

The Wire *China*

Q & A

Yao Yang on Why China and the U.S. Need to Talk

The Chinese economist discusses why a prosperous China is good for the U.S.; recent changes in the Chinese leadership; and how Beijing sees relations with Russia, the U.S. and Europe.

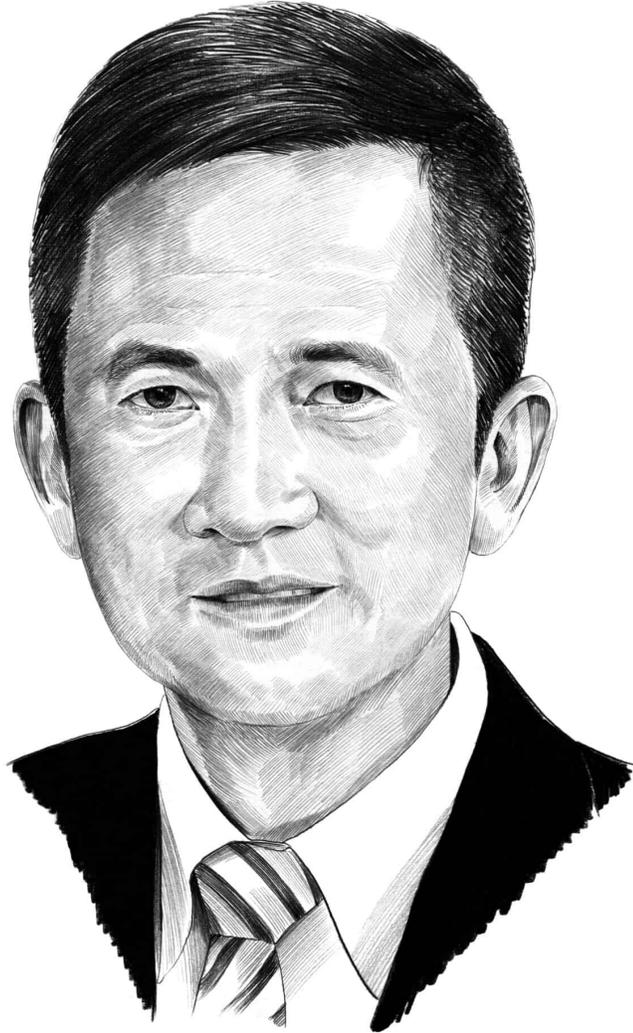
BY BOB DAVIS — APRIL 23, 2023

ECONOMY

POLITICS

TRADE

Yao Yang (<https://en.nsd.pku.edu.cn/faculty/fulltime/y/239558.htm>) is one of China's leading economists. As dean of Peking University's National School of Development and director of the school's Center for Economic Research, Yao has put a priority on research to further China's economic and political development. As he explains in the interview below, top academics in China have a closer relationship with the government than do similar academics in the U.S. He is a member of the Chinese Economist 50 Forum, whose members often play significant government roles, and also a member of the Theoretic Economics Committee at China's governing State Council. Long seen as an economic reformer, Yao got his PhD at the University of Wisconsin at Madison and participates in so-called "Track Two" talks between academics and former government officials in the U.S. and China and aimed at trying to improve relations between the two countries.



Yao Yang.
Illustration by Lauren Crow

Q: Let's start with what I'd call the China-Russia alliance. Why would China look to get so closely interlinked with Russia at the expense of relations with the U.S. and Europe? From the U.S. perspective, that looks like a really bad decision economically.

A: I don't think China and Russia have formed an alliance. China never uses the word alliance. We only call it a partnership. It is only the Russians saying that Russia and China are effectively in alliance.

In terms of economic relations, China and Russia have a large trade volume of about \$100 billion. [Editor's note: trade between the two countries actually reached \$190 billion in 2022 (<https://www.globaltimes.cn/page/202301/1283761.shtml>).] So the two countries economically are linked together. But of course, the U.S. and China's trade volume is much, much larger. [Editor's note: U.S.-China trade was \$691 billion in 2022 (<https://www.census.gov/foreign-trade/balance/c5700.htm>), with a \$383 billion surplus for China.] So the United States is more important economically to China.

But politically, China and Russia have gotten closer in recent years. That's mostly because the United States has adopted a policy of trying to decouple from China. And more importantly, politically, the U.S. wants to isolate China. In a sense, it is the United States that's pushing China toward Russia on the political front.

