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THE ROLE OF TECHNOLOGY IN  
THE U.S.-CHINA TRADE WAR

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## P R O C E E D I N G S

MR. MELTZER: Good morning. I'm Joshua Meltzer, senior fellow in the Global Economy Development program here at the Brookings Institution where I work on international trade issues and lead the Digital Economy and Trade Project. And on behalf of Neena Shenai, who is visiting fellow at the American Enterprise Institute and myself, we welcome you this morning to our event on U.S.-China trade and the role of technology, which is part of a broader Brookings AEI project on reconceptualizing globalization.

We have got a fantastic panel for you this morning. Before I introduce them I'm going to provide some brief remarks. The panel will come up. I'll also provide some remarks. We'll launch into a moderated Q&A and then we'll open it up for Q&A with the audience.

I'd also like to thank the Heinrich Foundation for their support for this event.

Technology is clearly central to the U.S.-China trade dispute. The USTR Section 301 Report identified the key technology and IP issues as Chinese intellectual property theft, forced technology transfer, economic espionage to acquire U.S. technology, and strategic foreign investment also to acquire U.S. technology.

But there are also broader concerns with the Chinese economic policy as it relates to technology. This includes China's industrial policies geared towards dominating emerging technologies such as China's 2025 Roadmap, which aims to dominate and be largely self-sufficient in key technologies such as artificial intelligence, robotics, and biotechnology.

Now, these industrial policies supported by growing Communist party control over the economy, the centralization of power and information, which points at least to a capacity to channel resources to achieving these goals. In fact, the U.S. already has experience with China's reliance on state-owned enterprises and subsidies which has generated over capacity and dumping in third market in products such as steel and saldo photovoltaics undermining domestic industries. And the recent industrial policies are

expected to also lead to overcapacity, but this time in robotics, new energy vehicles, and batteries.

Technology issues are also increasingly of national security concern. In fact, we see a range of actions taken for national security reasons. This includes addition of Huawei to the entity list due to national security concerns, the Foreign Investment Review and Modernization Act, which will limit investment into critical technologies that can be exploited to threaten national security; the Export Control Reform Act, which will regulate exports of emerging or foundational technologies essential to national security; the Executive Order securing the ICT and supply chains which aim for event ICT transactions owned or controlled by a foreign adversary; and perhaps more prosaic, the steel and aluminum tariffs, so called Section 232, which were also implemented for national security reasons.

So what has the U.S. approach to addressing these economic and technology issues with China been so far? Well, so far it's been a heavy reliance on tariffs. We currently have 25 percent tariffs on \$250 billion worth of Chinese imports with tariffs threatening on a further \$200 billion of Chinese imports. And there are costs of this approach to the U.S. economy and strategically that we need to acknowledge.

U.S. tariffs have hit intermediate imports which manufacturing industries use to produce for the U.S. market and overseas. In fact, under current tariff scenarios, estimated welfare losses in the U.S. are about \$10 billion annually and are expected to rise to about \$15 billion annually if we get the further tranche of tariffs on U.S. imports. And this does not take into account broader macroeconomic spillovers, such as lower investment and the like.

It's also the case that tariffs are hurting the Chinese economy. Yet, tariffs alone are unlikely to lead to the type of Chinese economic reform needed to put the U.S. and China trade relations on a sustainable (inaudible)?

What instead the U.S. needs is a broader strategic approach. We outline

this in a paper that I did with Neena which we published in February this year. It requires for one that success in getting China to reform economically is going to be more likely to succeed when this is not only a U.S. demand which requires other allies to be delivering similar messages to Beijing. Yet, getting a united front means not waging unnecessary trade wars against allies.

The U.S. also needs to be more proactive in developing new trade roles to support U.S. goals with respect to China, such as exist already in the comprehensive and progressive Trans-Pacific Partnership, which of course the president withdrew the United States from in his first week in office.

It also means that China, not the U.S., needs to be underscored as the outlier here acting inconsistently with global trade rules and norms. In fact, the USTI 2018 report to Congress on China compliance with its WTO obligations took a step in this direction where it made the case that China was acting not only inconsistently with its trade rules but also with the expectations of WTO members that China would be more market-orientated and reform its state-owned enterprises.

In fact, here the United States should be using the World Trade Organization rules at least as a benchmark to assess where China deviates from its formal commitments and norms of behavior. And where the WTO rules fall short, the U.S. can build the case for unilateral action.

Finally, the failure to work within the WTO where possible is not only a tactical mistake but has broader strategic consequences for the United States. The U.S. has spent 70-plus years building a set of trade rules that reflect core U.S. interests in terms of nondiscrimination, transparency, and the rule of law. When the U.S. simply ignores these trade commitments, it undermines these United States' interests and really calls into question the value of any U.S. agreement that is signed. To be clear, tariffs may be needed to get China to act but alone are going to fall short.

A final point worth making is that a final deal which simply has China

purchasing more U.S. exports is clearly not going to cut it. This is a form of managed trade which the U.S. would buy into which is more akin to how the Chinese economy operates. It would harm key U.S. allies because it would presumably lead to Chinese purchasing, yes, less from other countries and would again be inconsistent with trade rules because it would be granting preferential treatment to one country only.

With that I'd like to invite the panelists to come up on stage. And let me introduce them as they do.

We've got Rob Atkinson, who is the founder and president of the Information, Technology and Information (sic) Foundation, who is also a scholar and nonresident at the Brookings Institution. Rob's got a -- I'm going to do these very briefly because you can all look online if you want more details. But he's had various science and technology-related appointments under the Clinton administration, the Bush administration, and the Obama administration, and he's an absolute expert in this field.

This is sort of the order that we're going to be going down.

Cheng Li is a senior fellow here at Brookings and director of the John L. Thornton China Center. He's really a leading author on China and its political system and has published very widely and is currently completing a book manuscript with the working title, *Middle Class Shanghai: Pioneering Chinese Global Integration*, which I think is absolutely relevant for today's discussion.

And last but not least, Derek Scissors, who is a recent scholar at AEI, American Enterprise Institute and chief economist at the China Beige Book. He is at AEI's Focus on China, India, and U.S. Economic Relations with Asia, and before that was a senior research fellow at the Heritage Foundation and worked as an action officer at the U.S. Department of Defense.

I'm going to turn it over now to my panelists who are going to make brief remarks. After that we can get into a Q&A. Thanks.

MR. ATKINSON: All right. Well, thank you, Josh and Neena. It's a

pleasure to be here, and I'm looking forward to the discussion today.

So I want to talk a little bit about kind of the higher level strategic questions. And I want to start by making an assertion that President Xi Jinping made probably one of the worst strategic blunders since the Communist Party took over. They were doing just fine with their below the radar strategy, as much as it could be below the radar, of using a set of what we have termed at ITIF, innovation mercantilist practices to gain market share globally in advanced technology industries. And you know, there was certainly concern about that. There was pushback. But it was pretty minor. And I co-chaired the Obama White House U.S.-China Innovation Experts Group for about five years, and so I was involved in a lot of these dialogues. As my colleague, Mark Cohen, who used to be the China person at PTO and now is at Berkeley called it in a blog yesterday, the Obama strategy was -- he said it was let 100 dialogues bloom. You know, that was the sort of strategy. Let's just do dialogues. And you know, it didn't really work but nobody was all that upset.

And I'm struck by thinking about that quote from Admiral Yamamoto, head of the Japanese fleet, where he said if we attack Pearl Harbor, we risk raising the sleeping giant. And that's what China did. And the giant is now awake. You cannot like the giant, but the giant is awake and it's not going back to sleep. Meaning, the U.S. is seriously concerned about what China's strategy is. So Xi Jinping made two major mistakes. One is as Josh alluded to, Made in China 2025, they could have easily done that. Sorry, they could have easily done that without having to, you know, flash it with neon lights right in our face. They could have done that surreptitiously. They were already doing sort of that to begin with with the MLP, the Medium and Long-term Plan in Technology in China. So they could have done that. They didn't.

