Meg Rithmire:

All right. Good afternoon. Thanks to all of you for coming. I am Meg Rithmire, the F. Warren MacFarlan associate professor at the business school. I'm a specialist on China, and I run the China economy seminar, which meets kind of intermittently unpredictably. So please keep an eye on the Fairbank Center events list serve if you want more events like this. We are incredibly unfortunate to be in the middle of a trade war with China, but we are fortunate to have Craig Allen here to talk to us about it. This is a really great opportunity to start the year off with a great discussion of something that's incredibly complex and fraught, and it's a real pleasure to have Craig here today. So Craig is the current president of the US-China Business Council, which has over 45 years of history in working with China.

Meg Rithmire:

It's a nonpartisan, nonprofit institution or group that represents US companies doing business with China. But before Craig took this position in 2018, he's had a long and distinguished career as a diplomat and a member of a number of different ministrations. He's worked in the Department of Commerce in various positions, including most recently as the deputy assistant secretary for China. He served a long time at the American Institute in Taiwan and Taipei as a diplomat as well as for several years as the ambassador to Brunei. So we probably won't hear a lot about Brunei today, but certainly we will hear a lot about China. So Craig has agreed to speak for about 45 minutes or as long as he wants to go, and then we will have time for question and answer. The event says it will go until 6:30. Just as you know, we will stop before 6:30, two hours is a long time. So we'll stop around six o'clock but hopefully there'll be plenty of time for questions and discussion. And so with that, I thank Craig for joining us today. Thank you.

Craig Allen:

Meg, thank you very much. Thank you. What a great honor to be here, I'm so excited. Before I start, I'd just like to dedicate this to all those who died 18 years ago. It was a horrible day that I'm sure we all remember. And lest we forget, let me dedicate these remarks and this afternoon to everyone who died. So it's a great honor to be here, I want to thank everyone. Dante, thank you. Meg, thank you very much. I spent every day on really the nitty-gritty of the trade negotiations. And I'm not going to really focus on that here and now, but I'm happy to address any questions about the trade negotiations in the Q &A period. But rather what I thought I'd do is broaden the aperture a little bit, actually a lot and talk more about some of the structural reasons that we are where we are, which is a pretty bad place and look at it from a little bit from a structural perspective, a little bit from a historic perspective. And then kind of walk through some of the, I will argue, conflicting interests that the US faces with China.

Craig Allen:

And what I will do over the course of the next 30 minutes or so is walk through the economic issues that we have using the metaphor of a few American cities. And in Washington DC, we talk about national security. And so I'm going to start out there because you can't really understand where we are on the trade side or much less the technology side without that. In New York City, it's all about finance. And their views are very different, for good reasons. In Chicago, it's about manufacturing and agriculture. So I'll speak a little bit about the trade war in that context. In Silicon Valley, or perhaps Boston, it's about tech. And tech is probably the most important longterm part of the relationship. So I'll spend quite a bit of time there. And then we'll end our excursion in Houston, we should talk about energy as well as Chinese investment in the US. So with your indulgence, that's what I'd like to do today.
Craig Allen:
So let me start out by just noting just how incredibly long and complex the US-China trade relationship is. And I will argue that since before our country was founded, the US-China trade relationship was a big issue that we face. So you will recall in 1773, the Boston Tea Party was about tea from Fujian. And while the treasury will tell you that was a tax issue and not a trade issue, but in fact it was both a trade and attacks issue. And not long after that with the declaration of independence, Thomas Jefferson put in the latter part, the indictment against King George. A couple of things that read pretty well today actually indicting King George for, quote, cutting off trade with all parts of the world and secondly, imposing tariffs without our consent. And I think that that's interesting.

Craig Allen:
He was referring not only to China, but he was referring to tea and China as well. And so from the very beginning, trade with China has been a controversial part of our history. Not long after independence, Americans, Anglo-Saxons for the most part started settling in California, Oregon, and Washington State. Not for gold, we didn't know that that was there. But rather because we had caught all the beaver and the fur in the Eastern, in the middle part of the United States, and we needed new fur to export to China so that we could buy more of that tea. So it was because of China in the first instance that we settled California, Oregon, and Washington. A few years later, Americans move to Hawaii as missionaries, but they soon found that chopping down the sandalwood tree and exporting that to China for incense could make you boatloads of money.

Craig Allen:
And so we settled Hawaii, and it became ultimately an American annex to the United States, largely because of China. So China has been an important part of our conversation forever, and forever probably it will be thus. Today, it is very much the case. The US today has a $20.5 trillion economy equal to about 24% of GDP, and we're growing at about 2% of GDP. China is probably about a $14 trillion economy at 16% of GDP, but growing at 6%. So you can do the math, and we could speculate when China on a nominal basis, exchange rate basis will overtake the United States. But together, we're about 40% of global GDP. But when we look at the US and China, I think we have to be just coldly realistic and note that both countries are in transition. So in 2016, America elected a proud economic protectionists, anti-globalist, an anti-elite leader who promised to put America first.

Craig Allen:
And President Trump was going to do his work. He withdrew from TPP, Paris, INF, the JCPOA without putting other arrangements into place. And his clear preference for ad hoc and bilateral arrangements rather than global institutional arrangements is having a deep effect on our country and on US-China relations. Currently, there is much less focus on a strategy, law, ethics, longterm implications on the economic architecture. And in short, policy is less important. For a policy wonk like me, that's not a good thing, by the way. But that is where we are. And in place of that, there is a much greater focus on tactical room to maneuver and immediate transactions. So in short, policy is out and politics and power are the coin of the realm. So China is also in transition.
Xi Jinping has decisively restructured China from Deng Xiaoping's model. And for those who speak Chinese, tao guang yang hui, Deng Xiaoping's motto to hide your light and bide your time is long past. And China's current foreign policy is much more aggressive and expansionist and active. President Xi believes that a strong country needs a strong party which needs a strong leader, and he is providing that leadership. And on the international realm, the belt and road is an incredibly ambitious project, and it's a perfect symbol of China's resurgence and integration into the global economy. 