Even if you believe the U.S. is trying to isolate China, are you concerned that China might be in danger of hurting its economic relations with Europe?

BIO AT A GLANCE

CURRENT POSITION	Dean of the National School of Development, Peking University
BIRTHPLACE	Xi'an, Shaanxi Province, China
AGE	58

I would say China's attitude toward Russia can be described by principled neutrality. China recently issued a call for a peaceful settlement for the Russian-Ukraine conflict. In that statement China said clearly that all countries should respect the U.N. charter. Russia's

invasion of Ukraine is clearly a violation of the U.N. charter. And China has sent humanitarian aid to Ukraine [Editor's note: Chinese officials have announced shipments of several million dollars' worth of infant formula, quilts, and other aid to Ukraine.] So, I really don't think that China is taking sides in the Russian-Ukraine conflict.

There are other countries that have done almost the same thing as China — for example, India. The United States or Europe speak about China but don't say anything about India. That to me is quite strange.

In recent weeks, European leaders have also expressed some concerns about this prolonged war in the Ukraine. Some of them have even suggested that a peaceful settlement should be a solution to this conflict. So, in that sense, China and Europe actually are on the same side. You also see [French President Emmanuel] Macron and [European Commission President Ursula von der Leyen] coming to China together. This says Europe doesn't want to isolate China like the United States has done.

Let's switch to your assessment of the new Chinese government and the reshuffling of the Party's top positions. Do they indicate a commitment to economic reform or a move away from that policy?



[\(https://www.thewirechina.com/2022/10/30/chinas-new-politburo-standing-committee/\)](https://www.thewirechina.com/2022/10/30/chinas-new-politburo-standing-committee/).

To understand China's recent political change, we have to understand the problems that were created in the last several decades. Reform and opening have been the key for China's economic growth — no doubt about it. But we also had huge problems. Corruption was just rampant.

The anti-corruption drive of the last ten years has been powerful, and punishments have been severe, but we still see government officials taking a huge number of bribes. Because of that, we need strong leadership.

Second, alliances between politicians and business are controlling politics, controlling society, controlling business. Political-business alliances are detrimental for economic growth or for society at large. That's intolerable. But of course, in China we have the Communist Party, which is very strong. President Xi Jinping has used the Party structure to smash political-business alliances.

Look, in the U.S., when the president is in power, who are going to be the cabinet members? People he trusts. It's the same in China. If you can understand the American cabinet, then you can understand the current composition of the Standing Committee of the Politburo in China.

In terms of economic policy, I really don't think that there will be any change. If you listened to Premier Li Qiang when he spoke at the Bo'ao Forum, [China's equivalent of Davos, held annually in Hainan province], which I attended, you got the sense that he is very pragmatic, open-minded and wants to work with companies. He had meetings with CEOs of foreign companies and said, "China is still open. China wants to trade with foreign companies just like domestic companies.'

Li Qiang giving the keynote speech at the Bo'ao Forum, March 30, 2023.

Credit: CGTN (<https://www.youtube.com/watch?v=KagWaMYmgZs>)

So, my assessment is that the current leadership, because it's unified, is going to become more effective. Of course, there is a new division of labor. The Party side is going to make the decisions and the State Council is going to implement those decisions. That's a good change. It's just like the United States. You have the president, and you have

the cabinet. The president decides the direction, then the cabinet members implement the president's decisions. That's the same in China.

Let's talk about the pandemic. You publicly urged China to ease restrictions. But when China eliminated the restrictions after some public protests it did it so abruptly, without a vaccination campaign. Why do you think China's leadership acted in the way that it did?

First of all, the Party leadership listens to the people's call, that's very important. The fundamental objective of the Party is to increase the people's welfare. When people felt constrained by those [zero-Covid] policies, the Party listened.

MISCELLANEA	
BOOK REC	A recent book that I read and recommended to many people is <i>The Fourth Turning</i> .
FAVORITE FILM	<i>The Straight Story</i>
FAVORITE MUSIC	Pop songs by Luo Dayou
MOST ADMIRER	Amartya Sen

People, including myself, felt the strict Covid policy was not going to work toward people's welfare, and it was not good for the Chinese economy. That was the key reason why the leadership just opened up. That was a wise decision. There was a huge wave of infection. I was among the first batch of people who got infected. But it turned out that [the number of infections] went up really quickly and also went down very quickly.

