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QI Panel:

China – US Investment: A Security Threat or an Opening to Reform the World's Most Important Economic Relationship?

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Marcus Stanley

Hello, everyone, and welcome to the Quincy Institute webinar on Chinese investment in the U.S. economy and whether this could be an opening to reform the U.S.-China economic relationship. My name is Marcus Stanley. I'll be moderating the discussion today. I'm the director of studies at the Quincy Institute. The Quincy Institute is a foreign policy think tank based in Washington D.C. that works for a more restrained and less militarized U.S. foreign policy.

And it's my pleasure to be joined by three experts today who are going to have a lot to say and a very deep background in in our topic of discussion, Susan Helper is the Frank Tracy Carleton Professor of Economics at the Case Western Reserve University's Weatherhead School. She has been studying the U.S. auto industry and the challenges to the U.S. auto industry for over 30 years. She is the former chief economist at the Department of Commerce and senior economist at the White House Council of Economic Advisers, under both the Obama and Clinton administration. Sorry, under both the Obama and Biden administrations. I'm showing my age here. Jonas Nahm is the Andrew Mellon Professor at the Johns Hopkins School of Advanced International Studies. He is a leading scholar of industrial policy, trade, and the global economy. He has extensive experience as a senior economist for industrial strategy on the White House Council of Economic Advisers under President Biden, where he focused on industrial policy and supply chains, very relevant to our discussion today. And Jake Werner is the director of the East Asia program at the Quincy Institute, an expert in China and who has recently published on on the topics that we'll be discussing today.

So welcome everyone. So today we're going to conduct this as a panel discussion among our three experts that I'll be moderating for about the first 40 minutes or so of our web conversation, but then after we will be opening to audience questions. Please put the put your questions in the Q and A box or the chat box at the bottom of the screen, I will look at them and try to take questions in the order that they are entered there.

Okay, so in terms of our discussion today, I think we all know that there is increasing pressure to, I would say, almost decouple the U.S. economy from the Chinese economy, especially in areas of of manufacturing and advanced technology, and there's been a special focus on the U.S. auto industry since the Chinese auto industry is rapidly developing as a global leader in especially electronic vehicles, but also in in less expensive cars that are appealing to consumers around the world, so we've seen efforts in the U.S. Congress to entirely ban Chinese investment in the U.S. auto industry or involvement in the U.S. auto industry in terms of supplying parts or components to U.S. cars, politicians generally tend to conceptualize that kind of involvement or interaction between the U.S. and Chinese auto industry as a national security threat and a threat to the viability. Of the U.S. auto industry, rather than as a potential opportunity, but the ability to gain job-creating investment in the U.S. even if it comes from China or from abroad, is potentially an opportunity in some ways, and it also is potentially an opportunity to learn from the Chinese in areas where they are global leaders, such as electronic vehicles and batteries.

In addition, one thing we'd like to talk about today as well is the overall U.S.-China relationship and whether cooperating economically in areas where China is a leader, could potentially hold the promise of heading off the increasingly zero-sum and conflict-driven direction of U.S.-Chinese relations. So those are some of the topics we're going to discuss today, and I would expect that our three experts will take it in a number of different directions. So my first question is to to Jonas Nahm. Jonas, you're an expert in industrial policy, industrial strategy. Lots of people would say that past U.S. openness to China, especially involving manufacturing, outsourcing manufacturing, was just a huge error in American industrial strategy, and drove some of the problems we see with deindustrialization in the U.S. today, and the lesson I think that a lot of people take from that is that if we permit interaction between the U.S. and China in industries like the auto industry, that's only going to make things worse. Do you agree with those assessments, or do you think it's more complicated?

Jonas Nahm 7:06

So we're starting with the easy questions. I can tell. I think there's kind of two separate issues that are wrapped often in this or collapsed in that story, and I think it's worth separating them. Right. So the first China shock was a real shock, and lots of manufacturing employment was lost in the U.S. It was incredibly concentrated in a few areas, with a pretty long-term detrimental economic consequences for these areas. And so I think that's you know because of openness to China at the time, and something that we didn't manage well in terms in terms of trade adjustment systems, in terms of sort of figuring out what the pathways were for these areas to to rebuild. What we're dealing with today, I think, is somewhat different. I mean, China is ahead in industries that we never really had here. You know, EVs, batteries were not sort of strong industries in the U.S. that were stolen from us. I think that's somewhere where China sort of leapfrogged and innovated its way to the technological frontier.

And so I think shock one was a sort of defense problem and you know also a transition problem. But I think this current problem is more an offense problem. We didn't really build and sustain what was needed to compete in these sectors. And if you look at EV policy, we're sort of flip-flopping, you know, giving support, taking support away. And for China, this has been a sort of decade-long or two-decade-long strategic industrial policy bet. And so I think the lesson for me there is less that openness was an error, and that perhaps protection now is the fix. But to me, it's much more about what haven't we done and should have done to sustain kind of an offensive industrial policy for these sectors that we do want at home, and what are we doing behind this tariff wall that we now have to build these industries and make them more competitive?

And so, I think it's not a sort of do you flip on the switch for protection and take it away. It's more like we'll probably need some protection in order to build capacity at home, you know. But we also need to think about how to make that capacity competitive at home, and perhaps what role China can play in helping us do that. And I think that's a very different sort of conversation than kind of blaming our current state of affairs for unopenness to China when we aren't actually importing any electric vehicles from China, right? So we're not all that dependent in some of these sectors, and in others we are, like critical minerals, for instance, where China just controls you know vast sort of global supply. But there too, we never really had sort of you know full control of these supply chains at home, and and sort of failed to build them. And so the lesson there too is how do we work on that and and you know actually get get an industry up and running at home.

