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"U.S.-China: Winning the Economic Competition"

Chairman Cotton, Ranking Member Cortez Masto, thank you for the invitation to testify and thank you for holding this hearing on this most important topic.

It is not too much to say that the competition between the United States and the Chinese Communist Party is the great power contest of this and the next generation (at least).

Don't take my word for it. Take the word of the General Secretary of the Chinese Communist Party, Xi Jingping.

In his January 2013 remarks to the Party, Secretary Xi laid out the competition from the view of the Chinese Communist Party.

> "Facts have repeatedly told us that Marx and Engels' analysis of the basic contradictions in capitalist society is not outdated, nor is the historical materialist view that capitalism is bound to die out and socialism is bound to win. This is an inevitable trend in social and historical development. But the road is tortuous. The eventual demise of capitalism and the ultimate victory of socialism will require a long historical process to reach completion. In the meantime, we must have a deep appreciation for capitalism's ability to self-correct, and a full, objective assessment of the real long-term advantages that the developed Western nations have in the economic, technological, and military spheres. Then we must diligently prepare for a long period of cooperation and of conflict between these two social systems in each of these domains.
>
> For a fairly long time yet, socialism in its primary stage will exist alongside a more productive and developed capitalist system. In this long period of cooperation and conflict, socialism must learn from the boons that capitalism has brought to civilization. We must face the reality that people will use the strengths of developed, Western countries to denounce our country's socialist development. Here we must have a great strategic determination, resolutely rejecting all false arguments that we should abandon socialism. We

> must consciously correct the various ideas that do not accord with our current stage. Most importantly, we must concentrate our efforts on bettering our own affairs, continually broadening our comprehensive national power, improving the lives of our people, building a socialism that is superior to capitalism, and laying the foundation for a future where we will win the initiative and have the dominant position."

It has been said that the first line of encryption the Chinese use is Chinese itself. The Chinese Communist Party is not shy, ashamed, or particularly secretive about its plans: the extent to which it hides them at all, it hides them with the Chinese language.

General Secretary Xi promises the "eventual demise of capitalism". He promises that Chinese socialism will "win the initiative and have the dominant position." This is not a promise of peaceful co-existence between competing world views.

Professor Josh Eisenman has compared this Chinese socialism to earlier incarnations of national socialism in Mussolini's Italy and Hitler's Germany given the common themes of fascist government. It appears fascism truly is back, just not necessarily where some are looking for it.

So General Secretary Xi has been clear about his plan. What is our plan in the U.S.?

On May 20th of this year, the White House released the "U.S. Strategic Approach to the People's Republic of China", in response to Congressional direction, which was nested within earlier strategic documents like the National Security Strategy of 2017. It laid out two principal lines of effort:

> "Our competitive approach to the PRC has two objectives: first, to improve the resiliency of our institutions, alliances, and partnerships to prevail against the challenges the PRC presents; and second, to compel Beijing to cease or reduce actions harmful to the United States' vital, national interests and those of our allies and partners. Even as we compete with the PRC, we welcome cooperation where our interests align. Competition need not lead to confrontation or conflict."

This document should be read alongside the recent public statements of Administration senior leaders like National Security Adviser O'Brien, FBI Director Wray, and Attorney General Barr.

What we are witnessing is a full court press by our senior national security leaders to alert Americans to the national security threats posed by what Director Wray referred to as a "whole of society threat" in 2018 testimony before the Senate Select Committee on Intelligence.

Attached to my statement is a public version of what we used to call the "wheel of death" when I served in government – it shows how China leverages its "whole of society" approach to steal its way to economic development and military modernization. I urge the Members of this panel, the staffs, and everyone watching, to familiarize yourselves with this unclassified U.S. government product: don't assume you aren't involved in the competition with the Chinese Communist Party.

Let's be clear, it isn't enough to win a competition in a "whole of society" contest with only the national security apparatus aligned. Our economic apparatus must be aligned as well, and there is work to be done in this respect.