Craig Allen:

And I would argue China's eminent free trade agreements with Europe, with RCEP, which is ASEAN Plus Six, Japan and Korea are excellent examples of robust globalism and economic integration in the global economy. China's neighbors are certainly impressed but also concerned about China's assertiveness. So in summary, while the United States has embraced nationalism and bipartisan approach to foreign policy, the Chinese have equally embraced nationalism, but also a robust globalism. So across the world and in all sectors, we see the Chinese taking a leadership role in global economic institutions. And that is a very interesting and an important phenomenon to watch. But China's foreign policies are in tension with domestic policies. On the domestic side, I think all of our Chinese friends will agree that the, if you will, the zeitgeists of today is guojin min tui or the country advances and civil society retreats.

Craig Allen:

China is diverging from global norms internally. And I think the economy of China, which is so more and more and more dominated by the party is diverging from WTO norms as well. No other country in the world has a party that is playing the role that the Communist Party of China is playing internally within China. And the human rights situation I think is deteriorating. There are many signals, the symbols of the divergence of China from global norms rather than the convergence of China. This is not a controversial argument in China, by the way. I've spoken publicly in China about the divergence of the Chinese economy in particular. And most Chinese economists will agree with that statement. So to frame the bilateral relationship, I think it's okay to ask the question whether Donald Trump's making America great again program is compatible with Xi Jinping’s Zhōnghuá fùxīng or the rejuvenation of the great Chinese nation.

Craig Allen:

And I think that I would have to answer no, that they are not compatible. It's hard for me to imagine stability in a world where the leading status quo power is withdrawing into confrontational, nationalist, bipartisan orientation, and the rising power is engaged in an equally confrontational, nationalistic globalism. This is a difficult situation. So it might be useful to take a step back and reflect on the words of Lord Palmerston that countries have no eternal allies, no perpetual enemies, only our interests are eternal and perpetual. Now, I'm going to put aside for a minute the definition of eternal and perpetual interests. I think that we could have a wonderful debate on that subject, how do you define our national interest? And different people will have very different views on that subject, and it's an important subject. But I'm going to put that aside and really focus on our economic interests here.

Craig Allen:

And at the risk of oversimplifying, I think that in the case of China, America's economic interests are not only enormous, but they are obviously very messy and sometimes contradictory. And this will force us into a very difficult process of setting priorities and setting values. Do we value the global trading order...
more than national security? Do we value free trade, rule of law? There are conflicts there that have arisen as a result of China's rise, and we're going to have to grapple with some of those problems. So let me start on my little tour and with apologies to Charles Dickens, this is a tale of five cities, Washington, Silicon Valley, could be Boston, but I don't know Boston, so I'll call Silicon Valley, New York, Chicago, and Houston. So let me talk about Washington, and that's really a metaphor for our national security interests. From a Washington perspective, the security agencies have all read or misread the great Graham Allison's Thucydides Trap and have derived the conclusion that a conflict with China is almost inevitable. And they ask, what more do you need to know?

Craig Allen:

So in the national security strategy of 2017, the Trump administration very explicitly transitioned the United States from a focus on terrorism as our primary threat to great power competition. And then that 2017 version of the document, it was always Russia and China, Russia and China as if they were one country. And that has changed. In the 2018 version, it's better. But China has put the greatest long term strategic threat and Russia more of a short term threat. And this has been articulated across the administration in many different forms and ways. So let me just note a couple of the things that have been said. FBI Director Christopher Ray said that China is, 'all of society threat' that requires a 'all of society response'. Former State Department policy planning director Kiron Skinner said that China is a civilizational threat. Now, she has left the administration but her views have not been explicitly repudiated, and I regret that.

Craig Allen:

In 2018, Vice President Pence gave the authoritative administrative China policy speech, which reads as a 15 count indictment against China. So I hope that you won't feel that I'm cynical if I say or note that many people within the Washington security establishment are benefiting personally and professionally from the administration's emphasis on the security challenges that Washington presents. And it has been argued that there is a danger that some of these threats are being exaggerated. And if that were a case, would not that be bad for our national security? We want to be realistic, we want to be cold, we want to measure and not exaggerate or expand upon unnecessarily. But there are a lot of budgets and careers at stake. And further, Congress is in basic bipartisan agreement with the security agencies that China is our major long term security challenge, and it is generously funding any program that may reduce our exposure to China.

Craig Allen:

And similarly, the adverse of that is that the Congress is defunding any programs that coordinates or encourages cooperation with China. So of course, the Chinese have given us a lot of material to build a national security case. On the international side, let me just risk, South China Sea, Belt and Road Initiative, challenges with global institutions, Iran and bids for our traditional allies in Europe and Japan. Those who would prefer can focus on China's domestic issues including Hong Kong and Taiwan, human rights, Xinjiang, Tibet, treatment of Christians and the rapidly emerging phenomenon of digital Leninism or social credit scoring, CCC cameras on every corner. These are legitimate issues of debate. Our friends in the FBI are rightly concerned about potential US domestic interference. For example, cybersecurity is a hugely important issue. And so far as I could see, cybersecurity penetration and threats are increasing, not decreasing.
Craig Allen:
The FBI is convinced, and I think appropriately so that some Chinese government affiliated groups are in a coordinated and systematic campaign to obtain access to and benefit from academic, scientific, and commercial interests. So I would note that none of the issues that I've just mentioned, difficult issues, all of them difficult issues. And I apologize to our Chinese nationals in the room for bringing up difficult issues, but we must talk about them. But I will argue that none of them are bilateral, none of them. They are all multi-lateral both on the security side and on the economic side. And I will argue that the United States would benefit greatly from a coordinated effective multilateral response rather than using the bilateral levers that we are exclusively relying on now. So with this scary backdrop in Washington, let's turn our attention to Silicon Valley or high tech.