At the end of last year, most of us believed that the wave would last for three months. But in most cities, it only lasted one month. By the Spring festival, travel resumed, and people forgot about the pandemic. Even on airplanes, many people don't wear masks.

Let's go back a bit to the beginnings of the U.S.-China opening. Americans believed that tighter relations between the U.S. and China would lead not just to economic change in China but to political change — along the lines of a democracy. Do you think that was ever a realistic goal on the part of the U.S.?

This was not the first time that the United States wanted to change China. In the first part of the twentieth century, the United States also tried. General Joseph Stilwell spent almost 30 years, the better part of his life, trying to change China, but that failed. [Editor's note: U.S. Army Gen. Stilwell served in China and Burma during World War II and became chief of staff to Nationalist leader Chiang Kai-shek. He pressured Chiang to reform the Chinese army and work with the Communists to defeat Japan, rather than hoard weapons to defeat Mao Zedong's forces.]



Chiang Kai-shek, Madame Chiang, and General Joseph Stilwell in Maymo, Burma, April 1942.

Credit: The George C. Marshall Foundation

[\(https://www.marshallfoundation.org/articles-and-features/marshall-and-the-recall-of-stilwell/\)](https://www.marshallfoundation.org/articles-and-features/marshall-and-the-recall-of-stilwell/)

Of course, the United States also turned the Boxer Rebellion money into an education fund and helped China to establish an educational system, including our competitor, Tsinghua University. [Editor's note: The U.S. used Chinese so-called indemnity payments from the 1899 Boxer rebellion against foreign colonialism to fund scholarships in China and build Tsinghua University]. So the United States really wanted to help China but, in the end, it failed.

This time, many Americans, including [National Security Council Asia chief] Kurt Campbell, have said that with the opening [to China], the United States has failed again in trying to change China. There is a big gap between American beliefs and Chinese reality. In a sense that's because the United States is such a young country and has been so successful. In a matter of 100 years, from its establishment, it became the most powerful, the most prosperous, the most liberal country in the world. So, Americans naturally developed the sense that, 'It's our duty to spread our ideas to other countries and to change other countries — to help other countries.' But China is such an old country and has its own tradition.

I believe that the current Chinese political system is deeply rooted in Chinese history. If I dare to criticize Americans, I have to say Americans are too romantic. It's impossible to change a country with a history of 5,000 years. That country has its own trajectory. Americans don't appreciate this.

Everyone has to admit the last 40 years have been such a success for China. The Communist Party has done a good thing for the whole world. I don't think enough Americans really appreciate this.

I'm happy to see that Campbell is changing his view. Several days ago, he said that the United States no longer seeks to change China. [Editor's note: During a March 30 talk at the Center for a New American Security, Campbell said: "We, in many ways, accept China as it exists... We often tended to overestimate our ability to dictate how China will evolve."]

That may set a new stage for U.S.-China relations based on mutual respect. China respects the American system — and many Chinese people are still inspired by the American system. But the United States also respects the Chinese system. Give China time. The Chinese people are going to find a way to an effective political system that provides individual freedom. That system probably is going to work differently from so-called liberal democracy, but it could work.

0:00 / 0:47

Kurt Campbell discussing accepting China as it exists during a fireside chat at the Center for a New American Security, March 30, 2023. Credit: CNAS (<https://www.youtube.com/watch?v=58Slr60lo1o>)

It has worked for at least for 40 years [since China began its policy of reform and opening-up]. Everyone has to admit the last 40 years have been such a success for China. The Communist Party has done a good thing for the whole world. I don't think enough Americans really appreciate this.

You have written about village elections in China. Why did you think they were promising and why have they largely ended?

First, I don't think democracy has faded away. The law is still there, and the elections are still being held. It's just the effectiveness that has been reduced.