I recommend to you three specific areas of focus to enhance U.S. economic strength to win the competition with the Chinese Communist Party:

1) expand the surface area of the competition with China by creating a truer competitor to the China market;
2) reform our approach to the promotion of U.S. exports and alternatives to China Inc. into a true strategic process for winning the competition; and,
3) overhaul our approach to export controls (a critical and effective tool, when used as a part of a balanced, integrated policy framework).

First, developing the free market to defeat Chinese mercantilism.

The Trans-Pacific Partnership (TPP) arose from trade discussions in the early 2000s under President George W. Bush, culminating in an agreement between 12 nations signed by President Barack Obama in his final year in office.

Unfortunately, support for free trade had begun to fade by 2016, when both major party candidates for the Presidency announced their opposition to TPP.

Given how the PRC has abused and violated its commitments under earlier trade agreements, to the detriment of American workers, seemingly with no response from policymakers in Washington DC, the diminution of support for new trade agreements should not have been a surprise.

To be clear, the withdrawal of the U.S. from TPP was a loss for our economic well-being and for our efforts to counter the CCP's predatory behavior.

Yet, on July 1st of this year, the United States, Mexico, Canada Agreement (USMCA) took full effect.

USMCA, the fullest update to date of the 1994 North America Free Trade Agreement, deepens the integration of the economies of the United States, Mexico, and Canada making North America one of the most deeply integrated economic zones on Earth.

The USMCA agreement was also remarkably successful by political standards, being endorsed by both the U.S. Chamber of Commerce and the AFL-CIO and passing the Senate on an 89 to 10 vote and the House on a 385 to 41 vote.

Of critical importance to the competition with the Chinese Communist Party, the update to NAFTA includes critical provisions that address the impacts of "state owned enterprises" including those not in North America that could affect trade or investment within North America.

Together, the USMCA economies serve 478 million people; their economic output is approximately $24 trillion per year, representing approximately 28 percent of the world's output at seven percent of its population.

Now imagine if a newly sovereign United Kingdom, with its 66 million people and nearly $3 trillion in gross domestic product, joined USMCA.

What about Japan's $5.1 trillion in GDP and 126 million citizens?

Australia, South Korea, New Zealand together represent $3.7 trillion in output and 81 million people. They could be brought in too.

At a combined economic output of nearly $36 trillion, and with 751 million citizens, a USMCA joined by the remaining Five Eyes, plus Japan and South Korea could be the freest and most productive trade bloc in the world. And it would be based on western values for the environment, labor, transparency and the rule of law.

The choice between access to a socialist marketplace ("with Chinese characteristics") and such a free trade bloc is really no choice at all.

Compare that to the status quo where international banks like HSBC believe they have to choose between the PRC and the West as the CCP violates China's international agreements and destroys Hong Kong's autonomy.

It would be far easier for Western companies to compete with Made in China 2025 state champions to build independent energy, telecommunications, and pharmaceutical supply chains. As I mentioned, USMCA builds in tools to counter state-owned enterprises in a way the World Trade Organization has refused to do.

But what if we don't build such an economic bloc? By some projections, in 2050, the U.S. will not only not be the largest economy by 2050, it won't even be the number two economy. How well postured will we be to compete with the CCP in that position?

Second, leveraging U.S. foreign assistance and investment.

As I alluded before, the Chinese Communist Party really doesn't hide its plans. China certainly hasn't tried to hide its Made in China 2025 plan.

U.S. business has just seen fit to ignore what's plainly obvious, lured into Beijing's maw by the promise of market access.

As you'll see in the enclosed 2019 *Newsweek* article, this may be changing, finally. But significant damage has been done.

The CCP has proven successful at boosting prospects of its favored domestic champions – among the most infamous, Huawei – with tens of billions of dollars in tax breaks, cheap financing, access to cheap resources, and privileged domestic market access.