Marcus Stanley 9:56

Thanks, Jonas. Well, I have to say your perspective is pretty different than a lot of the perspectives that we hear inside the Beltway, where there is, I would say, tremendous anxiety about any interaction with China, and we are seeing a lot of legislation that is moving that would ban interaction between U.S. producers and China ban software components, imports, or investment. I'm going to quote from a letter from Senators Schumer and Slotkin earlier this year, where they stated in that letter that permitting Chinese investment in the U.S. would quote confer an insurmountable economic advantage impossible for American automakers to overcome, and it would trigger a natural security crisis that could never be reversed. So that's pretty alarming language, and I guess I'd like to ask Susan, Jonas, as experts in the auto industry, or Jake, if you want to contribute, what do you think of that perspective within DC that sees China as such a massive threat? Don't all jump in at once.

Susan Helper 11:21

Yeah, yeah. So I can jump in on there. I guess I I think that you know it matters a ton kind of how we respond. So I really you know I guess I slightly disagree on you know China didn't steal anything from us. We had we invented a lot of these things, failed to capitalize on them. But but but in any case, I think that you're right that the the tariff is not sufficient, and you have tons of coordination failures, tons of other kinds of problems that you need active policy to to resolve, and we are not helping. And I guess the question is then, if the goals are you have job creating investment from China and the opportunity to learn, it seems like you could imagine a policy of just kind of extreme openness that gives you neither of those things, right? That you substitute cars with a fair amount of U.S. content for kits imported from China, for example, would be one kind of thing. You could also imagine that China, in fact, does not share technology. So, and I guess you were later going to ask me to, and I actually do want to ask Jonas at some point to talk about. You know, one of the things the Chinese did brilliantly, I think, is learn from multinationals, European and American multinationals, and is there a way? What kinds of policies did they have to ensure that that learning actually took place? And is there a way that we could actually implement some of those?

Jonas Nahm 12:58

I agree with that completely. I think that you know there's a way of doing openness very poorly. There's also a way of doing openness very strategically and and thinking very carefully about how to structure these engagements, right? And so if we think about China's edges being, you know, process knowledge, not not just capital, and that process knowledge is transferable and you know can be absorbed by domestic entities. How do we structure engagement that would allow for that? And I think if you think about different forms of engagement, they have different risks and different benefits.

So licensing, for instance, you can get a technology license, but you may not actually learn how to then invent the next generation of that technology, so it gives you sort of a technology quickly domestically, but you would remain dependent on, you know, the the firm in China that would license this stuff to you. I think joint ventures perhaps offer more opportunities for learning, but there's also more risk for the domestic partner. They can end up as an assembler, not a you know real kind of partner in all of this, but you know you can structure these engagements so that some knowledge does spill over to the domestic firms and they become better at doing these things. Wholly foreign-owned firms are probably faster and less complicated to set up, but there's also of course more potential that you don't get any spill over, so that you know the Chinese kits are assembled domestically, and there you would probably want to have some local supplier requirements and you know some regulation that actually ensures that these firms are engaging with the domestic economy.

And so I think again, it's not like openness or not; it's like openness how and also in which sectors. And then you know, of course, you want a lot of transparency in all of this. You want to force these foreign invested firms to build a local supply chain. That's what China did. So, not bring in all of their suppliers from home. You want kind of a structural separation so that sensitive functions like data storage and you know all that sort of stuff are walled off from. The parent company, and you need some sort of way of enforcing all of this and monitoring it. But all of those things can be done. And and what's interesting to me is when you go to China and you see how they did it. A lot of this is exactly that. I you know had a chance to ride in Baidu's robo taxis this summer, and Baidu learned how to do the mapping for these robotaxis? Because China forced Tesla to use Chinese mapping software when they brought Teslas to China, and so they learned how to do it from you know from working with Tesla and then set up their own shop for these robo taxis.

So there is a sort of you know way of doing that, but you have to be smart. I think the the harder question that that sort of comes up less in Washington, even less than the openness question, is is China actually going to play with us at this point? Like we are sort of having these debates, and I think we should have these debates about how to set up good policy and and how to do this correctly. But there is of course a question: what kind of tech China will actually let leave the country at this point, and and sort of what the opportunities are for learning, and if the relationship continues to be so acrimonious as it has been, I think that window for learning might be sort of closing at some point. And so I think we also, in addition to thinking about what policies do we need and how could restructure that engagement, need to think about how do we convince the Chinese government, not Chinese firms. I think they're ready to be here and and game to play. I think it's the government that has concerns about you know what kind of tech they let across the border at this point, and and do they actually want to help us build a competitive industry in these sectors that they're that they're good at?

Marcus Stanley 16:38

Well, Jake, that's that's a great lead into my question to you. You wrote a policy note on this topic where you talked about how we might build a framework for better U.S.-China cooperation, and you've visited China a lot, talked to Chinese officials a lot. So, how would you respond to what Jonas just said? Do you think that China, the Chinese government, would be open to economic deals with the U.S. that would genuinely confer benefits to the U.S. And what are the barriers to that? And really, can we trust China?

