

The Wire *China*

Q & A

Robert Rubin on Whether the U.S. Should Want China to Prosper

The Clinton-era Treasury Secretary and banker discusses why investors should steer away from China and the issues with linking trade and human rights.

BY BOB DAVIS — SEPTEMBER 10, 2023

ECONOMY

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*Robert Rubin (<https://home.treasury.gov/about/history/prior-secretaries/robert-e-rubin-1995-1999>) seemed an unusual choice to join the Clinton administration. His boss, Bill Clinton, won the presidency by running a populist campaign and Rubin, as co-chairman of Goldman Sachs, was hardly a populist. But the urbane, talented Rubin played an essential role in the new administration, first as the founding director of the National Economic Council, which he turned into a White House power center. Then, from 1995 to 1999, he was Treasury Secretary as the administration pressed China to make the economic reforms necessary for the U.S. to back its admission into the World Trade Organization and worked with China to manage the response to the Asian Financial Crisis. After leaving office and joining Citigroup as chairman of the board's executive committee, his reputation took a hit for not foreseeing the real estate and financial problems that would soon engulf the bank. More recently, he has become a financial adviser and has played leading roles at the Council of Foreign Relations and the Brookings Institution. His latest book, "[The Yellow Pad: Making Better Decisions in an Uncertain World](https://www.amazon.com/Yellow-Pad-Making-Decisions-Uncertain/dp/0593491394)" (<https://www.amazon.com/Yellow-Pad-Making-Decisions-Uncertain/dp/0593491394>), explores how he uses "probabilistic" reasoning to make executive decisions. This interview is part of **Rules of Engagement**, a series by Bob Davis (https://twitter.com/bobdavis187?ref_src=twsrc%5Egoogle%7Ctwcamp%5Eserp%7Ctwgr%5Eauthor), who covered the U.S.-China relationship at The Wall Street Journal starting in the 1990s. In these interviews, Davis asks current and former U.S. officials and policymakers what went right, what went wrong and what comes next.*



Robert Rubin.

Illustration by Lauren Crow

Q: Back in the Clinton era, the administration's National Security Strategy said "a stable, open, prosperous and strong China is important to the United States." Do you think that's still the case?

A: Yes, that's right. We've got to figure out the broader conceptual question of what kind of relationship we want to have with China.

I know that this is very much a minority view, but I still think we should try to go to the Chinese leadership — I guess Xi Jinping basically — and see if we can change the nature of what is now becoming a quite adversarial relationship and put that on a more constructive path, which is built around our common interests of which there are many, and recognize our differences, of which there are also significant ones. Then we could try to have some process for engaging with each other on the differences. Even if we don't solve them, at least we could do it in the context of a constructive relationship. That's the kind of relationship we should have with China. In that context, everything you just said would be right.

There's no way of knowing whether that would or wouldn't work. Therefore, we have to protect our interests fully while we try it. But there doesn't seem to be much interest in trying to do that as far as I can see.

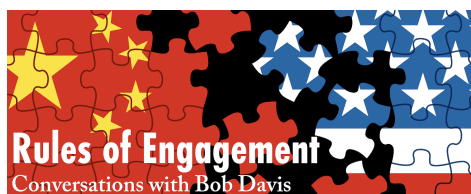


Illustration by Sam Ward.

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No, there really isn't. Engagement was formal U.S. policy until the Trump administration reversed it. The argument now is that a strong, prosperous China is conceivably a bigger threat to the United States. What would you say to that?

Depends on what kind of relationship we have with them. If we could develop the kind of relationship I mentioned a moment ago, it seems to me that's good for the United States. If they're not prosperous and if they're not stable, who knows what effects that could have in terms of geopolitical actions on their part. So, it's right no matter what.

We have to tend to our own house. We also have to be strong and stable. We have to have at least a reasonably effective government to deal with our challenges, so we should be putting our own house in order.