In essence, the CCP has destroyed the free market in its prioritized areas.

What's needed to counter the CCP's approach isn't to copy what they've done.

We need to strengthen the free trade bloc (as I outlined above) and implement a strategic approach that can level the playing field. And we have tools…lots of them. For example:

- the Export Import Bank, with a lending limit of approximately $135 billion according to the Congressional Research Service;
- the Development Finance Corporation, built on the foundation of the old Overseas Private Investment Corporation with $60 billion in financing authority;
- in FY20, the Congress appropriated over $56 billion for international affairs, including approximately $20 billion that USAID manages;
- numerous other related organizations like the Millennium Challenge Corporation, the Economic Support Fund, the Global Fund, and many, many others; and,
- extensive infrastructure at the U.S. Departments of State and Commerce to advocate U.S. trade around the world (you have likely met with representatives of these services on your CODELs and in meetings with various Chambers of Commerce of U.S. business around the world).

What's missing is an organizational infrastructure and a clear mission.

There needs to be an ongoing evaluation of the important battlegrounds of the competition and a regular process to triage these battlegrounds and leverage our tools.

Who in the United States government has the responsibility to make sure the CCP doesn't acquire advanced aerospace technology in Ukraine, or a key port in Portugal, or some of the world's largest rare earth deposits in Greenland? If there's no U.S. company interested, the answer is often "no one". On the other hand, the CCP, with no accountability to its people, is willing to make the investment.

There must be clear direction given by the President for how he expects U.S. foreign aid to be utilized in the strategic competition with the CCP. To carry out that direction, it is imperative to re-establish the international economics directorate at the White House that lashed up the National Security and National Economic Councils.

DFC, as I noted, was built on top of OPIC, a development agency with a culture and mission established over decades. Included in its implementing legislation, the BUILD Act, was an effective prohibition on conducting business other than in low-income countries. The China competition doesn't take place only in low income countries.

Ex-Im has requirements on minimum thresholds of U.S. content to qualify for its support. Do these thresholds make sense if the larger goal is to ensure a proposal other than Huawei's wins a 5G tender?

At over $200 billion in capacity, we have what could effectively be a sovereign wealth fund for the China competition; what we need is a clear strategy to use it, with clear lines of authority and accountability to implement it.

While the 2017 National Security Strategy and the May 2020 Strategic Approach were important foundational documents, much remains to be done.

Lastly, leveraging export controls as a vital tool in an integrated technology protection framework.

Export controls have historically been a key tool the U.S. uses to prevent the spread of military sensitive, and especially proliferation sensitive, technologies.

They can also advance U.S. values and interest, as the Commerce Department proved yet again this past Monday with the third tranche of Entity List designations related to the CCP's digitized concentration camps, and its July 1 Business Advisory warning companies of the risks of supply chains involving Uighur forced labor.

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In the competition with the Chinese Communist Party, control of emerging and foundational technologies will take on new importance.

This is among the reasons why Congress overhauled export controls in the FY19 National Defense Authorization Act, in tandem with the modernization of the CFIUS process.

The Administration has had remarkable success with its campaign to counter Chinese 5G by using export controls: use of the Entity List and, more recently, updates to the foreign direct product rule, were directly responsible for the recent decision by the United Kingdom to alter its plans concerning Huawei.

But, the United States may also reach a point with export controls where it creates an incentive to "off shore" technology and production to put activity outside the reach of export controls.

Secretary Ross should be commended for his 100% commitment to the China competition. That said, it is time for additional agencies to come to the table.

For example, the Secretary of the Treasury has authority under the International Emergency Economic Powers Act (IEEPA), to add companies to the Specially Designated Nationals list, which would have the effect of blocking their access to the international banking system.

Such a designation would eliminate the incentive that export controls can create to offshore technology and production.