Craig Allen:
And the most important data point to keep in mind on China's high tech is that in 2019 and every year after now, China will graduate 1.8 million STEM students. The United States will graduate about 650,000, a third of whom are foreigners. And China has a lot of engineers, and they're good engineers. We mustn't be complacent and think that the quality on our side is better, there's no empirical evidence for that whatsoever. American companies and university employee, lots of Chinese STEM workers now. And that will remain the case for the foreseeable future. And indeed, collaboration between the United States and China in the two technology sectors has been enormously beneficial and produced a cornucopia of goods, probably every single person has one in your pocket and many more at home that have benefited the entire world, benefited everybody, but disproportionately benefited America and benefited China. So you cannot imagine Silicon Valley without China, and you cannot imagine China without Silicon Valley.

Craig Allen:
And until the recent past, Chinese and technology sectors, China's and America's technology sectors have been intertwined, integrated, synergistic, and interdependent. And that is far too much so from the national security hawks point of view. They look at that as a negative not as a positive. So nonetheless, we should be properly impressed at how well China's private technology sector has emerged onto the world stage. Indeed, by some indices in China, China is among the most innovative countries on earth. And that is true certainly for fifth generation telephony, payments, artificial intelligence, new energy vehicles, high speed rail, drones, pharma, genetics, renewable energy. And I could go on. I argue in Silicon Valley that Shenzhen, be careful of Shenzhen. Shenzhen could eat Silicon Valley's lunch, and that is absolutely true. There are very important tectonic shifts that are underway.

Craig Allen:
So while China may not be at the qualitative bleeding edge of technology, as Stalin reportedly said, "Yes, sometimes quantity has a quality all of its own." And I think Stalin was right about that. Quantity gives China some advantages that are quite unique. Now, in the United States, we're rightly proud of our technological and innovative creativity. And we're rightly concerned that an ideological and potentially strategic rival is searching ahead in so many areas. So let me to illustrate all the problems associated with this talk a little bit about Huawei. Huawei is a prism through which we could view many of these concerns. So from an individual kind of a personal perspective, the Huawei CFO, Meng Wanzhou currently under indictment in Vancouver is a perfect symbol, symbolic representation of US-China
technology friction just as Joan of Arc was a representation of medieval France. Meng Wanzhou might claim that title in China.

Craig Allen:

But let us also think about the three Canadian hostages in prison in China associated with the Huawei case. Let us not forget them. From a legal perspective, it is entirely possible that Huawei broke US law or even multiple US laws without ever violating a Chinese law. That is absolutely possible. So the legal issues, and Mark has done some beautiful work on this. Thank you very much, educated me. From an industrial policy perspective, the case is very, very interesting. I have followed Huawei for about 25 years, and it's a special company. They are given lots of special arrangements by the Chinese government, the Chinese military, et cetera, et cetera. And that's been true since Zhu Rongji publicly criticized them in the early 2000 saying that they had to be more transparent. So from an industrial policy perspective, it's an icon, and a proud icon for many Chinese people. But it's an unusual case, I think most people will agree.

Craig Allen:

Huawei from a corporate governance perspective is kind of off the charts weird. The militaristic ethos of Huawei is very odd. And what the Chinese call the wolf culture within Huawei. And indeed, if you read the indictment against Huawei, you'll note that there are memos giving employees incentives to steal intellectual property right for the good of the company. It's in writing. So if you don't believe me, look at the indictment. So from a communications technology perspective, I understand that currently today Chinese companies, but especially Huawei own up to 36% of the patent pool for 5G telephony, 36% of the patent pool for 5G telephony up from 0% probably for 2G and about 4 or 5% for 3G. So what about 6G telephony, is there a quota for 60% Chinese IPR? I don't know.

Craig Allen:

But I think it gives us all a good reason to pause. From a global technology innovation ecosystem perspective, does Huawei success in 5G telephony indicate that the Chinese government is also committed to technological dominance in all of the other industries mentioned in the Made in China 2025 list. And I won't go through them here, but I'm happy to talk about them. And if so, what does that mean about overcapacity in those industries and price destruction in those industries such as what we have seen in telecommunication, steel, solar panels, wind, et cetera, et cetera? And from a national security or an espionage perspective, is it a reasonable argument to say that if we have Huawei telephony, then espionage becomes easier? Is it easier for a Chinese to hack into a Huawei piece of equipment or a Nokia piece of equipment? I don't know the answer to that. I suspect it's about the same, but it's hard to argue that a Huawei is more safe than Nokia.

Craig Allen:

So does it make us more vulnerable to hacking from China? I don't know. But all of these are important questions, and there are perhaps no easy answers. But let me underline one point. When the department of commerce put Huawei on the entities list stopping American suppliers from supplying to them, that was a Sputnik moment for the Chinese. The Chinese at that moment right there and then realize that they could not rely on American companies, American technologies, and they started looking at American companies as a supplier of last resort trying to spec out, if you will, American
products. If Huawei could be put on the entities list, any company can be put on the entities list. And so it was a very important moment that I fear will go down in history.

Craig Allen:
The dialog between technology and national security is effectively intermediated in the United States through the expanded use of export controls and investment controls. Now, I'm going to talk a little bit about export controls, and I know that this is the most boring subject in the world, but it's very, very important. So please indulge me for a couple of minutes to talk about our export control and investment control policy. It's super important not only for the bilateral relationship but because it will inform the overall global technology innovation ecosystem. And there's been very little public debate in the United States on these issues, and I think that that is regrettable. So export controls have traditionally been used to protect American industrial secrets with special reference for dual use technology. That is their historic role. And all the gray beards and who remember the good old days of the Cold War will remember COCOM. They were all multilateral controls.

Craig Allen:
Well, the new brand of export controls are different. They are mostly unilateral, and they're being used for much more broad purposes. And the case of Huawei is interesting from this perspective. But let me choose rather to say a couple words about another case Fujian Jinhua which is a semiconductor firm based in Fujian because it illustrates the point better. Fujian Jinhua is trying to become a national champion for memory chips. And they were caught red handed with a lot of stolen intellectual property rights and a large campaign to become the world's fourth largest, fourth supplier of memory chips. Currently, there are only three suppliers in the world. But rather than using the intellectual property right route, this was an intellectual property rights violation. The US put Fujian Jinhua on the export controls entities list prohibiting American suppliers from dealing with them shutting the company down for the most part.