We should relate to China in the manner I just described. But even if our relationship remains as affected as it is now by adversarial views in both countries, I still think we're better off with a strong and prosperous China. Hopefully they will consider it to be in their interest, even if they can't go as far as I just said before,

to engage with us and the rest of the world in some sort of constructive fashion. Even if they don't, I don't think having an unprosperous and unstable China would be good for us.

There's a lot of talk these days that China is either collapsing economically — that's probably too strong — or slowing in a significant fashion, maybe on the scale of the slowdown Japan experienced. [Peterson Institute for International Economics Director] Adam Posen called it a 'long Covid economy.' In your book, you talk about thinking in probabilistic terms. What do you think the odds are of a significant slowdown?

About four or five years ago, I was on the advisory board for a very large private equity fund, and they were investing in China pretty heavily. I said that while it is true that China — 1.4 billion people at the time — was a very large market, I thought it also faced enormous challenges that Western investors were underweighting in their judgments. Who knows what's going to happen in any economy, but they face enormous challenges. They have strengths as well.

Who knows, is always the best answer in respect to any country's economic outlook. But in that context, the odds are that they could go through a quite difficult period. I don't know if I'd make the analogy to Japan. It seems to be pretty different situations, but they clearly are running into issues. What Adam Posen wrote about — [the consequences of] having an authoritarian or repressive government — yes, you can get things done, but there are a lot of other aspects to it that are not favorable. [Posen wrote that authoritarian leaders eventually put their feet too heavily on the economy.] China also has demographic issues, a housing bubble, real estate problems more generally, confidence problems — all that.

If China does have a significant downturn again, is that good for the U.S. or bad?

I don't know if it would be a downturn. It may just be a stabilization. It may be just a much lower growth rate.

It's a good thing if China is stable and prosperous, et cetera. But we also have to try to have a different kind of relationship between the two of us. If we can't create that, if they really want to be a hegemon, or a regional hegemon, I still think having an unstable and unprosperous China is against our interest.

BIO AT A GLANCE

AGE	85
BIRTHPLACE	New York, NY, USA
FORMER POSITIONS	U.S. Treasury Secretary, and Chairman Emeritus at the Council on Foreign Relations
CURRENT POSITION	Senior Counselor, Centerview Partners

You just said you were an advisor to a private equity fund investing into China. Two questions. Are you still an advisor? And second, what do you think of the Biden administration proposing to limit outward investment into China?

The private equity fund disbanded their advisory board about six months ago, though I have some other advisory relationships where we talk about the same things.

I guess my view [on the administration proposing to limit outward investment] — but this is a very tentative view because I have not thought about it — it seems to me [administration officials] need to make the risk/reward, probabilistic judgement you were talking about before.

This will adversely affect our producers. China is a very big market they will no longer have access to. Investors too. We ought to make a very careful risk/reward judgment. There may be certain areas in which this is a sensible policy because of economic and geopolitical security. Maybe there are other areas where it is disadvantageous for us.

MISCELLANEA	
BOOK RECS	<i>Two Lives: Gertrude and Alice and Fragile Cargo: The World War II Race to Save The Treasures of China's Forbidden City</i>
FAVORITE FILM	<i>Casablanca</i>
FAVORITE MUSIC	Johnny Cash, in particular <i>Folsom Prison Blues</i> and <i>The Man Comes Around</i>
MOST ADMIRER	Professor Raphael Demos, Professor of Natural Religion, Moral Philosophy, and Civil Polity, Harvard University. I took his intro to philosophy class and his approach has influenced my decision making ever since. He passed away in 1968.

And what's your advice now to investors?

If it were me and I were running a fund, I would probably steer away from China right now. That's unless there are some specific areas that, for some reason or other, wouldn't unduly be affected by the political situation.

You would steer away from China because of the reasons you listed and all the various problems that they're having?

Yeah. Including the rule of law, but it's not just the problems of the moment. The problems are much more fundamental. That doesn't mean China won't get back on track, with its 1.3 or 1.4 billion people, albeit declining. They obviously are potentially a very good prospect to be engaged with. But I'd want to get a much better sense of how well this is sorting itself out first.

