Critical Issues Confronting China featuring Jeffrey S. Lehman — What Does U.S. Business Really Want From China?, October 6, 2021

— Welcome to the Harvard University Fairbank Center for Chinese Studies' Wednesday Night Lectures on Critical Issues for Contemporary China. I'm Bill Overholt from the Harvard Kennedy School. Fairbank Center Director Michael Szonyi joins me in welcoming our distinguished speaker, Jeffrey Lehman. U.S. business is frequently a decisive actor in Sino-American relations. In the 1990s, when I was a governor of the Hong Kong-American Chamber of Commerce, the main role of big business was to explain China empathically to the U.S. Congress. That has changed decisively, both because China has changed and the relationship has changed. Business, at least major parts of business, often complains bitterly about China's unfair trading practices. At the same time, business makes a great deal of money in China. It's making more money each year and wants that expansion to continue. Business often complains bitterly about the self-destructive effect of tariffs that began under Trump and continue under Biden. It's complicated. Nobody is better positioned to explicate the positions of the U.S. business community than Jeffrey Lehman. He is chairman of the American Chamber of Commerce in Shanghai. That chamber does the most authoritative surveys of American business in China. He is also vice chancellor of New York University's campus in Shanghai and professor of law there. He has served as Dean of the University of Michigan Law School, as president of Cornell University, and as a founding dean of a school of transnational law in Beijing. When you have questions, please write them using the question and answer function at the bottom of your screen. We'll have plenty of time for questions, and I will collate them for Professor Lehman. Welcome, Professor Lehman. Over to you.

— Well, thank you, Professor Overholt. And I wanna first thank everyone for moving up the time of this webinar from its normal time to accommodate my location. I also wanna note that despite the various hats that I sometimes wear, I'm speaking today only for myself and not for NYU, NYU Shanghai, or the American Chamber of Commerce in Shanghai. So last month, Professor Overholt emailed me with an invitation to speak to this group about the question, what does U.S. business really want from China? And I think I should start by making explicit how I have interpreted that question. So the interpretation that I've not taken is how do U.S. businesses wish the Chinese state would change its treatment of them? I don't deny the importance of that question, but I have gone in a different direction. Instead of understanding the question to be about what U.S. business wants from China, the state, I've taken it to be about what U.S. business wants from the nation of 1.4 billion Chinese people. So the question I will talk about is whether U.S. businesses really want to stay tightly coupled with China, and if so, how and why? Part of why I've chosen to go in that direction is that, this past June, I was in D.C. for the first time in a year and a half, and I was stunned by how many people think that when it comes to making government policy, the perceptions of American businesses in China should be discounted in the same way that the perceptions of American academics should be discounted when considering the China initiative. If you will indulge me, I'd like to offer gentle caricatures of three different arguments that I came away feeling are floating around Washington, for why the perceptions of U.S. businesses should be given little if any weight in fashioning public policy nowadays. So my caricature, the first argument is that American businesses in China are servants of mammon, filthy profit maximizers, and their views should therefore be ignored by servants of the public who are devoted to American values. My caricature of the second argument is that American businesses in China are lambs to the slaughter, naively giving away their patrimony and their views should therefore be ignored by servants of the public who hold security clearances. And my caricature of the third argument is that American businesses in China are opium addicts, incapable of recognizing when they are in danger, and their views should therefore be ignored by servants of the public who want to protect them from themselves. So in my presentation today, I'm going to explain why I, for one, believe each of those arguments is seriously flawed. And I will try to make the case that those who would set aside the perceptions and interests of American businesses in China should at least have to carry a heavy burden of proof that their policies are well-grounded in empirical reality and moral principle, as opposed to hand-waving about what the voters are supposedly demanding, which is what I heard a lot of in Washington. So permit me to start by stating out loud a background proposition that should be uncontroversial, I think. The proposition is that when we speak about U.S. businesses and their desires, we are offering generalizations that are usually inaccurate. Every U.S. business has its own idiosyncratic set of reasons for being coupled to China. Every U.S. board, every U.S. CEO have their own ambitions for how they want to bring value to their customers, their employees, and their investors through market exchanges. Each one will have its own strategy for realizing those ambitions, and each one will have its own analysis of how China features in that strategy. So whenever we make generalizations about American business motivations, we're going to lose important nuance and texture and precision. Nonetheless, we do so. Because if we don't make at least some of those generalizations, it's impossible to make policy. So in my presentation right now, I'm gonna show my respect for that background proposition by, wherever I can, using slightly less sweeping generalizations. Wherever possible, I'm going to refrain from speaking about American businesses in China, and instead speak about American manufacturing businesses in China, American service businesses in China, and American retail businesses that are selling products to Chinese consumers. So I wanna move now to some survey data. The American Chamber of Commerce in Shanghai has about 1,200 member companies with operations and personnel in China. Of those 1,200 companies, about 50% describe themselves as being primarily manufacturers, about 10% describe themselves as being primarily service providers, and about 40% describe themselves as being primarily retail sales operations. AmCham Shanghai is now, by far, the largest chamber of commerce in China, and its membership spans almost the full range of American businesses that one might think of being coupled with China today. The two most important exceptions are American companies that sell products to Chinese purchasers without having a substantial physical presence in China, and American companies that purchase intermediate goods from China without having a substantial physical presence here. So every summer, AmCham surveys its members and publishes the results as the China Business Report, or CBR. This is what it looks like. Whoops, it's hard to see with Zoom. Anyway, the CBR usually gets about 340 responses from our members. This year, we received 338, which we consider a decent response rate. So I'm gonna try to share slides showing some of the results from this year's survey. And, okay. Find my slides. There we go. And, let's see. Whoops. Okay. So Bill, you can confirm that the proper slide is showing here. This is showing this year's respondent companies' global revenues by sector.