Craig Allen:
Now, the Europeans and the Japanese were in the door the next day offering to sell them products. But for the most part, I believe that the company has shut down. On a closely related subject of investment screening and CFIUS, there have been a number of US-China joint ventures that have been expos facto disallowed forcing divestment from these corporations. And Chinese investment as a result has fallen off of a cliff drop dropping 80% 2018 over 2017. And I really regret that particularly for unemployed Americans in disadvantaged regions. So the next step on export controls is very, very important. And I would encourage everybody to be involved in this, just good and public policy for citizens to be involved. But under the Defense Reauthorization Act of 2017, the Department of Commerce is legally obligated to define the terms, 'emerging technologies' and 'foundational technologies' and suggest appropriate export controls that would protect America's industrial secrets.

Craig Allen:
So the critical question is how broad will these definitions be? There are some people who are advocating, "Let's make it broad, that'll force decoupling across a whole range of industries." And others who are saying, "No, no, no, no, no. Let's just keep this really narrow to protect collaboration." And let me give you an example. I don't think anybody would disagree that bio warfare bacteria should be controlled very carefully, but biotechnology as an industry would be inappropriate in my view for export.
controls. One thing I would hasten to underline is that these definitions will also lead to controls, export controls on information about those technologies. So data, teaching, research and development, supply arrangements, sales arrangements with Chinese will all be caught up in this process, especially if the definitions are very broad encompassing large parts of industry. And so we're waiting to see what the Department of Commerce will do on that.

Craig Allen:
But it affects universities very directly and it affects companies also. And I suspect that in the case of Harvard, compliance costs to ensure that you are in compliance with all appropriate American law and also protecting your academic freedom is going to become more difficult as this progresses. And for companies attracting talent and retaining talent while maintaining appropriate legal controls is also going to become more difficult. So I would argue that we've already paid a high price for expanded export controls. But if these definitions are broad, that price might become much higher. And if it is the case, because these are unilateral controls, the Europeans and the Japanese simply replace us, perhaps the Koreans or the Israelis, then we really improved our security.

Craig Allen:
So before closing on this subject, let me just say a couple of words about China's policies about technology and the industry, so the future, because there are many reasons to be concerned. Made in China 2025 was an industrial policy blueprint that in my view violated many chapters of the WTO. And I've argued that case publicly many times in China. And it's gone away, but the policies are still intact. Publicly, it's gone away, but many of the policies are still there. So while we don't have made in China, 2025 we do have items that are especially problematic. The use of hackers, I've already mentioned, China's aggressive and non-transparent use of talent attraction schemes such as the Thousand Talents campaign, which deliberately blurs ethical lines. And it's going to change academia, it's going to change how companies interact. We're already seeing that. The Chinese intelligence law is problematic. It requires Chinese citizens to support China's intelligence agencies. I think that that's very unfortunate. And China's company law, which gives the party privileges in every corporation, different privileges for different corporations is very poorly thought out.

Craig Allen:
Finally, let me just say a couple words about social credit scoring because many of my companies are really worried about social credit scoring. In short, China is engaged in a massive experiment in social credit scoring system. It's mostly local right now, but it's rolling up to the national level. And I think that every company, a foreign company in China is very worried about this because there's no reason to believe that foreigners will be treated equally compared to state-owned enterprises, which will probably do very well, and private Chinese companies, which will probably do very well, particularly if they support the party.

Craig Allen:
And so I think that companies, foreign companies have good reason to be concerned about this kind of form of new modern digital Leninism, which is not fair or not WTO consistent and not fair to outsiders who don't share ideological views. Equally, foreigners are very concerned about MOFCOM's or the Ministry of Commerce's entities list, which is being created as we speak in a direct response to Huawei's actions. And I see no reason to believe that it will be used in a fair or transparent manner. So many
companies are concerned about being a hostage to a situation that they cannot control. Let me conclude this section on technology and then rush really quickly through the tariffs and trade war. Before that, I have to say that within the WTO, a lot of the wording on technology is not helpful. The WTO is silent on digital economy. It's silent on cross border data flows. It says nothing PII, Personal Private Information.

Craig Allen:
And so it is difficult to use the WTO as a mechanism to adjudicate these disputes. But I will argue that the trade war is bogus, the trade war is based on faulty economics. But the technology war is real, and we are stuck without being able to answer three difficult questions. I understand that there are a lot of smart people at Harvard. So if you're able to answer these questions, you will deserve the approbation of your countrymen. But let me give you three really difficult questions, what are the rules of the road for US-China technology cooperation? What are the rules of the road for US-China technology competition? But the most important question and difficult question is, how do you enforce those rules?

Craig Allen:
We don't have rules to be enforced right now. But the answer to those questions will determine whether we have one internet or two, whether we have one blockchain or two, and whether we have one digital global innovation ecosystem or two. Let's just walk quickly through New York, Chicago, and Houston. In New York, the feeling is very different from Washington, which is very security-oriented, and Silicon Valley, which is very worried about the future of China-US technology. In New York, everything is great. The financial sector is focused on the bilateral economic fundamentals, and they like what they see. This is easy to understand. The US financial sector is focused on 6% growth in China, China's middle-class of 300 million, China will produce as much as 33% of global growth over the next 10 years.

Craig Allen:
What more do you need to know? This is the greatest market on earth. The gentle people of wall street are happy to help the Chinese take their finances global and to work to improve the allocation of capital in China. And indeed, they are doing so quite effectively. Recently despite the trade frictions, the Chinese have had some serious openings in the financial sector, credit cards, credit rating standard and poor, insurance and banking. So I'll recall that Wall Street is happy to take China tech firms global. There are some $1.2 trillion of investment in 156 Chinese companies listed on the NASDAQ.

