



VIEW FROM THE PEAK

HUMANS AREN'T DONE YET

May 19, 2019

View from the Peak Expert Series

Jude Blanchette – The Crumpton Group

A multi-decade recalibration of the US-China Relationship

The View from the Peak Experts Series welcomes back Jude Blanchette, who runs the China practice over at the Crumpton Group, a consulting firm based in Washington. Our discussion is a longer-term, bigger picture focus on the recalibration of the economic relationship between the US and China. For those of you who remember back to December, our conversation on the pitfalls of Xi Jinping and One-Man Rule, was by far one of the best pieces that we have produced.

According to Jude, the US and China are set for a long-term strategic competition that is going to have significant knock-on effects for any business or investor in the global economy. And this is the narrative that we all need to come to terms with, and rather than looking for a return to the status quo, before the trade war began. All of us need to begin calibrating towards what is a significant paradigm shift. We are going to look at this period starting in roughly 2016 through until 2019, 2020 as being an epoch-making shift in almost all the important underlying forces that drove global growth over the past couple of decades.

US companies are increasingly being asked, who are you playing for? And I think it's unquestionable that executives at big companies are having to navigate this territory of how we stay competitive in a global business environment where we navigate what is essentially geostrategic hostilities between the first and second largest economies in the world. And that's a conundrum of stratospheric complexity, that again if we look at the intricacy of global value and supply chains, how the heck do you do this in real time when you have policies and regulations coming out of multiple governments that are looking to change or modify the way you do business?

In the United States, at the heart of this is understanding that technological innovation has significant national security implications. This is a technological battle in which the United States and their allies are concerned about the political and strategic underlying forces that are promoting Chinese firms into these high tech and frontier technology spaces and what that means for our own national security. And it's that word national security that marks this paradigm shift because it's the unifying concept for all this debate, whether that's in China, whether that's in the United States, Australia, Germany or the UK. We're seeing a rise to prominence of national security worries now dominating over what 10 years ago may have been purely economic or financial concerns.

Now what's driving the conversation is national security, and we're seeing this collision of national security concerns in countries with corporate and investment realms. For companies and investors this is a new terrain where they're now having to navigate investment screening with national security screening, that are being erected by countries around the world where

they're now having to reckon with increased export controls over technology. Where now what counts as dual-use technologies, by that we mean technologies which not only have commercial applications but also have military applications. We're seeing the expansion of dual use. So if we look at all the frontier technologies now, semiconductors, AI, robotics, all those have deep, deep and significant military applications as well and sovereigns are racing to come to terms with this and put in place protections. Companies and investors are following behind this and trying to make sense of what's coming.

Anything actionable?

This conversation reinforces the paradigm shifts that Jude believes will fundamentally change the business environment comparable to 1913, 1929, 1945 and 1989. The implications are wide reaching but if I was to single out one significant consequence, it would be the delay in the roll out of 5G across the United States. Samm Sacks of New America believes that the 5G rollout could be delayed by several years if Huawei products are excluded from the process. That has dramatic consequences for everything from video downloads and the growth of streaming services to autonomous vehicles. US mobile carriers like Verizon and AT&T will be hurt by this delay and it re-enforces the notions of a two-tiered regime for 5G where the US and China could well be operating competing platforms. Bifurcation like this hurts innovation and this re-enforces my narrative that we are in a productivity vacuum that will see global growth structurally decline over the next five years.

Recalibration of the relationship between the US and China

Jude Blanchette: Looking forward to a discussion about what I think we both agree are the much more significant issues in the bilateral relationship than the prevailing trade debate. Despite recent upheavals, there seems to be a lot of hope obviously from both sides that some agreement is going to be reached. And we can set aside as you did any quibbles or concerns, we may have about the viability of such a trade agreement. And let's instead imagine a best-case scenario where the US drops any of its requirements on tariffs, China decides to make some of these more significant concessions or reforms on market access, on theft of intellectual property. And let's just start the clock from there and say what's going to happen between the US and China?

And unfortunately my own perspective is irrespective of what happens with US trade representative Lighthizer this week and Vice Premier Liu He, the US and China are set for a long term strategic competition that is going to have significant knock-on effects for any business or investor in the global economy. And this is I think, the real big story that we all need to come to terms with, and rather than looking for a return to the status quo, before the trade war began. All of us need to begin calibrating towards what is a significant paradigm shift. And I suspect we're going to look at this period starting in roughly 2016 through until 2019, 2020 as being an epoch-making shift in almost all the important underlying forces that drove global growth over the past couple of decades.

And so I'm thinking of this series of years in the same bucket as we put years, like 1989, 1945, 1929, 1913, that's how significant I think this is. And so, if we think of the past two decades of globalization as being one in which the relatively free mobility of goods, capital, investment and people were the secret sauce for technological innovation, for the growth of multinational corporations, for investors, all that is changing. And all of that is set to change as a result of this strategic competition between the US and China.