- It's showing.

- Great. So as you can see, the retail businesses tend to be the biggest, followed by the manufacturers, followed by the service firms. So this slide shows how long they've been in China. More than 80% have been here for at least a decade. For manufacturing firms, it's more than 90%. Here, you see the size of the respondents' employee footprints in China. In retail and manufacturing, about half of the respondents would be considered large, based on their China presence alone. In the service sector, however, almost 40% have fewer than 50 employees. So here you see how much of their global revenues derive from their work here in China. I think one could interpret this table in different ways, but I guess I would note that across sectors, about half the firms currently derive less than 10% of their total revenues from China, and half derive more than 10% from China. So what I've talked about so far, in a nutshell, is the static picture of how deeply interconnected things are today. Now I wanna turn to the dynamic picture about how businesses today expect things will be in the future. And so, here are some other responses to the survey that you may find interesting. So this question asked respondents what their five-year outlook is for businesses in China. We ask this question every year. When we did our press conference a couple of weeks ago, this question was the basis for my top-line message, that we are now seeing a rebound of optimism. Until 2019, the norm was that about 80% of respondents would be at least slightly optimistic about the subsequent five years and fewer than 10% would be pessimistic. In 2019, with the trade war, things worsened significantly, to 60% at least slightly optimistic, versus 20% pessimistic. In 2020, things with COVID stayed where they had been in 2019. But then this year, we saw a rebound back to 80% at least slightly optimistic and only 10% pessimistic. So this table breaks it down by sector. And as you can see, the services sector is slightly less optimistic than the other two, but not hugely so. It's still experiencing a rebound. Okay. So during the past two years, we've obviously heard a lot of discussion about supply chains. During the trade war and during COVID, during the Trump administration, and now during the Biden administration, there's been a lot of talk about how the need to maintain supply chain resilience in the face of geopolitical risk and pandemic risk might push American businesses to reshore, to move their operations out of China and back to the U.S. I think it certainly makes sense to think that, in a more volatile climate along many dimensions, rational businesses might not want to squeeze every last ounce of optimization out. And they might instead want to use a certain amount of supply chain redundancy as insurance against various forms of disruption. So in the survey, we asked our respondents whether they plan to move production out of China. And here were the respondents' responses. None of the respondents said they would move any of their production to the U.S. 7% said they would move to countries outside China, other than the U.S. 7% said they would move to other locations inside China to produce redundancy. 7% said they would move to a combination of other places inside China and third countries outside China. Of course, moving existing supply chains is not the only way to build supply chain redundancy. One can also build it without moving production out of China and instead shifting future investments so as to build additional productive capacity elsewhere. And here we see a little bit of shift. We asked the question, in the past year, have any of your planned future investments in China been redirected to other places? And that's a question we've asked for many years. As you can see, about 19% of respondents indicated that there were plans to redirect future investments from what they otherwise might have been. Now, that is nontrivial. On the other hand, as you can see from this graph, it is significantly less redirection than what was going on in 2019 in the heat of the trade war. And only 4% of respondents indicated that they have plans to redirect future investments to the United States. Of course, we're not only interested in the potential redirection of future investment. We're also interested in the direction of future investment simpliciter. Are American businesses planning to continue investing in China, full stop? Where does China rank in their plans? And as you can see, the answer remains pretty stable over the past three years. The percentage of respondents who think of China as a low-investment priority has actually dropped slightly. More than a quarter of respondents continue to rank China as their number one investment priority. So this graph