The other day, I spoke with a pretty shrewd investor who said that even if you take everything I just said, and that's your framework, there are still areas in China where the injection of the Party on the economy won't be significant in terms of the likely impact. Therefore, they are promising areas to be invested in.

Any sectors in particular?

Healthcare is one he mentioned.

Let's go back to the start of the Clinton administration. At that time, as you remember, the international economic issue was Japan, not China. You were, I would say, surprisingly hawkish on Japan. Why?

The idea was that we benefited enormously from having open markets and trade and globalization and so forth. On the other hand, there was no question at the time that there were multiple areas where Japan was behaving, as it relates to trade, in ways that were unfair and not consistent with international trading norms.

So, I was hawkish because I felt that what we needed to do was to act in a way that would then lead them to discontinue those non-constructive measures and activities, and abide by international trading norms.



Then Japanese Prime Minister Kiichi Miyazawa and then U.S. President Bill Clinton during their first meeting in the Oval Office of the White House, April 16, 1993. Credit: Dennis Cook via AP Photos
<https://newsroom.ap.org/detail/PresidentBillClinton/10bc52acaa8544d6ac2d0f0f0f1e3b5e/photo?Query=clinton%20kiichi%20miyazawa&mediaType=photo&sortBy=arrivaldatetime:asc&dateRange=Anytime&totalCount=29&cu>

There were people in the press who presented that as being hawkish on trade with Japan. I thought it was not hawkish; quite the contrary. I thought we should have a strong, open trading relationship. But I thought in order to have that, they had to abide by international norms.

Was there anything you took away from the trade fights with Japan when it came to dealing with China at that point?

Not really. China joined the WTO [in 2001 during the George W. Bush administration], so they were then subject to the international trade norms. You can legitimately discuss whether subsequent administrations adequately acted to try to enforce international trade norms in areas in which China was viewed as not abiding by them.

One of the first issues that the Clinton administration had to deal with when it came to China was whether to de-link human rights from trade privileges. You pushed for de-linking. When you think about it now, do you think the signal that we sent was that commercial interests will always triumph over human rights when it comes to China and that the U.S. really can't be taken seriously on human rights issues?

No. That was many years after the beginning of Deng Xiaoping's reforms. It certainly seemed to me and to a lot of people that China was in the process of becoming a major economy. One, we needed to be involved with them

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Then President Bill Clinton on de-linking Most Favored Nation trading status for China and human rights, May 26, 1994. Credit: C-SPAN (<https://www.c-span.org/video/?57295-1/china-favored-nation-announcement/>)

in a trade relationship. And secondly, I didn't think then, and I still don't think now, that what we do is going to affect what they do on human rights.

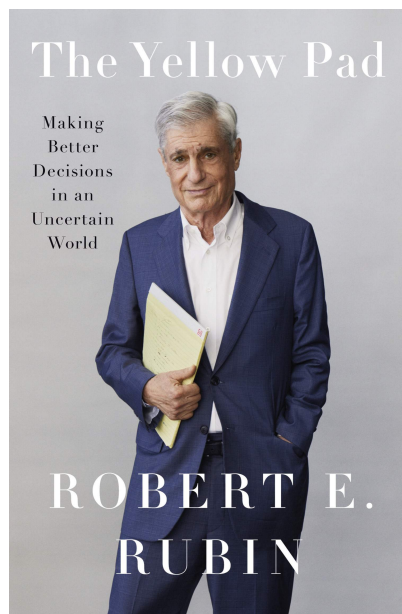
In your book you talk about how you have come to appreciate further the importance of human rights as

regards to national security. Why? What's been the change in your thinking?

Well, I'm not sure it was a change. I just never thought much about it. [Since then] it seems to me that countries that have decent human rights regimes are much more likely to function in ways that are consistent with international norms. In all kinds of ways, it seems to me that's in our interest.

The reality of life is that China is the second largest economy in the world now. I don't think anything we do is going to affect what they do with the Uyghurs.