Jake Werner 17:19

Yeah, I the I think on both sides of the key question here is the politics, not the policy. Actually, and and Jonas and and Sue have have both already talked about given a quick overview of what the policies would need to be. We're aiming for technology transfer, transfer of know-how and process knowledge through contact with China. We're aiming for we don't want to lose local supply chains in the United States, so we don't want just final assembly coming from Chinese investment. We want some some sort of local content requirements or supply chain requirements to localize the benefits of having Chinese investment.

And I think also really importantly, we need to figure out how Chinese investment would work for workers because in in the past, foreign investment has often helped businesses to undermine the power of organized labor, and so there is a for perfectly understandable reasons there's a really bad taste in the mouth of of many unions and workers that this is just going to be another like on steroids. We're going to have another wave of foreign investment that completes the dismantling of the of the power of organized labor, and and that is not just a political problem, that is an economic problem because the the loss of power amongst workers over the last 40 years has hollowed out our ability to maintain consumer demand in this country, as wages have been stagnant in many regions, and in for for people who don't have who don't have professional jobs, so the that now that is the Chinese investment isn't going to fix that problem by itself, right?

That this has to be part of a larger discussion about how we're going to shift power to workers, how we're going to shift resources to workers in this country, and and I think it's it's it's very dangerous that we start framing that as through through the idea of China, like China is the one who is preventing us from shifting power to workers and shifting consumer power to workers.

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That's not true. That's not true. All the stuff that China gets blamed for, those were decisions of American business leaders to move production offshore. Those were decisions of American research and development to focus where it did, rather than elsewhere. American car companies to to double down on internal combustion engines instead of electric vehicles. Those were decisions on the American side. We need to stop scapegoating scapegoating China for the problems that we have in our society as a substitute for dealing with it.

But I think that China could become part of the solution to those problems if we pursue the kind of industrial policy that Sue and Jonas were talking about, and I think that actually would work for politics on the U.S. side too. Which maybe is hard to believe, and I'm not sure I believe it myself. But you can you can kind of see the possibility here. Trump has articulated an openness to Chinese investment, and Trump has Trump has such extraordinary power within the Republican Party that is, if he got bought into this idea, he could bring the party along with him, and it certainly would align with the interests of many American businesses who understand how damaging it would be if we allow ourselves to cut the American economy off from from Chinese companies that are on the cutting edge in these extremely important strategic sectors. On the democratic side, if we're doing it in the right way, again in a way that that that strengthens the power of labor, that increases the the income that's going to to working Americans.

So if we do it in the right way, that would be appealing to to Democrats. And then the question is on the Chinese side: Would the China would the Chinese side go along with this? And I think there there obviously are very strong incentives to to to prevent loss of the enormous American market, which is the direction that we're heading right now, Chinese businesses will simply be cut out of trade and investment in the American market. And and if China saw this as a path to maintaining connectedness between the Chinese and American markets, there would be an economic case for it. There would be a geopolitical case for it. China does not want to upend the global system. It wants to stabilize the global system.

And now that it should be it should be noted that China is doing things that are destabilizing to the to the global system that we need to work on. But of course, they will not listen to American appeals on those destabilizing actions if they have concluded that the United States simply intends to prevent China from growing and developing and increasing its status in the global system, so I think that was the that was the issue that Jonas was pointing to. How how can the United States convince China that we don't intend to simply undermine China at every step? We we are in the process of trying to sabotage Chinese development through export controls.

There are constant additional proposals in Congress, and the rhetoric in D.C. is extremely hot on ways to undermine China's growth. Can we convince China that that we intend a different course? I think that's that's a really big question for China policy going forward. Are we going to articulate a possible future that China could look at and say, "Oh yeah, we actually could live with that, and that's not really where a DC foreign policy has been lately. So I think there is this huge opportunity for us to take advantage of, but it will require not just good industrial policy, which we which we have not done that effectively. It will also require a different approach to China overall, something that is underdeveloped right now.

Marcus Stanley 22:44

So that that that's a really good point. That the U.S.-China relationship overall kind of sets the context for whatever specific negotiations we might want to have about technology transfer and whatever specific opportunities we might want to take advantage of, and we're not going to be able to take advantage of those opportunities unless we improve that relationship. I want to sort of go further into something that you mentioned about the history of past foreign investment in the U.S. and in the auto industry in the U.S. and take advantage of Sue Helper's historical knowledge about that, because Sue, you've been studying the U.S. auto industry really since the '80s, and you are one of the leading experts on the Japan-U.S. relationship and the external challenge that Japan posed to the U.S. auto industry back in the '80s, which really had a number of the same themes that we're we're looking at now. Of course, Japan wasn't a geopolitical competitor with us, the way China is, but are there lessons we can learn from the history of U.S.-Japan competition that we can apply to the challenges the U.S. auto industry faces today?

Susan Helper 24:14

Yeah, no, I think there are some ways in which it's similar a similar issue, although it it it seemed existential at the time, but now it seems much simpler than China. But but some of the similarities are, I think, that you Japan really wanted to grow by exporting, and so they were exporting you know huge huge numbers of cars at the expense of the rest of the world's auto industry, and so I think the you know the policy of encouraging Chinese FDI, which you know Reagan did through the these quote voluntary export restrictions, had a couple of benefits. I mean, one was it did in fact lead. To learning both in joint venture plants and then also just circulation of of employees and and teaching of the by the Japanese of U.S. suppliers, I think you know. There's I would point out there that with job creation, to some extent, because we were replacing imports from Japan with cars made here, which which would not be the case with China, since they're not currently making cars here.

