

## Delusions of Decoupling Excerpts

- It should concern every one of us who cares about the state of the global economy that the *positive-sum* metaphors of healthy *economic* competition are giving way to the *zero-sum* metaphors of *military* competition... [This] is exactly the sort of thinking I had in mind last year when I warned that an economic iron curtain was descending as both the US and China came under growing pressure to decouple.
- Today, I'm sad to say that the pressure in Beijing and Washington have not lessened in the last year. In fact, they are increasing... If either of [the US or China] tries to force a *comprehensive* decoupling on third countries, these others simply will not follow. And we would risk isolating ourselves, the United States or China, from the rest of the world.
- I welcome last month's public statement by Vice President Mike Pence that the Trump Administration does *not*, in fact, take "decoupling" from China as its strategic goal.
- [D]ecoupled economies doom themselves to multidimensional conflict because, once decoupled, they are much less likely to work jointly with their newfound adversary on other issues and interests. [I]f we decouple economically, good luck trying to work together to combat common foes such as nuclear proliferation, climate change, global pandemics, or any of the other threats to global stability.
- Decoupling in flows of goods will likely continue because the very *idea* of tariffs has been re-legitimated after taking a wallop from the dismal failures of the 1930s. The originators of America's disastrous Smoot-Hawley Tariff Act of 1930 would be ecstatic.
- [W]hat concerns me most is what's happened to flows of *capital* and *technology* over this past year. And both capital and technology flows are at acute risk from political pressures and policy changes under consideration in the American and Chinese capitals.
- I welcome September's announcement by the China Securities Regulatory Commission that foreign firms will be able to take 100% ownership in onshore ventures starting next year... Opening up offers American and global firms the opportunity to contribute to developing China's capital markets...And that, in turn, would be an important element of moving toward a market driven economy with a market priced currency.
- Financial openness in China and the opening up of China's capital markets would also facilitate the development of China's national *carbon* market. This has more potential than just about anything to reduce carbon emissions in China and mitigate a formidable, certain, and significant risk to the economic security and social stability of China and the entire world. That, in turn, would also help to create and open up new opportunities for

environmental goods and services and financial products—areas where the United States is a leader.

- Decoupling China from US markets by delisting Chinese firms from US exchanges is a terrible idea. So is forcing Chinese equities out of the MSCI indexes. It is simply contrary to the foundations of successful capitalism for politicians and bureaucrats to instruct *private* American players how to deploy *private* capital for *private* ends.
- Decoupling China from US markets in this way would, of course, harm China... But it would not be in America's interest. It would eventually threaten US leadership in finance, as well as New York City's role as the world's financial center. And it would help other financial centers like Tokyo, London and Singapore. And, over time, Shanghai.
- The global economy will, quite simply, be a safer place if we have greater harmonization and coordination of financial regulation and standards, and accounting principles...[A]s the Treasury Secretary who presided over America's response to the 2008 financial crisis, which could have been as bad as or worse than the Great Depression, I can tell you with certainty: That crisis might have devastated the world economy. But our response to it was made more effective because we had the ability to coordinate monetary and fiscal policies with other key economies, including China's. And so when the *next* crisis comes—and a crisis *will* come, because financial crises are inevitable—we will regret it if we lack mechanisms for the world's first and second-largest economies to coordinate.
- American and Chinese technology systems and standards are being separated and the world's systems and standards may become Balkanized as a result.
- If we slash ties and forbid technical exchange, it will fracture the global innovation ecosystem and curtail an enormous amount of potentially world-changing basic research. We also risk creating a permanently fractured regulatory foundation, shredding the supply chains that link individual economies in one of the most powerful economic engines of the 21st century.
- Blocs only work if participants are segmented and don't straddle both sides of the fence. So forging an exclusive technology bloc would isolate and weaken the US economy by reducing the ability of US firms and workers to participate in a significant part of global trade—not just with China but the rest of the world too.
- To address [the standards challenge,] we need a set of common technology standards to facilitate global trade and investment in some of these new areas.... [W]hen technologies have] the potential for widespread and beneficial commercial use [and do not risk

national security], sequestration risks ceding economic leadership to a rival company and country. And since any country's national security is ultimately dependent on its economic competitiveness, this tradeoff would need to be made with *incredible* care. A decision, after all, to protect *too* much of a country's technology will ultimately undermine both economic competitiveness *and* national security.

- For all but the technologies in our *most* secure communications backbone, we should fight for at least *some* degree of interoperability as the best way to limit the scope of what I have called the “**economic iron curtain.**” This would mean, for example, that Huawei agrees to make its technology interoperable with other systems. And so if a European telecommunications provider wants to buy 5G from a *non-Chinese* supplier, those purchases will be interoperable with the already installed Huawei 4G systems.
- Even as we each build a high fence around a small yard to protect our national security we must not, in the bargain, impair our individual and shared economic security—and that of the rest of the world. But that's not what's happening right now. Instead, regulators in both Washington and Beijing are talking not about *small* yards with high fences but Olympic Stadium-sized yards and fortresses ringed by moats.
- The problem is that emerging and foundational technologies have become the third rail of US-China strategic competition. That's why you hear people talking about a “technology Cold War.” We need to *deal* with this third rail by setting into place some guard rails to keep the competition around sensitive and complex technologies from spinning out of control. But before the two sides can move from *third* rails to *guard* rails, they need to remove some of their festering differences step by step.
- I encourage Chinese leaders to take steps that would allay the very real fear that Beijing's long-term goal is to assimilate Western technologies, adapt them, indigenize them, and then ultimately exclude foreign companies from the Chinese market and erect barriers to fair competition in third countries... For its part, the US needs to take some steps too. It needs to eliminate barriers aimed at punishing Chinese but that hurt Americans in the bargain, such as using a national security rationale to impose tariffs on steel.
- [W]hy not pursue a code of conduct and principles to govern scientific research with foreign scholars? Both nations could support a convention that sets meaningful limits on cyber warfare... Both sides could agree to support a roadmap and communication protocols for dealing with cyber terrorism. Both could agree to support the establishment of a Global Technology Protection Board to help identify and punish cyber thieves. Both could try harder to support the development of global commercial technology standards.

- It's time for a group of nations to develop rules of the digital highway for software and hardware in fields like machine learning and 5G.
- There *will* be some natural decoupling. But the delusions of a wholesale, comprehensive decoupling and an **economic iron curtain** will leave our countries, and the world, worse off. We need to avoid that outcome.