The Rise and Fall of Local Elections in China[†]

By MONICA MARTINEZ-BRAVO, GERARD PADRÓ I MIQUEL,
NANCY QIAN, AND YANG YAO*

We posit that autocrats introduce local elections when their bureaucratic capacity is low. Local elections exploit citizens' informational advantage in keeping local officials accountable, but they also weaken vertical control. As bureaucratic capacity increases, the autocrat limits the role of elected bodies to regain vertical control. We argue that these insights can explain the introduction of village elections in rural China and the subsequent erosion of village autonomy years later. We construct a novel dataset to document political reforms, policy outcomes, and de facto power for almost four decades. We find that the introduction of elections improves popular policies and weakens unpopular ones. Increases in regional government resources lead to loss of village autonomy, but less so in remote villages. These patterns are consistent with an organizational view of local elections within autocracies. (JEL D72, D73, D83, O17, O18, P25, P26)

Yao Wang's paper in the American Economic Review

(<https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20181249>).

I think you are referring to a paper in the American Economic Review. We spent 16 years on that paper. We have an organizational theory of democratization. The central government or the Party faces trade-offs.

On the one hand, it wants to implement its policy and it needs local officials to do that. But on the other hand, it needs local people to monitor those local officials.

When the government's capability is low or when the government does not have enough money, the Party relies more on local people to monitor local officials. But when the government becomes richer and its role has become better [defined], its capability increases. Then they can say, "Oh, we can control the local cadre. We really don't need [local people to provide oversight]."

Elections are still there but local governments play a more active role in deciding the candidates. Of course, those candidates are still subject to a vote.

But if the local governments are selecting the candidates, you're not going to get candidates who are critical of the local government. Isn't that the problem?

It's like democracy in the National People's Congress. It's more like a deliberative democracy; it is not a contestable democracy.

You also wrote a paper toward the end of the Trump administration saying you expected the conflict between the U.S. and China would continue under Biden but that the U.S. would ease economic sanctions and tariffs on China. That hasn't happened. Were people in China expecting a big change with the Biden administration?



Biden's China Team

BY HANNAH REALE

Meet the appointees taking on the China challenge.

[\(https://www.thewirechina.com/2021/03/21/bidens-china-team/\)](https://www.thewirechina.com/2021/03/21/bidens-china-team/)

I was in the minority at that time. Most people in China believed that the Biden administration would continue the Trump policy. Unfortunately, they turned out to be right.

In the Trump administration, the cabinet was quite fragmented. There were people who were quite anti-China, but I don't think they were intelligent enough, from the American perspective, to form a coherent strategy on China. In the Biden administration, from an American perspective, the people are more rational. They have formed a coherent strategy on China.

It was a surprise to me because American attempts to decouple from China are detrimental for the American economy. The United States has punished China but at a huge cost.

The Biden administration expected that China would be so happy to get rid of Trump that they would make a gesture of some kind to ease relations. Do you think both countries were waiting for the other to move?

Neither side wants to lose face.

If Blinken had visited China, things would have become much better. [Editor's note: Secretary of State Antony Blinken called off his planned trip to China in February in the wake of the Chinese spy balloon controversy.] The balloon incident really had a disruptive effect on the U.S.-China relationship. I believe that was unnecessary. It is a balloon that was used by scientists. It was flown over the United States by accident.

We believe that the United States and the whole world should design a new governance model that accommodates countries with different political systems. That's our bottom line.

But I also see there are more rational people in the U.S., who really want to see the two countries ease tensions. Hank Greenberg just led several dozen people to sign an open letter to the leaders of both countries calling for them to ease the tension. I fully support their call. I also really appreciate their courage to speak out. [Editor's note: Insurance executive Maurice "Hank" Greenberg (<https://www.thewirechina.com/2022/09/04/hank-greenberg-insuring-engagement/>), a longtime China hand, published a letter in the *Wall Street Journal* on April 5, signed by 22 former U.S. officials, business leaders, and others calling on Presidents Biden and Xi to "repair and stabilize the state of affairs between our two countries."]

For decades, China has depended on U.S. business leaders to influence politics in Washington. In the past, that certainly worked, but it really doesn't anymore.

of view, a prosperous China is in America's interest.



Yao Yang speaking at a China Economic Observer (CEO) event on policy and the economy, March 18, 2021. *Credit: CEO*

You have been involved in the so-called Track Two efforts between academics and former officials of China and the U.S. for quite a while. Have the talks made a difference?

I don't know if they matter on the U.S. side, but they certainly matter on the Chinese side. We provide information and write reports to relevant government agencies. I believe that the information we have provided has helped the relevant agencies make decisions.

