Critical Issues Confronting China Series featuring William Alan Reinsch – China as Best Customer and Biggest Threat – Trade Policy in the Biden Era, February 2, 2022

– [Man] Hello, everyone, and welcome to today's talk. We will get started momentarily, after we give it another minute or so for people to log on. We thank you very much for joining us.

– Welcome, everyone. On behalf of Mike Szonyi, director of Harvard's Fairbank Center for Chinese Studies, welcome to this semester's second session of Critical Issues for Contemporary China. I'm Bill Overholt, senior research fellow at the Kennedy School and a member of the organizing committee for this series. Our speaker today is William Reinsch, who will speak to us about China as Best Customer and Biggest Threat – Trade Policy in the Biden Era. Bill Reinsch holds the Scholl Chair in International Business at the Center for Strategic and International Studies in Washington. Previously, he served for 15 years as president of the National Foreign Trade Council, where he led efforts in favor of open markets. He concurrently served as a member of the US–China Economic and Security Review Commission. Bill also served as undersecretary of commerce for export administration during the Clinton administration. Prior to that, he spent 20 years on Capitol Hill, where he worked sequentially for one Democrat and one Republican in the Senate, and one Democrat and one Republican in the House. Bill, I'm afraid that even acknowledging that we can remember a time when that was possible labels us as old codgers from a previous era. What our audience should know, though, is that Bill Reinsch's experience gives him mastery of the trade issues, awareness of who is doing what to whom and a determination to communicate objectively. With that, over to you, Bill.