And here in Washington DC it's quite manifest that the one area of bipartisan consensus you have between Republicans and Democrats is oddly enough on the issue of China. And so, after we had Donald Trump's Tweet about possibly raising tariffs, one of the first and most significant people to support him by Twitter was Democratic Senator leader, Chuck Schumer. We have senators like Elizabeth Warren, not known for being particularly hawkish, who in November of last year said China is on the rise using its economic might to bludgeon its way into the world stage and offering a model in which economic gains legitimize oppression. This sounds an awful lot like what you would hear from more hawkish Republican senators like Marco Rubio, like John Cornyn.

A new paradigm for western firms in China

Underlying that switch or that bipartisan consensus here is essentially a flipping of the script for western firms that had been engaged with China, and especially companies in the high-tech sector. So if we were to step back 10 years or so ago, if you were doing business in / bringing

investment into China, irrespective of the sector, the idea was that a direct side effect of that is that you were helping to open up China's economy and you were increasing the strength of the forces of political pluralism within China.

Crucially, technology was a positive force for spreading markets, for spreading access to information, for spreading legal and political awareness and as a tool for social activism within China. So economic integration was seen as in the United States own national interest because it was helping to boost the forces of liberalization within China. Today, that's exactly the opposite. So, any company doing business in China is being perceived by folks here in Washington DC as directly facilitating the economic advancement of the primary US strategic competitor. Technological development in which China benefits is seen as essentially a zero-sum proposition. And so, we're having to reckon with a script flipping that has happened relatively suddenly for companies and investors here in the United States.

But a crucial point and what makes this so significant is that the pushback that we're seeing against China is not merely a US-led pushback. It is global. And so if we were sitting in Ottawa, if we were sitting in Berlin, in Brussels, in Canberra, we'd be having much the same discussion about how do we revamp our understanding of national security implications, of technological development, of cross border M&A, of investment from China. And so you've seen now a concerted push back across a multitude of new policy mechanisms in the EU, in Australia, in Japan, in Germany, and in Canada. So, this is a global phenomenon of companies coming to terms with what it means to have China as a competitor. Crucially, at the heart of this, is technology.

The Techno-Sovereignty Squeeze.

In the United States, at the heart of this is understanding that technological innovation has significant national security implications. And so the foremost battlefield here is we're seeing this push back against the Chinese Telecom firm Huawei and its efforts to build out 5G across the globe. There's been significant resistance in the United States with the intelligence community essentially threatening to withdraw any collaboration with our allies and their intelligence apparatus if they utilize Huawei 5G products. There's an executive order that the Trump administration, which essentially states that the United States will not allow Huawei or a host of other Chinese firms to have anything to do with 5G networks.

This is a technological battle in which the United States and their allies are concerned about the political and strategic underlying forces that are promoting Chinese firms into these high tech and frontier technology spaces and what that means for our own national security. And it's that word national security that I also think marks this paradigm shift because it's the unifying concept for all this debate, whether that's in China, whether that's in the United States, Australia, Germany or the UK. We're seeing a rise to prominence of national security concerns now dominating over what 10 years ago may have been purely economic or financial concerns. So if underlying globalization was a system wherein we could see the expansion of global value

chains that were, and the movement of goods, people in investment to their most efficient uses to help bolster the economic growth of sovereigns, but also multinational corporations.

Now what's driving the conversation is national security, and we're seeing this collision of national security concerns in countries with corporate and investment realms. For companies and investors this is a new terrain where they're now having to navigate investment screening with national security screening, that are being erected by countries around the world where they're now having to reckon with increased export controls over technology. Where now what counts as dual-use technologies, by that we mean technologies which not only have commercial applications but also have military applications. We're seeing the expansion of dual use. So if we look at all the frontier technologies now, semiconductors, AI, robotics, all those have deep, deep and significant military applications as well and sovereigns are racing to come to terms with this and put in place protections and companies and investors are following behind this and trying to make sense of what's coming.

So, we at the Crumpton Group like to call this the 'Techno Sovereignty Squeeze'. By that, we mean technological innovation is driving national security concerns and implications, and governments are racing to put in place controls on how technology is created, where the technology goes and where investment into this technology comes from. And we're seeing a host of new policies that are being put in place by governments to protect this.

In the United States, some of the more important ones are the committee on foreign investment in the US also known as CFIUS, which is decades old but has been re-strengthened under the Trump administration. Crucially last August, there was a big modernization of CFIUS put into place that was going to bring much more scrutiny to outside inbound investment into the United States going into what they call critical and frontier technologies. And we've seen CFIUS expand not only to look at investments from China into areas that have clear national security implications, right, like let's say AI and robotics. But crucially we've seen CFIUS now step into block transactions that have to do with personal data. So that so in last month we saw CFIUS step in to block or unwind a Chinese investment into the dating app, Grindr and a website called PatientsLikeMe, which is into health data.