Most recently you have worked with a group of academics to come up with a way of discussing problems between the two countries by dividing them into different categories for consideration. Why do you think that's important?

We believe that the United States and the whole world should design a new governance model that accommodates countries with different political systems. That's our bottom line. We have to tolerate differences. That's why we put things in four categories.

We want to make this a technical issue. That's probably the professional bias of economists. We want to put things on ground and then find a solution. This kind of exchange is important. Academic economists, sociologists, political scientists, or legal scholars can step back and look at the bilateral issues in a broader framework — that is for the common good of the whole world.

When we last spoke, you said you thought restarting high-level government talks would be important. Why?

That would be very useful. To me, the United States' [sanctions on China] are violating international customs for country-to-country relationships. That's detrimental, of course, for China's technological progress, but it is also detrimental for the whole world. It is going to retard technological progress in the whole world.



President Joe Biden with TSMC (<https://www.thewirechina.com/2023/03/05/tsmc-turning-point/>) officials and other industry executives during their tour of the new TSMC semiconductor plant in Phoenix, Arizona, December 6, 2022. *Credit: The White House via Flickr*

(<https://www.flickr.com/photos/whitehouse/52651362680/in/photolist-2odBYN7-2odBZMb-2odB896-2odB8cN-2odBZLK-2odzJNJ-2od8K3H-2nUyf5B-2o4YaJA-2nW1taK-2odxcJp-2odzJRe-2odzJNZ-2mbrK61-2nSviNp-2o1PnQ5-2ogW7C2-2nSRzYM-2nQWJv6-2o5mNv6-2nTjZQh-2nRBHrJ-2nTGfHG-2nTPunV-2nWGGzc-2nSvw9G>)

For example, when the United States decouples from China in the semiconductor sector, China has to build its own research and industrial capacity to produce semiconductors. That is unnecessary in an integrated world.

The United States should move to the higher end [in semiconductor technology]. But instead the United States now wants to attract companies to produce semiconductors while China is trying to replicate unnecessary technologies. That's a total waste on both sides. The two countries should sit down and talk about this because it is a lose-lose game.

Second, from the Chinese perspective, I suggested to the government that we should talk with the United States. We should not just complain that the current world system is not supportive of China. China has benefited from the last round of globalization. The United States has also gained, but not as much as China. In the U.S., there are huge imbalances and problems. Those who are rich have become richer. Those who are poor have stayed poor. The United States wants to change this.

I think that gives China the perfect opportunity to join [global] rulemaking. The United States is still the most powerful country in the world. If we want to build new rules, we cannot circumvent the United States to create a parallel system. That's just impossible. So, the only way for China is to talk with the United States to set up the new rules. I firmly believe rules-based competition is the best solution for the two countries.

American officials no longer trust China. They believe that China is arming militarily and will try to displace the U.S. as the number-one power. Certainly, you're right that there is economic waste. But security concerns now override economic efficiency.



U.S. Marine Corps General Joseph F. Dunford Jr. (right), then chairman of the Joint Chiefs of Staff, and his Chinese counterpart General Fang Fenghui, sign the Joint Staff Dialogue Mechanism, an agreement to improve communication between the two militaries and reduce the chances of miscalculations. The Ba Yi (People's Liberation Army headquarters), August 15, 2017. Credit: [U.S. Navy Petty Officer 1st Class Dominique A. Pineiro \(https://www.jcs.mil/Media/News/News-Display/Article/1278963/us-chinese-military-leaders-sign-agreement-to-increase-communication/\)](https://www.jcs.mil/Media/News/News-Display/Article/1278963/us-chinese-military-leaders-sign-agreement-to-increase-communication/)

I don't believe so. First of all, China's military progress is proportional to China's GDP growth. If you look at the share of military spending in China's GDP, that has not increased. Military spending is just keeping up with the pace of economic growth.

But China's GDP is now more than 70 percent of America's level, so naturally China's military is catching up with the United States. This is probably just a minority view — I'm not an IR [international relations]

person, I'm an economist, so I can say this without hurting my career. A large country needs space. From the China side, when we look around, we are encircled by the American military presence. We don't feel comfortable with that.

That's why I believe the two countries have to sit down and talk. China doesn't feel comfortable about American military encirclement around China. The United States says, 'This is my territory. It has been so for 70 years, so China, you are revisionist.' That inevitably will lead to military conflict. That's why it is so important for the two countries to talk to each other.