– Well, thank you very much, Bill. Let me say first, it's a real honor to appear with you. I followed your writings for a very long time, and I've always considered Bill Overholt to be one of the great commentators and analysts of what's going on in China. And the best accolade I can give him is that he's usually right. And there are plenty of people that are usually not right. So to the audience, I encourage you, read what he puts out and listen to him, 'cause he usually gets it right. Let me also say, it's a real pleasure to be here virtually at Harvard. I have to say, when I was in high school, looking at colleges, one of my ambitions was to apply to Harvard and be accepted, and then turn them down. I thought that would be infinitely cool. But in the end, I was too cheap to pay the application fee, knowing that the outcome was that I wasn't gonna go there either way. But it's nice to be connected in some way with Harvard, even many, many years later. I'm gonna talk about China and put in a couple stories about personal experience, but also try to end up with the landscape of, I think, where we are now and with where I think we oughta go, but with a little history along the way, and a few slides, which we don't need to put up at the moment, but we'll get there in a minute. The US-China relationship, I think, right now, is our most challenging bilateral relationship. There's often a debate in Washington about which one is the most important. I think right now, US-China is probably the most important. And as everybody listening knows, it goes way beyond economics. But I'm a trade person, so I'm gonna focus primarily on trade and economic issues, but I'll try to put it in the larger context that we all operate in. And like, I suspect, a lot of you, my views have evolved over the years, beginning with pessimism when I started studying China, which was, to show my age, during the Cultural Revolution. Then I moved to optimism in the '80s and '90s, that the relationship might become a positive one, despite our different approaches to governance and different world views. And then lately, I've reverted back to pessimism as the two countries have drifted into competition and confrontation, both in economics and in security. I put most of the blame for that on China, frankly, but there clearly are people in both countries that are pulling us apart, and I'm skeptical that will change in the short run. That's sort of the bottom line of what I'm saying. I think recent history is one of evolution of perceptions of China, from potential partner to existential threat. There was broad support. I was in the Clinton administration. This was not exactly my portfolio. My portfolio was export controls. We referred to my bureau as the speed bump on the information highway, but it did involve me with China frequently because they were one of the people that we were trying to block technology going to, even in the '90s. But at the time, certainly in the administration, and I think in the broader policy community, there was a lot of support for China's admission to the, accession to the WTO. I think there were, no doubt, some people who believed that economic liberalization would inevitably be followed with political liberalization. But I think decision makers in the administration were more motivated by the economic advantages of integrating China into the rules-based international trading system, and not to mention the potential commercial gains for US companies if we were able to do so. I've never been a big fan of the Bob Lighthizer school of this was a big error in judgment, letting them into the WTO, which also begins with the hubris of suggesting it really was up to us whether they got in or not. It was a more complicated decision than that. I think the optimism at the time was credible in light of comments then by Jiang Zemin and Zhu Rongji indicating their desire to integrate China into the global system, and to use their WTO obligations to persuade recalcitrant ministries to adopt reforms that Zhu was pushing anyway. It didn't turn out that way, as we know, partly because they left the scene, I think, and largely because their successors have pursued more state-centered economic policies, culminating in Xi Jinping essentially taking the country, I think, backward economically to a more state-centric system. When I was on the commission, the China Commission, one of my colleagues told me, only partly in jest, and I think he's right, there are really only two kinds of companies in China, those that are owned by the government and those that shut up and do what the government tells them. And we really see that, and increasingly now, as Xi has pursued a policy of exerting more government control over companies, even those where the government does not have a direct economic stake. China's failure to meet our WTO accession expectations, in terms of transition to a more free market economy, did have consequences, however, and I do want to call up a couple slides, and hope that we can make these work. There we go. So the consequences, and not all due just to trade with China, but were an enormous increase in our ballooning of our bilateral trade deficit. A loss of jobs in manufacturing, which was true for a lot of reasons, but certainly was exacerbated by Chinese trade. And until the last couple years, stagnation in household income. These are not incontrovertible statements. And we can have an argument about it later on, if you want. Some would argue that China's failure to meet its obligations was due to loopholes our negotiators left, that the rise in Chinese imports would have happened anyway, and that job losses and income stagnation were due to other factors, primarily technology advances. And I think there's something to be said for all those articles. David Autor, I'm sure many of you have read, and his co-authors, as I recall, have also suggested that the wave of job loss that he reported on has largely passed through the economy and is not likely to be repeated. So in that sense, maybe this is a one-off event. You never know. But regardless, the damage has been done in terms of American public opinion and in terms of congressional opinion, a damage that has been exacerbated by other Chinese actions increasingly perceived in the US as hostile, the South China Sea, Hong Kong, actions toward Taiwan, what's going on in Xinjiang province, what they've done to journalists and academics, actually, in China and so on. This chart, I went with this chart because it's the latest one. It's got data from last year. But in a way, the more telling chart is the one that has a 10 year or 11, well, now 11-year span that goes back to 2011. Because what that chart shows is that in 2011, opinions of China were 53% favorable. And if you look at this chart, you can see that enormous change in relatively 10 years, particularly on the right side. 79% of Republicans, 67% of people in total, now see, feel, they put a cold towards China. There's other data that suggests that same percentage roughly sees China as a threat right now. That's a extraordinary change in a relatively short period of time. And it's had a big impact on the policy-making process in Washington. The result really is that we kinda have a new adversary, maybe not so new, but we have a new adversary. Americans usually are happy to have someone to hate. Look at the Cold War. And our politicians are happy to exploit that. For nearly 50 years, our primary adversary was the Soviet Union, and China was a distant second, if that. As the Soviet Union faded into history, and China began to open up economically after 1978, threat perceptions began to change, and the number of policy influencers who perceived China as an existential threat began to grow. One of the more telling meetings I had when I was running the trade association was in the George W. Bush administration. I went to visit someone on the National Security Council who had been on The Hill. I knew him from before. And I had actually gone to see him about something different. But at one point, he sort of turns to me and out of the blue says, "You know, "there are millions of Chinese "who wake up every morning "thinking about how to kill Americans." And my immediate reaction was, "Well, you know, there's people at the Pentagon "who wake up every morning thinking the same thing "about the Chinese. "That's their job." And not missing a step, he looks at me and says, "Not nearly enough." And what I've learned from that and other conversations is that people with that view have long existed in both parties, in both the executive and legislative branches of government, in the media and in academia. And I've often concluded that from a policy-making standpoint, the best policy that governments can pursue is simply to make sure that those people don't end up in charge. And sometimes they do. The individual who told me that story, or told me that, I had that conversation with, actually ended up in a much more senior position in the Trump administration until, like many others, he was fired. But I think probably if the best we can do is make sure that people who don't think that China is an existential threat don't end up being in charge, maybe we've accomplished something. I think the negative views that I'm talking about have accelerated after Xi Jinping took over, and he's pursued what Elizabeth Economy called, in her most recent book, more aggressive soft power, hard power and sharp power. And if you wanna know what those are, we can get into that, or you can buy her book. The situation further deteriorated during the Trump administration, as the president focused primarily on the bilateral deficit and used his traditional bullying tactics to force China to change its trade and economic policies. That largely failed, but it left the Biden administration with a pothole-strewn landscape. A phase one agreement that fell short of fulfillment, a phase two negotiation that never began, the tariffs and the retaliatory tariffs hanging over both economies, a range of aggressive Chinese actions in other areas, and a growing expression of Chinese triumphalism, arguing to the rest of the world that democracy is an inferior political system. That their approach works better than ours. As well as expanding Chinese investment and physical presence around the world that actually put meat on those bones. So that takes us to where we are now. And the Biden administration essentially has spent a year trying to figure out what to do about all that. When the president took office, I was asked frequently, what was the difference between the Biden China policy and the Trump China policy? And my response for the first year was the same diagnosis, a different prescription. The problems identified in Trump's Section 301 report on China, massive subsidies, forced technology transfer, IP theft, discrimination against foreign companies in China, are the same ones that the Biden administration perceives. And if there ever is a serious negotiation, Biden's economic demands would be the same as Trump's. Same diagnosis. But there's more to the Biden economic policy than there was to Trump's, and I wanna talk about that a little bit. The metaphor that I've always tended to use in the bilateral relationship is the metaphor of the marathon. If you're running a marathon, there are only two ways to win: run faster than the other guy or trip the other guy. In actual marathons, tripping the other guy is not really a legitimate strategy, but international politics, international economics, it's entirely a legitimate strategy. But the point is there are two strategies. You have to run faster, and tripping the other guy is not, at the end of the day, going to be sufficient. The administration, meaning the Biden administration, I think has spent a good bit of time developing the running faster part. You see it in the CHIPS Act and you see it in other innovation-supporting measures that are included in the Senate-passed China bill, USICA, and which are also included in the House-passed COMPETES Act, which they are starting to debate today, which will probably pass the House. And then the bill will be substantially changed in conference, for reasons we can also talk about if you wanna get into the weeds. But the point is running faster has been on track. And in part, it's not as controversial as it used to be, at least in this case, because the Republicans are, not all of them, but some