So the job addition part might be more difficult. I also would say to Jake's point, you know, there are a number of very missed opportunities, and the Chinese came in actually in a very advantageous position compared to the legacy U.S. producers. So there was no requirement for unionization or for union neutrality. There was the southern states and mostly essentially gave the Japanese free plants or nearly free plants because of these tax abatements, and so the Japanese came with you know young, healthy workforces, non-unionized. So their their costs were much much lower. You know, some of that is our own stupidity of requiring you know placing all the the costs of retiree and and worker healthcare on companies, and so the the generous responsible companies separate, but but but still, it was a mistake until you could imagine.

And so I guess I like the kind of theory that that we're developing here about we bring China here in a way that you know we learn, I guess. So I have three concerns about China, just to be so. So one is the the kind of dependence, and and I would have this concern about any country that had you know 90% plus market share in certain industries, so including Taiwan in in chips, including Elon Musk with Starlink, so anyway, I feel like that is you know something we need to to deal with. A second thing is the the surveillance potential, and you know is the stuff that Jonas mentioned is that enough? I mean, that's honest question. And then the third thing is you know China competes partly through like Japan a different and better production method, and that we really want to learn from. It's really important, really valuable. But it also competes because of subsidies and repression of workers in the environment. And we, you know, we may need, in fact, tariffs for a long time because I don't think we should be expected. Americans should be expected to compete with you know costs that are lower for those reasons. S

o then, I guess I'm back to my question about what would we really put in place that would ensure learning. You know, you could say that it has to be a joint venture or a license. It can't be a standalone company because it seems like that there has to be union neutrality in any kind of thing that's put in. I guess I am really wanting to understand the details of how the the tech transfer. I mean, there were requirements for tech transfer. I don't understand how the Chinese enforce them. I think there was some sense in which U.S. short termism. You know, they wanted to transfer because they wanted to build up the Chinese quickly. You know, that may not be so present in in China right now. Although you can also think, you know, they they depend so much, so heavily on on exports because of the the current you know cutthroat competition that they have.

So I guess my question is, I feel like I agree with in theory with this, but I'm you know, can we actually make this work and not end up being? I mean, one of the things that we actually did do with the Japanese investment was construct to some extent in a parallel auto industry where there was excess capacity in the U.S. for many decades, and that had you know terrible consequences for both small suppliers and workers. You know, could we avoid that? How do we get real learning?

Marcus Stanley 29:14

What what do you mean by parallel auto industry?

Susan Helper 29:17

To some extent, the Japanese didn't want to work, so there were some great examples of Japanese tech transfer to U.S. suppliers, and I've written papers about that. But they also wanted to bring in their own suppliers and their own own new factories in new Places non-union, and you know, and so given that the overall auto industry in the U.S. is not growing, there was a kind of substitution of existing U.S. companies for new Japanese suppliers, and it and and. So you you definitely had capacity utilization very low for a long time, and it gave it yeah was just a bad situation for both the owners of those small companies and the workers there.

Marcus Stanley 30:14

Yeah. So I also want to expand on something that Sue said about Chinese surveillance, because I think that that gets to something that's this deep concern in Washington, but it's also kind of non-specific. That there's kind of this assumption, and sometimes it can kind of verge on science fiction, where you you let Chinese you let China in, and they're going to use any interaction or knowledge they get in America for some unspecified sinister purpose. I mean, we see, for example, laws being passed against Chinese purchases of farmland based on you know they're gonna they're gonna surveil their neighbors or they're gonna somehow interfere with the U.S. food supply, even though it's very unclear whether how you would ever want to do this or how that would help the Chinese. We saw the ban on all Chinese software in U.S. autos, in part because of both surveillance concerns and concerns that you know there, I suppose the Chinese could implant a widget that could sabotage our cars, but it's unclear why you would want to suddenly out of nowhere, sabotage all the cars in a nuclear power that you know could potentially, you know, you know

Susan Helper 31:48

Well it is also true though that that China you know restricts Teslas from driving in certain places. That that China does have this fear about our software and what it might do. So I don't think it's a completely made up fear. Whether whether you need to, you know, whether these draconian measures of banning it are the only option to deal with it, I think that's a that's a really important question.

Jake Werner 32:11

That that does that does bring up, I think, a really a key question, which is, you know, I think probably China is overly paranoid about the United States, and I think the United States soberly paranoid about China, but China has figured out a way to incorporate American business and technology in its advanced sectors in a way that the Chinese government, not noted for not being paranoid, right? Like the Chinese government is paranoid about everything to do with security, but they have found a way for Tesla to be a huge producer and presence in the Chinese market. And what is stopping us from from doing basically the same thing is is my rhetorical question.

Susan Helper 32:46

It’s a great question.

Marcus Stanley 32:48

Yeah, it's actually a really important point. I think because on the one hand we we sort of ascribe all these benefits of openness to China. For example, we say, well, the Chinese advanced by letting U.S. companies in, learning from them, taking their technology. The Chinese benefit by the Belt and Road project, which is a project of international openness. But then our response to the Chinese isn't that. Well, we're going to figure out how to use openness to our benefit too. It's that we're going to close everything off. And there's actually an upcoming Quincy Institute paper should be out in the next week or two from one of our experts, Dennis Simon, on U.S. science and research, where he makes this point that China currently is starting all these joint research and science programs all over the world, where their scientists are cooperating all over the world, and the U.S. now is banning cooperation with with China and other targeted countries, sort of putting on these blanket bans on research and science cooperation, and is this is this really making us stronger, or is this something we can learn from? So, so Jonas, do you have anything to say? Do you have anything you want to say about you know where the how to right size security concerns and what rational security concerns are versus where it goes too far?

