China: Trade, Tech, and Tolerance

Speaker:

Merit Janow, Dean, School of International and Public Affairs, Columbia University

Interviewer:

Rebecca Fannin, Journalist, Silicon Dragon Ventures

(Transcription by RA Fisher Ink)

Fannin: I’m Rebecca Fannin. I’m the founder, editor, and author of Silicon Dragon and also a journalist writing for various publications, including Techonomy, and a weekly column at Forbes, and CNBC, as well. But we have a real trade expert here, Dean Merit Janow from Columbia University. And she’s a former U.S. Trade deputy rep during another time of tensions with China and U.S. and trade and tech. So now we seem to be in this escalating period of trade tensions with China and a lot of it’s centered on technology. So can you give us some context, given that you’ve been in this kind of role before and been in the center of DC and—where are we? Give us some context. Some people have actually said are we actually in a China-U.S. trade war? And I said, well, maybe we’re in a trade tiff. But are we in a trade war?

Janow: Well, thank you and wonderful to be here. I’m a frequent attendee to Techonomy and Silicon Valley, so it’s great to be here. And I’m really happy that they’ve started doing this in New York City, another major tech hub, in my view.

So look, in the ‘89 to ‘93 period, I was Carla Hills’ deputy at the office of the U.S. Trade Representative, responsible for Japan and China. And in that period, it does have some echoes with this period because we were using our trade laws, section 301 of our trade laws, to aggressively pursue market opening, particularly with Japan and China. Congress was putting a lot of pressure on that administration to open up the Japanese market to deal with what were perceived to be Japanese industrial policies. And it was the first period of deep engagement with China on intellectual property and market access. And it had some of the same dynamics. Escalation of tensions, the U.S. creating deadlines using our trade laws, developing retaliation lists, negotiations. But this was bilateral. It was happening at a time when the U.S. was trying to develop a multilateral framework with what became the WTO.

So if you fast forward to today, the world is of course very different. China’s the second largest economy, we have a multilateral system. I think China has done many things to reform its economy and create, I think, the beginnings of what will, I think, become a pretty serious
intellectual property regime, eventually. And American and other firms have continuing serious concerns about market access and Chinese industrial policies. But for a very different China.

**Fannin:** Yes, that is for sure. And China’s tech has come up so far in the last decade. You see the number of patent applications coming from China, the fact that China is developing its own IP now. China has the world’s largest mobile and internet markets and the world’s second-largest venture capital market. None of this existed 10 years ago. So it’s a totally different time frame. I think that China’s rising power as a tech engine, that’s created this tension between the U.S. and China in this trade tiff we have going on, largely over technology. So do you think there’s any kind of halfway point between China and U.S.? I guess there were talks just last week, and so is there any kind of halfway point? Because apparently these talks didn’t go very well last week.

**Janow:** Yes, there really are a whole cluster of issues, I think, that are sources of tension between the United States and China. When we talk about the economic issues, there are tariff issues. There are market access issues having to do with joint venture requirements. There are suggestions of mandatory licensing requirements by the Chinese government, failure to enforce their intellectual property laws, a whole cluster of regulatory opacity, and so on. But also in an environment of significant Chinese exports to the United States and to the world, a large bilateral trade deficit, and so on. And a rising China. And fears in the developed world about unemployment consequences of technological change, and a sense the Chinese government is supporting domestic manufacturing, creating frontier industries with government support, that are not allowing foreign firms to be participants in that process.

So these are the allegations that are being made by the U.S. government, and many of these are actually longstanding concerns and not particular to this administration. And then there are features that are very particular to this administration, such as the focus on the bilateral deficit reduction. And last week, the administration put out a white paper that seemed to leak over the weekend, that had eight different sets of expectations of what they were seeking. And I think some of those are these longstanding concerns. The U.S. and China got into a cyber-espionage prohibition agreement a couple of years ago. Many people say that that has had some salutary effects with respect to commercial espionage and has created some mechanism for collaboration and consultation, intellectual property, compulsory licensing. But then there are these unique things about the bilateral deficit, where the administration’s asked for a $200 billion reduction by 2020. And to me, that is not a strategy that is likely to succeed, I think because of our own fiscal policies.

**Fannin:** That’s a huge chunk of the $375 billion trade deficit. So is that realistic? Maybe it’s just totally unrealistic to ask for these kinds of—

**Janow:** Look, I think our fiscal policies are going to result in likely larger trade deficits, just by their very nature of the fiscal policies. So that is not, I think, going to succeed to reduce the deficit. Now, we might be able to get increases in LNG exports, things that various interest
groups may argue for, that would increase sales to China. I think there’s a way forward, frankly, in these talks. I really do.

**Fannin:** Okay. A smarter solution?

**Janow:** I think that we should be, and able to come up with a positive agenda that would benefit the United States and the world, in terms of access to the Chinese market. And some of those areas that have been identified are part of that agenda, I believe.