And the second was really this drive in China to push for indigenous innovation. In other words, to favor foreign companies over -- favor domestic companies over foreign companies. That really alienated a lot of foreign companies. And so now what you're seeing, it just took a little bit of -- a little match to light that fire and that's what you're

seeing now. So the match being the combination of export controls and tariffs from the Trump administration. And what you're seeing is a not insignificant shift of advanced production out of China. Essentially, what you're seeing is decoupling.

So, for example, new data shows that technology exports from China to the U.S. are down 12 percent. They're up in double digit figures in the last year from India, Vietnam, and Taiwan. So lots of companies are hedging their bets. You know, many, many major companies. Japanese companies, Taiwanese companies, European and American are hedging their bets and just saying we can't risk having everything in China. That's going to hurt the Chinese economy in a pretty serious way I would argue.

And I think the Chinese are making another strategic mistake, a tactical mistake in their negotiation, which is they seem to be thinking they can -- Chinese strategy up until now has been essentially rope a dope. Remember that great line from Muhammad Ali? You just sort of keep doing this and doing that and eventually the other side, it goes on for so long you get what you need and you get what you want, and that's really been the Chinese strategy. And we've gone along with it. That's exactly the wrong thing that China should be doing now. The longer they play rope a dope, the longer they don't come to the table and with a real offer that the Trump administration will accept, the more decoupling is going to happen. And once that gets its own momentum where companies are like, yeah, you know, I can go to Vietnam and actually, probably, I can save money if I go to Vietnam, or if the Indians ever get their act together, which is, in theory, possible, that could be -- wow, let's all go to India. The Chinese are playing a very dangerous, and I think, misguided game.

The last thing I'll just say is this question of what's going on on the U.S. side, is it about decoupling or is it about a trade negotiation? And my five minutes are up so I'm just going to say, I think it's about trade negotiation. I think there are certainly people in the administration who are in favor of decoupling, but in my view, I think the administration, if the Chinese came back to the table and accepted close to what Lighthizer wanted in the first

-- in that round in May, if they came and accepted close to that, I think the tariffs go off and the Huawei band goes off and we go back to some level of normalcy, although we're never going to -- as I said, the giant is awakened. We're going to be watching you as they say every single moment, so we're never going to go back to where we were, but I think the Chinese have it pretty much in their hands if they want to come back to some level of normalcy. I have no clue whether the Chinese will choose that path, but I think if they did we'd get back to some level of normalcy. Thank you.

MR. LI: Well, I'm honored to speak to this distinct audience. I saw some familiar faces, and actually, they are real experts in the tech field. And also some wonderful diplomats. It's great to see you, Mr. Ambassador.

And I also am honored to be on the same panel with also leading scholars on the tech field and the U.S.-China relations. And I want to applaud Neena and my colleague, Joshua, for organizing this very timely topic.

The technological tension or controversy between the United States and China is arguably the most contentious and the most consequential issue in the bilateral relationship. Also, the technology domain is also the most salient aspect of what Robert said, the decoupling. It's a multi-dimension of decoupling but the technology decoupling is certainly a very striking one.

Now, in my five minutes remarks I would like to share my assessment of this technological decoupling led by the United States and also my observation of China's countermeasures.

Now, according to the statistics recently released in both countries, China's investment in the United States last year was only one-sixth of the previous year and 10 percent of 2016. And the technological decoupling is particularly striking. There was almost zero mutual investment in the tech sector between the United States and China last year. So decoupling is already happening at a very fast speed.

Now, in addition, the U.S. initiatives, as Joshua mentioned earlier, such as



replacing Huawei and other Chinese IT companies on the entity list, exerting much tightened export controls, FBI investigations into Chinese IT and venture capital firms, particularly in Silicon Valley, and politicizing or publicizing espionage as an accusation of Chinese nationals in American labs and universities.

Now, these all have caused much anxiety in China. In particular, the entity list including Huawei is really in my view, it's a big blow for this flagship company that is China's IT industry. Huawei's CEO, Ren Zhengfei acknowledged last month that Huawei will likely lose 30 billion U.S. dollars in the next couple of years as a result of the recent move on the U.S. side.

Now, the second part of my assessment, China's countermeasures. My main observation or argument is that U.S.-led decoupling may slow China's technology catch up in the short term but it will not be able to prevent China from becoming a technological co-superpower along with the United States.

Now, let me very quickly explain what why in the following three aspects.

First, China has its own competitive edge in a number of key areas. I will not elaborate on them because of time constraints but just very quickly mention these areas, like six or seven areas.

Number one, China's R&D expenditures now are catching up. It's from like three percent of 15 years ago to just a few years ago it's 16 percent of global expenditure. And according to Chinese sources, it will past the United States next year. And also, human resources and the large e-commerce market, large number of innovation-driven companies in China, large share of international patents, and a significant amount of technological exports in the Chinese leadership. You look at the Central Committee, there are a number of leading exports on AI, biotechnology, quanta computing, and 5G, actually. These are the members the 376 members of the Central Committee.

Now, secondly, to counter U.S. technological decoupling, China has now made great efforts to collaborate with EU countries, with UK, with Japan, and with Israel.

Now, there are a lot of activities in this Chinese endeavor. Again, because of time I don't want to elaborate.

And finally, from the Chinese perspective, what happened in the past couple of years relating to the Huawei and SAT issues has reaffirmed the Chinese perception about the role of the state in the technology development. And also the need for something the Chinese call indigenous innovation.

Now, last month, China established a so-called Science and Technology Stock Board. It's called kēchuàngbǎn in Chinese. It's a new business. So it lists a lot of companies on the Shanghai Stock Exchange, a total of 122 Chinese IT companies applied for the listing and 21 companies have been approved. Now, this will allocate a tremendous amount of financial resources to further China's competitive edge in S&T. Now, even before that, over the past few years, according to some western source, China has been home to 36 percent of the so-called unicorns in the world. These are the stock of companies valued at more than one billion U.S. dollars, most of which are in IT or technology companies, this 36 percent.

Now, in conclusion, I want to clarify one thing. My observation should not be misinterpreted to reinforce the sensation of fears in the U.S. because in my view, either Huawei or China are probably strong enough to survive a U.S.-led decoupling, but it's not strong enough to replace the United States as the sole technology superpower. There is still a long way to go.

Now, we Americans have advantages in our political system -- a strong private sector, academic freedom, media obelisk, and other aspects of the soft power.

Thank you.

MR. SCISSORS: I have again misplaced my phone, so when I go over five minutes, Josh, could you make that noise that your phone just made and I'll know to stop?

My comments are meant largely to apply to the authors' February brief. I am one of the initial advocates of U.S.-China economic decoupling. So they deserve credit

for inviting me as I completely disagree with them.

Let's start with at the end of their process, or a part of their process, but they recognize the obstacles, they want to work with China. And my question is, what China are you talking about? Definitely not the one that is run by secretary general of the Communist Party, Xi Jinping. Probably not the one that has existed since the state credit boom after the global financial crisis. This is a China where we have overwhelming durable evidence against it being interested in pro competition, pro property rights reform, which is exactly the kind of reform we need to have to be able to work together with China on any sort of sustained basis. The authors actually document this problem to some extent in their paper.

With regard to technology, as Rob indicated, this didn't start with Xi Jinping. It started before that. It's not just a function of his enormous ego. It is a long-term Chinese strategy that has become more visible as they moved up the tech ladder. So we have a strategy of Chinese -- let's call it innovation mercantilism. We have anticompetitive strategies. We have anti-private property right strategies. And they are at least 10 years old and span at least two general secretaries of the party. You're not going to work with that China.

In reverse, work with a WTO. And I ask, what WTO? The WTO that started the Doha round in 2001 and has never finished it? The WTO that not coincidentally let China into access as a member in 2001 and has never even compelled it to fully disclose its subsidies? Forget correcting the subsidies. Just disclose the subsidies. WTO can't do that either. WTO has failed for over a decade to discipline the Chinese in any meaningful way.

If you want to know the American reaction, it doesn't start with Trump. It starts with Obama. The TPP was a way to circumvent the WTO because the WTO failed. And that is an initiative energized by the Obama administration the beginning of their time in office. It is not the Trump administration hating the WTO, which in fact they do.

