example, American consumers of certain consumer products and things like that.

What other parts of the American economic landscape could be susceptible to being hurt by China's use of these?

**EVAN:** I don't think a lot of these—when you talk about critical minerals, that's not in retail supply chains, for example. The big losers in this are gonna be any company that uses critical minerals. It's gonna be any company that relies on production of goods in China.

So, for example, we all shop at Target and Walmart, and there's a whole variety of goods that Target and Walmart very substantially sourced from China, right? We've all done this. You walk down the aisles, you pick up an item, you're like 'Made in China'.

**CARDIFF:** Yeah.

**EVAN:** And so I think, the best way to answer this question is if this trade war goes forward and the tariffs don't come down, we're not just gonna see inflation, we're gonna begin to see scarcity.

So where it really affects the American consumer is gonna be in everyday goods. So, for example, a company like Walmart buys a majority of its baby carriages, strollers, from China. The Chinese happen to produce lots and lots and lots of strollers, and I think we're gonna see a particular scarcity in those, for example.

Or bikes, right? Bicycles.



**CARDIFF:** We could see this in a lot of different places. And one other part that was interesting in your paper was that you include a list of how these weapons might be used and some of the American industries that might be vulnerable and for one of them at least, it included some American financial institutions, especially if those institutions, for example, may stop doing business with certain Chinese companies because of American sanctions, then China might hit back by making it harder for them to do business in China. That's how I understood it.

And what was interesting to me, as somebody who covered Wall Street for many years as a reporter, was that this was a longstanding dream of Wall Street, to have access to the Chinese market. It's always been complicated because China has such a closed capital market system, but they've been trying to maneuver to get in there for so long, and I wonder if to some extent that dream is just dead now, or if at least it's just way too risky at this point?

**EVAN:** I agree with you that one of the great dreams of Wall Street is to get access to the Chinese consumer. So, to put it very bluntly, it's about running Chinese money into global markets. I mean, the estimates of—the Chinese are notoriously great savers, the Chinese consumers largely a great saver because they don't have consistent access to healthcare, education, prices are high, et cetera, et cetera. It's what economists like to call “precautionary savings.”

And so if you're an American banker, you see tens of trillions—I forget what the estimate of the amount of savings in Chinese banks. It's over 20 trillion. And so you're an American financial institution and you think to yourself, “Wow, all I need is to get access to 1 percent of savings in Chinese banks and manage that money and run it into global markets.”

But of course, the Chinese know that. The Chinese are very, very skeptical that that won't break apart their own financial system, undermine the integrity of Chinese banks. And then, of course, the Chinese themselves are worried about anytime you open a door to letting Chinese money out of China, that—

**CARDIFF:** It makes it harder for them to manage their currency, which has been a big part of their economic model.

**EVAN:** Absolutely. They have a closed capital account for a good reason. It's because they're worried that if they open it up a little bit, that the dike breaks and all the money comes flooding out and then you have a collapse of the banking system, collapse of the currency. And, we know where that goes.

**CARDIFF:** In addition to explaining all of these new economic weapons, you also describe in your paper some of the ways in which their use is different. From how the Chinese operated when it came to trade wars in the past, or at least these kinds of economic conflicts and tensions in the past.

And one thing that struck me in particular was that it seems like what China wants is not just to be able to use these weapons, but to be able to threaten to use these weapons and to give itself a lot of flexibility, a lot of maneuverability. Is that right?

**EVAN:** It's both/and. So, for example, the way they've used the Unreliable Entities List to date has been to put a lot of American defense companies that sell materials and technologies to Taiwan as part of American arm sales to Taiwan, to put them on the list.

Now, most of those companies don't sell anything into China, so it doesn't really matter. But there are exceptions. So, the big defense conglomerate, RTX. Their Raytheon Defense sells stuff to Taiwan. But under the RTX umbrella, you also have, Pratt & Whitney, which sells a lot of airplane engines, commercial airplane engines, in China.

And so it's interesting that Raytheon Defense gets put on the Unreliable Entities List, but Pratt & Whitney can continue to do business in China. So when it is in China's interests, it's interesting how much they're willing to compartmentalize these things.

One of the other examples that Andrew and I wrote about in the paper was that even though the vast majority, 95 percent, of the cases of companies put on the Unreliable Entities List are these defense companies involved in arm sales to Taiwan. There are two cases, one is PVH, the other is Illumina, of non-defense companies that got put on the Unreliable Entities List for doing things the Chinese didn't like.