Henry Kissinger discusses the historical perspectives of war during the World Economic Forum Annual Meeting in Davos, January 17, 2023.

Credit: WEF (https://www.youtube.com/watch?v=lbCFnn_g_Ml)

Now, regarding Taiwan, mainland China's first choice is still peaceful unification. That has never changed. But if the United States pushes China into the corner and encourages independence movements in Taiwan, then probably that's going to lead to military conflict in this region.

We should do everything to avoid military confrontation between our two countries. We met Henry Kissinger in New York City, and he said, ‘Competition cannot be avoided between the two countries, but we should do everything possible to avoid a hot war between our two countries.’

I really admire him. He’s a wise man. Americans, particularly American politicians, should listen carefully to Dr. Kissinger. He has gone through the Cold War, and he engineered the rapprochement of the United States with China. I don’t think Americans have paid enough respect to Dr. Kissinger’s advice.

In 2011, you forecast that China’s GDP on a nominal basis, and on a dollar basis, would surpass the U.S. in 2021. That didn’t happen but now you think that will occur by 2028 or 2030 and that in 2049, Chinese GDP may be twice the size of the U.S. If that occurs, what do you think the impact would be?

My prediction turned out to be too optimistic. I didn’t expect China to go through a restructuring over the last 10 years or so. Of course, the government also made a lot of mistakes that delayed China’s growth. But if China can keep an average 5 percent annual growth, then by 2028 or 2030, China will take over the United States in nominal GDP terms. If China continues to grow, by 2049 China’s GDP will be twice the level of American GDP.

The implication is clear: China is going to become the largest economy in the world. And China’s military spending is going to be at least half of the American level.

... economic growth is still important in China. That's why the government still listens to us. In the U.S., the society is rich enough that economists have been marginalized.

At least half or at least twice?

If China's GDP becomes twice the American level, then Chinese military spending is going to be as large as American military spending. That's because in terms of share of GDP, China's spending is half of America's level.

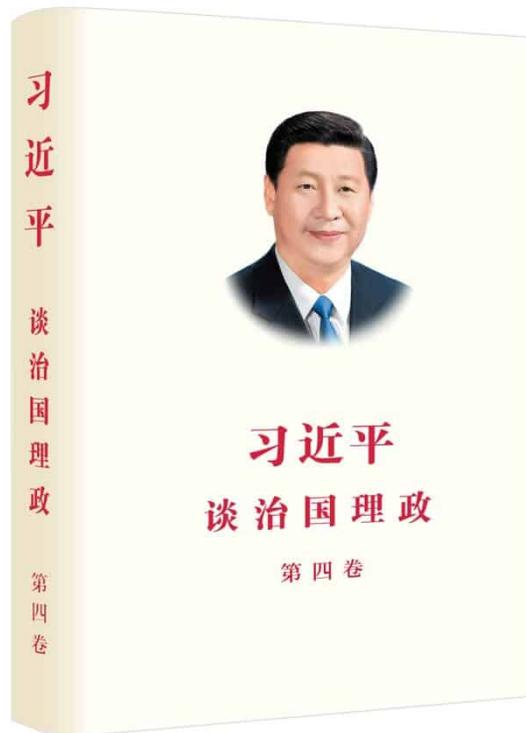
So that's going to be a huge change. That doesn't mean that China is going to challenge the United States militarily. It's just like the United States today. It doesn't want to challenge China militarily.

It would also have a huge economic impact.

Yes. Today, the United States is a last resort of consumption for the whole world. Probably in 10 years' time, we are going to see the two largest consumer markets in the world — one United States, one China — providing demand for other countries.

Let me switch back to Peking University where you are a dean. We read here about the importance and the spread of Xi Jinping Thought [applying Xi Jinping's theories and statements throughout society]. What impact does that have on your school and your work?

At Peking University, we are academic economists. We do independent studies. But in terms of Xi Jinping Thought, there is an impact. If you are a Party member, you have to study it. But if you are not a Party member, you're not required to study it.



The Governance of China Volume Four, published in 2022, articulates Xi Jinping Thought and contains speeches and writing from Xi Jinping. Credit: [Goodreads](https://www.goodreads.com/book/show/61468681-xi-jinping) (<https://www.goodreads.com/book/show/61468681-xi-jinping>).

