



by Economic Strategy Institute Founder Clyde Prestowitz

Corporate America, China and Washington DC

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As the Biden Administration further develops its China strategy, it is increasingly going to encounter into an increasingly difficult contradiction. Unlike in the case of the Great Japan Debate of the late 1980s, much of American business does not want to see any U.S. government policies that might hurt its ability to make money in China. In the Japan debate, American CEOs wanted the government to force open Japanese markets that were fundamentally closed. They cooperated with the government in efforts such as the Structural Impediments Initiative to pry Japanese markets open. But now, with so many major companies making profits either from investing in China or purchasing goods from China, chief executive officers are curiously silent about cooperating with Washington. They clearly wish to continue earning profits in China despite increasing signs that the two governments and two societies are growing increasingly apart.

Unless the administration can overcome this gap between America's public and private sectors, any response to the global and technological ambitions of President Xi Jinping is likely to be piecemeal and therefore ineffective. In effect, Xi is taking advantage of the pluralistic American system in which CEOs believe they have a responsibility to make money and increase their share prices while leaving national security concerns to the government. Xi's government is openly appealing to American CEOs to lobby the Biden Administration to go softly on whatever China policy he develops.

In contrast, Xi has inserted the Communist Party into every aspect of China's society and economy. He has cracked down on the ambitions of Alibaba's Jack Ma and sent a clear signal to Chinese enterprises and "private" companies that they must serve the wishes of the Communist Party. Xi also has declared a "civil-military fusion," which means that any technology the Chinese develop or acquire can be used, and almost certainly will be used, in its expanding surveillance state, in its military and in its space program that is challenging American technological leadership. The Communist Party has become a monolith that takes advantage of an open, pluralistic system such as America's. There are three crucial arenas where cooperation between the American government and business arguable needs to be enhanced.

» The first is in slowing China's ability rapidly to catch up technologically to key U.S. industries. Right now, American designed and fabricated semiconductors are flowing to China's military which is expanding into the South China Sea, to a surveillance state equipped with facial recognition cameras, and to an ambitious space program representing a direct challenge to U.S. space technology leadership. Other U.S. companies have conducted research and development in China that has benefited Chinese entities. Microsoft, for example, has helped train the leadership of China's Artificial Intelligence industry, which may be ahead of America's in some respects. Apple's sourcing and assembly operations in China are far in advance of any such operations in the U.S. This growing dependence upon Chinese technology makes America increasingly subject to coercion by Beijing in ways similar to China's present rough treatment of Australia in response to Canberra's call for an open investigation into the origins of the Covid-19 virus.

» Staunching the penetration of America's computing systems. American companies with operations in China are required by a new law to open their data centers and entire computer systems to inspection and de facto control by Chinese authorities. While there have not yet been any reported cases of Beijing using that access to penetrate the U.S. or global systems operated by the companies, the threat clearly exists. Microsoft said it suspected that the hack against its Exchange email system was launched by a Chinese partner with whom it had shared trade secrets. China's Ministry of State Security, the country's top spying agency, uses open-source tools to locate known vulnerabilities in American software systems, the U.S. Cybersecurity and Infrastructure Security Agency reported last year in cooperation with the Federal Bureau of Investigation. China and Russia have reached new levels of sophistication in penetrating software supply chains, as occurred in the SolarWinds case.

» And developing new technologies quickly and effectively. The Biden Administration seems poised to ramp up spending on semiconductors and other leading-edge technologies, but government spending alone cannot do the job. The traditional problem in technological development efforts has been that of quickly commercializing new technologies. On their own entrepreneurs must struggle through multiple rounds of Venture Capital funding. The failure rate can be very high. What is needed is industry-government collaboration similar to that of the U.S. response to the



Soviet Sputnik satellite and to critical national security challenges. Some global corporations might find it necessary to reduce or even abandon their China operations while concentrating on assuring free world leadership in key technological and industrial areas.

The Biden team should start by appealing to the higher, long-term interests of American CEOs. Milked. Turned into agents, captives, hostages. Being forced to toe Beijing's line. Ultimately many are likely to be consumed by China the way Canada's NorTel was.

But if persuasion does not work, it may be time to wield the Big Stick that only the federal government can wield. It could start with visas, export controls, government contracts, anti-trust pressures.

Ultimately, the government has the power of public opinion. If the CIA, FBI, NSA, Homeland Security and the White House were to publicly allege that Company X is engaged in a pattern of actions that violate national security and

start imposing fines, the company's share price would tank. Customers would question whether to continue purchasing from the company. Even if the government were not able in the final analysis to prevail in federal courts, which would surely be used to challenge any concerted government pressure, the damage would be severe. If all this were explained quietly to even a handful of recalcitrant CEOs, they would recognize that they cannot simply defy the power of the U.S. government.

What the Chinese are attempting to accomplish dwarfs any Japanese ambitions of the late 1980s, in part because China boasts a population of 1.4 billion versus Japan's 125 million. We do not advocate a total "decoupling" of the U.S. and Chinese economies, but certainly a recalibration. There is no problem with Starbucks and KFC continuing to sell iced mocha and fried chicken wings in China. But companies whose technologies are strategic, must either become part of the American Team or face the possibility of being sent back to the minor leagues.

About Clyde Prestowitz

Clyde Prestowitz is founder and President of the Economic Strategy Institute. His leadership has propelled ESI into an important role in the public policy process, influencing and often defining the terms of the debate in the areas of international trade policy, economic competitiveness, and the effects of globalization. Mr. Prestowitz has played key roles in achieving congressional passage of NAFTA and in shaping the final content of the Uruguay Round, as well as providing the intellectual basis for current U.S. trade policies toward Japan, China, and Korea.

Prior to founding ESI, Mr. Prestowitz served as counselor to the Secretary of Commerce in the Reagan Administration. There, he led many U.S. trade and investment negotiations with Japan, China, Latin America, and Europe. Before joining the Commerce Department, he was a senior businessman in the United States, Europe, Japan, and throughout Asia and Latin America. He has served as vice chairman of the President's Committee on Trade and Investment in the Pacific and sits on the Intel Policy Advisory Board and the U.S. Export-Import Bank Advisory Board.

Clyde Prestowitz regularly writes for leading publications, including the New York Times, the Washington Post, Fortune, and Foreign Affairs. He is the author of the best-selling book on U.S.-Japan relations, *Trading Places*, and co-author and editor of several other books on international trade and business strategy including *Asia After the Miracle*; *Powernomics*; *Bit by Bit*; *The New North American Trade Order*; *Rogue Nation*; and *Three Billion New Capitalists* and, *The Betrayal of American Prosperity: Free Market Delusions*, *America's Decline*, and *How We Must Compete in the Post-Dollar Era*, addresses how we can restore our economic leadership and excellence.

His most recent book is "The World Turned Upside Down: America, China, and the Struggle for Global Leadership" is available on [Amazon](#).

Mr. Prestowitz has a B.A. with honors from Swarthmore College; an M.A. in East-West Policies and Economics from the East-West Center of the University of Hawaii; and an M.B.A. from the Wharton Graduate School of Business. He also studied at Keio University in Tokyo. He is fluent in Japanese, Dutch, German, and French.

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