Jonas Nahm 34:26

You know, in the next 25 minutes, I don't have time to kind of fill out a full kind of architecture for how to do this. But I think broadly, what I would say about this is that we've been sort of using China to motivate and sort of the security threat from China to motivate a whole range of policies, even when we knew that they weren't necessarily about economic security, but they were about economic competitiveness or protection. And so, I think we've really muddied the waters on what is a genuine security threat and what isn't. And. I think it's really hard in Washington today to have a conversation about where does this apply and where does it not apply and where it does apply. What do we do about it? And is this something we can fix through regulations on local, you know, localization, sort of supply chain localization? Is it about data storage? Like, what is the actual concern and how do we address it?

And so, I think there has been this tendency of motivating industrial policy in Washington with this China threat, and I think that makes it really, really difficult to then develop a solution to these things. And so, I'm not going to promise the solution here, but I think there is a way to kind of parse these things out and say, okay, so yeah, what can we learn from the Tesla example in China, and what would it take to make sure that these cars don't, you know, send anything home? Is that is that feasible? In the solar industry, we're seeing we're seeing this right now, where we're saying okay, so we can't have Chinese inverters on the U.S. grid, but the panel itself actually poses much less of a threat, right? So you can also sort of go into these supply chains and think about which are the pieces of this that that you actually need. And so I think that's sort of one of the problems.

And so because we we have sort of politicized this and and kind of use China as a motivation for industrial policy, we're also doing everything at once, right? So we're we want to decouple on on everything in all sectors all all at once, and I think that's also pretty unrealistic. And sometimes it doesn't serve other goals. So you know we want to build a domestic solar industry, but panels in the U.S. are three times as expensive as in the rest of the world as a result of all of that. And so that's probably not helping our decarbonization goals. It's not helping energy affordability, and so these trade-offs that that you need to weigh, and that then sort of preclude to me a kind of sequencing where we also need to be realistic about what can we build domestically and how quickly, and in the meantime, which are the sectors where we're going to continue depending on China whether we want it or not because we don't have the capacity to do it all at once, and so you know, by throwing sort of the security umbrella over everything, these much more nuanced conversations aren't happening enough.

And I think that's leaving us with a pretty blunt, and in some ways also pretty unrealistic playbook for how to do this because we assume that we can use tariffs and you know a pretty sort of unstable domestic industrial policy to build out domestic supply chains across the board in ways that I just don't see happening at the speed and scale that we that we need.

Marcus Stanley 37:32

Right. So we're going to turn to audience questions in just a few minutes, and we've got 10 or 11 lined up here, but would like to encourage people to to add additional questions in that Q and A box at the bottom. But I will I will ask another question to our panel. And Jonas accused me at the very beginning of of throwing some hard balls. but this is so. I guess I plead guilty to that because this is a particularly impossible question. But how do we deal? Stepping back, look at sort of the global Chinese challenge here. Even if we, the the Chinese industrial juggernaut is not going anywhere.

We hear about we're looking at this second China shock or China shock two, which is a tremendous wave of Chinese exports that are happening now in advanced and high tech industries that threatens industries in in Europe, in the U.S. really across the world. I mean, people are talking about the German auto industry, which is an amazing tradition, being displaced or possibly eliminated by a wave of Chinese exports as well. How do we manage that challenge? You know, is is I guess you guys have already addressed this a little bit. Is protectionism going to do this? Is some kind of anti alliance, anti China alliance of countries going to do it? Is it something we can negotiate with China about? How how do we address this? So I know it's a very global question, but just give your opinions.

Susan Helper 39:29

So I guess I would jump in. I just sort of, you know, what what is the what is the ultimate goal here, and yeah, with respect to China, and I guess I feel like, as I as I was saying, I think these industries where you know one nation really dominates, you know, to the tune of 80 90% I think that that needs to come down. You know, I don't know. I don't think it needs to come down to zero, but it needs to to to come down. And I think there needs to be. Pressure or whatever on on the Chinese government to have more of a domestic focused strategy that you know they have built this amazing industrial machine and let their own people benefit from it. It was a great interview with Ezra Klein and Brad Setzer making this point about export. You know the the the size of the Chinese export surplus, just kind of in general, is very high and is a negative externality. I think for the world. So, so what I think that that's that is part of an issue.

But I guess I I also think that the idea that we need always and everywhere China to be zero or the U.S. interaction with China to be zero. I think that's also a problem, as you all have been have been forcefully explaining. I guess I do I do worry, or I do think that the that the Chinese, you know, the the security and the surveillance is something that we need to worry about. And I guess I would say it's not just China, but also our homegrown American companies, and maybe this is a broader debate. That, but but I think these are real issues that we should not skate lightly over.

Jonas Nahm 41:14

I I agree with that. I I think that there's a few additional things to sort of think about in this space. I mean, one thing is that China is is doing well because of scale, and so the question is how do we build scale to compete with China's scale elsewhere? And to me, you know, thinking beyond the auto industry, that will require some coordination with other countries to do this. We cannot, in a single economy, replicate what China can do in a single economy on manufacturing scale, and so some sort of allied industrial strategy is needed there. And I don't know if we're doing a lot right now to really keep these allies close. I think the Canadian trade war at the moment is not a great demonstration of how to build scale across borders. The other thing that that I think a lot about is that we're still dealing with the China shock right now, the second China shock as a cost based threat that is driven by subsidies and not by technology, and I think that you know we really need to think about Chinese production methods, automation, AI driven kind of automation in China.