Craig Allen:
It's a remarkable figure, and most of that is American money, and many Americans have gotten rich off of that. It's a great story. So New York is very bullish, and they're assured that the political nonsense that they see going on and they read about is not going to get in their economic way. So let's scurry over to Chicago and talk a little bit about agriculture and manufacturing. American agriculture is predicated on the fact that America produces far too many calories for us to eat. We are reliant on the export market for about a third of what we grow. And therefore we are in trouble when our exports are constrained as they currently are. And soybean prices and corn prices are very low, and that is leading to bankruptcies across many of the politically important states. Now, foreign countries, if they feel that they've been aggrieved under the WTO are reacting as you would expect, they're hitting America where it's politically sensitive, and that is in the agricultural markets.

Craig Allen - US-China Trade Negotiations No Per... (Completed 01/18/20) Transcript by Rev.com
Craig Allen:

Many in the farming community are wondering, "Well, is this just a storm or is this just a short term hit on prices, or is it long term?" But I think those of us who remember 1972 and the soybean embargo to Japan remember how Japan reacted to that. Professor Vogel knows this very, very well, by investing in growing facilities in Brazil. And that's exactly what the Chinese are doing. So is it short term or long term? And the answer ... Is this a storm or is it climate change? And the answer is yes, it's both. I regret to say. So in manufacturing, the tariffs have been very deleterious to American manufacturing. And you could see that in the figures, manufacturing in America is in a technical recession. Manufacturing has been down two quarters in a row. So some American companies produce in China for the Chinese market, they're doing just fine. No problems.

Craig Allen:

Some American companies are producing in China for other markets, exporting to Japan or Korea or whatever. They're doing just fine too. But anybody relying on trade is doing poorly. And unfortunately for small, medium-sized companies, it's very difficult to mitigate that risk. So the tariffs have done a great deal of harm. In a recent survey about two weeks ago by the Brunswick Group of Chinese and American consumers, some 56% of Chinese consumers who answered the survey said that they were trying to avoid American products. Now, let's just pause and think, 56% of 1.4 billion people, that's 11% of the globe's population who is actively trying to avoid American products. Now, I don't know that they would know that McDonald's is an American product, they might not recognize that, but it is not a good sign anyway. A final stop in Houston, the United States, we would love to sell oil and gas and coal, more of fossil fuels to China. And we have plenty to sell, and there's a lot of contracts out there that are potentially doable with China.

Craig Allen:

But in a manner very similar to agriculture, we've been priced out of the market due to the counter tariffs. And again, is this short term or long term? Only time will tell. But Houston is a pretty unromantic place, I hope nobody's from Texas. They're not romantic about this, oil and gas and coal are fungible products. They could sell them anywhere in the world. But to be priced out of the world's largest and rapidly growing fossil fuel market, not a good thing. The other thing that Texas, and indeed I would argue 50 governors and thousands of American mayors are very concerned about is the falloff of Chinese investment into the United States. An 80% drop is very meaningful if you're an Alabama, Mississippi, Kentucky, Nevada, or many other places. So let me just say a couple of words of wrap up. Was Lord Palmerston helpful to us when he said the countries have no permanent friends and no permanent enemies, only interests?

Craig Allen:

Well, I'll argue that our interests are very diverse, so much so that oftentimes our interests contradict each other. So I'm not sure we're able to agree on what is in our national interest enough to be able to focus on Lord Palmerston's very good advice. America is a very, very diverse country, our interests are diverse and our challenges with China are comprehensive. They are across technology, economy, ideology, policy, and diplomacy. China is a competitor and will likely remain so for the rest of our lifetimes. And the Chinese look at us like that very much. Yes, we have lots of interests, but those interests are contradictory, at least when it comes to China. So we have to prioritize. What are our interests? Are we willing to compromise the rule of law to protect our national security from longer
term threats? Are we willing to sacrifice the global innovation system to protect our intellectual property rights? Do we really want to upend the WTO because China was not fully meeting its commitments and on the grounds that it's a developing economy?

Craig Allen:
On the domestic front, how do we maintain academic freedom and also protect our industrial secrets. So let me conclude with just a couple of thoughts, prescriptions, if you will, that it does us no good to look at China as we want it to be, to have a romantic view of China. Forget it. Let's deal with China as it is, not exaggerate, just be very clear eyed about this is not the China that we want, but it's a China that we must deal with. But I will argue that the unilateral confrontational approach is not an effective way to deal with our issues. It's just not going to get the job done. First, all of our problems, as I noted earlier, are multilateral in nature. Second, if we approach these issues on a bilateral basis, American companies, workers, farmers, and ranchers and consumers ultimately are just going to pay the price. And indeed, the Europeans, the Japanese and our competitors are going to benefit from our unilateral approach. It hurts us on the global stage.

Craig Allen:
Third, what the goal should be is the convergence by China to global norms. And I would argue that that is absolutely in China’s interest as well. And in truth, carrots as well as sticks are an appropriate way to approach this. Fourth, the WTO and other multilateral institutions must be a part of the solution. Yes, the WTO must be reformed and updated. Yes, they must be modernized and brought into the digital world and be able to deal with SOEs and subsidies more effectively. And yes, we have to do this with our Europeans and allies, but in coordination with the Chinese.

Craig Allen:
And fifth, our allies are desperate to work with us if we create the right incentives, but we've done a very poor job of that and we have not created the right incentives. So in conclusion, a world dominated by power politics, I will argue, is not in America's longterm interest. Rather a world in which America continues to dominate and lead global institution in cooperation, in coordination with our friends, partners, and allies, and in accordance to the universal values as espoused in our declaration of independence will create a much more stable, attractive, and sustainable future. While we must work with a China that we see rather than the one we want, we will be more successful at coordinating with China if we work in the context of global rules in close coordination with our allies, friends, and partners around the world who have very similar concerns about China’s growing global ambitions. So let us just remember that old adage that in a game with no rules, somebody's going to get hurt. We need rules. Thank you.

Meg Rithmire:
Thank you, Craig, very much. I'll invite you to sit certainly if you would like to answer questions. And we have a microphone, Mark Grady from the Fairbank Center. I will take my prerogative as the chair to ask a first question, which is perhaps a little lowbrow given the last bit of your talk. Is it possible to imagine a deal before we get to full coverage with the tariffs?