Policy makers should also consider whether it continues to make sense to split responsibility for the administration of export controls between the Department of Commerce and the Department of State for separate export control lists.

Such separation adds complexity for exporters, creates gaps through which our adversaries can seek to acquire U.S. technology, and it wastes resources that could be better applied to creating a nimble, streamlined process that serves both commerce and national security (including law enforcement).

Mr Chairman, Ranking Member Cortez Masto, Members of the Subcommittee, I don't think it's really questioned any longer that the Chinese Communist Party is a threat.

It's not too much to say, as commentator Andrew Sullivan did recently that,

> "[t]here is no doubt at this point that communist China is a genocidal state. The regime is determined to coerce, kill, reeducate, and segregate its Uighur Muslim population, and to pursue eugenicist policies to winnow their ability to sustain themselves."

Likewise, General Secretary Xi himself spoke of the "eventual demise" of our way of life.

When we confronted the last strategic great power rivalry, we managed to make this a bipartisan fight.

Teamed up were: national security hawks, human rights doves; Wall Street and labor; churches and intellectuals.

So must it be this time around.

Republicans and Democrats can unite to counter the common threat of the Chinese Communist Party's doctrine of national socialism.

Thank you again for the invitation to be here today.

(Source: https://www.judiciary.senate.gov/download/12-12-18-demers-testimony)

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NEWSWEEK MAGAZINE

How America's Biggest Companies Made China Great Again

BY BILL POWELL ON 06/24/19 AT 12:21 PM EDT

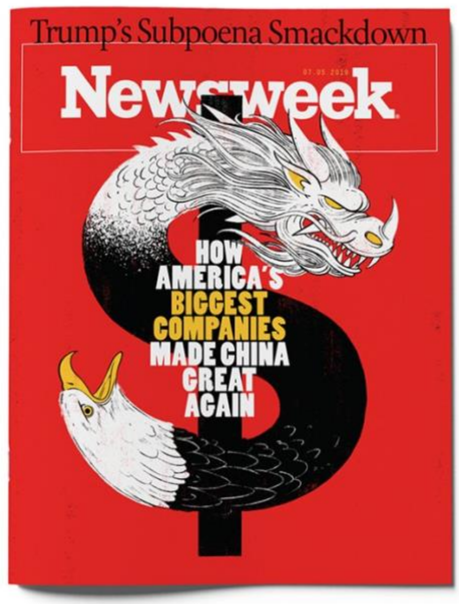

ILLUSTRATION BY ALEX FINE FOR NEWSWEEK

WORLD CHINA COMPANIES

In the summer of 2010, Jeff Immelt, then the CEO of General Electric, sat on one of the private planes at his disposal, headed to a conference of Italian business executives in Rome. He had just come from meetings in Shanghai and Beijing, and was in a sour mood. GE had spent years—and invested millions - in China, believing, like so many other Fortune 500 companies did, that it was the future: the largest and thus most important market in the world. The year before GE's sales there had been $5.3 billion.

Now Immelt was losing faith. Growth in the company's key businesses, including power and medical imaging, had begun to slow from the levels GE expected. Government regulators, meanwhile, seemed increasingly hostile, holding up permits and increasing inspections of company facilities for what seemed like no reason. In Rome, Immelt let his fellow CEOS know what he was thinking. "I really worry about China," he told the group, according to several executives present. "I am not sure that in the end they want any of us [foreign companies] to win, or any of us to be successful."

Former GE Chief Jeff Immelt at ribbon-cutting ceremony for a technology center in ShanghaiLIU JIN/AFP/GETTY

In the years to follow, similar grousing would become commonplace among senior Fortune 500 executives. Life wasn't getting any easier in China, it was getting tougher. But few companies—GE included—were willing to do much about it, by bringing their complaints to the U.S. government and petitioning for a formal trade complaint. The risk of angering their hosts in Beijing was too great. Indeed, when news of Immelt's remarks in Rome later made headlines in the financial press, GE beat a hasty retreat, issuing a statement saying that the CEO's words had been "taken out of context."