I would add also the WTO is not built for exactly the kind of technological issues that we are addressing here. It was not created for that. It is not built to try to resolve

those things.

Work with our allies. This is going to be a theme. What allies? We can work with the Japanese. The EU, the English-speaking countries, our allies in Asia, Korea, Taiwan, Singapore, Philippines. There isn't one costly enforcement action I would expect them to take on trade. Talk incessantly, yes. If our working with our allies is to talk over and over again and do nothing, that's what working with our allies will do. But usually when people say work with our allies it's a cover for I don't want to do anything.

Finally, I will indict the U.S., which is where we might actually agree with regard to their paper. I think our allies have no credibility on China economic issues. I don't think we do either. We haven't decided on our own interests. There's a line in the paper which I totally agree with, which is what we do at home matters the most. That is absolutely true. And our record is terrible. I hope -- we've got a 55/45 probability of passing USMCA. If you can't pass USMCA, you certainly can't pass anything harder. So what is our commitment to -- forget dealing with the Chinese. I don't want a deal with the Chinese. What is our commitment with dealing with good trade partners? We can't, you know, it's not clear we could get a deal with good trade partners through the Congress, you know, but with both democratic and republican objections of different types.

On tech, the Huawei -- the treatment of Huawei has been a circus. I'll talk a little bit more about that, but you're more familiar with it. We also don't have implementing regulations on export controls, which is a behind the scene circus. You know, we passed those in 2018. It takes a while to write them. But we're not writing them from the standpoint of the national interests. We're writing from the standpoint of random lobbying by who has the most influence in this particular administration. So it's not just Huawei that we're struggling with.

I think this comes back to the fact that the president doesn't really care about technology competition, but the rest of the government really does. So if you took the rest of the government rather than the president -- Democrats and Republicans -- you get a

lot of concern about technology competition and a lot of criticism with China. It's shocking to me. I'll get up and testify in front of the Congress and the Democrats will accuse me of being wimp. And I'm always like, me? And they've moved to the China Hawk side of me. So the rest of the government cares about technology competition; the president doesn't.

So the first thing is we need to settle our own issues at home. The first step is exactly unilateral action. It's not that the U.S. should work with our friends, because we don't even know what we want and they don't have any credibility for taking action. We should decide the policies that we are going to apply and stick to them. And the president isn't good at that. He's good at making dramatic decisions and not sticking to them. If we could do that for several years, then it would be time to bring in our allies. Then it would be time to negotiate with the Chinese. The problem is not that President Trump acts unilaterally. The problem is exactly that he fails to act unilaterally with regard to sustained, cohesive action, and this is most obvious in technology in treatment of Huawei, treatment of other Chinese tech companies below the radar, and broader implementing regulations and export controls.

So the first thing I want to do is actually act unilaterally and we failed to.

MS. SHENAI: Well, thank you. Thank you so very much for all of your very interesting remarks. I think we have a lot to talk about here.

I'll start off with a question for our panel. As Josh started off the program, and as is apparent with these very interesting remarks, the trade war between the U.S. and China is really at heart about technology. Although as Derek just mentioned, the president has focused on trade deficits, on agricultural purposes, but when you look at the underlying reason for why some of these measures have been put into place as we've already discussed, the heart of it, whether it's the 301 actions or other national security actions, it's about IP, forced tech transfer, cyber theft, and other types of measures that the Chinese Government has undertaken.

However, for China to be able to meet the U.S. demands in these trade

talks, one would argue that it really does need to move away from its state-led economic model. And I was struck by a few comments among our panelists. One that Rob made about how there could be a possibility of returning to normalcy with China depending on how the negotiations go. Also, with what Cheng Li mentioned on the limited ability for the U.S. to actually stop China's rise in the tech space. And also, Derek's interesting comment about, well, which China are we actually dealing with, and is it really possible to get there?

So given the background here and the Made in China 2025 initiative, the other type of industrial policies that the Chinese Government has put into place to try to ensure its preeminence and global leadership in some of these key high technology spaces, maybe if the panelists could further flush out for us, you know, how serious is this China challenge to U.S. tech dominance, particularly in some of these emerging sectors like AI, biotech, AV autonomous vehicles? And if it is as serious as many commentators are forecasting, what is the administration actually hoping to achieve on a long-term basis with this strategy, with tariffs, export controls, FDI controls, both with respect to China's long-term technological development, as well as the existing U.S.-China technological innovation?

MR. ATKINSON: Yeah, I can address that. I think the way to frame that first of all though, is it really boils down to there's two camps here. Maybe three. There's the "Who cares about China" camp. There's the Derek camp, which is decoupling.

MR. SCISSORS: It's very lonely.

MR. ATKINSON: It is lonely. That's how I feel.

And then there's the, okay, we don't necessarily fully decouple but we want to use a lot of pressure and pain points to get China to sort of comply with some reasonable norms of trade and economic policy. They're never going to stop their SOEs. We get all that. But they could ramp it all down. They could stop their cyber theft. They could reduce their subsidies significantly. They could stop all forced joint ventures and forced -- there's a bunch of things that they could do that don't fundamentally threaten their model, and we could continue to interact with them. So there really is two goals. There are two different

camps.

The reason why I think the second one is the better one, the “let’s get them to behave in some way shape or form,” is because the goal here should not be, in my view, to stop China from rising. I 100 percent agree with Cheng. You cannot do that. China will continue to rise. They will be a global power technologically and economically. Nothing that we can do about that. We could throw roadblocks in the way. We can slow them down. We can’t stop it. What we could stop or at least significantly reduce is their hurting us while they do it. And that’s what I think we should focus on.

Now, what is the possible threat from them? We wrote a report at ITIF maybe three months ago where we looked at about 30 different quantitative indicators and said, where is China relative to the U.S. in 2007? Where are they in 2017 or ’18, whatever the latest data was? And so this would be indicators like global patents, the amount of R&D, the amount of output in semiconductors, you name it. And on every single indicator they went up. And they’re still behind us on net. There’s no question. The Chinese are nowhere near as strong in advanced technology industries as the U.S. is on average. But they are catching up relatively quickly.

We have another report that will be released in the next six weeks where we’re looking at a bunch of -- about 12 or 14 indicators on AI competitiveness, artificial intelligence comparing AI competitiveness in Europe, China, and the U.S. China is a little bit ahead of Europe, which is interesting. They’re still not ahead of us. And we’re still ahead of China on AI. But again, they’re catching up.

If you look at other sectors like biotechnology, we have another report coming out on that. And they are farther behind in biotech. There’s no question about that. But boy, oh boy, you look at their strategy, you look at what they’re doing, they are putting all efforts into becoming a global leader, not really in what’s called small molecule chemical pharma drugs but in large molecule biotech, particularly in genomics.

And then you look at industries like robots where, you know, the amount of

money the Chinese are putting into robotics is mind blowing. We're talking about hundreds of billions of dollars when you combine provincial and national. Electrical vehicles. I think that's a real risk that in 15 years the Chinese will really crush the U.S. when it comes to electric vehicles.

So I don't think we should take it -- aviation is another one. I think in 20 years, really hard pressed to see how Boeing or Airbus sell a jet in China with how Commack is developing their jet system, their jets. So China has a goal of, basically, China never read Ricardo. That would be my recommendation, just to read -- they've read Adam Smith. I'm sure they've translated it. But they don't really read Ricardo. They don't believe in comparative advantage. They believe in absolute advantage. China wants absolute advantage in all of these industries. That's the core problem. Because when you want absolute advantage, what's left for us? Well, we could sell them waste electronics and waste paper but they don't want that anymore. So we can sell them food and oil. That's what the Chinese want. And I don't want the U.S. to turn into a drawer of water and a hewer of wood.

So I think we should worry about China technologically. I think they have every reason to do that. One of the points I made in that piece where we looked at 30 different indicators is you look at what Korea did. South Korea, they were a backward, nonindustrial, nontechnology country. Japan was earlier. Taiwan was. They all had the same playbook. Only China has a better playbook ramped up with vastly more power and resources than Korea could ever use. And look at Korea. They're clearly a global technology leader. So there's nothing inherently, it's not impossible to do this. It's easy. It just takes time. So I think we should worry about it.