Craig Allen:
So October 1 is an important date, Chinese National Day 70 years, 70th anniversary. November 16th is an important date. The two presidents will meet in a Santiago, Chile, and I think that that's a strike zone, those six weeks in there is an opportunity. A deal is available, and we need a deal to put a floor on the very rapid downward trajectory of relations. And there had been talk of a mini deal, a Huawei for agricultural purchases, which is a very odd deal when you look national security and agriculture, very strange. But what we really need to get to as soon as possible is a deal on the 301 issues, intellectual property rights, subsidies, state-owned enterprises, subsidies, forced technology transfer, intellectual property rights. That's where we must go as quickly as possible. And I do believe a deal is out there for the taking because it's in China's interest to do so.

Craig Allen:
Nonetheless, the modalities of the deal are very important. Xi Jinping will not be humiliated, period, full stop, end of story. Donald Trump will equally not be humiliated. So what are the modalities of this deal? How do we get this deal together in a way that Donald Trump can proudly own it in the face of opposition from Nancy Pelosi and Lou Dobbs and Chuck Schumer, and Xi Jinping can own it in the face of opposition from the Neo-Maoists and the leftists within the party and outside the party who will criticize him? I'm not equating Neo-Maoists with the Tea Party here, but I do think that both have politics and both have to own the agreement. And that's hard, but it's possible, and we must get there.

Craig Allen:
And if we don't get there, then we're moving to either 15 or 35% tariffs against all Chinese goods by December 15th, which will have very meaningful implications to the Consumer Price Index, to inflation, which could potentially lead to currency pressure as well. It was a very bad move for the president to nominate China as a currency manipulator. So I think we need to be very cognizant of the large downside here if we don't come to a deal. A deal is possible, it is in both sides' interests. It is politically difficult, unnecessarily so, because it involves the prestige of the two leaders.

Meg Rithmire:
Thank you. I'll let you field your own questions-

Craig Allen:
Oh, please go ahead.

Speaker 3:
I'll go ahead. Thanks. First of all, thank you for a terrific speech. Second, just a memory, I remember when I was in civics class in seventh or eighth grade, I memorized most of the American Constitution. I seem to remember that it is the role of Congress to set tariffs in the Constitution, I just don't know how that happened. Just two actual questions. The Fujian Jinhua example, just a terrifically interesting example and it's resolution are nuanced. But I remember a few years ago when SMIC, the Semiconductor International Corporation in Shanghai was sued by TSMC for copyright infringement for intellectual property, and it was settled in an American court. There's a big fine, and TSMC won and now actually owns a share of that. Is there no legal recourse rather than a political recourse on their Fujian Jinhua case that ought to have been taken? So that's one question.

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Speaker 3:
The second is, could you elaborate a little bit on the Thousand Talents comment that you gave? When I was dean of this realm, I enjoyed stealing talent from other universities, and I tried to keep our talent from being stolen. And it's part of the game, you don't want a faculty that nobody else wants. You have to protect them, and you try to bring the best people here. And you don't. So there are some rules of the game absolutely, but not as many as you think. So what is wrong with that?

Craig Allen:
Yeah, no, I'm happy to talk about those. The Fujian Jinhua case is particularly interesting, and it involves a Taiwan company, and it involves property stolen from a single American company mostly by the Taiwan side and shipped over to the Chinese side. Now, Fujian Jinhua, there are three memory makers in the world, two of them Korean and one of them Micron. And China hates that situation and wants its own domestic champion and is willing to do anything to get that national champion. That is the industrial policy of China. And indeed, the Fujian court has behaved I think very poorly on this protecting Fujian Jinhua from any suit, and indeed suing Micron for infringement. So there is relatively little trust in the Chinese judicial system, particularly when you're going up against a national champion. And I think every Chinese here would understand the role of the party in the judicial system and a different concept of national interest, which includes industrial advancement, which I don't think we would consider really as a part of our national interests, but the Chinese do.

Craig Allen:
It's a different definition, so that is why it was used. I still regret that it turned out that way. I would much prefer to have a WTO case on any of these. But the administration felt that it was the only dependable way to address the real problem of having a purloined information developing into a market maker. I don't think that the story is over either for sure. So watch this space. On the Thousand Talents campaign, I would note two things, and I've discussed this with the Chinese experts in the party a lot. Be more transparent firstly. And secondly, the Thousand Talents campaign deliberately makes use of ethical ambiguity. For example, in the scientific realm, the sharing of grant proposals that were written to the NIH being distributed in China, the sharing of research that has been given for a peer review given distributed through China.

Craig Allen:
Now, that might not be illegal, but it is unethical, and it is pretty commonplace. So I agree talent is a global issue, but I don't think it is too much to ask for ethical and transparent procedures. And it forces Harvard and every other academic and high tech institution to tighten up compliance and rules. This is not something that we want to do. But if you're going to get federal money, you're going to have to tighten up. And it's probably a good thing because while we encourage collaboration, it is collaboration within ethical guidelines that must be clearly articulated and understood and accepted by both sides. And the gray area should shrink as much as possible. Please, please, please.

Speaker 4:
Thank you. Your speech is very impressive. I'm Zhanjun, associate in the department of economics here. My question goes to the WTO as you mentioned that our WTO has been silent about a lot of things which should be reformed and updated. My question is how to reform and update our WTO? And is
there any possibility that the US will withdraw from the WTO as it had done from the TPP and the Paris agreement?

Craig Allen:
So good questions. I think that the question of the US withdrawing from the WTO is a good one. And I think that the answer is no because that would allow any country to charge any tariff, and we would have no legal recourse. So we're not going to withdraw from the WTO, but we very much want to reform the WTO. So how do you reform the WTO? And this is where I think that we need to work with the Europeans and the Japanese and Koreans like-minded very, very closely and coordinate with the Chinese. And if nothing else come up with a plural lateral, if not a multilateral. And you know what? That's exactly what we did with TPP. So TPP was my baby, and I love my baby very much. It's a beautiful baby, and I regret that it's been adopted by another household when it rightfully belongs in our household. And our Chinese friends were very, very knowledgeable about that. We briefed China on the TPP, we had a bilateral investment treaty that came very close, 90% done. So this can be done, this absolutely can be done.