Nearly 10 years later, the U.S. China relationship—for decades routinely called the most important bilateral relationship on the planet—has all but collapsed. When this magazine went to press, Presidents Donald Trump and Xi Jinping were scheduled to meet on the sidelines of the G20 meeting in Osaka, in the midst of a deepening trade conflict between the world's two largest economies. The deteriorating economic relationship is but one aspect of what has devolved into Cold War 2.0, as the two countries now openly vie for influence in East Asia and beyond.

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THE PARTY OVER? Clockwise from top: Chinese President Xi Jinping and his wife Peng Liyuan with President Donald Trump and his wife, Melania.
XINHUA/XIE HUANCHI/GETTY

In the U.S., in the community of China watchers and policy makers, the stunning turn in relations with Beijing has triggered an increasingly acrimonious debate about a basic question, one with deep historical resonance: Who lost China?

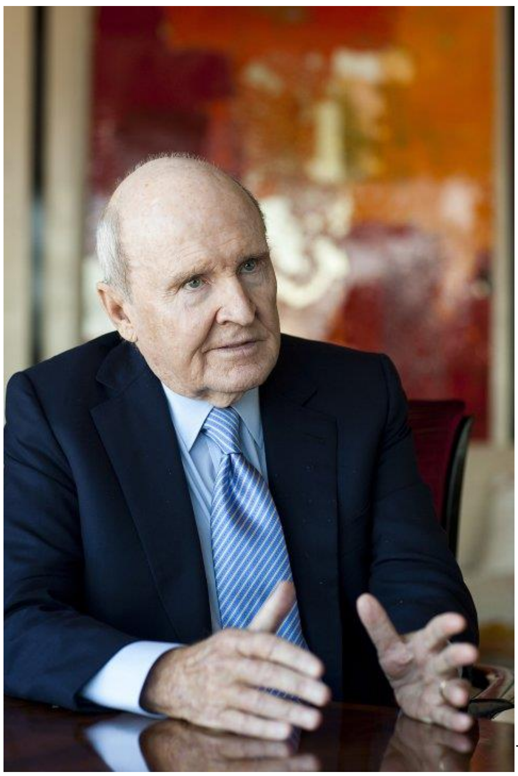
The role of big business in the current dismal state of affairs can't be ignored.

For more than a decade, I watched it unfold from a front row seat, as China bureau chief for Fortune Magazine and then for Newsweek. As the world's most populous nation, China has always been a dream market for foreign businessmen. Shirtmakers in England at the turn of the century dreamed of selling "two billion sleeves" in China. Today, Mark Zuckerberg takes Mandarin lessons in the hope that one day he can lure 1.3 billion Chinese to Facebook.

China Has Always Been Irresistible.

When, under Deng Xiaoping, the architect of Beijing's rise to economic power, China began opening itself to foreign investment, the money flowed in: first in search of cheap labor in low tech industries like footwear and textiles, then in pursuit of those 1.3 billion customers, as China got steadily richer as economic reforms took hold. For American CEOS, the potential Chinese bonanza meant that U.S. policy toward Beijing had to revolve around nurturing—and expanding—the economic relationship. So potent was the vision of China transforming itself from an insular, hostile and dirt poor nation into the country of "one billion customers," as James McGregor, former head of the American Chamber of Commerce in Beijing put it, that even the shock off the 1989 massacre in Tiananmen Square—the thirtieth anniversary of which just passed—faded in relatively short order. Just two years after Tiananmen, American direct investment in China shot up from just $217 million in 1991 to nearly $2 billion the next year.

For U.S. policymakers and businessmen alike, it was hard to overstate how promising the world looked back then. The Soviet Union had fallen and Deng was bringing China into the world. Immelt's predecessor, former GE CEO Jack Welch, told me on a visit to Shanghai a few years ago that in those days "we all had our fingers crossed that the sky would be the limit [for China economically]. And we basically turned out to be right."