MR. LI: Well, I certainly share a lot of criticism of the Chinese, the so-called state capitalism and the issues of intellectual property rights and the forced technology transfer. I mean, you have that list that China is applying to (inaudible). Actually, some Chinese intellectuals also were aware of this problem, this criticism. Some of the leaders



also get the point. Certainly, China's industrial policy is particularly evident in the Made in China 2025. It's really quite something that China wants to dominate these 10 fields. I mean, 70 percent, 60 percent, or even higher. I mean, highlighted other countries to do business. This is certainly an unfair practice.

But it is one thing to point out these problems to pressure China to change this unfair practice. It's quite another thing to blame everything on China, our problems, for lack of technological competitiveness to China. So I think the better thing is to try to find a way to improve our competitiveness, and also this is -- I don't want to tell the list of areas. Start with some education and other things.

Now, but we do need to be aware that in many areas we probably will see the co-superpowers. This is most evident in the AI. There's only two superpowers. Other countries, Australia and UK and Japan could not -- or India could not compete at the same level, largely because of tremendous data, because of financial resources. So it makes China and the United States the two superpowers. This will be a long time to come but also some other sectors as well.

So that will be an important adjustment for these two tech superpowers. But it is very, very painful. I do share your concerns about some Chinese mindset, but of course, sometimes we also want absolute dominance. Of course, not all of us, but some of us want that kind of thing. This is particularly a challenge for the United States.

So, my bottom line is at this critical moment we should make sure that some of our policy may not necessarily hurt China. It may hurt ourselves. So that should be very clearly laid out. Otherwise, like Hank Paulson said, I mean, we want to isolate China, but end up we will possibly isolate our self, hurt our self.

So these are the things I think we should have a discussion, and I hope this is the beginning of a discussion. But it is difficult. I am fully aware that Derek's point that the political nature and our president's differ from the political establishment. That creates more anxieties, more uncertainties, more challenges for the United States.

MR. SCISSORS: Well, and I get to disagree with the panelists. You know, if there's a super technology out there that's transformative, you know, people talk about AEI and then I ask them what they mean and of course they have no idea. But if machine learning using big data is going to be some enormous economic transformation, and I don't see why because the data the Chinese can gather in their market is not relevant in most international markets. But if it did, I would think that China would be able to be competitive with the United States technologically. If there's a transformational, single transformational technology out there, China will do well.

On broad technological competition, I don't believe in spending. I believe in competition. China doesn't allow it. I don't believe in a state model to drive a large economy forward. I don't believe in anticipating where the important technologies are coming from. I don't believe at all in autonomous vehicles mattering except in military terms. So I mean, we have a bunch -- the arguments over here is China's big, it's going to spend a lot of money. That doesn't convince me about anything unless there is a single technology to break through on. So this is theological. You know, I came over from AEI. You just walk down the street. It's a totally different world that you live in.

Where we might agree on the world is the U.S. -- I'm repeating my earlier remarks so I'll be really brief but I'll tell a story. I was there when we launched the 301. And it was two members of the cabinet, a very senior political advisor. People that you think are important in the administration weren't allowed at the table. They had to sit off to the side. It was a big meeting. And it was about IP. And it was about a broad range of U.S. responses. And the next day it was about tariffs and the trade deficit because that's what the president grabbed onto.

So we are not anywhere close. You know, the problem to me is not China. I think our system is better than theirs. I think we will out innovate them, out compete them as we always do. The problem is, as Rob referenced, they can hurt us and the boss doesn't care about that. The boss doesn't care about long-term U.S.-China technological

competition. He cares about short-term increases in exports. So I don't see the problem on the Chinese side. The Chinese are enormously in debt. They're an aging society. I could go on and on and on. I see the problem on our side.

MR. MELTZER: Do you guys want to respond?

MS. SHENAI: Yeah, do you want to respond?

MR. ATKINSON: So Derek, do you -- would you acknowledge that Japan, Korea, and Taiwan are technological leaders or close to that?

MR. SCISSORS: I don't think that they're at the level of the United States. You could answer they're not at the level of the United States because they lack scale, which China has. But my response to that is Japan and Korea allow more technology competition than the Chinese do. There is a state role in those countries but it is a state role that's between the state role of the U.S. and China. It's not at China's level. And what China has done that you think is a strength of increasing the state role to me is a weakness.

MR. ATKINSON: See, I think this is one of the core problems we have in the U.S., which is this sort of, you know, we just had a debate last week sort of on the democratic side where some on the democratic side are saying we shouldn't worry about China because all we're doing is helping U.S. firms. And besides, that's not really where growth comes from. And then on the free market side, Derek, you have this view that there's only one recipe. And if you don't use that recipe, you cannot succeed.

MR. SCISSORS: That was an exaggeration and you know it.

MR. ATKINSON: No, it's not an exaggeration, Derek. There are many recipes. I mean, I just wrote a piece -- I just wrote a piece on China for the National Review on that. There are multiple varieties of capitalism that have shown they can be incredibly -- you know, the U.S. model is not the only model to gain success.

MR. SCISSORS: No, but success is not everybody reaches the same level of success. Japan is not as successful as the United States. China is an exaggerated (inaudible) respects version of Japan. They have been successful. They were most

successful when they were liberalizing. They have been less successful since they have --

MR. ATKINSON: So China -- so I disagree on Japan. What everybody -- why nobody thinks Japan is successful because they don't make this, when you go down and look at industrial parks, industrial products, lasers, certain high-tech chemicals, Japan is the world leader. According to McKenzie, there are 65 products, major high-tech products that Japan has over 70 percent market share of. We don't know what they are because nobody, you know, you're not an engineer. So Japan is very successful.

MR. SCISSORS: Japan has been successful. But Japan --

MR. ATKINSON: By not using our model.

MR. SCISSORS: Japanese wealth has stagnated for 15 years. And that wealth is what you use to drive future technologies.

MR. ATKINSON: No, that's not the way to look at it. There's two ways -- sorry to get into it, Derek. No, seriously, let me finish. Let me finish my point.

MR. SCISSORS: Why is capitalism not defined by wealth?

MR. ATKINSON: I'm going to -- that's about what I'm going to explain to you.

MR. SCISSORS: Okay. Go ahead.

MR. ATKINSON: No, it's like easy to be flip about that. Oh, it's only about wealth. There are two things that countries want from an economic perspective. One is productivity; the other is competitiveness. If you don't have competitiveness, essentially, your dollar is going to fall until you do. So you have to have some ability to trade in global markets, sell in global markets so you can afford your imports. The Chinese model, the Japanese model, the Korean model is a terrible model for productivity. Terrible. So the Japanese nontraded sector productivity is abysmal. You look at their retail productivity and it's because they protect their sectors, blah blah, I totally buy that. And that's the great U.S. strength.

But then there's another sector, another part of an economy which is around

traded, high value-added sectors. That model can work extremely well. Is that the model you want to drive your entire economy for the future? Absolutely not. China is going to stabilize. They're not going to grow. I get that. But they can take market share away from us in high value-added industries which would be harmful to us.

MR. SCISSORS: Right. And we agree on that. As I said, I'm worried about the Chinese hurting us, not about them replacing us. So we don't agree as much as it sounds like.

MR. MELTZER: So let me just -- let me just pick up on the conversation. You know, if you were to briefly in a few words outline what an optimal U.S. strategy would look like, and this does not necessarily have to be vis-à-vis China. It may be that we're overweighted on thinking and responding to China and underweighted in domestic sort of strategy, but whatever it may be, given what the future looks like over the next five, 10 years, and focusing on the technology aspects, what should the U.S. do to sustain its global position going forward given challenges in how you see the future unfolding?

MR. ATKINSON: Sure. I'm going to put it in the context of China because I think there's two big things we should do, and we're not doing either of them.