I was recently in a Xiaomi plant in the outskirts of Beijing. I mean, there's 15 software engineers that sit in a room in the middle of it, and the rest of it is robots. That plant went from having 10,000 people work there to 2000 people work there in the last few years, and these are great cars. I mean, they're beautiful. I buy one, right? So, so there is a sort of real technological competitiveness here. And so, what are we doing about this? Do we have a national automation strategy? Do we have a program for how to do this? And instead, we're using manufacturing policy as this stand-in, as if it's going to fix all of these social problems that we have, like you know, structural kind of weakness in the economy in certain parts of the country. You know, we have this sort of romantic version of all of this. I think there is real technological change in how manufacturing is happening right now. It's giving China by embracing that change a competitive advantage. If we were to do the same thing, it would also mean you know huge problems for the sort of traditional coalition that has carried manufacturing policy in this country, and and probably a lot of social disruption.

But I think it's something we need to then embrace and work on, or else manufacturing is going to be the next data center debate, where you have highly automated production plants that don't employ a lot of local people, but are resource intensive all over the country, and they're not going to be carried by you know by the public in the same way anymore. And so there, I think protectionism is not enough. I think we need a domestic policy debate about how to how to basically modernize manufacturing responsibly and what that means for the different constituents that are invested in manufacturing today. And I think that's again sort of going back to this politicization point. Not really a debate we're having. We could be using China as a hook to have that conversation here, but instead we're sort of arguing that it's all competitiveness as a result of subsidies, and so we're not really dealing with the kind of underlying.

Susan Helper 44:16

I guess so. I testified in April at a hearing on robotics before the subcommittee of the House Science Committee, and it was amazingly bipartisan. And the the one disagreement was actually about tariffs, and that disagreement did not break down upon on partisan lines. And it seems like there is at least a nascent idea for what you were saying about a national robotics strategy. I guess you know the question is, can we put real money and consistency behind it? But I guess I am somewhat more optimistic, and I guess I see in some ways, you know, this marine. Slotkin bill that's against banning Chinese connected cars is actually an opening in its own way.

I understand that the the difficulties that you see with that approach, but it also is a kind of recognition that we need or auto industry is strategic that connected cars are the wave of the future. Can you get them? Can you use that as an opening to get Republicans to see that actually? So we need an auto industry. Realistically, that auto industry needs to be electric. So we need to actually think about how we're going to have an electric vehicle industry and not you know just get rid of all the subsidies. So so I almost I also think there's another way around it, and there's you know nascent coalition building doing that too.

Jake Werner 45:45

So I want to pick up on on that and and the point that Jonas made earlier about because I think there's something similar going on there. We have terrible dysfunction in our politics that comes from the breakdown, like the the changes in the two parties, and but ultimately this can be traced down to the the inability to deal with inequalities that emerged from the globalization era, and and it's and then they reinforce each other because the politics makes it impossible to to do anything about those inequalities, and I think one of the main ways that DC has settled on trying to get around the these dysfunctions is well, everyone hates China.

Let's just say everything that we need to do to address problems in our manufacturing sector, to to increase the power of labor, to and also to make America's decline in global position stronger is everything is about China, and you see that reflected in the fact that there are literally hundreds of bills that are just targeting China every year, and and and the only way that really you can get a hearing for your issue in D.C. is if you tie it to China in some way, and this can go to absenteeism.

Susan Helper 47:06

What would you what would you do instead? If so, if there's an agreement on one and an industrial policy, what's the argument about how that gets done?

Jake Werner 47:19

I think there will have to be some sort of deep change in our politics, but I mean, deep changes in our politics are ongoing right now. the The record of the Trump administration is going to do terrible damage to the Republican Party, and then there will be an important question about how the Democrats and the Republicans both come out of that. And I think one way they could come out of that is to say, okay, let's go back to this. Everything we do is against China. This kind of blaming China for all the failures that actually were structural problems of the global economy that China was able to, in some ways, take advantage of, but certainly not caused by China. Like you know, you get you talk to people in D.C. and often they'll say globalization was great. China just came and screwed it up.

What we need to do now is go back to globalization, just with China on the outside, and and as sort of a, if you look at the kind of discussions that that are happening in pages of foreign affairs, there's like six articles every every issue that basically say we need to form up, we need to repair our alliances and then turn them against China, and this is this is a a recipe for terrible geopolitical conflict. China, China will not. China is not the weak country that it was in the '90s when there was similar sorts of politics around blaming China for this and that. It is powerful enough to defend its own interests. It has accumulated the kind of institutional basis for doing so.

Now, in response to the the American economic attacks of of the last decade, and so China is going to fight back, and then that will tend to create an escalatory spiral, where every time China pushes back, the United States says, "See, this is the the the malicious behavior of the Chinese. We have to we have to stand strong against it and push back further, and you get this escalatory spiral, and you get the escalatory spiral on the economic side and the security side as well, because these things are really deeply enmeshed in a way that I think we're only coming to realize now over the last decade as the old kind of distribution, the old division of labor between security is over here, economic is over here.