Craig Allen:
So I think when you look at digital, TPP is great. If you look across border data flows, TPP is great. If you look at subsidies. When we negotiated the TPP, always China was in the background, always. Not one word of the TPP was negotiated without China as context. What would happen when China joined? So I think that that is my best answer, that, yes, the WTO needs to be reformed. But if one country, if India is going to stop it, well, we need to go ahead anyway. I think that the TPP is a wonderful mechanism on which we could proceed. I know that many Americans disagree with me, but it's my baby, I love it. I want to see it return home. Please?

Benjamin:
Benjamin, as an investor, I probably sit squarely in the camp of the gentle people of Wall Street, and I would ask a question on this perspective. You sounded cautiously optimistic on the chances of striking a deal potentially with the arising of the 16th of November. According to your knowledge, what is the progress report on indifferent items on the agenda?

Craig Allen:
Well, that's a good question. And I have to say that both negotiating teams have been very good about maintaining discipline. I would like nothing more than to see the documents and do a forensic on those documents. So I don't really know the answer to your question. And I hear different things from different negotiators to be honest. I think that the Chinese absolutely recognize the importance in China's own domestic interest to move forward on opening and reform regardless of the bilateral negotiation. So that's a question of pacing. It's a question of cadence, it's a question of when. And under the modalities, is Donald Trump going to take credit for that? Well, forget it then. Will this be done in Chinese terms? Well, then they'll move ahead with it. So there in lies the difficulty. So I don't really have a detailed answer for you on SOEs subsidies. But what I would say is that the Chinese are not against living up to the WTO commitments in a more robust manner, what I would call the shorthand, but OECD standard WTO compliance as opposed to developing economies status, WTO compliance.

Craig Allen:
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Those are two very different things. Korea just said that it would apply the WTO in accordance to OECD standards. So it’s not asking China to drop OECD status, that's an ideological problem. China won’t do that. But China could implement the WTO in accordance to OECD standards. That's a separate issue. And China needs to do that as soon as possible. And I think that that's where the sweet spot is. That's where I think an agreement lies, I hope. Please?

Speaker 6:
So in the 19th century it was the Americans who were freely taking technology from Europe and very glad not to pay for it, whenever they could avoid that. And also very eager to grab talent from Germany or England to put in their universities and in industry to develop chemistry and so forth. And so in a way, China is just doing now what we did before. And I think if anybody in the 19th century took a longterm view, they would have realized that it was inevitable that the United States would be raised to a level technically that was equal to Germany or equal to England. So putting aside the question of the ethics of each stolen trade secret or a trade secret deal, isn’t it clear that in the long run technology level of China, I don’t know whether it’s 20 years or 30 years has to become equal to that of Europe, equals to the United States, and basically trying to stop that is trying to stop the tide? So it's just not going to happen.

Craig Allen:
Well, it's a really good question because it raises, while not explicitly, implicitly a lot of cultural issues. And I think that we must be very respectful of Chinese engineers, absolutely. But I think that China also has an R&D environment that's actually quite corrupt. And there's a lot of funny business that happens in Chinese laboratories, and I doubt any of our Chinese friends would disagree with that, excessive patent. There's a million stories. But generally, I would agree that convergence is a good thing. Convergence should be the goal, convergence is the objective. But can you have convergence with a highly technological, nationalistic, techno nationalism player that says largest China where foreign companies are kept out, where foreign companies are not treated equally? So if you go into any American high tech company, any one, you have Brazilians and Israelis and Swedes and Nigerians, and it's a lovely millage. It's just so beautiful. To me, it's beautiful. I love diversity.

Craig Allen:
But if you go to a Chinese company, there's a lot of Chinese, this is not diverse there. It is very difficult for Chinese to play equally in the global echo system. So I really worry, The Great Wall of China, the internet wall of China is a case study. That really hurts Chinese researchers. What China doesn't want is to become a Galapagos Island, a term stolen from Japan, right? Where they had such a weird technology eco system that the technology products couldn't mate with other species outside of China leading to a lot of evolutionary dead ends. That's what happened in Japan. We don't want the same to happen in China. But if that is to be the case, then China has to do a much better job at welcoming foreign countries, protecting foreigners intellectual property rights, lighten up on the forced technology transfer, improve, make subsidies available globally or keep them to really research and not development, and be a better player in the global echo system.

Craig Allen:
And the subjects covered under the current 301 negotiations are exactly those subjects. And that's why I'm vaguely optimistic that we're not going to get a whole loaf, we're not going to get to nirvana, but...
we're going to advance this and then we're going to have ongoing negotiations, not get us to nirvana, but to get us closer and closer to convergence. And if not, we're going to have two systems, global systems. And that hurts everyone and benefits a few people. Please?

Speaker 7:
Thank you so much for the wonderful talk today. I've been in the trenches, so to speak, in China for many years, and it's just really nice to hear you succinctly summarize really the crux of what is going on. I have two questions. One is, in what seems to be the direction that we're heading in, which is the decoupling or as you just mentioned, sort of two global systems, that direction that we're heading in, how do we undo? And is it even possible to undo the technology transfers that have already happened to this point specifically in terms of manufacturing and all of the manufacturing expertise that already exists in China? So computer chips, roll-to-roll, all of those manufacturing expertise already exist in China. And as many may know, a lot of the technology companies that are in China, they have to have a cooperation. It's not a wholly owned for an enterprise for the technology companies in China.

Speaker 7:
And so what's happening right now is the US is realizing about what's happening with the technology transfer and trying to back out of it. Google announced some of the production moving to Vietnam and Thailand. But first of all, some of that has already happened. So can that be undone? And secondly, in the future, what's the answer for that? I think you pointed out that there isn't a good answer. But specifically in the energy sector, which is a sector that we need to come together for in terms of technology, in terms of the globalization of the market. For a case that I'm working on right now, I know very specifically that a lot of the energy sector, energy storage technology, it's like you mentioned duplicate use for department of defense.