looks at the change in level of investment, year-on-year, and you can see that after some pullback in 2019 and 2020, the respondents have basically gone back to their pre-2019 ways, increasing their level of investment in China year-on-year. So that's the description of the what. What is the plan for investment in China, for coupling with China? Now I wanna turn to the question of why. Why are our members so tightly coupled with China? So companies do business in China as buyers or as sellers, or both. 20 years ago, when the general public talked about American businesses in China, the standard perception was that they were primarily in China as buyers. They were outsourcing production from the U.S. to China, purchasing good-quality, inexpensive labor, and using that labor to produce stuff that they could sell elsewhere, not in China. This was part of a general determination in business to build more efficient global production networks. This was the "World is Flat" mentality. The belief was that highly-efficient, global production networks would enable both lower prices for consumers and higher profits for investors. And of course, there's been a lot of discussion about how the creation of these global production networks created major employment shocks in the U.S. for low-skilled workers that overwhelmed the system. Fast-forward 20 years, nowadays, when the general public talks about American businesses in China, the standard perception is that they are at least equally, if not primarily, sellers. They're here to sell goods and services to a huge and rapidly-expanding consumer market. During her talk on Monday, Ambassador Tai put it rather colorfully. She said, "Business has a thirst for increased access "to the China market." So the CBR did ask our respondents what drives their China strategy. And here's what they said. As you can see, most American companies are now not in China to produce exports. The exporters today are primarily Chinese companies. Instead, most American companies are here to sell to Chinese consumers. Either they're selling things that were made in the U.S., or more often, they are in China for China. They're using their know-how, they're capitalizing on their reputational capital to produce goods and services here, for sale here to Chinese customers. So, let me... Oops. Let me just say that none of this data surprises me. During my 13 years of living full-time in China, even though mostly I've been doing university work, I've spent a lot of time with people in the business, government, and diplomatic worlds. I have come to appreciate the work that is being done in each sector and the motivations that drive leaders in those sectors. So based not only on the CBR, on the survey results, but also on my own personal anecdotal observations, I'd like to offer my own simplified, generalization answer to the topic question about what American universities want from their activities in China, why they want to be here. And, oops, I stopped that too soon. Let me bring it back. Okay. So here, what I would stress are four animating motives: understanding and interacting with local consumers, producing goods with high-value local talent and infrastructure, minimizing distribution costs and trade barrier risks, and tapping the world-class local innovation ecosystem. I doubt the participants in this seminar will find any of these four motives at all surprising, but I wanna nonetheless say just a few words about each one. First is understanding and interacting with local consumers. Capitalism gives producers an incentive to produce things that maximize consumer welfare. So by understanding local tastes, which they can do best by being here, American businesses are able to refine and localize their products, whether they're producing the products in the U.S. or they're producing them in China. Second, producing with high-value local talent and infrastructure. Chinese labor is no longer the cheapest in the world, as we know, but for most companies, most of our members at AmCham, this is still the best place to have your supply chain, because the labor is of high quality and the infrastructure, the roads, the trains, the delivery services and the like, is suburb. Third, minimizing distribution costs and trade barrier risks. I don't think that actually requires any elaboration. Fourth, tapping the world-class local innovation ecosystem. If you want to design and develop an innovative new product, China's ecosystem is almost incomparable today. If you wanna do high-tech hardware, Shenzhen offers you almost instantaneous access to every component imaginable, as well as to prototype production facilities that allow a very lightly capitalized startup to produce minimum viable products, test them, and iterate at blazing speed. If you need