We don't really have to talk to each other. Like that has broken down, and it's now. I think it's clear to all policymakers, if not to all researchers and academics and policy formulators, that economic insecurity issues are the same thing. And if we don't find a way out of that that is not zero sum, then that necessarily means that for one side to grow, the other side will have to fail to grow. For one side to achieve its security objectives, the other side will have to fail. I I can't see anything but conflict coming out of that. So I think the the stakes here are really important. But the for me the prescription is instead of blaming China for everything, instead of trying to do everything with China as an excuse. Let's actually face our real problems and have a healthy discussion about the problems in our society. And then we can think about how China might might fit into a solution.

Susan Helper 50:09

Yeah. So so okay. So there's a blaming China, but there's also then you know a response to China that even if you're deciding we're not, you know, you're totally taking your analysis as correct, which I I largely do. I think there's still an issue of needing to have China or or dealing with these 90% market shares in key industries that China has built. Whether we would call it blaming China, whether you know they have their own internal reasons for for acting the way they're acting, I. But but I think it's not just that we yeah.

Jake Werner 50:46

I totally agree, and and but I think we need to recognize that instead of just seeing China as a threat here, we also need to understand that China sees the United States as a threat because the United States also has similar forms of systemic domination that it has weaponized, and it would be, I think, a very, a very fruitful path if we simply talked about these things with China instead of instead of saying China did this wrong, China did that wrong. If China is in our economy, then our entire country will will be destroyed. If we just simply went to China and said, "Look, we understand that over the last decade things have really gotten crazy. That that is what happens when a global structure of of economic growth and and political coordination breaks down, as as the globalization system did following 2008. We don't have to blame each other for that, but we do need to kind of calm down and think about how we could reform it in ways that would open up space for both of us to succeed.

Marcus Stanley 51:41

I totally agree, and and but I think we need to recognize that instead of just seeing China as a threat here, we also need to understand that China sees the United States as a threat because the United States also has similar forms of systemic domination that it has weaponized, and it would be, I think, a very, a very fruitful path if we simply talked about these things with China instead of instead of saying China did this wrong, China did that wrong. If China is in our economy, then our entire country will will be destroyed. If we just simply went to China and said, "Look, we understand that over the last decade things have really gotten crazy. That that is what happens when a global structure of of economic growth and and political coordination breaks down, as as the globalization system did following 2008. We don't have to blame each other for that, but we do need to kind of calm down and think about how we could reform it in ways that would open up space for both of us to succeed.

Susan Helper 52:40

I think it's really important and really key, and and there's a lot of smart thinking going on about this. I guess so. So I totally agree. The U.S. needs to do more. I also feel like you know this this sort of climate green transition that that we need to make as a worldview. It has benefited in China from the kind of central authority, the you know somewhat wise philosopher kings that have been ruling China for a while. But that you know isn't guaranteed to go on forever. I mean, I think yeah we shouldn't engage in linear extrapolation about what China can do. And there's a really interesting piece by Noah Smith that talking, kind of talking about this, and you know we have course correction for hopefully for Donald Trump. Does the Chinese government, you know, have have correction for their excesses?

Jonas Nahm 53:38

I would add to this that I think we there's more we can do on sort of horizontal industrial strategies that make the U.S. more competitive rather than focusing so much on making others less competitive, right? And we have a sort of political problem in D.C. So a lot of policy gets passed as kind of reconciliation packages, which very much limits what you can write into the industrial policy, and what you don't get out of that is new institutions that revolutionize manufacturing financing for small and medium-sized businesses in the auto supply chain that would really benefit from that, right? Like what you don't get out of these bills is investments in vocational training or retraining of workers for other industries if we are dealing with automation, so there's things we can do to make the U.S. economy sort of structurally more competitive for these industries that we're trying to build, and I think that our system is not really set up for that very well.

I think there's some things we can learn from the Chinese industrial policy apparatus. I think the financing piece, for instance, just sort of de-risking the capital stack that they're doing very successfully is something we could sort of try to emulate in different ways. There are lots of things that we can't emulate, like it's a hugely wasteful system. You know, lots of companies competing against one another, many of which then ultimately go bust and take lots of sort of public banking loans with them as they as they. Die, I don't think our system could sort of handle that kind of industrial policy. So that's not something we need to replicate. But but on sort of the fundamentals, how do you, you know, what are what are the financing obstacles to building out a critical mineral supply chain domestically, and what can we learn from the way that China has done that? You know, there's there's things we can learn from that, and and I think

Jake Werner 55:21

There's actually proposals to kind of restructure the XM Bank that the Schumer has that that you know might achieve some of this is not the same as starting from scratch, but I think having this debate and having the idea that government in the U.S. has in fact been an extremely powerful force for good. You know, built the TVA, it structures that electrified rural America. That that government can actually do these things, and that a visible state, you know, is something we can do and is something we need to do. I think that's a really important set of discussions to have.

Marcus Stanley 56:01

So, one of the other questions here often comes up in D.C. How could a mutual investment arrangement occur while preventing the Chinese from unlawfully stealing American IP and technology?

Jake Werner 56:17

Of the things we're talking about here is technology transfer to the United States to American businesses because Chinese businesses are now on the cutting edge in some of these key strategic sectors such as EVs and batteries and robotics. And if the United if U.S. companies don't catch up, that is going to be a serious problem for the future of the American economy. So one of the sort of core features of the of the kinds of industrial policy thinking we're articulating here is that the United States would welcome Chinese investment, but on condition that technology transfer occurs. And now that's how China was able to advance as quickly as it did, is because it used the size of its market and the cheapness of its labor force to entice foreign investment in China on condition of technology transfer.