Speaker 7:
And there's such a strong desire to come together and work together, and yet ... How do we fill the gap? How do we overcome the obstacle? I don't have an answer, and I know that you probably don't either. And those are two really loaded questions, but they're really, really I think at the foundation of where the problem is. So I was wondering what you thought about that.

Craig Allen:
Let me try and reply to that. Manufacturing technology is changing at warp speed, and container traffic is way down. I had dinner with the port people in Boston, and they're suffering because container traffic globally is way down because it's becoming additive manufacturing. It's making it much easier to manufacture closer to the consumer. And that's true around the world. And so this is not a zero sum game, it's moving target, very rapidly moving target with productivity increasing at warp speed. And Chinese know that, the Chinese are going to rely on total factor productivity as a way to increase their GDP in the future because the Chinese workforce is declining. So I don't worry that much because manufacturing is moving very quickly. I do worry that the US will lose an advantage in manufacturing, and we got to keep on top of that. But that's on us to do that.
And the Chinese are moving ahead very quickly on robotics. So Chinese have more robots employed than anybody else on earth. On the national security side, I think that the key issue is how do you define national security? And that's a really, really hard thing. So what I will argue, being the guy, I'm the pro-engagement guy. So what I will argue is let's define national security as narrowly as possible. Biological weapons, bad. I'm forced to say that telephony is problematic. If we are to maintain the global innovation ecosystem, we have to keep as much of the other technology out of the national security realm. There are a lot of people in Washington DC walking around with buckets of paint and big old paint brushes who are happy to paint you national security.

Craig Allen:
You didn't know that you were national security before, but you could become national security. I've testified on The Hill against the use, the calling of API's or Active Pharmaceutical Ingredients, chemical imports coming into the US. Some people want to classify that as high technology and a risk. What are you going to do? Move it to India? Is that going to be cheaper or cleaner or better? Give me a break. So we have to keep [inaudible 01:19:26] in Chinese, the proper names, keep national security, national security, a tall wall around a narrow garden not a trip wire around the whole farm. And if it's a trip wire around the whole farm, boy are we going to suffer, are we going to suffer.

Meg Rithmire:
We have time for about two more questions, and I want to ask them quickly and then let Craig respond to both of them. So first Mark.

Mark:
Thank you very much for your thoughtful remarks. The problem I want post is something I observed from talking to thinkers in Beijing. I'm convinced that folks in Beijing really don't think the world is good to move towards two systems no matter what they do because the technology makes it too difficult. And if to the extent when we have these walls to really around physical elements that the world is increasingly moving towards, data. And at best, you can't create a wall. You can create a membrane. They have that. We might have a membrane, but so what? So in that type of world, they have then analyzed, even the US, Europe, and Japan got together and came up with a new set of rules. There's nothing they can do to force us to take on these rules, so we can do what we want until we achieve some level of economic autarchy and until the rest of the world is enmeshed within us.

Mark:
And so in reaction to that, I guess the question is, do you think that's correct. And if you don't think that's correct, it really means Europe, Japan, and America working together will either have to offer a bucket of carrots. What should those carrots be? We clearly know what they are from China, more access to your investment markets, more integration to your financial systems, treatment as a market economy and so forth. What will you put into that basket of carrots? Or Europe, Japan, and America together will have to have some set of sticks, which if not tariffs, what would those sticks be? But if not, then as long as you believe the Chinese assessment to be correct, I think Beijing's playbook is basically let them do what they want. When we're ready, we'll have the rest of the world come on to our terms.
That's the way China has always conducted we know historically, its trade relations going all the way back right to the Tang dynasty and so forth. So I just wanted to ask, do you think this assessment in Beijing is correct? If not, what should be in that set of baskets or in that set of sticks?

Craig Allen:

It's a wonderful question, and don't know the answer. I can't see the future. But what I do see is that China has incredibly overreached with the Belt and Road. Most of the Chinese that I know personally tell me that they hate the Belt and Road because it's a waste of their taxpayer money for where it should be used in China. And I think that this is a similar sort of thing. Now, the Chinese Huawei might be able to dominate Africa, but will they be paid? And I don't know the answer to that, but I suspect that there'll be able to dominate Africa, but they won't be paid. Look at Pakistan, there are $70 billion worth of investments in Belt and Road in Pakistan. How realistic is it that China will get a dollar back out of that. So I see China having overextended. Both Xi Jinping and Donald Trump are both overextended. They're both overconfident, and that's the worst possible negotiating milieu.

Craig Allen:

So I do think that clearly your definitions of national security are the sticks. And if you define semiconductors as national security, which you can make a very good argument for, then China is going to be pretty far behind, and it's not going to be able to catch up. And grave damage could be done there. But that would require an alliance, a COCOM type effort. And is that a viable scenario? Are the Japanese and the Dutch and the British and the Germans going to come alongside? How about the Israelis? I doubt it. At least in my view, the narrow definition of national security and the broad definition of WTO compliance and demanding that the Chinese give us the WTO rights, which we negotiated is the appropriate stance. And I know that that's not a satisfactory answer.

Craig Allen:

And I know that in this global economy, which is changing so quickly and so rapidly, companies are going to come out with advantages that we can't even imagine today. And there's going to be an individualistic reason to coordinate with China, but a nationalist reason not to coordinate with China. And how that's going to work out is very difficult to say. I do think that the health of Silicon Valley and American tech is critically important. And we need to answer that question, what are the rules of the road for cooperation? What are the rules of the road for competition? And most importantly, how do you enforce those rules? And that's why I came to Harvard, by the way, to ask you that. And I'd love it if you could send me an email with that response, and you'll be famous forever if you could help me on that. Meg, can you put some graduate students on that?

Meg Rithmire:

Absolutely. They're here, they're on it. I think with that, we will thank Craig. This has been incredibly illuminating and we're grateful to you and to all of you for coming. So thank you Craig.

Craig Allen:

Thank you, thank you, thank you, thank you.