of them have demonstrated, frankly, that they'll buy anything if you link it to national security, which is what has happened in this case. Republicans historically have been skeptical to government interference in the marketplace, with good reason, I might add. One of the things I've learned, having been in the government and interfering in the marketplace, is that when you do that, you create unexpected collateral damage, which you are rarely well prepared for. But what has happened as we've conflated security issues with economic issues, which I'll get to in a bit, is Republicans have come to realize that if you sell an industrial policy as combating Chinese aggression, they buy it. And so I think that a large bill, in some form, neither USICA nor a COMPETES, but something that is a combination of the two or a revised version of the two, is going to make it. The harder part is the tripping the other guy part. And what do you do if that's part of your goal? Even when you recognize the potential futility of that, that doesn't necessarily mean that you shouldn't make the effort. And I think there, the first thing to remember is that the president has very little maneuvering room on China. There are already four to five Republican senators running against him in 2024. They have to push Trump off the stage first, which is a different question, but they all have the same platform on China. They're accusing Democrats in general, and Biden in particular, with being soft on China and undermining our security and our economic competitiveness by his lack of strong action. And they're competing with each other to see who can develop the toughest anti-China proposals. This is not a political environment in Washington right now that leads to reasoned debate over China policy. Congressional Democrats, not wanting to be caught short in this debate, have adopted a similar hard line to China, minus the personal criticism of Biden. Listen to Chuck Schumer and listen to Marco Rubio, and there's not a lotta difference when it comes to China, except in which one is willing to criticize Biden directly. Much of the business community, in addition, has publicly retreated from this debate and, with some exceptions, has stopped talking about the importance of working cooperatively with China. The result has been a significant rightward shift in the public debate on China. And essentially what's happened is the conversation has largely been ceded to the anti-China security hawks. It's a little more complicated than that, and I'll have more to say about the business community later on, but the people that were all talking 10 years ago about constructive engagement, they've stopped talking about that. It's not to say they don't believe it, but the debate has changed, the public debate has changed, and it's all about the latest Chinese evil deed, whatever it happened to be, and US efforts to counter it. As a result, I think both China and the US seem to have concluded that they've got little to gain from a serious negotiation right now. The Chinese know that the US, if there were one, would only demand the same things that they refused to give Trump and which they will continue to refuse to give the United States. That, I have to say, I think is more political than an economic decision. What the United States wants China to do in economics, I think, is actually good for them and would be growth-promoting for them. I think the Chinese view is that, it's a political view. It will undermine the party's control. And they're probably right about that. So they have made a political judgment, and they're making, I think, an economic sacrifice in doing so, but that's not going to change. And they're not going to be very excited about another negotiation like the one they had with Trump, where they have to go through all this again. Likewise, Biden, I think, knows that any agreement he reaches will inevitably be attacked by the Republicans as inadequate and compromising our security. The result is, for him, that the easiest and safest course of action, actually now for both sides, is to do nothing serious right now, while at the same time, leaving the impression that they are, nevertheless, working on it. And that latter point's important because at the same time Biden's being criticized for being soft on China, he's also being criticized for not having a policy. And that's not a good position to be in when you're the president. Ambassador Tai's speech at CSIS in October was a response to that and it was an attempt to resolve, I think, the fundamental dilemma that they continue to wrestle with, which is why have a negotiation if you believe that no satisfactory outcome is possible? And if you believe that, what do you do in lieu of a negotiation, at least to make it look like you're doing something? Now, the administration appears divided on that. Bob Davis, late of "The Wall Street Journal," has a very thoughtful piece in Politico that came out on Monday, which I commend to your attention, if you haven't already seen it, that explains in considerable, it's sort of an inside baseball piece that explains the divisions on trade policy generally. And on China, I have a little more, a simpler view than he does. I believe there's simply a dichotomy inside the administration between those who believe there's really no point in negotiations and that we should just get on with deciding what we wanna do, and others that want to continue talking. And they wanna continue talking because, one, they believe there's still low-hanging fruit that could be picked. Two, even if there isn't low-hanging fruit to be picked, they need to construct a narrative that will justify further retaliatory actions, and failed negotiations is a good way to construct that narrative. So before you get to that point of acting, you need to build the case, as it were, and not succeeding in talks is one way to do that. And finally, frankly, I think they don't know what else to do and have concluded that the right thing to do is kick the can until you figure out what to do. So there's a lot of postponement going on, without actually saying so. The solution that they come out with, which is what Katherine announced in October, was to continue talks with China that will focus on China's failure to meet its phase one commitments. That's a safe choice. No one's gonna criticize that. They made commitments, and they failed to meet them, both with respect to purchases, but also with respect to some of the regulatory changes that they promised to make. Frankly, if you talk to the business community about this, and I have, they'll tell you that China has actually met quite a number of the obligations they undertook, but they've not met all of them. Agriculture Secretary Vilsack gave a speech about the same time that Ambassador Tai gave hers, where he said that in agriculture, the Chinese had met 50 of the 57 obligations they had undertaken. He didn't detail the other seven. I think some of them are related to GMOs, among others. But as of, I think, last month, he was still talking about the seven remaining items. They have not met their commitments, and going after them is fair game. The problem with that is that you can't do that indefinitely. And at some poin, the government has to move on. 2021 is in the history books now, and continuing to focus on what didn't happen last year has a limited half-life. And so they're going to have to come up with something new, and I think they're gonna have to come up with it relatively soon. So that gets us to the question of, so what does that mean? What do we do? What might we do? And, of course, there's always the possibility of having talks that actually accomplish something. I think that's the least likely option. Certainly as long as Xi Jinping is in charge, the Chinese are not willing to give us what we want. And anything short of their capitulation will be criticized here as tantamount to our own surrender. So there's a search for next steps, if only for domestic political reasons, to provide a basis for refuting the Republican criticism. And, of course, there's a number of tools in the proverbial toolbox that the administration is looking at, and let me talk about several of them. The first one is import actions, which means tariffs, for the most part. Import actions are intended to inflict economic harm on the adversary. The primary tool is continuation of the existing tariffs in current or modified form. There seems to be agreement amongst economists that the tariffs have not addressed the problems they were intended to address, and that their cost to both China and the United States exceeds their benefit. So getting rid of them would make economic sense. That would not, however, make political sense, unless China is prepared to make major concessions on phase two issues, which, as I've said, they clearly are not. At this point, I think the most likely import-related move is to maintain or actually increase tariffs selectively on items that are benefiting from Chinese subsidies or benefiting from the unfair trade practices that we've identified, but also eliminating other tariffs that are not in that category. That kind of slices the baloney fairly slim, fairly thin, to be honest about it, but it does have the benefit of reducing the economic harm that's being done here and there. And at the same time, it mitigates the inevitable criticism because it really only affects tariffs in areas that don't have competitiveness or security implications. The other part, which is going to be, I think, more in focus is the security angle. As I said, one of the things that has happened, as security has become conflated with economics, in the Chinese case, and this is a little bit new for us. When we were fighting the Cold War, we had an adversary that was a significant security threat, but was never an economic threat. And those of you that are my age and Bill Overholt's age recall the challenges we faced with Japan, particularly in the '80s. But Japan was an economic threat. It was never a security threat. It was an ally. With China, we have both. We have both an economic and a security challenge, and that's changed the nature of the debate because the actions that the Chinese are taking not only have economic consequences, and you can debate the extent of that and you can debate the relevance of the trade deficit and on and on and on, but they also have security consequences in terms of enabling the Chinese to build up a much larger defense apparatus and ability to do things, particularly in the cyber area, that might ultimately, and in the ICT sectors, information, communication, technology, that compromises our abilities, including our work capabilities. So the issue now is not just job and manufacturing loss. It's also Chinese acquisition of US technology that gives them advantages that we would prefer they not have. But this is my portfolio in the Clinton administration. This is something I've spent a lot of time working on. And the main tool in this area, historically, has been export controls. In the US, those date to 1949. Globally, they actually go back to at least the 13th century. I could do 20 minutes on longboat technology and how the British kept it away from the French, and what the French did about it. It's kind of a metaphor for the 21st century, but I won't bore you with that. The most important point is that in the current context, is that US export control law has always been extraterritorial. That is, it's applied not only to exports directly from the United States, but also to exports from other parties to third-country destinations. But the Trump administration expanded its extraterritoriality via what's called the Foreign-Direct Product Rule, which went beyond what the United States has done historically, which was to control foreign exports that had US content in them. And the Foreign-Direct Product Rule expands that also to control foreign items if they were made with US equipment, semiconductors being the obvious example. They applied it in a limited way, basically semiconductors to Huawei, but it opened a door, a rather significant door, in which the United States claimed jurisdiction over items not simply because they contained US content, which we had always claimed, but because they were made with US manufacturing equipment or designed with US software. You may see this issue coming up very shortly, depending upon what Russia does in