But you said also in the book, that if you were in business now, you would have withdrawn from Russia after its invasion of Ukraine. On the other hand, you say you don't think that what's happening in Xinjiang ought to affect our trading relationship with China. Why not? There are pretty awful human rights violations there also.



Robert Rubin's *The Yellow Pad*, released on May 16, 2023.

Credit: *Penguin Random House*

(<https://www.penguinrandomhouse.com/books/706876/the-yellow-pad-by-robert-e-rubin/>)

There are terrible human rights violations there. But I think the reality of life is that China is the second largest economy in the world now. I don't think anything we do is going to affect what they do with the Uyghurs.

Russia was different. Like everything in life, you sort of make a judgment. Ukraine was an invasion by Russia of a neighboring country, and who knows what else Putin had in mind. Remember, when Russia invaded Ukraine, at least as reported in the press, the troops were told to bring their dress uniforms for a victory parade in Kyiv. Who knows what else he had in mind.

What we did [in supporting Ukraine] was essential. I wrote this book about probabilistic decision making. You have to make a judgment. What are the pluses? What are the minuses? How much magnitude of effect do they have? And how does it all weigh out?

This administration says democracies versus autocracies is the defining battle of this generation. Do you think it's a mistake to put in those terms?

As I have said before, I would try to create a constructive relationship with a country that has a political system that's very different than ours, but which has a strong self-interest, just as we do, in having a constructive relationship around a whole bunch of issues that neither of us can deal with adequately alone. Climate change is only one of the areas. Also terrorism, global crime, pandemics, international trade norms, international intellectual exchange and so forth.

In that context, if there are measures that you need to take in order to protect your national security or economic security interests, you have to weigh and balance that against the pluses of having these relationships and see how it weighs out in each individual instance.



Robert Rubin, Alan Greenspan and Zhu Rongji, Washington, D.C., April 9, 1999. Credit: U.S. Treasury

(https://commons.wikimedia.org/wiki/File:Robert_Rubin,_Alan_Greenspan,_and_Zhu_Rongji.jpg)

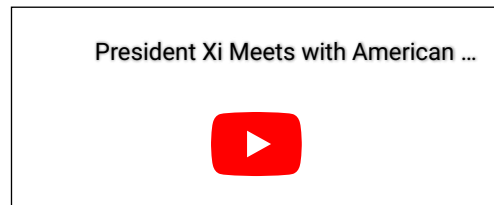
During the Clinton administration, as you were negotiating with China to try to get them to make commitments so the U.S. felt it could push their membership into the WTO, you and [then Deputy Treasury Secretary] Larry Summers were both particularly impressed with [Chinese Premier] Zhu Rongji. I was fortunate enough to go on some of the trips that you made to the Forbidden City. What about him stood out?

It actually goes back before the WTO, to the Asian financial crisis. We felt there were multiple ways [the Chinese] could have taken advantage of it to their benefit that would have worsened the crisis. However, instead, they did just the opposite. They behaved in a way that was constructive with respect to addressing the crisis.

Larry [Summers] and I got to know him moderately well. He is a remarkable man. He was thoughtful. He was knowledgeable. He clearly was supporting the movement toward a market-based economic structure, albeit there were differences that would reflect what China wanted to do. And he was a very thoughtful man

to engage with. My impression was that he reacted well to his engagement with us. I once jokingly said to him that he ought to move to the United States and run for president. He really was the kind of a leader you want to have in a country.

Now, he may have had human rights issues. I don't know what his views were on human rights issues. We never discussed it with him.



A CCTV video of Henry Kissinger and other U.S. representatives meeting with Xi Jinping, November 2, 2015, in Beijing. Robert Rubin is the third person sitting to the left of Kissinger. *Credit: CCTV*
(https://www.youtube.com/watch?v=c3ZjZXIIQQk&ab_channel=CCTVVideoNewsAgency/)

In your Track Two or any of the other efforts, have you met with Xi Jinping? What did you think?