access to creative design talent, cities like Beijing, Shanghai, and Hangzhou are overflowing with it. So I serve on the board of a Maryland-based startup that had just last week finished clinical trials on a rapid home COVID antigen test. They had the scientific guts of the test, the antibodies and the reagents ready to go, but they needed a world-class design firm to develop the housing in such a way that virtually any customer would find it attractive and easy-to-use and would use it correctly, all while keeping manufacturing costs to a minimum. The company looked at dozens of possibilities. They ended up tapping a Shanghai firm to produce the design. And by all accounts, the product that they produced, the design laps the field along all critical dimensions. So to finish up, let me shift from the descriptive to the normative plane. I think we need to do that in order to address the unspoken, implicit question behind the inside-the-beltway arguments that I caricatured at the outset. So the implicit question is, what would be the harm if the American government prohibited our businesses from following their current strategies of engagement and coupling? The questioner would stipulate that right now, businesses are optimizing strategy, given current real-world constraints, but they'd be asking, why is it such a big deal to force them to settle for second best so that we might promote other objectives? Last night, I happened to have dinner with a friend who's the American citizen managing director for China of an enormous American hospitality company. His company works with Chinese investors who wanna build five star or six star hotels in China. The investors build the facilities to the specifications of this American company. And then the American company puts its name on the facilities and operates them to its international quality standards, while adapted to local customer tastes. So I asked my friend, I said I was gonna be doing this webinar, I asked him what would be wrong with the U.S. government telling his company to stop being here because the U.S. government is very unhappy, even angry over some of the things that the Chinese government is doing? And he thought for a while, and he said he can understand why, in order to protect national security, the government might restrict some company's ability to serve Chinese customers. It might restrict their ability to purchase Chinese products. It might restrict their ability to work with Chinese partners, certain Chinese partners, anyway. But my friend said, quite strongly, that in his view, American values place a high burden of proof on the government to show that its national security concerns are legitimate. And so, speaking now for myself, I think my friend is right. When American companies deliver higher-value goods and services to Chinese consumers than those consumers could otherwise obtain, then the wellbeing of those consumers is enhanced and that is a good from a humanist perspective. In addition, American soft power is enhanced through the activity and cash resources flow back into American coffers, where they can be taxed or invested or consumed, and those are all goods from a nationalist perspective. In some sectors, this process generates net new jobs back in the United States. And even more importantly, all forms of cooperation across borders increase mutual understanding and reduce the risk of conflict. Those benefits are huge. They should not be lightly forgone. And so, I agree with my friend's assignment of the burden of persuasion. Two years ago, I should say, in the middle of the trade war, I had the pleasure of working with Danny Roderick and Yau Yang on a project that pulled together a working group of world-class trade economists and legal theorists. We put together a joint statement, setting forth a framework with which two countries that deploy dramatically different approaches to domestic industrial policy can both share the benefits and minimize the harms that attend bilateral trade, and would also facilitate fair competition in the multilateral sphere of international trade. Since then, Danny and Stephen Walt have built on that statement to develop a full-blown meta regime for constructing world order. I am absolutely certain that the Roderick Walt System offers a much healthier diplomatic vocabulary that political leaders in the U.S. and China could use to discuss their differences than the vocabulary that is currently being deployed. And I strongly encourage the listeners to this webinar to study their paper. So in conclusion, let me say that, although my generalizations today have been heartfelt and authentic, they are also tentative and speculative. So I very much welcome your questions and suggestions on how to improve them. Thank you very much.