Ukraine, because it's very much on the table as a potential sanction to be used against Russia, should they invade. The most likely next move, I think, with respect to China is not to further expand the rules, because the rules are already fairly elastic, but to apply them more broadly, beyond Huawei, to more Chinese companies and to put more Chinese companies on the several sort of bad guy lists that the US government maintains, each of which has different consequences. I should say that this is a double-edged sword and always has been. Administering export controls has always involved walking a fine line between under-controlling, which means your adversaries are gonna get things that you don't want them to have, and over-controlling, which has the downside of depriving critical domestic industries from revenue they need to develop next-generation products. And here I'll digress for a second to talk about the history of this, because it's gonna be debated actually today, probably, in the House. There was a sea change in thinking about export controls in the Clinton administration. And I'd like to take credit for it, but it really was led by Bill Perry, who was initially the undersecretary, and then later the secretary of defense, who realized that the nature of warfare was changing. At one point, one of his assistants told me, only partly in jest, that one of their procurement problems was the procurement process for the stuff they were buying took longer than the lifespan of what they were buying, and he was talking about software. But Perry realized that if you focused entirely on stuff that was specially designed for the military, the process of getting that designed, agreed upon amongst the various services, and then acquired was so long that it was virtually certain to be out of date by the time it arrived, and that particularly for information communication technology. And if you think warfare really'd be driven by chips the same way that the rest of us are driven by chips, you can see why it's important. The answer was go to commercial off the shelf. But if you do that, that forces you to rethink the entire export control structure. Because if you do that, you realize that the Pentagon now is becoming a customer of IBM, Intel, Cisco, Micron, you name it, but it's never going to be a very big customer for those companies. It's always going to be a very small direct customer. And therefore, the companies are not going to change their business practices or their business models simply to suit a relatively small client. So the question for the Pentagon became, what do we really want? And the answer was we want these companies in the United States to be healthy and profitable, because if they're healthy and profitable, they will be investing in new technology and they'll make next-generation stuff that will provide opportunities for us to continually upgrade our weapon systems. And so the next question that Perry wrestled with was how do we make them healthy and profitable? And if you look at their business models and you look at their revenue streams, you saw that the way to make them healthy and profitable was to let them export, because that's where more than 1/2 their revenue was coming from, even at that time. So once you reach that point in your thinking, you've turned the export control equation on its head.