I only met him once [in 2015 (http://newyork.china-consulate.gov.cn/eng/xw/201511/t20151103_4714510.htm)] when I was in China with Henry Kissinger and [former Secretary of State], George Shultz [and others]. I met with Xi Jinping then, but that was the only time I ever met him, so I have no impression.

What were you there for?

Henry had this little group. I think Henry's idea was just to engage with Xi Jinping and Putin in Russia in the hopes that would help further better understanding.

What was your impression of Putin?

[In the 2007 meeting (<https://sputnikglobe.com/20070713/68933469.html>)] Putin spent an hour and a half haranguing us uninterruptedly. And then at the end of the hour and a half, George Schultz said, 'Mr. President we appreciate your comments, and I'd like to make a few observations,' whereupon Putin stood up and walked out. Remember, he walked out on Schultz and Kissinger. Obviously, he's just a massively angry, resentful, grievance-filled man. That's certainly the way he seemed to me.

Let's go back and talk about engagement. In May 2000, as Clinton was trying to sell the WTO deal, you testified in Congress that [by approving the deal] the U.S. would be "opening Chinese society to America's democratic ideals and helping influence that country's future as we sow the seeds of freedom for China's 1.2 billion citizens." Clearly that didn't work out in terms of sowing the seeds of freedom. What's your view now of the effort you all made back to get China into the WTO and selling engagement?



Robert Rubin testifying in front of the House Ways and Means Committee, May 2, 2000. Credit: C-SPAN (<https://www.c-span.org/video/?156922-1/permanent-trade-status-china>).

That was after I left Treasury in July of 1999. I never thought in terms of democratization. What I did think of was that China is going to be a major economy no matter what we do and we're a lot better off having it commit itself to international trading norms than not. That was my view then and is still my view. There were people who felt that this might also lead to democratization. I had neither a plus nor minus view on that. It just wasn't part of my motive; it wasn't part of my thinking.

I had the feeling that politically they were going to be what they were going to be. Maybe this would influence them, maybe it wouldn't. But that wasn't what this was about, at least not to me.

Do you think the administration didn't take seriously enough the potential impact of Chinese imports? What's called the China shock clearly wrecked some local economies in the southeast, and upper Midwest.

Trade always has dislocating effects. What Clinton said when he advocated NAFTA was something like, I can't guarantee you'll be in the same job for all of your life because the world has changed. Same thing is true with technology, by the way. But what I can do is provide whatever is needed so you can be successful in the mainstream economy.

That was his theory of the case. And we had various kinds of programs [to retrain workers]. I think we did get some of it done. Then we lost Congress in '94 and we couldn't do it anymore.

Trade is in our interest. I think technological development is in our interest. But you need to accompany it with programs to help people who get displaced reengage in the mainstream economy successfully, and also support the social safety net.



Then President Bill Clinton holds up a t-shirt that reads "NAFTA Means American Jobs" during a North American Free Trade Agreement products event, October 20, 1993. Credit: NARA via [Wikimedia Commons](https://commons.wikimedia.org/wiki/File:Photograph_of_President_William_J._Clinton_Participating_in_a_North_American_NARA_-_4483058.jpg) (https://commons.wikimedia.org/wiki/File:Photograph_of_President_William_J._Clinton_Participating_in_a_North_American_NARA_-_4483058.jpg).

In your book you talk about unfair trade based on subsidies or weak environmental and labor standards, but you don't say how you would deal with it. Do you think the U.S. should make continued use of tariffs? The Trump administration obviously relied on tariffs enormously. There was concern then that it would tank the global economy. Clearly it didn't. Do you think there's a stronger case now to use tariffs to protect workers?

No. There's a weaker case because we have quite unsatisfactory inflation. Tariffs just increase costs to people. We should reduce tariffs except for some economic or national security purpose.

And we should do everything that we need to do to get our own house in order so we have a robust economy, which will then create jobs and wages for American workers. To go the other way [and use tariffs] would cause our consumers and our producers to have higher prices and therefore for our producers to be less competitive globally.