One is we should make it very, very clear to global suppliers and certain countries that we want you to be the new China. Mexico to me is the perfect place to start with that. You know, we want North American supply chains. My colleague, Stephen Ezell at ITIF just did a really interesting report looking at global trade linkages between Korea, Taiwan, Mexico, and the U.S. And if we could move a lot of that production away from China to Mexico as the sort of North American low-cost location, we'd do well. I think India is another place. I think the Philippines. I think Vietnam to some extent. And the Trump administration frankly is doing a terrible job with that. For example, threatening tariffs on Vietnam. Why in God's name would you move your production away from China to Vietnam when you do that? So, we want to send a very clear message to global companies -- move out of China. And ideally, move into the North American sphere. But even if you move into

the Indian sphere, that's great. That's number one.

Number two, China -- a lot of Chinese power, if not most of it, comes from the fact that they still run a trade surplus and they use those dollars to win global influence. There's a new study that came out yesterday on the amount of foreign lending that the Chinese do and sorry, I don't remember the scholar's name, but it was twice as high as what the IMF official flow numbers were. And that is the source of Chinese power. That comes from their ability to manufacture. I think the U.S. should have an Apollo mission to completely transform and automate U.S. manufacturing -- robots, AI, all sorts of other things -- so that we reshore a massive amount of manufacturing from China. And I think that would hurt them significantly if we did that, and it would be great for us. I don't see us doing that. I don't see us doing either of those things. The first one is probably easier than the second one.

MR. LI: Two things. And we come to this competition. I think one is money. The other is talent, human resources. I think our Congress, our administration should really make an effort to improve these two areas. I think there's a need for budget discussion and also our immigration policy, how to recruit talent from, you know, everywhere in the world, rather than just become isolationists ourselves. So these are the things I think the future leadership should be concerned.

MR. SCISSORS: On U.S.-China, unsurprisingly, I think we should decouple from this Chinese Government. I think the idea that we can make a lasting agreement with Xi Jinping as long as he wants to stay in power, which I think is until he's dead, is both impractical and morally repugnant. So that's my simple solution on the Chinese side.

That's actually easier than what I would do on the U.S. side, which I don't think we have -- unfortunately, I share with my colleagues, I have little prospect of -- we are spending too much on the past and present, which is in the form of entitlements. We are also now under this administration borrowing a ridiculous amount of money because they lack any notion of fiscal priorities, and so it is the Congress and both parties. If we want to

maximize the U.S. position so that it's robust against whatever, the Chinese doing the right thing or any other configuration of global competitiveness, we should be investing in the future. I don't mean by that that we pick out industries and we give them money. I mean basic research. And basic research isn't that expensive. If we had any sort of reasonable fiscal posture we could spend the necessary money on basic research. And the reason we don't is, one, we don't have any fiscal discipline whatsoever, and two, we have the absolutely wrong sense of priorities. So again, I come back with, look, our China path to me is simple and it's feasible. Wait until we have somebody who isn't a brutal dictator to deal with. On the U.S. path, much more difficult. And I think decoupling as we've discussed is in progress. It'll go to a certain extent depending on who is running the country, but the other part of this we haven't even started.

MS. SHENAI: Let me ask a follow-up to that, Derek. So you know, the Chinese market is so important to so many U.S. companies and multinationals, and it's with respect to the purchasing power of Chinese nationals as well as just in sheer size. I guess the question is, you know, how successful is a U.S. policy to try to disentangle high-tech trade or any trade between the two countries? How successful would this policy be going forward? Is it even possible to do this?

MR. SCISSORS: There we go. I have bad fingers, apparently.

We're already doing it as we've all discussed. How far it's going to go is a different story. But you know, my answer to you is, and you know, you deal with these companies all the time. So do I. We all do. Their interests are not the national interests. And they report revenue gains in China where the revenue does not benefit the 99.9 percent of the United States. I don't care that certain tech companies, which are revenue dependent on China, which they are, are important to the current value of the NASDAQ. That to me does not rise to the level of national interest. It actually does rise to the level of national interest for the president. The president came into office, look, this is basically firsthand, saying I don't care about how U.S. firms are treated in China. I want them all to come back

to the United States. And the exceptions have been made is when people have visited and said this is bad for our stock price, and our stock price, we're big enough that it's bad for the stock market.

So that is what some people think is important in our China relationship. I don't at all. I don't care if these companies lose revenue. I don't care if the stock market falls. The one way in which I'm definitely not in the camp of "let's ignore China," I mean, somewhat associated with Vice President Biden, fairly or unfairly, is I think that, you know, China matters to us. That means that we have to make sacrifices. And that's where we don't have consensus. We don't have consensus in this administration. We don't have consensus in society. So for the people like me who are very critical of China want to decouple, we failed. We have failed to this point to convince people that it is worth sacrificing. When I hear, and I get visits all the time, when Boeing shows up, and I totally agree with Rob, Boeing's projection is about 20 years of its aircraft sales are fantasy, when they show up and say you're hurting us, that shouldn't matter because China is important enough that the revenue of some companies which are China-dependent don't matter.

As a political point, I think these companies matter less but we are a long way away from having a consensus in society to take costly action.

MR. LI: Yeah, I want to comment on your excellent question and also Derek's good answer. We talk about the difficult to reach consensus. Certainly, you also mentioned Wall Street business community. Certainly, I think that, at least from my perspective, the business community in the U.S. certainly shares some of the anger, the anxiety, and you know, kind of about the Chinese business practice. They wanted the president to give some pressure, to have some positive result but they did not want to, again, correct me, decoupling at this point China's economy or even technological side. Could you comment on that? Is that position largely correct or --

MR. SCISSORS: No, I think that's correct. I mean, obviously, the firms that are doing well in China -- the firms that were not doing well in China have left and they are



fine with decoupling because they're gone. The first that are doing well in China, and there are plenty of them, are opposed to decoupling because, you know, Intel, Microsoft, Apple, Boeing, these are large chunks of their revenue. So they are upset with China. They don't want to decouple. Unfortunately, that leaves them often in the position of wanting magic. I want you magically to change China with no threat to us. That is not a reasonable strategy.

MR. ATKINSON: So this is great because I get to disagree vehemently with my colleague, Derek.

Look, when Derek says he doesn't care about U.S. companies at one level I don't care about U.S. companies. The reason I care to some extent about U.S. companies is because I care about U.S. jobs and I care about U.S. competitiveness. And you cannot have either of those without healthy U.S. multinationals. And the idea that somehow we are okay with Boeing losing all its market share in China, which I'm not saying will happen but could happen, or Intel losing all its market share in China, or Merck losing all its market share in China, is because those sales support hundreds of thousands of high wage, good jobs in America. And they support exports. And to say that, oh, well, this is only about (inaudible), you remind me sort of what Jared Bernstein said on our panel last week, which is that he sides with workers, with global workers, rather than with America because it's about American companies. This has to be about American companies. You know, Charlie Wilson famously said in 1959, or excuse me, in '54 when he was being sworn in for his hearing to be defense secretary, he said what's good for GM is good for the U.S. That's not as true today as it was. Sure, but it's not zero. And there's a lot of good studies on that. Number one, if we export from the U.S., that's definitely good, and there's a number of good scholarly studies that we've reviewed where even when companies are having facilities in China, we get jobs back from that.

And Derek, the last thing you said was I don't like -- we shouldn't do this in China because they are a brutal dictatorship. I'm for America first here, I've got to say. I think we should look at our own interests. And if our own interests are to sell to China, then

we should do it. I mean, if we use dictatorship as the way of not trading, we're going to not trade with a third to 40 percent of the world.

MR. SCISSORS: Okay. So I hate --

MR. ATKINSON: One last thing.

MR. SCISSORS: I thought you said that was the last one. Sorry.

MR. ATKINSON: All right. Go ahead. It is the last thing.

MR. SCISSORS: Okay. So two points. And you, as usual, we sound like we disagree more than we actually do. The president is right about one thing. The benefits from exporting are considerably higher to the United States than the benefit from local sales. It doesn't mean there are no benefits from local sales. But if you could magically, which we cannot, relocate that production to the U.S., it would be better to have in the U.S. The president's goal there -- he has no coherent strategy -- is correct. We would get more benefits from exporting to China than we do selling to China. That is not to disagree with Rob. It's just to make the point that the largest part of our sales in China are located in China. The largest part of their sales to the United States are also located in China.