- Thanks so much, Professor Lehman. So you and AmCham have done a survey of businesses currently in China and the results are very informative. Another of the functions of AmCham is that, when people are thinking about doing new, future business in China, they come to AmCham and ask about the conditions they'll face. Have you seen a difference in the level of interest in future investments? A difference in the kinds of questions or level of skepticism you get from people who come to Shanghai to inquire about prospects for the future?

- Well obviously, since COVID, people aren't coming to Shanghai to inquire about prospects for the future. So to the extent we're getting questions from businesses that are not here right now, those questions would come by email, primarily. And I guess I don't have anything really solid to say in answer to that question. We're not getting questions like that today. A few years ago, we opened a new branch of AmCham Shanghai in Hangzhou and another new branch in Silicon Valley, in order to facilitate new interactions, new engagement between firms in those two cities or those two areas. And at the time, this was in 2017, 2018, the expectation was that these relationships would soar. They have not. And I think there are lots of reasons why that might be. But certainly, in the background, one question I would ask is whether, for companies that are not already in China, the current state of perception, as documented in the Pew Survey of China will mean it's unlikely for businesses to initiate such investment right now. The boards, especially boards composed of people who have no on-the-ground experience here would say, "It's just, the risks are too high." So that would be my expectation, I guess.

- Thank you. I encourage our listeners to write in questions. I have a number of additional questions, but let me go to our audience. We have a question from Andy Zelleke of the Harvard Business School. He says, "What do you understand "AmCham members' experience to be with party committees? "The survey data suggests this isn't a major concern."

- So I'm just quickly looking here. We have a few questions about the issues, their areas of concern. U.S. China tensions are a concern. Tariffs. Interestingly, there are concerns about inefficient government bureaucracy. There's, of course, concerns about internet restrictions, about IP protection, about corruption. There is not a discussion of concerns about a heightened presence of party activity within U.S. businesses. I don't hear discussion of that. And I think the heightened participation of parties would be in the Chinese partners in joint ventures. And again, I'm not hearing a significant concern about that. Again, we are in Shanghai, and you might see differences between companies that are based here and companies that are based in Beijing, companies based in Shenzhen. I think there remains significant variation in party activity, the tone and tenor of party activity, based on the city that you're in.

- Thanks. I'd like to follow up on that, focusing on the role of the party committees in the Chinese companies. I hear from Chinese friends in Beijing that often the party secretary's agenda is very different from the CEO's agenda and they express concern that that will lead to less efficiency. As you said, in China, one would expect tremendous variation. Variation could be all the way from real confrontations between the party secretary and the CEO to complete coaptation, which was often the case in the past. The CEO would work very closely with a party secretary who shared his or her views. Can you share any experience of what you're hearing about the range of variation and the likely average effect on Chinese business?

- I'm not hearing enough to be able to say more than you just did. There are... I've heard anecdotes of the kind of confrontation you describe, and anecdotes of very, very calm and peaceful coexistence, where it's more than that. It's, the company continues to operate according to market imperatives, but the party secretary is there in the room. But I don't have a sense of frequency, other than just the general expectation that you're gonna see quite significant variation based on location and the character and personality of the city.

- Thank you. We have a question from Mike Szonyi the director of the Fairbank Center. And he says, "Thanks for a very informative talk. "The overwhelming impression is of stasis in business news. "We shared similar, although less-informed perspectives "with senior U.S. government officials recently. "Their view is that this actually confirms "your caricatures, namely that "U.S business has not adjusted to the changing reality "of U.S./China competition, "and therefore it is entirely correct "that U.S. policy should not take into account "the partial, slash naive, slash self-defeating positions "held by AmCham survey participants. "In other words, they reverse the burden of proof argument. "How do you respond when confronted with these views?

- Great question. And we're gonna do our door knock in the next two months. And I'm trying to prepare for the exact eventuality that you describe. I will say, it is a direct echo of the message that universities received a few years ago about how they're naive and clueless about the overwhelming number of spies in their midst. And when they deny, when they offer to cooperate and deny any perception that in fact, there are so many spies, it's taken as confirmation of their naivety. The trick is to take an argument that is structured so as to be irrefutable, and to come up with a test that would allow for refutation. And usually, what they say is, ask the question, what could we show you, what kind of evidence could persuade you that, in fact, the perceptions that we hold are not benighted? And to try to elicit some points of engagement. But right now, I don't know how to... Asking the question that way is impolite when talking with government officials. And so, you're expected to make your case. And I'm not sure exactly how to do that. So if you have thoughts and suggestions, please send them along, 'cause it's... There is this sense of bishops of opposite color, ships passing in the night, in the discussions these days. I don't know what else to say.