Jack Welch, a fan of the largest and most important market in the world.
BROOKS KRAFT LLC/CORBIS/GETTY

The big business community made it clear—first to the Clinton administration and then to his successor, George W. Bush—that trade with China was its highest priority. Washington readily agreed. "The Fortune 500 and the U.S. Chamber of Commerce didn't just influence policy," says Alan Tonelson, a veteran trade analyst in Washington, "they made policy."

The first goal for corporate America was to get trade relations normalized "permanently" (known as PNTR, for "permanently normalized trade relations"). Prior to 2000, because of the post Tiananmen hangover, Washington every year would have to decide whether to grant China the same access to the U.S. market that it did other trading partners. With the U.S. Chamber of Commerce and the U.S. China Business Council as point men in Washington, corporate America lobbied hard for the move. More than 600 companies pushed for China's PNTR status. They got what they wanted. After a contentious debate with human rights advocates, the U.S. approved PNTR in 2000.

Unacknowledged at the time by its corporate advocates was the huge impact on corporate supply chains that the seemingly obscure legislative change would eventually cause. As the economists Justin Pierce and Peter Schott argued in an influential 2016 study entitled

"The China Shock"—which looked at how swiftly U.S. manufacturing employment declined as China's rise accelerated—"without PNTR there was always a danger that China's favorable access to the U.S. market would be revoked, which in turn deterred U.S. firms from increasing their reliance on China based suppliers. With PNTR in hand, the floodgates of investment were opened, and U.S. multinationals worked hand in glove with Beijing to create new, China-centric supply chains."

The Fortune 500 crowd was only getting started.

China's next goal was to join the World Trade Organization, the international body that sets the rules of global trade and is supposed to enforce them. WTO accession would be China's economic coming out party—the ultimate signal that Beijing had transformed itself into a global trading power. The U.S. business community was all for it, arguing that it meant "at long last that China agrees to play by the rules of the road," while ensuring that U.S. exporters "would benefit from a broad reduction in Chinese tariffs on imports," as a paper from the U.S.-China Business Council argued at the time.

In December of 2001, they got their wish. China officially acceded to the WTO. And the U.S. Chamber of Commerce practically turned handstands, issuing a statement saying that it was "unquestionably a win for U.S. exporters and U.S. consumers."

WTO accession served as rocket fuel to U.S. corporate investment in China. It skyrocketed in the first decade of the new century (see chart) In 2012 I met James Vance, the American CEO of a supplier to Nashville's Hospital Corp. of America, a guy whose company made walking boots, air-casts, slings and other low end medical equipment. He said not long after China joined WTO his firm moved production mostly from the southeastern part of the U.S. to the province of Guangdong in southeastern China. The reason: "We could make the stuff so much cheaper and export it to the world than we could in the U.S. It was that simple." And because it was that simple, nearly everyone got into the act. By 2015, the share of China's exports to the U.S. that came from foreign-owned companies was no less than 60 percent.

A neighbor of mine in Beijing in the early 2000s headed Ford Motor Corp.'s massive new plant in the city of Chongqing, 900 miles to the southwest. (He would go out during the week and return to his family on weekends.) In an era when it was politically incorrect for an American corporate executive to say so, he told me one evening he thought eventually Ford would move more production to China, not just for the domestic market (which is now, by the number of vehicles sold, the largest car market in the world) but to send abroad as well. "This place will become just like Japan, an export powerhouse," he said. (Ironically, the fear of exactly that happening in such a high profile, politically sensitive industry, particularly in the developed world, has actually slowed China's emergence as an auto exporter.)

Over the last 30 years, prominent American companies have become part of the fabric of Chinese life. Starbucks is as ubiquitous in Beijing or Shanghai as it is in New York. General Motors sells more cars in China than anywhere else in the world. KFC and Papa John's are in all major cities. And Apple has opened 42 of its iconic retail stores.