In our school, the majority of professors are not Party members. But even for Party members, the key is not to recite what Xi Jinping has said, it's for us to connect our academic research with Chinese reality. That's the key. I mean, Xi Jinping is quite conscious about innovation and new theories.

If I can say a few words about economic research, which is my profession: I would have to say that economic research in the United States is going into a dead end because it is out of touch with reality. Many economists just make a living out of their profession. They actually don't care about what's happening in the world. And for the

last 20-something years, Chinese economists have unfortunately followed the American model. They do research, get data, put the data into a regression, get some results, and then publish a paper.

I always tell our young professors and young economists, ‘Don’t waste your time. Think of when you are old, when your grandchildren ask you, Grandpa, what have you done in your lifetime?’ If you say, I have published a paper in AER [American Economic Review], your grandson will ask, So? What’s the purpose of your life?’

Don’t treat your profession as just a way to make a living. You have to be part of the society you’re studying. For that, I think that Xi Jinping is quite right. He asks us to serve China.

In his words, he said, “You have to write your papers, your articles on the ground of the Chinese soil.” That’s perfectly correct. My sense is that many economists in China have not fully understood his advice. We should do that.

Only if we do real research, useful research for China, can we make a contribution to economic progress. So combining our research with reality is in accordance with the Party line. In that sense, the Party is perfectly correct.

Are you a Party member?

Yes. I’m a firm believer in socialism.

Can you explain the role of academics in China in terms of helping to make policy or to influence policy?

Academic economists in China have more influence on government policy than academic economists in the U.S — among the top universities obviously.

One of the reasons is that economic growth is still important in China. That’s why the government still listens to us. In the U.S., the society is rich enough that economists have been marginalized. In a sense, people

don't care what economists are saying, except for a few of them.



Yao Yang speaks during a panel focused on industrial supply chains during the Bo'ao Forum for Asia Annual Conference 2023 in Bo'ao, Hainan Province, March 28, 2023. Credit: BFA

But in China, almost everything is related to economic growth; the government is still really keen about economic growth. That's why we have been frequently consulted. When we say things publicly, policymakers listen. Sometimes, after I finish in a forum, I get phone calls from government officials. This kind of interaction is really frequent.

In the U.S., some economists argue that the U.S. didn't really appreciate how much an undervalued exchange rate was an enormous driver of economic growth in China. Do you think that's correct?

Yes. I wrote a paper on this topic. Our calculation shows that an undervalued currency helped China's growth. Not just China, but also Germany and Japan in the 1950s and 1960s, and '70s also.

There are conditions for a fixed rate exchange rate to work to undervalue the currency. The most important one is that your economy has unutilized resources — like labor resources or land resources that you can mobilize toward exports. In that case, a fixed rate exchange rate can undervalue the currency, and promote exports and growth.

[Click here to read more articles from The Wire China on trade.](https://www.thewirechina.com/topic/trade/)
(<https://www.thewirechina.com/topic/trade/>)

But that practice comes with a cost. The fixed rate also reduces the share of labor income in the country. In a sense, it is a kind of a forced saving device. It moves part of the income from ordinary workers to capital owners, and the capital owners reinvest that income into the economy.

That's why I said, after China has used up its surplus labor and its land becomes less abundant, we should change to a flexible exchange rate. The fixed rate exchange rate doesn't work.

**After the interview, Yao answered the following question by email –
Who do you think won the trade war?**

No one won the trade war because it has hurt both sides. Relatively speaking, the U.S. has lost more than China – the tariffs have not reduced China's exports to the U.S. or China's trade surplus with the US. U.S.-China trade has found a new equilibrium at higher tariffs.

**I see that you have your PhD at University of Wisconsin-Madison.
Did you become a football fan when you were there?**

Not really. I played basketball.



Bob Davis, a former correspondent at *The Wall Street Journal*, covered U.S.-China relations beginning in the 1990s. He co-authored “Superpower Showdown (<https://www.amazon.com/Superpower-Showdown-Battle-Between-Threatens-ebook/dp/B07Z3RZ9NY>),” with Lingling Wei, which chronicles the two nations’ economic and trade rivalry. He can be reached via bobdavisreports.com (<http://bobdavisreports.com/>).