In the case of PVH, which is an apparel producer, they stopped sourcing their cotton from Xinjiang. In the case of Illumina, it was sort of lobbying against China on Capitol Hill. But the Chinese have been very careful and very slow in how they proceeded with putting these companies on the Unreliable Entities List.

Again, when it's in China's interests, they can sort of slow roll things and compartmentalize things. Different case that we talked about was the way the Chinese have weaponized the antitrust authorities. Of course we have the same authorities in the United States to investigate pending mergers and acquisitions.

But what the Chinese have done is clearly weaponized their antitrust authority. And so there's a Chinese agency called SAMR, right? Not exactly the most friendly sounding of names, but if you're subject to a SAMR investigation, what that basically means is the Chinese are now targeting you.

And they, for example, the Chinese have, in recent weeks signaled that they might be prepared to launch an investigation against Nvidia.

**CARDIFF:** Those are great examples and I think reflect the kind of increasing sophistication and complexity of these new tools. We've talked a lot about the rising

tension in the relationship, and obviously things can always get worse. Let me ask about what might be some of the lingering common interests between the two countries.

Like, if there was one or two things that actually could pull the two countries back from the brink, what do you think they could be? I'm not saying that this is what they will be, this is not a prediction. I'm saying what are maybe some of the things that both sides could potentially take advantage of to deescalate.

**EVAN:** Yeah. I mean, if this were a traditional administration, I can think of a few ideas that would be candidates for driving deescalation. But there's one person that runs China policy in this administration, Donald J. Trump. It's unclear that he has any awareness of the stakes or the history and the relationship or the need for deescalating.

**CARDIFF:** And in addition to those things, he's also unpredictable anyways.

**EVAN:** Right, exactly. Openly unpredictable. He's alienated the Chinese. The Chinese mood right now is really one of defiance and combat with the United States. I worry that the Chinese look at him and they think this is not somebody we can negotiate with in good faith. So what's the point?

That said, if it were a more traditional administration, there's always been a baseline idea among policymakers on both sides that the relationship is too big to fail. In other words, it's always worth as difficult as things get even during incidents like when the Chinese fly a spy balloon over the United States, or when the Americans find out Xi Jinping is providing military equipment to the Russian invasion of Ukraine. That as bad as this behavior is, that there's a way to pursue a negotiated solution, and I worry that in the current climate, none of that is available to the United States.

One final point here is whereas in the past there were these buffers and stabilizers, the role of political leaders, economic interdependence, political coalitions in both sides, or even the view that there was sort of shared and common interests during the global financial crisis. Neither one, neither Americans nor Chinese, wanted to see the global economy collapse, right? And what I worry is, as we evolve in our strategic competition, that the distrust is becoming deeper and deeper. And if we lose that sort of muscle memory of how to use diplomacy effectively to put boundaries around the competition, we could end up in an era that looks similar to the darkest days of the US-Soviet Cold War.

**CARDIFF:** Yeah, it's a sobering thought. So let me end with this question. You don't have a lot of time for this concept called the Thucydides Trap, which is the idea that I think effectively when there is an emergent rival to another superpower country, that it's almost inevitable that those two countries will end up in some kind of a terrible conflict, military conflict.

And the point that you make in one of your essays in “Cold Rivals”, the book you edited, was this takes away all agency from leadership. That it essentially seems like there are these impersonal forces that will end up leading to this unavoidable outcome. And you make the case that that's not true.

**EVAN:** Yeah. Because the history of the US-China relationship, arguably the history of international politics in the modern state system, is a history where contingency and agency, and in some cases the role of individual leaders, has enormous amount of influence. So my worldview is not one where you can apply laws of physics like principles to international affairs.

And the proponents of the Thucydides Trap, that's sort of their view. That there are these immutable laws in international relations that dictate how states act with one another. And I just simply think it's more complex.

Second and final reason why I reject the Thucydides Trap is it lets China off the hook. The Chinese love the Thucydides Trap largely because it sort of blames the United States. That America is insecure. America can't deal with accepting a rising power. So it's inevitable that the Americans will try and keep down the Chinese. But what it lets the Chinese off the hook with is their predatory economic behavior. Their aggressive and coercive behavior on maritime and other territorial disputes. Their bullying tactics toward other countries, all the things that have contributed to a deterioration in the US-China relationship. And I don't think we should let them off the hook.

**CARDIFF:** Evan Madeiros. I really, really recommend to our listeners that they look up some of your recent papers, in particular, and also “Cold Rivals”, the book that you edited. Thanks so much for being here.

**EVAN:** Yeah, great to be here.