And you realize that if you want to have profitable US companies engaged in cutting-edge technology, which they are supplying to the military sector, you need those companies to be profitable, which means you have to let them export. So over-controlling, which is what's being debated now in the administration, has the effect, of course, of denying more stuff to China, in this case. It also has the effect of kneecapping your own industries. And the long-term outcome of that for our own military establishment is not a positive one. Skirmishes on that have already broken out in the Congress. The administration is wrestling with it, and it remains to be seen how it's gonna turn out. A related security tool, which has come to the fore also recently, is controlling investment. Inbound investment is controlled by a process that dates back at least to the '80s. Actually, it dates back to the Ford administration, if you wanna be weedy about it. It's worked pretty well. It was upgraded in 2018. Recently, I think the task has been made a little easier with respect to China because of a significant decline in Chinese, direct, FDI Chinese investment in the United States, in large part due to Chinese efforts to discourage that, except in selected, targeted areas, which happened to be the targeted areas that we are most inclined to shut off. But I don't see significant statutory changes in that process because they were made more recent. They were only made in late 2018. So if there's going to be policy changes, they'll be reflected in the way the statute is administered. The new thing, which is being debated today, because it's in the House China bill, it's not in the Senate bill, is a similar review process for outbound investment. That is telling the companies that if they want to engage in certain transactions, and the word is used advisedly, transactions, not just investment, so it's a broader term, but it certainly includes investment. That they wanna make those outbound investments into selected countries, and China would be one of them, that also needs to be reviewed by the government. That proposal was considered in 2018 and was abandoned, largely because it was reviewed as redundant with export controls and unnecessary, but it's back. It has some very persistent advocates. Its fate is uncertain at this point. It'll be bitterly opposed by the business community, but we'll see what happens. The administration, thus far, has not endorsed it. They've endorsed other parts of the bill explicitly, but they didn't mention this one. So we'll see what happens. If it does happen, it would be a major expansion of government involvement in the investment process and it would be a significant change of a very longstanding US policy. Going back to both strategies, run faster and tripping, an integral part in the Biden administration is a multilateral approach, which may actually be the biggest difference between Biden and Trump. Trump was a confirmed unilateralist. He was not interested in cooperating with partners. In fact, he took great delight in irritating them. Biden is a built-in multilateralist on virtually everything. You can fault execution on that, and I can, if you wanna get into it, but clearly, he believes in a cooperative approach and he's attempting to build a coalition of like-minded countries that are also willing to confront