If we had a global financial crisis, it would be enormously in the interest of the United States and China, the world's two largest economies, to work together to figure out what we should do...

But trade has always been a problem [with respect to politics and perception]. I remember reading that Eisenhower said he couldn't convince the American people about trade. The point is that while the benefits are widespread, people don't identify those with trade. Those who are hurt are a smaller number, but they absolutely identify that with trade and become very active.

When you were Treasury secretary do you think you did enough to push the Chinese to revalue its currency?

I don't think we were enormously focused on the Chinese revaluing at that time. But that was a very different era, China then was not what China is today.

You mentioned the Asian financial crisis. At the time you praised China for not devaluing, which could have made things a lot worse. Also the U.S. worked with China during the global financial crisis in 2009. Given the icy relations today if a global crisis hit are you concerned that the U.S. and China wouldn't be able to work together?



Then President Barack Obama talks with then Chinese President Hu Jintao during the G20 Summit in Pennsylvania, September 25, 2009. Credit: Official White House Photo by Pete Souza via [Flickr](https://www.flickr.com/photos/statephotos/3952976597/) (<https://www.flickr.com/photos/statephotos/3952976597/>).

That's precisely the point. Back then, it was a very significant contribution on their part to not try to take advantage of the Asian financial crisis — quite the contrary, to really be a bulwark of strength during that time. If we had a global financial crisis, it would be enormously in the interest of the United States and China, the world's two largest economies, to work together to figure out what we should do, and not have to consider the lack of trust in both countries toward each other. It would be very difficult to do. Maybe we could do it in the face of a crisis. I don't know.

There's also a possibility that China becomes the center of the crisis this time.

You don't want China in crisis. That has all kinds of ramifications.

There's a growing sense in the U.S., probably the predominant sense, that China essentially cheated its way to prosperity through intellectual property theft, undervaluing its currency, and pressure on U.S. companies. Do you think that's accurate?

My guess is there's something much more fundamental. They have a tremendous work ethic. In technological development, they're creative and innovative. My guess is all of that had a lot more to do with their success than anything else.

If China becomes less of a place where the U.S. wants to invest, is there any country or combination of countries that can replace China?

As you know, quite a few American companies are engaging in Southeast Asia for supply chains and matters of that sort. India's an interesting case. There are a lot of Hindu nationalist issues around [Indian Prime Minister Narendra] Modi, obviously, but they certainly have gotten themselves into a better place economically than they have been.



Attendees of the Second China-U.S. Track Two High-level Dialogue held in Washington D.C., October 19, 2010. Robert Rubin is standing to the left of Henry Kissinger. Credit: *Chinese Embassy in the U.S.* (http://us.china-embassy.gov.cn/eng/zmgx/zxxx/201010/t20101021_4905497.htm)

Since you have left the government, you've been involved in other so-called Track Two dialogues.

They're worthwhile. [In these meetings], there is a group of Americans who have a nexus to policy and they get a better understanding of what the Chinese are thinking. And there is a group of Chinese who have a nexus to policy and they get a better understanding of what we're thinking.

In any of the conversations you've had, even the ones with Kissinger, can you point to some concrete result from a Track Two?

No, but that's like a lot of things. It's like what think tanks do. How do they affect policy? It's very hard to know although they are a very important part of the policy apparatus in this country. [With Track Two exchanges], you think together about some issue, whatever it may be, and maybe it influences someone when they go back.

Last question. This is a question I never used to ask. You think probabilistically. What do you think the odds are of the U.S. going to war with China over the next 10 or 15 years?

First of all, I don't know enough to have an opinion. But I know people who do, and those people worry about that at least as a possibility. To me, it seems sort of inconceivable because it would be so massively destructive in all kinds of ways. It could be existentially destructive depending on what happened. That's another reason why we're on the wrong path — we and they are.

Engagement seems to be almost a dirty word in Washington. And it sounds like you're advocating for some version of engagement continuing or restarting.

Well, doing everything we can to create an effective engagement while protecting our interest in case it doesn't work.



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/>).