Now, on the last part, which, you know, I don't want to get distracted by security matters, but the rest of the world's dictatorships all added up together are probably less threatening than the Chinese. So the motivation for decoupling does not come from the econ side. If I wanted to treat China as country B in a Ricardian economic model, I'd be like, oh, I have these objections to their behavior because -- but I'm still gaining from it in an absolute sense. The motivation here comes from the national security side. And that's why the national security side is most in favor of decoupling.

If you throw out national security, a lot of my objections and my guidance for decoupling goes away. But that's ridiculous. We cannot throw out national security, especially given how different China is under Hu Jintao than now under Xi Jinping.

MR. ATKINSON: So Derek, I don't even agree with that because I think it is totally in our national security for us, for American firms to be in China taking market share

away from Chinese firms. So when Peter Thiel says that Google shouldn't be in China and everybody jumps on that, oh, China is a dictatorship and they're oppressing the Muslims, so therefore, we should do this sort of -- the right thing and not allow Google, you know, press Google. When Google goes to China, they take market share from Baidu. Well, they may not. They may fail, but that's Google's goal of going into China. That is good for American national security because it weakens Chinese firms. It strengthens U.S. firms. And so to say that we can walk away from the Chinese market, now, to be clear, there are certain things we shouldn't allow. We should not allow U.S. firms in China to transfer certain technologies. And that is partly what FIRMA is going to -- we'll see what FIRMA does. But to say that we should walk away from the market and that's going to make the Chinese military and national security establishment weaker, I don't buy that.

MR. SCISSORS: I think it's more from the current relationship.

MR. ATKINSON: That's not the right question.

MR. SCISSORS: No, it is the right question.

MR. ATKINSON: No, no, the right question is compared to what.

MR. SCISSORS: Because decoupling improves U.S. relative position versus China.

MR. ATKINSON: No, it does not.

MR. SCISSORS: It is for national security. If China gains more from the current relationship, which it does, and the goal on the national security side is to improve relative U.S. position, then decoupling --

MR. ATKINSON: So you have to understand there are several different parts of decoupling. So there's the part of would it be good for Apple to make -- they're now making, what do you call those? The AirPods. AirPods. Yeah, the AirPods. They're making the AirPods, which my daughter just spent her money on as a 13-year-old -- like, doesn't the wired \$10 ones work? No, dad. They're now making half of those supposedly in Vietnam. Or they're going to do that. So that's good for us. It's bad for China. That's the

kind of decoupling that I would agree with. But to say we don't want to sell that stuff in China and take market share away from China companies, in other words, we don't want Google in there to take market share from Baidu, that's a different issue than exporting back, and I think that would be a huge mistake.

MR. MELTZER: Okay. We're going to open it up to the audience. I'm just going to -- there's one final question. I want a very brief response even though this is a question that does not lead to a brief response, but I don't think we can finish the panel without asking this question, which is, you know, do -- are we going to get a trade deal between the U.S. and China? If so, when? What's your best estimate of what this deal looks like? And will it include Huawei?

MR. ATKINSON: So we'll get a trade deal if the Chinese want to be reasonable.

MR. SCISSORS: I would argue.

MR. ATKINSON: I have no clue whether they want to be reasonable. I think that the Huawei put the fear of God in them, and Huawei, the Huawei band had nothing to do with, nor should it have anything to do with security. If we don't like Huawei technology, we think it's insecure, we've solved that problem with an import ban. The export control, the deemed export was a completely different issue.

So I think we will, if the Chinese want a deal, then I think the Trump administration will do it. That would be my prognosis. I think we will get it before the end of the year if the Chinese want a deal, and it will let Huawei off the hook. That is be how I would say it. And it would be, if you think about the Lighthizer original deal where we wanted 100 percent, they gave 90, and the Chinese had, what, 70, and they backed down to 50, the deal has to have at least 70 percent, probably 75 percent before I think the administration takes it.

MR. LI: I think there will be a deal, but it is based on a very pessimistic assessment. Let's imagine there will be no idea, what the world would look like. There will

be two economic systems. There will be two internet systems, like Eric Schmidt said, probably it's already happening. And there will be two eventually financial systems. Now, they will not stop there. They will be involved vicious competition, conflict, and a war. Now, of course, I do agree with Derek. I think China will suffer more with the trade conflict for various reasons, and by nature, the surplus country always suffers more.

But let's not stop here (inaudible) want to enter these things. The economic cooperation, interdependence has implications for world peace. This is the Asia-Pacific region. Relatively speaking, we cannot have major war after the Vietnam War. Now, are we going to that direction? Of course, that's not the U.S. plan, because this is really a mutually agreeing force of fear and a mutually agreeing force of, you know, effort. But I think for that reason I think we should have an incentive to cut a deal. I do not know the timing. It's all based on the president's calculations because they do calculations, or the Chinese leaders' calculation. But I think for that reason I think there will be a deal. But if not, we should think about what we are talking about. What kind of future we will enter.

MR. SCISSORS: The information I get from China is clearly biased because they know I'm hostile, but they do talk to me. And they've been pretty clear that they're going to get a deal they want or they're going to stall until 2020. And that doesn't mean they will give us nothing in a deal. It's not like they have to have a completely one-sided deal. It means that there are certain things they find acceptable and certain things they find unacceptable. That leaves me with the president deciding his what's better for him politically. And that's -- trying to get in the president's head, don't do it.

It'll depend on who the democratic challenger is. It depends on how fast they emerge. Some of the democratic challengers have very ill-defined positions on China. They have some leeway to take a surprising position one way or the other.

So I used to be -- I used to think we were going to have a deal. The benefits of the purchases the Chinese would make as part of the deal has shrunk as we've gotten closer to 2020. The president needs those purchases to show up politically. So I

now move towards -- I'm throwing up my hands in the air and saying 50/50, and it depends on the president's call and the democratic primaries.

If we have a deal, Huawei will absolutely be part of it because the president doesn't care. So he's the one who has to step forward and say I love this deal. He's the final decision maker. He doesn't care about Huawei. So I'm not sure about a deal. It really is influenced by U.S. politics, but if there is a deal, Huawei will be in it.

MR. MELTZER: Let's open it up to Q&A. We'll take maybe three questions. Please keep your questions brief. No statements. And just tell us where you're from when you ask a question.

One, two, three on this side and then we'll go to the other side next. You've got a roving microphone.

MS. ABRAHAMS: Hi. My name is Julie Abrahams, and I'm a retired person but I find this all very interesting.

My question is how come this whole China and technology issue hasn't turned into like another Sputnik moment where the U.S. domestic focus is on ramping up science and technology investment, something like that?

MR. MELTZER: Great. Thanks.

Behind, this lady here.

MS. SHALAL: Hi, Andrea Shalal with Reuters.

I just wanted to ask you, Rob, about your, you know, sort of Apollo idea for autonomy and automation. I mean, isn't that politically difficult to sell in some ways because, you know, obviously, automation reduces workforce numbers. So how do you sell something like that? I can see where that would appeal to the president, you know, with the Space Force. You kind of get that feeling of like a big initiative. But how do you sell it in terms of the number of jobs?

And then just very quickly, Derek, I wanted to ask about your assessment on Huawei. If Huawei is part of the deal, what happens to all of the dire, you know, warnings

that the national security community made about how these are back doors and, you know, it's the beginning of doom and gloom?

MR. MELTZER: This gentleman here. Yeah.

MR. PULZER: Thank you, and terrific conversation. I'm Karl Pulzer, and I have a really small scale project that looks at equity in capitalism and trade, so interested in workers.

But my question is about strategy, defense strategy, and where the conversations seem to be going, and how that coordinates with economic policy.