China on its unfair trade practices. And he's begun finally, also, to develop an economic strategy for the US and Asia, which has been long awaited. Operationalizing the concept of cooperation, which is a fairly elastic term in both cases, is going to be a challenge. The US joined the EU and its proposed Trade and Technology Council, which may or may not end up being about China. It sort of is, but at the same time, the Europeans don't always wanna talk about it in quite that way. Europe really has to sort out what it means by a term that it invented, strategic autonomy. And every European I've talked to has a different definition of the term, which ranges from trying to build up our own ICT sector, which is lacking in Europe, to we want to be a third force, somewhere in between the US and China. The US view, of course, is we want you on our team. We don't want an independent third force. That all needs to be sorted out. And I think strategic cooperation is going to be limited until it is. If you want to see the complexity and difficulty of that process, just watch the new German government as they try to figure out what they think about China and what they wanna do about it. Similarly, with respect to Asia, the Indo-Pacific Economic Framework, which has been launched, it comes with few, if any, visible tangible benefits. Market access is not on the table. And by saying they don't intend to submit it to Congress for approval, the administration is really telling Asians that it does not intend to make any significant concessions. That will make it difficult for countries to take the risk of offending their largest neighbor without any tangible benefits in sight. I think what that ultimately leads to is probably the weak coalition of the usual suspects, countries that already agree with most of what we want to accomplish, which isn't going to advance the ball in Asia very far. Commercial here, Matt Goodman and I at CSIS just put out a paper last week precisely on this issue, detailing what we think the administration ought to do to make this the kind of success that they want it to be. And you can find that on the website, if you are interested in the IPEF or wanna go into greater detail about it. Finally, let me close with some comments about the role of the business community, which takes me back to the title of the talk. When I ran the National Foreign Trade Council, which was 2001 through 2015, middle of 2016, I represented large multinational companies. And what I learned about them was that they were all in China, they were all profitable and they were all unhappy. And their dilemma then and now is that China is simultaneously their best customer and their biggest threat. They need the market, but they see the train coming down the track towards them. The enormous size of the Chinese market has been an irresistible attraction for US companies. However, as China has moved up the value-added chain and as US security-driven pressures to counter them have grown, the Chinese have become more selective about who is welcome in China, more creative in limiting the reach of foreign companies in China, and more determined to go it alone in developing critical technologies, which you can see in the ICT sector in particular. Chinese intentions, I think, are clear. Read their five-year plans. The last one and the incoming one, it's to develop global champions in a range of critical technologies and to establish global leadership through means both legal and illegal. They don't put it that way, but if you listen, if you watch NBC News and listened to the interview that was done, Lester Holt did last night with the director of the FBI, one of the comments he did is they, he said roughly, on an average, every 12 hours, they open a new investigation into Chinese espionage and Chinese cyber espionage. There are now over 2,000 pending investigations. That tells you what our government is focused on. And so what's clear, I think, if you look at Chinese plans, is that we are the leader in many of the technologies where they intend to become the leader. So their ambitions come at our expense, which means we need to take their ambitions very seriously. So what we've got now is a situation where the government focuses on China as a threat. Business is still focusing on China as the best customer. And that's a policy dilemma. The business dilemma is whether to potentially sacrifice long-term competitiveness in the interest of obtaining short-term profits. Wall Street's emphasis on quarterly earnings and share price push companies in the direction of the latter, even if it's not in their long-term interest. This leads this, division between business and government, I think, leads us in two directions. First, as the US government pursues tighter tech transfer policies, and they will, and if we continue the tariffs in some form, we might, we're going to see more decoupling as US companies reassess the political risk of doing business in China. This is sand leaking out of the bag. This is not one cataclysmic event. The breadth and pace of it will depend on individual companies' business models and the extent of their existing investment in China. But I think the trend is likely. Why both governments deny it, in effect, both governments are forcing companies to choose between them. And there's no better example than you can see how companies are struggling trying to handle the forced labor issue. Because you've got companies, particularly in the apparel sector, discovering that they're criticized in the West if they use Xinjiang cotton, and they're criticized in China if they don't. And there are people in both parts of the world that troll their websites, troll their procurement patterns, and call them out if they're doing one or the other. And this puts companies in the position they hate. No matter what they do, somebody's gonna say they're wrong. And that puts them in a very awkward position. And it vastly increases, I think, the risk of doing business in China. I think the other thing that's happening is that we are all gradually realizing that the real arena of competition, economic competition, between our two countries lies in third markets. China is not going to treat foreigners fairly in China, and we can do the same thing to them here, if we want to. It's competing with them in the rest of the world that matters because that's where their goals, their global leadership goals, are going to come to fruition or not. That's why running faster is ultimately the better policy and why it needs to include more effective use of American soft power to counter Chinese efforts, like the Belt and Road Initiative. And also, it's incumbent on us to make a sustained effort to prevent Chinese takeover of international institutions, particularly institutions that set international standards. And you can see a relatively coherent Chinese effort to do precisely that. Not always successful, but the effort is there, nonetheless. So as I said in the beginning, I started out as a pessimist. I became an optimist in the '80s and '90s, but I reverted to pessimism in recent years. I think Xi Jinping appears to view the US as a declining power. I think that's a mistake, but I am worried that the United States, we do have this tendency sometime to believe we're the good guys. And because of that, and because we're exceptional, that's gonna pull us through and allow us to prevail. I think the biggest danger is that both sides underestimate the other. And I'm very worried about that. For the time being, I think the best we can hope for in the economic sphere is responsible management of our differences while both sides undertake to strengthen their competitive positions. That latter part is not a bad thing. Competition is healthy. It'd be nice if competition were fair. And that's why the tripping the other guy strategy is not irrelevant. If people are cheating, it's important to call them out and it's important to try to do something about it, but that can't be the only strategy because, in the end, it, by itself, is not gonna be the successful one. Running faster can be the successful one, if Congress is willing to support it. We'll see over the next few weeks. Trying to block China's rise, which we constantly say we're not trying to do, but, in fact, we are, can be an important corollary to that strategy. But as I said, we should not be under the illusion that that by itself will be sufficient. So with that, let me stop, Bill, and turn it back to you. And Mark, if you can take down the slides, you'll save me the trouble of figuring out how to do that. Perfect. You're on mute, Bill.