An Apple store in Hong Kong. BUDRUL CHUKRUT/SOPA IMAGES/LIGHTROCKET/GETTY

But the company's reach in China goes far beyond that. An entire network of companies, led by Taiwan's Foxconn, assembles or supplies Apple products in China. Today, nearly five million Chinese are employed by companies in that network.

The decision to set up such China-centric supply chains would become the stuff of the "China Shock"—the outsourcing of manufacturing jobs that would, to the dismay of most of the U.S. corporate establishment, play a significant role in the election of Donald J. Trump more than a decade and a half later.

The belief among executives back in the early 2000s was that China's economic reform would continue indefinitely, in part because Beijing had been embraced by the outside world. China would eventually become the world's largest economy, but that was OK, because it would be a "normal'' country, playing by the rules as laid down in the post World War II U.S. dominated order. As former Deputy Secretary of State Robert Zoellick famously wrote, the goal of western policy toward Beijing was to encourage it to become "a responsible stakeholder" in that established world order. All along, until Donald Trump came to office, the underlying assumption was that Beijing was willing to let the United States define what being a "responsible stakeholder" meant. That was a mistake.

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Trouble in Paradise

For most of the first decade of this century, reform did continue. But the Fortune 500's love affair with the nation came back to bite them. Increasingly, China began to generate its own competitors to the foreign firms that had set up shop there. State owned companies in big industries (oil and gas, pharmaceuticals, finance and telecommunications among them) pushed their government to favor domestic players, and make life harder for foreigners. When Hu Jintao became President in 2003, he was receptive to that kind of pressure. Economic reform slowed.

Then something else happened: the 2008 global financial crisis, which tanked the U.S. and the rest of the developed world, but not China. The political leadership in Beijing looked around and said, in effect, "wait a minute: we were supposed to play by these guys' rules and look what happened to them." In the future, economically speaking, China would increasingly play by its own rules.

That has particularly been the case under Xi Jinping, who succeeded Hu in 2012. Xi is a nationalist who believes sooner or later China will be number one, and the sooner the better as far as he's concerned. The American business community began to understand that the ground in China was shifting under their feet soon after Xi took power. XI's government made it plain, in its so called Made In China 2025 plan, that it sought to dominate key growth industries in the world. And though that meant for now Beijing would still buy high technology components from the U.S., it would do so only in the service of developing Chinese competitors, who, the government hopes, will eventually supplant American, Japanese and European firms in every key industry. So much for the 1.2 billion consumers.

James McGregor, the former head of AmCham in Beijing and now the China CEO for APCO Worldwide, the consulting firm, says he's been shocked at how slow on the uptake many U.S. companies have been about what the trajectory in China is, and has been. He notes, "In industry after industry there is a smaller and smaller piece of the pie available to a lot of foreign firms. That's just a fact."

The reason they were slow to adapt to that is, well, things had been going so well. "A lot of them had convinced themselves that [Beijing] would ride the reform bicycle forever and the economy would grow and grow and everything would be fine." The fact that that wasn't happening put at risk all the hard work and investment needed to establish a beachhead in China.

Well before Donald Trump was elected, the carping about Beijing's policies from the Fortune 500 crowd intensified. In the annual reports issued by the American Chambers in both Beijing and Shanghai, the number of respondents who felt the regulatory environment in China was worsening steadily increased. A senior executive at Honeywell in 2015 told me flatly that his company was fed up with Beijing's demands for technology transfer. Friends at CISCO and Microsoft said the same. Privately, the complaints about companies like Huawei stealing intellectual property also ratcheted up.