- I would just add a personal note that case studies are a help. I have never seen a U.S. government official express awareness that General Motors was saved by China's decision to be much more open to foreign car companies than our allies Japan and Korea. In 2000, General Motors was circling the drain. It was losing money in the U.S., it was losing money in Europe. It was running out of capital. And China opened its doors and saved the company. And General Motors sells 2.9 million cars a year in China, and 2.9 million in the U.S., but makes more money from the 2.9 million in China. And the other thing is that the Chinese engineers redesigned the Buick so people under 65 years old might be interested in buying a Buick. And that redesign by Chinese engineers, which, by the way, GM publicized as German engineering, but it was all Chinese, and that saved Buick from going the way of Oldsmobile. And that's an extreme case, but there are many similar cases where, if major, major American businesses lost the Chinese market, they would be dead. And some case studies might be the best response. But let me move back to our audience. Hongru Zhong-

- Let me just say, Bill, yeah, Julian, the managing director of GM China now, we're planning to have him on the door knock. And so, he can testify to the examples you just described.

- Great. So, Hongru Zhong says, "Many thanks for your fantastic talk. "My question is related to the local innovation system "mentioned in your talk. "How do you evaluate the openness "of Chinese local innovation system "towards U.S. business? "Are there any critical impediments?"

- Well, I think the structural impediments, presumably, are... I mean, the companies that... The company whose board I sit on interviewed, and the company we ended up choosing to work with was incredibly open, eager. They believed in the mission. They believed in the mission of responding to a pandemic and reducing illness and death. And so, they were incredibly effective in helping on the design side. In terms of the ecosystem in Shenzhen for hardware development, again, American businesses that are here use that ecosystem all the time. And they absolutely tap into it. I don't think they have any problems. The only impediments I might see would be if the innovation involves the use of sensitive IP or incredibly valuable IP, they might be a little bit cautious about putting that IP into a place where it could be stolen. But that would be the only impediment that I can think of right now.

- Thank you. Question from Nara Dillon of Harvard, who is a member of the committee who organizes this lecture series, do you think smart trade, so-called, is an improvement over the tariff policies of the last few years? If so, in what ways?

- I think a little early to know. I think, when I watched the news this week, it was not entirely clear to me from Ambassador Tai's remarks how much the new tariff exclusion policies would be tailored to business needs. I just saw, a few hours ago, that apparently there were something like 500 plus initial rounds of exclusion ready to go. That certainly seems to me like the kind of approach that is needed. I think I was talking to the Charge d'affaires last week about this, and he agrees that what is needed is a scalpel rather than a sledgehammer approach. When there are clear issues and a tariff provides a well-targeted response, then great. But across the board, tariffs have all of the consequences that we've known since David Ricardo, about the loss of welfare that comes when you interfere with trade.

- Thank you. From an anonymous attendee, "It must be highly beneficial to U.S. companies "to stay in China, despite what happened recently. "On the other hand, what have China "and the Chinese people gained "from decades of U.S. and foreign investment? "What percentage of the profit actually goes back to China "and Chinese people, especially Chinese workers? "What environmental impact "have U.S. foreign companies had on China? "While taking advantage of high-quality labor in China, "have the foreign companies been beneficial "to Chinese workers' welfare, including their labor rights?"

- Well, I can only speak of my perceptions here. I don't have great data. But my perceptions are that the presence of American business here has been extremely good for Chinese workers. That there has been a kind of standard setting, a kind of norm setting that started with American companies and extended outwards. This includes things like labor supply chain audits, which began decades ago and have become normalized. I think, there, it's certainly the case that wages have gone up significantly in the last few decades in China. I can't answer the causal question of whether they would have gone up as much if American businesses had never been here. I don't know the answer to that counterfactual. My hunch is that the presence of American businesses and American labor demands was a factor in those increases.