- Thanks so much, Bill. That was so insightful, both as to the issues and as to the game in Washington. Let me start off by asking a couple questions, but then spelling out a premise. And the question is, are we structurally incapable of going back to international economic trade leadership and addressing our domestic social problem? And let me specify, what's been a theme song of mine for some years, that our big domestic social issue is that we, and other countries, including China, are going through a great transition, from an era of manufacturing jobs to an era of service jobs. It's very much like the transition we did over a century ago from being almost all agricultural jobs to mostly manufacturing jobs. Everybody but Willie Nelson has given up on getting back the agricultural jobs. But we're in a situation in Washington where the Democrats are very dependent on the manufacturing unions, which don't allow you to talk about transitioning from manufacturing jobs to service jobs. You're only allowed to take the Willie Nelson position. We're gonna get the manufacturing jobs back. If you say we're gonna help people the way the Chinese have done, they transitioned 50 million people from manufacturing jobs to services jobs while we were whining about 3 million. To do something about it, you have to empower the government and fund the government. And Republicans are never gonna agree to that. So are we structurally stuck for the indefinite future in a situation where we cannot go back to global economic leadership? We can't promote the running faster choice that you suggested. And we worsen our domestic social problem of people stuck in manufacturing jobs that are going away.

- Well, it woulda been nice to start with a softball, and that is not. A couple things. First of all, what has interested me lately, and is to add a footnote to your data, I think you're certainly right about the US economy, and actually most Western economies, but there is some hint, including in some Chinese statements recently, that they are charting a different path, which is not to transition to services, but to focus on advanced manufacturing. I don't know how that will work out for them. Nobody else has done that. Most people have undertaken, either deliberately or just because of the way the market works, exactly the transition to services that you're describing. The Chinese are sending signals that they don't intend to do that, which is kind of a gamble, and we'll see what happens. As far as the United States is concerned, I wouldn't say we can't resume leadership. I will say we may not. And the path that we're on right now doesn't get us back there. And we have become, I think, very internally focused on how to construct a trade policy. The administration is couching it in global terms and is trying to say what we want to do really is to reassert global leadership, and to do it in a way that creates a trade policy that we hope other countries will follow, that benefits workers and is fair to workers, and takes into account the environment and gender disparities and a whole bunch of other things that particularly the left wing of the Democratic Party believes have gotten short shrift in previous trade policies. I think the president's dilemma has been that it's very easy to say that's what you wanna do. It's been very hard for them to actually come up with a program for doing that and trying to figure out exactly what that means internationally. And you can see in the Indo-Pacific Economic Framework, how they've made their job more difficult because they've taken off the table things that might grease the wheels, if you will. If you're gonna say, "We're not gonna deal with market access," basically, you're telling the Asian countries there's nothing in it for them. And so why they would want to get involved, unless you're Australia or Japan or want to support the same kind of regulatory regime that we're advocating because you've already got that, I mean, they're kind of tying a hand behind, the administration kind of tying a hand behind its back. When they talk about a new kind of trade policy, also, they don't talk about it in conventional terms. And you're right, when they talk about a trade policy for workers, what that appears to mean is one emphasizing enforcement of labor standards. If you look at the US-Canada-Mexico Agreement, you can see what they mean. And actually, that seems to be working pretty well. It's not-It's a good idea. And whether they can spread that out and generalize it beyond a single trilateral agreement, I don't know. They also seem to be interested in how do we redistribute the benefits of trade away from corporate executives and toward the workers? And my argument with them about that has been you're confusing creation of benefits with distribution of benefits. Trade agreements create benefits. How they're distributed has more to do with what corporations do with the money and has to do with government tax policy, government adjustment policy and things like that. And they don't seem to be quite focused on that. And frankly, also, sadly, the third element of a trade policy for workers for the United States is reshoring and trying to bring manufacturing jobs back here. So their answer, I think, to your point, is it's not far from getting stuck in the manufacturing sector. We actually wanna revitalize it and bring it back here and create more good jobs. That kind of sells short the services sector, which has a lot of good jobs. I mean, people equate, people say, "Ah, services, that means people "working at McDonald's." Well, yeah, they're service workers. So are doctors. So are EMTs. So are architects, so are lawyers, so are nurse practitioners. So are software designers. I mean, there's a whole range of services out there in the economy that require a lot of training and are very well paying. And I wouldn't want anybody to think that a services economy means that we are simply heading toward an entire generation of people who are waiters and waitresses. A rambling answer, best I can do.

- I couldn't agree more. I just commented on the advanced manufacturing, that I think that like us, they're moving, the Chinese are moving into advanced manufacturing, but they're not moving back to manufacturing jobs. They're moving to robots faster than we are.

- Well, that may be how they do it. You're right. That's a good point.

- A broader question. There are a number of scholars who've made the point that we're not just fighting over specific industries and specific jobs, but what we may be seeing in the US, they think, is a broad loss of a manufacturing sector. You don't see that in the total output figures, but a loss of a set of skills and manufacturing experiences and basic equipment that just leads us to be weak across many, many areas of manufacturing. And do you know if anybody is asking the question, if that's the concern, how do we think about what we need to preserve? How do we define what's necessary and what's not?

- This is a huge question, and I've written and talked about this because in the end, it's going to come down to, as far as the administration is concerned, any administration, what is your definition of security? What is your definition of what you have to have? Because if you don't define it, you end up talking about autarky, we need to make everything ourselves, which is both stupid and impossible. On the other hand, reasonable people disagree, but if you're Peter Navarro, the answer is everything or almost everything, and it can go to ridiculous extremes. One of the more amusing episodes I had was, I don't know, five or six years ago, when Shuanghui bought Smithfield, the very large Virginia ham and pork producer. And you had

United States senators arguing that that should be blocked, that acquisition should be blocked on national security grounds. The essence of that argument was that bacon was a national security item, and that was not a prevailing argument. Bacon didn't make the cut, as it were, but it raises the question of what is and what isn't? And it's not, clearly, the Biden administration has not drawn that line yet. They've drawn it partially because the president commissioned four supply chain studies that were published last June, critical materials, batteries, semiconductors and pharmaceutical slash PPE. And I don't think there was a lot of debate that those are critical sectors. What we learned via COVID is that sometimes we run out of stuff that we don't wanna run out of. And we need to make sure that we have the capacity to not run out of it. And the supply chain managers are newly being told, in addition to price, quality and delivery, you need to build resilience into your models. That's producing sea changes gradually in supply chains. I was just on a conference call where we were talking about this. It leads to suboptimal outcomes, because if you build resilience in, that means you're gonna have to abandon least cost, maybe, and you may have to abandon best quality. You don't wanna do either of those things. But if you want to not put all your eggs in a single basket, particularly not put all your eggs in a Chinese basket, you're gonna have to take all those things into account. Doing it with those four sectors, I think, has not been controversial. And I think you're gonna see companies that are in those sectors changing their supply chains because they've, on their own, I think, realized that they need to develop more diversified and more resilient supply chains. The issue will come, how far do we expand beyond those four? At the same time the president ordered those four studies, he ordered six other ones that are much broader, transportation, energy, agriculture, defense industrial base. Two others I've forgotten. Together, they encompass 60% of our GDP. Those are due this month. It'll be interesting to see how far they go in suggesting that we need to have domestic capability in all those very large sectors. It's hard for me to believe they'll do that. But if they do, then you're talking about an enormous change in the way our economy is structured and you're putting a huge burden on the administration to decide how we get there. The answer to chips has been let's spend a lot of money to support the development of fab facilities in the United States. And I think taxpayers will go along with that because they understand why semiconductors matter and why having a fab capability in the United States matters. If you start doing that for sector after sector after sector, I think people are gonna say, "Wait a minute. "Are we getting into bacon-like issues here?" And when do we say, you know, it would be nice if we could make that, but it's really okay if somebody else makes it, and we just buy it?