Moaning and groaning was one thing. Actually doing something about it, from a corporate or governmental policy perspective, was another. It rarely happened. And for that, big business is partly to blame. Michael Froman, who was the United States Trade Representative under Barack Obama, acknowledges that businesses's unwillingness to put its name publicly on trade complaints—in bringing a high profile case to the WTO, for example—"was a definitely a real problem. Not many of these companies," he says, "wanted to stick their heads above the parapet for fear of taking incoming fire." In eight years of the Obama administration, 16 cases against China were brought to the WTO.

That number could well have been higher, trade hawks like Alan

Tonelson believe, were it not for corporate America's relative passivity in the face of the economic challenges Beijing posed. The government had been persuaded that, as in the 1950s in America (when the first "Who Lost China" debate raged) what was good for General Motors was good for the country.

Then came the election of Donald Trump, who came to office threatening holy hell if Beijing didn't reduce its trade surplus with the U.S., stop its intellectual property theft and forced technology transfer. Worn down by Beijing and shocked by Trump's election, some members of the Fortune 500 snapped out of their stupor. The status quo when it came to dealing with Beijing wasn't going to cut it.

In December of 2016, during the transition, a small group of senior executives from the U.S. semiconductor industry made the pilgrimage to Trump Tower to meet with incoming administration officials, including the man who would be the new U.S. Trade Representative, Robert Lighthizer.

The delegation, two sources present say, included a representative from Intel, who acknowledged his company was beyond fed up with IP theft, among other concerns. In an interview, Lighthizer is circumspect when asked if U.S. companies waited too long in allowing the government to get tougher with China. "That may be true of some, but not for others," he says, noting that in his years as a trade lawyer at Skadden Arps he brought several cases against China as an attorney for U.S. steel companies. But, he allows, "yes, I'd agree it was past time for a more robust response [to Beijing.]''

The problem now is that Trump's response has been to use the battering ram of tariffs, which some in the administration hope will force U.S. multinationals to rip up their China-centric supply lines. Anecdotally there are reports that some companies have begun to do that, but corporate resistance to it is, not surprisingly, intense. "Having spent so much time and money building out their supply chains, there aren't too many CEOS who want to spend more time and money rebuilding them somewhere else," says former Trade Representative Froman, now a senior executive at Mastercard. And with a Presidential election now less than 18 months away, the possibility that a Trump successor may not be a "tariff man" (or woman) also means companies are unlikely to tear up their supply lines, at least for now.

Beyond that, there is little consensus as to what U.S. policy should be toward China, whoever is inaugurated in 2021. "These guys just long for the good old days," says trade analyst Tonelson. And he may be right. The U.S. Chamber of Commerce, which insists today it did the right thing in helping lead the charge for China gaining permanent trade status and joining the WTO, is a staunch opponent of Trump's tariffs. And a recent survey of American companies by AmCham Beijing showed that more than forty percent of respondents said they simply wanted a return to the "pre tariff status quo."

That fact, make no mistake, will put smiles on the faces of Xi Jinping's trade negotiators whenever they next meet their American counterparts. China knows that the recent history has been that the U.S. government will dance to U.S. business's tune. Trump and his team of advisers may not be inclined to do that. But their problem is, there are no easy solutions to resolving the trade issues that beset U.S.-China relations. Lighthizer has been telling Trump to hang tough and, if necessary, increase the tariffs on Beijing, arguing that that will force China to a deal sooner or later.

But corporate America hates that idea, and, problematically for Trump and his re-election prospects, so does the U.S. stock market. Increasing costs to U.S. businesses and consumers from goods made in China isn't a winning formula on Wall Street, nor in 2020.

The truth now dawning on both the U.S. China policy crowd and the Fortune 500, is that there may not be any answer for the dilemmas Beijing now presents to the U.S. No less than Henry Kissinger, the man who, under Richard Nixon, secretly paved the way for the U.S. and China to re-establish relations, recently said he thought designing a "grand strategy" to deal with China today is "too hard."

If that turns out to be true—and it may—American big business will have to stand up and partly take the blame.