**Fannin:** Right. Do you think that pushing China too hard could lead to a backfire situation, where things become worse for U.S. goods getting into China?

**Janow:** I think when the United States has been most successful in its trade negotiations, it has identified areas where the country with whom it’s negotiating sees its own interest to move in that direction. And I think, that doesn’t mean they want to move to the same degree, or at the same speed, but the U.S. has often been able to trigger constituencies abroad that see the reforms as in their own interest. China is talking, and indeed, shifting its growth model from being an export and investment-led growth model to a consumption-led growth model and in the course of that, is emphasizing the importance of services, service sector, the importance of outbound FDI to support reform at home, things that create opportunities I think for deeper integration in the global economy.

**Fannin:** Yes, so one of our beefs, or one of our griefs against the China tech policy is that there’s so much government subsidy, like the Made in China 2025 and having homegrown Chinese technologies and that’s very restrictive to U.S. and other competitors getting in. And also if you look at the ban on social media companies from getting into China. Do you think that any of these things—where do you see all that going? They seem to be really big flashpoints right now, and certainly, is there any solution to that?

**Janow:** Chinese industrial policies are rather different from other countries’ industrial policies.

**Fannin:** [LAUGHS] That’s true.

**Janow:** It’s not just the scale of it, it’s the nature of it. And so part of what they’re doing is actually trying to design in foreign firms selectively in that process. It’s not just keeping out, but it’s been aimed at keeping out, selectively, to create indigenous competitors that are able to compete globally.

So I think this is a very serious set of issues, but it’s also occurring—it’s not just about keeping foreigners out, it’s about supporting STEM, supporting basic R&D. It’s about creating over four million STEM graduates a year, creating innovation centers next to major universities in urban centers, trying to create more and more intellectual hubs all over the country. So I think if we’re worried about China as a competitor, and I think we need to be, my own sense is that we should not just be talking about trade policy tools, we should be talking about investing in those areas in the United States, R&D, NIH, NSF, DARPA. These are tools that are essential to –
Fannin: Sure. But those are all being cut back. In the meantime, China is growing by leaps and bounds in R&D expenditures, catching up to the U.S.

Janow: Right. Well, trade policy isn’t going to fix that. We have to use both sets of tools and, I think, just conversation about trade is not bringing in those domestic measures that are so essential for our technology. This country is still a remarkable powerhouse around technology, but China is doing a lot, investing in its future, creating robotics, AI, aviation, these sectors we care about. And it seems to me that we are better off, as a strategy, trying to be part of that process.

Fannin: Yes. But then if you look at the race in—I guess I will call it a race—in artificial intelligence, you have the two sides. These are the two powerhouses in artificial intelligence. And I always hear it characterized as a race that someone’s going to win, someone’s going to lose. Is there any chance that both sides could rise at the same time? You have Google; you have Baidu fighting it out, both in this area. China is subsidizing AI development in a big way. The Chinese government has made this one of the major pushes forwards, so who’s going to—is there going to be a leader that’s going to emerge in AI?

Janow: Look, economic competition is not all zero sum. It’s a difference. This war language is part of what lends to this characterization of trade as being zero sum. It’s not. There’s intense competition. They are, indeed, investing in AI in the United States. They are not creating a level playing field. We need to push for that. But I’m not betting against the United States. Not at all.

Fannin: [LAUGHS] Okay. Now, some of these issues have arisen over security concerns. So just recently, the ban on ZTE, the telecommunications equipment giant from China, from buying chips from Qualcomm and Intel. And also the ban on buying products from Huawei, military application buying products from Huawei and ZTE. Are these—where do you see that going? And now, I guess, ZTE’s actually asking for a suspension on this ban that the U.S. government has put on ZTE from buying chips from or purchasing chips from Qualcomm and Intel. Where’s all that going?

Janow: I haven’t gotten close to the ZTE case, but my understanding is that it was a violation of an export control ban associated with impermissible sales to Iran and North Korea.

Fannin: But that’s a security issue, right?

Janow: That is a security issue. We have export controls and we should enforce those. So that was an example of that. China has been urging for a long time that the U.S. liberalize export controls and the Obama administration tried to rationalize them but didn't liberalize them. I think we are at a moment where we're also reexamining the foreign direct investment screening mechanism and it’s been an instrument of national security. It has not been defined as an instrument of national economic security, and there are those who are arguing, and a bill that is moving at a bit more into that direction. Some are believing that it would be useful to screen
foreign investment—not just Chinese, foreign investment in venture, early stage investing, and not just—and greenfield.

So these are raising real questions. I think that we should look hard at those questions, but we don’t want to create another regulatory agency where competitors are using it for that purpose. I think we’ve got to be pretty clear what national security means to us and if we can develop more discipline around that, it would be good.