- Thank you. We have a question from Nara Dillon, who's also a member of the organizing committee. She says, "Thank you for an interesting talk. "Why do you think US businesses "have retreated from participating "in our public debate "about Sino-American relations? "Do you think this trend is likely to continue?"

- I do think it's likely to continue. I think, there's two reasons that I would say. One, I think some of them genuinely don't know what to do. I mean, they have the dilemma I described, best customer, biggest threat, and they don't know how to proceed. They don't want to give up the market, they don't want to give up the profit, but they see what's happening, and they have not yet figured out a path through that. The clearest path for a lot of them would be decoupling, but they don't wanna do that because they don't wanna lose the customer and it's a lot of money. Even a small market share in China is a small amount of money. I think the other reason. I mean, there's a large amount of money. The other reason is if you engage in that debate, then what happens, inevitably, is that the China hawks accuse you of misunderstanding the Chinese threat, being soft on security and giving away our country's patrimony. That no matter what you make, if you're gonna do business with the Chinese, you're endangering your company's survivability. And by endangering your survivability, you're endangering all of our survivability. I mean, that's not a viable argument, but that's what they face. I mean, I had a very telling conversation years ago when I was running the Trade Association with one of my board members, who was a senior executive in one of the companies that we're talking about. And I said to a group of them, including him, I said, "You know," I said, "You guys have got good stories. "You're doing good things "in the social, environmental, ESG sector. "Why don't you tell your stories? "Get out there." And the answer was, it was the proverb about, the Japanese proverb about the nail that sticks up. They said, "If we tell our stories, "two things will happen. "The other side will say, 'Oh, yeah, they're doing that, "'but here's 12 other things they're not doing "'that they should do.' "And other people will say, 'Yeah, they're doing that, "'but it's really not as good as they say they are "'and it has all these hidden elements to it "'that it's really bad.'" And they said, "We just don't want to go through that." And I think companies are risk averse in the public sphere, and they've decided it's not worth it to engage in this argument, particularly right now.

- Thanks. We have a question from Lawrence Sullivan. Why is US business increasing investment in China?

- Well, I'm not sure how long that's going to last. In fact, I would say, I don't have the recent numbers. I'm not sure they are. But I would say that even if they are, on an absolute basis, I would say the rate of increase has declined. And you also have to look at time periods. If you're comparing 2021 to 2020, I can see why there would be an increase. That's COVID-related. Over the long term, I think to the extent that's happening, it's because it's a very large market. People are entranced by the market. There are some sectors that can engage effectively, that don't raise any of the security questions that I'm talking about. Look at Procter & Gamble, for example. If you're selling shampoo or Pampers or toothpaste, markets are markets, and bigger markets are attractive. And if you can make your product attractive in that country, you're gonna invest more and do it. And by and large, companies like that are not gonna get caught up in the policy dialogue that I'm describing. If you're an ICT company right now, I'd be very surprised if you're investing in China. I mean, if you're already there in a big way, then you're committed and you may feel obligated to continue what is already there. But if I were advising those companies, I would say that's a mistake.

- Thank you. For viewers who are interested in the subject of US investment in China, I would urge you to Google the American Chamber of Commerce in Shanghai and look at their annual survey. It's quite revealing. Another question for you, Bill, "The Wall Street Journal" just reported that the Biden administration will scrutinize China-backed apps, like TikTok, and publish new policies. What is your prediction about how harsh their decisions will be?

- Yeah, that's a good question. They've kind of put that one on the back burner, partly because there was a, Trump attempted to do that with TikTok and WeChat. And there was a court order that blocked him on that. And I think that the Biden administration has not fought that, but it kind of leaves kind of the question hanging about what they're going to do. I don't have any blinding insights on that. I think it's a hard problem. I mean, frankly, speaking personally, if I were going to assess Chinese security threats in the ICT sector, TikTok and WeChat would be pretty far down my list of things. I think the argument is based on the flow of data that would be going to TikTok users. I mean, TikTok, as a company, claims that none of their data ends up in Chinese hands. You could believe that or not. I don't have an opinion on that subject. That's what they say. And they claim to be kind of a separate company, if you will, from ByteDance. Again, you can believe that or not. But are we worried about that kind of data going to China? Number one, as I said, not at the top of my list. The other argument has been the influencing potential of the technology. That it's going to, all the 14-year-olds who tune in are going to be ultimately recipients of Chinese propaganda of one sort or another, and be influenced to take a different attitude toward China. I can't say that's not gonna happen. It's not impossible. I'd like to think our teenagers are smarter than that. But, again, I don't think that's the biggest problem we have with them. If you wanted to rank order our cyber problems and our data and access problems, I'd listen to the FBI director first. As to what they're gonna do, I don't know. I don't think this is at the top of their list, either, in terms of actions. I think they're much more focused on semiconductors and trying to slow Chinese progress at the high end there.

- I'm afraid we've run out of time for questions. Before we close, let me just mention that next week, we will be having a special session, organized by the Weatherhead Center, on China's Role in the World: Is China Exporting Authoritarianism? I think that's gonna be a very lively and important session. Bill, thank you so much. This was so informative and so insightful. On behalf of director Michael Szonyi, let me thank you tremendously.

- Thank you very much. It's an honor to be with you. Happy to be with you, and good luck with future lecturers.

- Thank you.

- So, Mark, I'm gonna get off, okay?