So a lot of a lot of that is is called in DC worst technology worst technology transfer. That was actually just a market agreement. China had enough bargaining power to get something out of foreign investment, unlike other countries, right? So Mexico also has had a huge amount of foreign investment over the last 40 years, and has not achieved the kind of technology transfer and development out of that process that China was able to achieve. Now, technology transfer wasn't the only consideration here. Like state capacity is also an important consideration, and and the way that the Chinese state works is quite different from the Mexican state, of course.

Susan Helper 57:38

Well, the political allegiances of Mexican politicians with American multinationals versus yeah, there's a whole bunch of coalitions, right? That yeah, but really important.

Jake Werner 57:47

Yes. So I think the the first thing maybe is just we need to get away from this absolutism about intellectual property that only emerged in the 1990s with the WTO IP system. Before that, every country was stealing each other's technology all the time, and the way that the United States industrialized was by stealing technology, and the way that Germany industrialized was by stealing technology, the way that every country industrialized was by stealing technology. And if we're going to have an intellectual property system that does not allow for the diffusion of intellectual property and technology, then we are going to have a deeply impoverished global system. Now that does not mean that what China did was healthy.

I think we need a different framework that is more liberal in in the ways it allows technology and intellectual property to circulate, rather than just having countries break the rules willy nilly. I think that that is really leads to resentment and conflict. That's not good either. But the the problem is not just on the Chinese side. The China did what it needed to do to develop, and the global system was not accommodating of it. And that's a problem with the global system as much or more than it is a problem with China. Now, if we can get past that idea of intellectual property absolutism, then we can think about how the United States could also benefit now that the United States has fallen behind in a number of very important strategic technologies.

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Marcus Stanley 59:04

Thank you. So we're coming right up on 2:00 here, and I I feel guilty because I've I've have been able to get to all the questions. I'll ask one final viewer question because I think it's a very interesting one. If the U.S. and China could clarify and agree on a set of allowable industrial policies. Could this lead to a reform of the broader global trade system? And I think this this gets to the question of can can we have some kind of grand bargain with China that addresses this the level of Chinese exports and kind of rebalances the the global trading system in some way. Do you think that's possible?

Jonas Nahm 59:47

I think we need some sort of set of guardrails, right, for industrial policy everywhere. I mean, there is a sort of world in which everyone subsidizes domestic firms, and it's just kind of the subsidy race that's not particularly. Helpful, and so figuring out a way of you know policing industry policy in a way that doesn't make it illegal, but that says some industrial policies have negative spillovers and negative externalities for others, and some of them are more about building domestic competitiveness and how do we sort of balance all of that. I think would be helpful not just with China but also with the rest of the world. I mean, when we passed the IRA, the Europeans were hugely upset because all of the investments that were supposed to go to Europe then suddenly redirected to the United States, right?

And so, if we want to build a system in which we get along, I think we're going to have to have a set of rules around what kind of subsidies, what kind of state support is legitimate and what isn't, and that's going to be a difficult conversation to have with China. In part because you know these domestic imbalances in China are also because they have a huge domestic savings rate. People are worried about the welfare state, so they save a lot. The money goes into manufacturing. They build a lot of capacity, and that's going to be a generational challenge for them to fix, and not something we can expect them to turn off by tomorrow. And so, you know, these are long-term conversations, but I think they're fruitful ones, especially in a world where we now think about supply chain resilience and security differently, and are intervening in the economy in a different way.

Susan Helper 1:01:14

I'd make a distinction, maybe not so much on what kinds of policies are allowed and not allowed, but just that policies to build a domestic industry for purposes of domestic innovation, domestic reduced vulnerability to supply chain disruption, I think those are fine. And where I would draw the line, and I was also you know not not thrilled in the Biden administration about the idea that we were going to subsidize our batteries and then export these subsidized batteries around the world. That didn't seem completely fair to me either, but I think, and I do think that China needs to just start now. You know, they can't do it overnight, but they need to start. I think doing more more emphasis on their on domestic consumption.

Jake Werner 1:02:03

Quickly on that because I I totally agree that that the that China's consumption domestic consumption needs needs to increase significantly. The question for the policymaking community I think is, are we going to get that outcome by blaming China for all the problems in the global economy? Are we going to get that outcome by making them feel like they are surrounded by hostile a hostile alliance of all the rich countries in the world. I think the answer obviously is no. It would be much more practical, I think, to recognize that the imbalances in the global economy have to do with structures in the global economy, not just with China. That workers are under are underpaid. They have a an inadequate inadequate share of the wealth that they create everywhere in the world, including the United States, certainly China, but including the United States and and the rest of the world as well, and that shifting the terms so that there is more there is more consumption that you and more consumption comes from higher wages and comes from stronger public goods.

Every country in the world would benefit from higher wages and stronger public goods. The question is, how do we coordinate that? And I think that has to because because if one country does it by itself, that will give it a competitive disadvantage in the global economy. So it can only happen if it's it's it's coordinated in a multilateral way. And I think the starting point is for the United States to come to China and talk about end the blame game against China and start talking about what a global reform agenda that would raise wages and expand public goods everywhere in the world could look like if the United States and China could accept each other as being successful in the global economy.

Marcus Stanley 1:03:36

And on that note, I think that's a great note to wrap it up on. We've gone almost five minutes late, and again, apologies to our viewers whose questions I didn't reach. But I thought this was a great conversation, so thanks so much to our our three experts, and have a great afternoon, everyone.