**Fannin:** But if there are further blocks on China tech investment in U.S. technology companies and China investment in venture capital, that could be a huge dampener on our own markets here in the U.S..

**Janow:** Yes. And it will certainly inhibit foreign direct investment in the United States.

**Fannin:** Oh, definitely. So if you look at China’s spot, Baidu, Alibaba, Tencent, the number of investments that they’ve made in the U.S. over the past five years, it’s just been stunning. And you can read all about in the Techonomy piece that we’ve just published.

**Janow:** Maybe you wrote that piece?

**Fannin:** I think I maybe—somebody wrote that.

**Kirkpatrick:** You did write it. Let’s take a couple questions. I think this is a really good discussion. A lot of people, I have a feeling, would be curious to know what’s going to happen with China here. Anybody beside me? I have plenty.

**Fannin:** I was going to ask about the friendship between Xi and Trump. Maybe that would be—

**Kirkpatrick:** Yes, that’s a curious one. What about that, Merit?

**Fannin:** —would be one that could be a positive outcome?

**Kirkpatrick:** Does that strike you as odd or, or how do you analyze the Xi-Trump relationship?

**Janow:** We have a very mature Chinese leadership.

[LAUGHTER]

**Kirkpatrick:** So on one side.

**Janow:** And I think they’re taking a very measured approach to these trade issues. They have a very long-term perspective. Very concerned. I’m concerned about the escalation of tension. I think it’s very serious and I’m hoping that it will shift to focus on what would be constructive actions for China to take. And I think the president’s emphasized the personal relationship and chemistry, and that’s a positive thing to have, especially in an environment when we have such serious security concerns with North Korea. And where we must have China’s collaboration on that problem.
Kirkpatrick: Okay. Yes, let’s get the mic to this person here. Please identify yourself.

Kaiya: Hi, there. I’m Sinead; I’m from SAP. So China is a huge market for us. We often call it our second home. And you mentioned China, Made in China 2025, and every time I’m there, I’m supremely impressed, not only with the level of technology innovation, but also the support that the government gives to the R&D industry, which you mentioned briefly. And it makes me quite concerned when I return to the U.S. and I really see that disconnect between policy makers and industry, and I’m just wondering your opinion if you could advise U.S. policy makers or government on a few lessons they could learn from what the government in China is doing, what would they be?

Janow: Ah, interesting. Well, you know, I think that funding DARPA, NSF, these things are extremely important—NIH—for extending our basic R&D and our research horizon. Somewhat surprisingly, in this last budget, and not because of the Trump administration but because of Congress, there actually was about a 7 percent increase in NIH funding. And so that basic R&D investment I think is really important for the United States. It explains Silicon Valley, creation of Stanford, etcetera. That’s something the Chinese is doing. They are also wasting a lot of money, from my observation. They have identified these sectors, a lot of money going into them, everyone is identifying themselves as being part of a priority sector. The Chinese government is very conscious of the fact that that potential for waste is also occurring. So I think there are good things happening from the point of view of innovation from a Chinese perspective and marshalling of resources and priorities, and there are also things that objectively are not working as well as they could.

I know SAP has been very active in China and is extending cloud services and other things and working with some of the same institutions that, like Huawei, that are raising concerns in some parts of the world. But we can’t roll back the clock. We need to work constructively with the second-largest economy in the world that’s also the home of tremendous innovation. You built your career around that.

Fannin: Well, yes, somewhat.

Janow: Yes, recognizing this trend.

Fannin: Recognizing it early. Yes. With Silicon Dragon, China’s Silicon Valley, before anyone believed it. Now they believe it.

Kirkpatrick: Sure do. How long have you had Silicon Dragon, Rebecca?

Fannin: I’m in my eighth year. But my book, Silicon Dragon, came out in 2008. But I was in China, interviewing Jack Ma and Robin Li and all those people way back before those companies went public. Before they became household names.

Kirkpatrick: What’s your fundamental prediction about this relationship, Rebecca? Do you think it’s going to get better or is going to get worse?
Fannin: I see China continuing to rise and continuing to threaten the U.S. power. And I see these two superpowers intensifying.

Kirkpatrick: Yes. It sounded like Martin Sorrell is more voting for the China side of the battle.

Janow: Well, he characterized it as a tiff and I think it’s because we’ve been through these periods before. And so people are using this term Thucydides Trap a lot, about this inevitable conflict between a rising power and an established power. I don’t think that’s necessarily the case. No hegemon has tried to develop a competitor more than the United States, integrated into the world. And no competitor has more investment in the success of the hegemon than China in the continued success of the United States.

Kirkpatrick: Right, and they own our debt, for God sakes. It’s so weird. Well, it’s wonderful to have two experts on this, on our stage. Thank you both so much.