- I could just add, I was based in Hong Kong in the 80s and 90s with American businesses who were early entrants into China. When I first visited China in 1982, China would buy high-tech equipment, but then it would sit around. Companies had no understanding of how to use it. And it was America and other Western and Taiwanese and South Korea management of companies in China that taught Chinese companies how to function in modern manufacturing and modern high-tech industry. So essentially, 100% of China's ability to function in modern industry came from foreign investment. When I was working on one book on China, 70% of... 78% of China's high-tech exports were from Taiwan companies based in China. And they learned from American companies. When things got started, in basically the mid-80s, there were essentially no labor standards, no environmental standards in China. And American companies, under pressure from domestic groups, formulated standards, and for the first time, there were standards about wages, there were standards about working conditions, about pollution in the air. And this all came through the entrance of foreign companies. And in terms of those kinds of standards, it almost all came from American companies, because the worst offenders on labor and environmental standards were South Korea and Taiwan companies, which were much, much bigger investors than the American ones. So America really took a leadership role in all these areas. Let's move on to another question from the audience. David Schwartz asks, "Do you have any information "on the percentage of assets held in Chinese banks "that are owned by U.S. and Western corporate subsidiaries?" I think that's a very difficult question to answer.

- So I guess there are two ways to understand the question. One is, as stated, what percentage of the holdings in Chinese banks derive from those sources? My hunch is very, very low percentage. Another way of interpreting the question would be, well, what percentage of the holdings of U.S. and Western corporate subsidiaries are placed in Chinese banks rather than being repatriated? And there, I think it's the opposite. I think it's a fairly high percentage of profits stay here. as companies are continuing to expand. And it's only when their growth trajectory slows down that they start to do significant repatriation. But again, that's a wild overgeneralization of my impressions.

- We have have a question from a visiting scholar at the Fairbank Centers, Seong-Hyon Lee. Do you think the outside concerns about Xi Jinping and his leadership style are exaggerated? How do you evaluate the changes under Xi Jinping? And I would just expand that question. What do you see as the effects of the regulatory exchanges on high-tech industry, on competition policy, on data privacy? We're seeing quite drastic changes. How do these affect business?

- Well, that's the $64 million question of dinner table conversations here, right now, every day. I don't think anybody knows. The changes in regulatory policy over the last four months have been dramatic and unforeseen by most commentators. I think... I read Dan Wong to try to understand what the theory behind them is and what the meaning of them is. But I have no ability to predict what the different effects of the new policies are going to be, other than that, right now, the targeted areas are definitely shrinking, and shrinking fast.

- I'd like to ask a question about the attitudes of the business community toward the existing tariff structure that the U.S. imposed under President Trump, and that are being maintained, so far, under President Biden. Is there a consensus view or an interesting distribution of views about the ongoing effects of those tariffs?

- Oh, the consensus view is that the tariffs have done harm to American businesses. Some were a bit by the U.S. tariffs, which raised the cost of important inputs, intermediate goods into their structure. Some were hit by the responsive Chinese tariffs, which made their own products less competitive. I think the biggest concerns were, from the beginning, about the loss of market share of U.S. producers to European producers. U.S. companies that held significant advantages, in terms of value of their products over European competitors, suddenly saw things flipped on their head. So I don't know of any U.S. companies that love tariffs. The dialogue that took place in 2019 was we don't like tariffs. And then the government response was, "Well, okay, we know you don't like them, "but we believe they're necessary. "What do you propose instead to accomplish our objectives?" And ultimately the business community wasn't able to offer alternatives, because they didn't have access to the information which was often required a security clearance that was being used to explain the tariff war. I think the surface explanation that said the tariffs were a necessary and appropriate response to the findings of the 301 investigation, I don't know of too many business people who were persuaded by that as an explanation. I don't... Although there are criticisms of IP protection, criticisms of denials of market access, criticisms of unequal playing field, unevenly applied regulations, most businesses said, "Yes, yes, yes, "we have those criticisms, "but we don't feel those concerns strongly enough "to want there to be a tariff war."

- That's pretty dramatic, because the basic message that the U.S. government sends to the American public is that the reason for these tariffs is to support American business.

- Well, I think if I were to make the argument in favor of it, the argument would have to be, this is not to support American businesses that are in China. This is support to support other American businesses who are suffering in international competition. I think that would be the explanation. Again, I think the burden of proof lies on those who wanna make that argument.

- Well, thank you very much. We're running out of time. This has been very enlightening. We're very grateful for your ideas, and we hope to hear more from you in the future. Thanks so much.

- Thank you, thanks for having me.