So we're seeing like eventually, either fast or slow, a decoupling, China rising in power, and possibly regional trade replacing international scope of trade. And yet since Korea in the Second World War, the U.S. has provide a public good by anchoring in the Pacific, in the international trading zone, it costs a lot of money in our military. So as this devolves, what is our strategy on the military side with regard to our allies? Do we ask them to take more responsibility for spending? Do we really encourage the Japanese to rearm and maybe have nuclear weapons? How do we reorganize all that in a way? And especially, if Hong Kong blows up and there's conflict that, you know, starts in that area?

MR. MELTZER: Great, thanks.

I'll leave it up to you to answer any or all of the questions that you see fit.

MR. ATKINSON: Just quickly on the Sputnik moment question. We invest less in R&D as a share of GDP than we did prior to Sputnik. So that's how bad things have gotten. I don't think there will be a Sputnik moment because many, many politicians and others on the left just fundamentally don't care. If you look at a lot of the democratic agenda, including in the presidential campaign, it's 80 to 90 to 100 percent redistribution agenda. It's not about our ability to create wealth and productivity and a competitiveness. It's about redistributing wealth. So they just fundamentally don't care.

And then there's a lot of people on the right. Nobody I'm going to say here, maybe.

MR. SCISSORS: I don't know. Tell me.

MR. ATKINSON: You know, like AEI, and a lot of new-to-market groups who just basically say, you know, A, number one, a Sputnik moment is industrial policy. That's verboten. And number two, we're already going to kick China's ass so it doesn't make any difference because our model is so much better. So it really is a left or right thing.

However, the good news is you have a sort of emergent, new conservative moment, and I put Senator Marco Rubio right at the center of that, who are saying, wait a minute. It's the old sort of, you know, free market kind of Adam Smith-ian world just doesn't work anymore. And, you know, robust conservatives need a national competitiveness strategy. And you have a lot of folks on the left, or on the democratic side, like Senator Chris Coons, who is a real champion. So I don't want to sound totally negative but I think it's a little bit of a hard slog but we're moving in the right direction.

Quickly on automation and jobs, there are a lot of very good studies which we have reviewed and cited. Countries that have more robotics and manufacturing actually have not lost manufacturing jobs because they have gained global market share. If we could reduce our trade deficit in manufacturing according to the study we've done, we would create over a million manufacturing jobs. Now, let's just say we automated. You're probably going to end up with somewhat of a net wash I would argue. We could gain, have a lot of factories move back. They'd be more efficient, but at the end of the day we'd probably have the same number of jobs would be my bet.

MR. LI: Your question about the strategy is a good one but I think it's a very, very difficult one even domestic consensus and international alliances. Both are quite weak at the moment. Part of it is domestic politics, part of it is the fact that the current situation is different from the Cold War situation. Many countries don't want to take a side. And even in terms of values, Western countries and some Asian countries sided with the United States but on the economic front they don't want to lose China's huge market. This complicates the situation.



Now, I understand Derek's view at multilateralism versus unilateralism but at the same time you do need to have a strategy. You do need to look at a global perspective along with America's leadership. So at the moment it's a big challenge.

MR. SCISSORS: I am not a national security expert by any means. I end up spending most of my time talking to them and this administration because the economic side is so fractured. So there are a couple of national security questions tilted my way.

On the Huawei side of the deal, you know, how can we include Huawei in a deal with all our talk about national security? I mean, this is the U.S. talking out of both sides of its mouth with some justification. We are much less linked to Huawei than the Europeans are some of our other allies are. So obviously, it annoys the hell out of them that we say, well, we don't really have to do much with Huawei because it doesn't matter to us, but you, you people are being comprised. So I get the hypocrisy there and combined with 232 and other actions, it does not make for the U.S. being a good friend. But that's, I think, how we'll sell it. The president will say, well, Huawei doesn't matter to us, you know, so who cares? I'm not defending that. I think that's how we're going to try to split the baby, and literally, that's what it's like in terms of the rationality of the discussion while selling out Huawei while telling everyone else they're a national security threat.

On the big question of what does decoupling mean for our military posture, you know, this is -- I don't know how to answer this question without complaining so I want to be more constructive. The president doesn't want to decouple. We don't really have a secretary of defense, and we haven't since Mattis became discontent, which was before his resignation. So we don't have a national security strategy to emerge and we have a president who doesn't want to decouple. We can't possibly put those things together and say, well, if we decouple, what is our national security strategy? We have, you know, the big event on a national security side and on the China relationship side was the national security document in 2017 calling China a rival. And then two weeks ago the president says we're going to be great partners. So it's just not possible under this administration the way the

president is behaving now and with our problems with regard to staffing senior officials for us to match up, we're going to decouple, and then we have a military strategy to go along with it. We might be able to do that in the next administration whoever it is, but I'm really saying like there's a 30 percent change of the next administration and a zero percent chance now, so things are getting better.

MR. ATKINSON: So Derek, again, I think we disagree. Huawei, there are two issues with Huawei. There's do we trust their 5G equipment? We don't. We probably shouldn't. Therefore, we shouldn't allow it to be bought in the U.S. Okay, we've done that. That's not going to change. That's not related to the trade deals. Not related to the negotiations. It's not going to change.

Then there's the issue could we damage Huawei, their national champion as leverage in a trade deal? That's what that was about. And so, you know, the defense hawks, including in the Senate who say that Trump is letting Huawei off the hook from a security perspective are missing the boat completely. If we don't like their security, we just don't buy it, buy their equipment. But the notion of export controls, that's just -- that is a total trade tactic, and there's no way the Chinese are going to accept a deal if the Huawei band is still on. So if there's a deal, the Huawei band exports won't be on.

MR. SCISSORS: Okay. So let's look at how much we disagree. There is no Huawei band. The entities list does not constitute a Huawei band.

MR. ATKINSON: If there were a Huawei band.

MR. SCISSORS: I know, but I mean, we never got to that point. We're not negotiating over a Huawei band. We're negotiating over saying you have to move your production offshore to sell to Huawei. That's all the entities list does even before the temporary general license and even before any additional licenses that might be activated. So, I mean, we're not -- Huawei is not in the way of a deal except symbolically. We are not banning -- this is not a denial order. It's never been a denial order. I know because I was in the discussions with the administration. I was actually arguing for more than the denial

order. We rejected the denial order. We took an action that does not preclude U.S. firms from doing business with Huawei, only the location of that business.

MR. ATKINSON: Sure, absolutely. But that's not the point. The point is that there are people in the national security decoupling community who would say that under no circumstances should a trade deal allow Huawei -- allow American companies to sell things to Huawei. To me that's a giant mistake. That has nothing to do with our cybersecurity and network security.

MR. MELTZER: Okay, more questions.

This gentleman behind. Yeah. And this lady here.

MR. NEGROPONTE: Good morning. John Negroponte. I was deputy secretary of state in my last job in government and I conducted the political side of the U.S.-China dialogue. And in 1972, I went out to China with Dr. Kissinger in one of the follow-up meetings after the meeting between Nixon and Mao. And I guess one of the major issues -- this is a comment and then I have a question -- that we're really trying to come to grips with in these days is the fact that China has just become so much wealthier so much faster than any of us ever had reason to expect back in 1972 or '79, when they were poor as church mice, and in '79, when we established relations with China and lifted the embargo, we were asking ourselves, what are we going to buy from these people? That was the question that was being asked. So now we're in the current situation.

My question relates to -- it may be tangential but I do think it has a bearing. I'd like to ask the panel's view on what the fact of 300,000 Chinese students coming to the United States every year, what are the implications of that to the current discussion? And do you think that level of student activity given all the talk about decoupling will continue here in the United States?

MR. MELTZER: (Inaudible) questions.

MR. SCISSORS: Oh, I'm sorry, go ahead.

MR. MELTZER: It's all right.

MR. NELSON: I'm Mike Nelson. I used to teach in the Communications, Culture and Technology program at Georgetown, so I'm going to ask a cultural question. It's a bit related to what was just asked.

This week we're celebrating 50 years since Apollo. I was nine years old and I remember how optimistic we all were and how we celebrated astronauts and scientists and big bold projects. That's what they're still doing in China. We're celebrating rap stars and watching Game of Thrones and Black Mirror. Is it possible that this difference in attitude explains some of the advantage that China has right now, and do you think we'll ever get as optimistic as we were 50 years ago or that the Chinese will get as cynical and pessimistic as we are now?

SPEAKER: It's the reporter from the Shenzhen Media Group. So my question is for Mr. Cheng Li.

Despite the U.S. sanction on Huawei, Huawei has been developing his independent operation system called Hmong, and the European countries, they didn't follow the U.S. to take a hardline towards Huawei. They engage in many operations with Huawei that is going on and the U.S. is sort of behind the 5G infrastructure. So do you think the U.S. should recalculate its position in the U.S.-China technology competition in terms of this technology advancement feud? Thank you.

MR. SCISSORS: The reason I wanted to answer the question about students is because I spent 15 years as an adjunct professor at GW. Maybe the other panelists and people in the audience certainly have as well. But I taught a course on the Chinese economy which started off with no Chinese students and ended up with a large majority of Chinese students. Like zero to 70 percent of the class. Those people should not be restricted. It's ridiculous that we would do that. I had a screaming match with somebody who is the most anti-immigration person in the administration whose name you would know but I shouldn't say it, Steve Miller, a long time ago about -- this is a long time ago, and of course, he's had many screaming matches since, about immigration. Like, if you don't want

Chinese nationals or people who are traveling a lot to China and doing very strange things or, you know, have their own private firm while they're working at your university, if you have technology restrictions that are based on the technology, not on who's involved, apply them. I don't care if the Chinese are important to your university revenue. I don't care. That's not the national interest. But when there are hundreds of thousands of Chinese students here who are studying economics, who are studying history, who are studying literature, whatever their language, whatever they're studying, that's a completely different issue. So it just seems so obvious that what we should be talking about is what are they doing? We have to ring fence certain projects like we've always had to. Like we wouldn't allow a North Korean or an Iranian necessarily to work on nuclear programs at MIT, but we don't say it's because they're Chinese.

And the reason I wanted to answer that first is we haven't even made that distinction in public policy yet. That's how far we are away from setting priorities. So I think what your question reveals is the U.S. is not, my point, forget working with other institutions and allies. We are incredibly far away from proper U.S. policy as demonstrated by the fact that we can't tell the difference between a Chinese professor working on a technology that he or she can sell for huge amounts of money in China and a student in my class.

MR. LI: Thirty some years ago I was one of the Chinese students came to the United States. I'm extremely grateful for my adopted country, I mean, that experience. Not only me but many, many others.

Currently, there are two concerns. One, actually, according to the Financial Times, and also verified by other sources that the White House didn't discuss about the completed decoupling on the educational front, which means no longer issue student visa for Chinese. Eventually, the president vetoed that. But tells you how close we are to that kind of situation. So I share with Derek his concerns. I think the majority of Chinese students, they just want to study. They are inspired by American, you know, openness, economic freedom, and also to a great extent values.

Now, these are not terms that emerge called weaponization of Chinese students. It sounds like these 300 students all become a Chinese weapon. That's really excessive.

Now, the current policy has not changed. We discussed about the State Department, but some small cases may be out of proportion will publicize in China, it sounds like the U.S. completely changed their policy, et cetera. I think that will involve some serious debate. But the side effects already occur because of the investigation going on. Some top-notch scientists from Chinese nationals, some of them are Chinese Americans, some of them actually -- nothing to do with China. They are second generational Chinese because they have Chinese names. That's become really what people call McCarthyism, et cetera. That is also very, very excessive.

Now, China can take advantage of that. We'll see a wave of retainees of China. These are top-notch scientists. Bloomberg's recent stories certainly cover that and American universities, like MIT, Berkeley, Stanford, Yale, the chancellor or president made a statement that, again, we want to maintain the openness, the access of the American educational system.

So I think that there are different movements going on. So your question is very essential. I hope that we will maintain the openness in terms of American strengths and it will make us more competitive, not only to just Chinese but also open to the international communities.

For your questions about Huawei, this is a very sensitive question. I do share the concern about the national security issues regarding Huawei. I think it's natural, just like the Chinese are also concerned about the American IT companies.

So the U.S. certainly made some statement about our allies adopting Huawei, but the result is mixed. It's still ongoing. I certainly think that we enter a period -- I personally think the rest of (inaudible) so maybe this is too costly but in terms of national security concerns, I think the U.S. had a legitimate reason to be concerned about the nature

of that competition.

MR. ATKINSON: So I sort of agree with Derek and Cheng, I think, but I don't think it's the right framing to talk about openness. You know, we want to be open. It's not going to be a binary decision. Should we be more closed towards Chinese students? I think we should. Should we be generally open to Chinese students? Yes, we should. But I encourage you to read the new book by the former head of counterintelligence about the CIA. I'm sorry, I don't remember his name but he just wrote a book called To Catch a Spy. And read the China chapter. Or read a new book, a relatively new book called Spy University by a New York Times reporter. And you see some pretty, pretty egregious shocking things that Chinese students have done on the direction of the Chinese Communist party to come to the United States and steal technologies, including stealth technologies.

So I agree with Derek that after studying history or whatever, no problem. But if you're in a sensitive area, you know, it is not racism to say -- it would be like if a Russian was here in 1965 and we said, oh, isn't that racist against the Russian ethnicity or something? No, it has nothing to do with race. If the person is China born -- a Chinese person who is an American born, it's not race. It's the fact that there is a lot of evidence that some, and probably a very small number, but some Chinese students are here to do unethical and illegal things. And I think to turn our blind eye to that would be a huge mistake. It would be equally a mistake to shut down overall the number of Chinese students who study here. My officemate when I got my Ph.D. was Chinese and he benefitted, we benefitted, they benefitted.

MR. LI: I want to follow up on that question if I may on the distinction between those, the humanities or history or whatever, the other science and technology. Do you think that we should completely ban Chinese students in STEM or not?

MR. ATKINSON: No, no, no, not at all. As I said, many, many Chinese students in STEM, they're legitimate students who are here to learn something. They're not plants by the Chinese Government to come here and engage in espionage. Nor am I saying

that the majority are. But when you read what the FBI has been -- you know, go to the FBI website -- you do see cases. And so I think it's just sort of this notion, well, science is global.

So we just have to be more cautious. We have to make sure that when there are cases where Chinese students are doing research that's somewhat sensitive, there need to be better controls. We need to watch things more. We need to be more careful. But absolutely we should.

And the second thing we should do, and maybe we all agree on this, is we should allow more Chinese students who get a degree in STEM to come and become permanent residents and citizens. We should capture them. That would be really harmful to the Chinese and it would be really great for us if we could do that.

MR. SCISSORS: Only the good students though.

MR. ATKINSON: And not the history students.

MR. SCISSORS: Well, there was a big range of econ students in my class.

MS. SHENAI: Well, I just want to thank all of the panelists for just these rich comments. I'm sure we could continue this conversation for several hours just given everything that's going on in this space.

You know, I think we've covered a lot of fundamental issues here today about what's at stake in the broader U.S.-China bilateral, the trade war and the dialogue, and really the focus on knowledge industries of the future and which country, the U.S. or China, will lead, and whether it actually has to be a choice.

You know, I think the administration has really taken up these issues in a way that's, I guess, starker than prior administrations. And I think we're just going to have to wait to see what the results of this strategy or these actions will be.

Again, you know, I think our panelists have put forward such a rich and varied set of viewpoints, and we've had a spirited discussion. I would just simply note here that there seems to be broad-based agreement here that Chinese continues to loom large in the global economy, and its effects on the global economy due to its economic model, no



compliance with the rules, as well as the spirit of the rules, as well as foreign policy objectives put us at a real crossroads.

But these have real implications for the United States, and these are some of the issues that Josh and I are grappling with in our broader project on reconceptualizing globalization about how we build support here in the United States for continued engagement by the U.S. internationally in economy affairs, and China, of course, is a very big part of that dialogue.

So with that, please join Josh and me in thanking our panelists for this excellent discussion.

(Applause)

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