So, this techno sovereignty squeeze is, we think the fault lines moving forward that companies and investors are going to have to navigate, and that core concept of national security is going to be the animating force behind how governments move to combat what they see as national security leakages from technological innovation.

The blurred lines of what is national security

I was in China for 10 years and the last couple of years that I was there we began to see this significant expansion of how Xi Jinping the leader of the Communist Party and the president of China spoke about national security. There's a wide-ranging and blurry concept that covered almost every area of life in China. Economic security was national security, cultural security was national security. And the United States was pushing back against this through the embassy

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there and through trade negotiations, and negotiations for the bilateral investment treaty where the US was saying, essentially you need to very clearly delineate what is national security and what isn't to ensure that you have the right focus on the right areas, and that this idea of national security isn't abused.

When I came back to the United States last year, I suddenly found the Trump administration speaking about national security in the same expansionist language that the Communist Party under Xi Jinping had been talking about it. Where you have officials like Commerce Secretary, Wilbur Ross and economic advisor, Peter Navarro, both saying economic security is national security, that's a significant redefinition of how we think about national security. And this matters for many reasons that I think we've failed to comprehend. The first and foremost is we're already seeing that cross border M&A, that investment flows and that where companies are looking to move their supply chains is already being impacted pretty significantly by this national security discussion. Here in DC there's an effort underway to make sure that supply chains are now a focus of national security concerns and that companies are now fully aware and have fully vetted where their possible national security loopholes or weaknesses in their supply chains.

But of course, global value chains weren't created to protect national security first and foremost; they were created to boost economic efficiency. And they're quite complex things that are difficult to be able to go through and put your finger on precisely where a national security issue is, but companies nonetheless are being forced to do this. But a bigger concern I have is even just the global architecture that underpins the modern economy is at risk here, and one area that I'd like to highlight is the WTO. There is a fairly significant loophole in the WTO or 'get out of jail free pass' that says, any country can play what's called the, informally the national security card, and that any ruling that the WTO brings that a country feels like violates its core national security, you can essentially ignore that.

Now up to this point, there's been a more informal, you could say gentleman's agreement that countries won't play the card because they recognize that that could lead to a relatively quick spiraling out of control of all countries playing that card and then the WTO essentially collapses. But now that we have the Trump administration and Xi Jinping both talking about national security in many of the same ways, and we're seeing a move towards disregard or disrespect for global institutions like the WTO. I don't think it's much of a stretch of the imagination for either of these countries to look at a ruling that comes from the WTO and say, we're going to ignore this.

Companies need to start thinking like a sovereign

So, if I can pull these threads together, I think first we're looking at a prolonged transition here, and we shouldn't be waiting for a return to the status quo ante. Second, sovereign, governments are looking at emerging technologies, and they're now looking at the national security implications of where these technologies are going, where investment is coming from into these technologies, how these technologies are being deployed at companies. And this is

leading to what I think is going to be a bifurcating ecosystem of technological innovation where there will be a Huawei driven 5G network that will exclude a lot of US allies. And we're going to have to become much more adept at navigating this more balkanized technological innovation ecosystem.

For folks who are looking at understanding this, and this is the third point I want to make, I think we all have to begin putting on our, thinking like a sovereign cap. Wherein we begin to understand how governments are looking at national security from a more holistic perspective, and understanding what's driving this underlying consensus across the world on the importance of national security. And on the national security impacts of what 10 years ago was just plain old business. So if you're in Silicon Valley, if you're in London and you were looking to make deals, we now all need to update our thinking on how governments are going to come in and either unwind or block deals that you have planned.

So in closing, as we think about the next couple of weeks of the US/China trade negotiations, I think it's fundamental that we keep our eyes on the ball of what are the much more significant moving pieces here that are being framed by both the US and China. But also the EU as a longer-term structural geostrategic competition between the US and China, but also the EU and China. And investors and companies now need to begin thinking like a sovereign, understanding these national security concerns and not taking lightly, tools that governments are bringing to bear to change the way we all do business.

Questions and Answers

Is looking at this as a debate over state involvement too simplistic?

Paul: Jude, thanks very much. Is the fundamental divide between how the Chinese and the US view involvement of the State in their respective economies, ever going to be bridged, or is this such a fundamental difference between a laissez-faire approach in the West and a very intervention as state-controlled philosophy in China be the core of this dispute for decades to come?

Jude: I don't think that's where the fault line runs, and I'll tell you why. We're very used to thinking in this mentality of State-led versus free market economies. And of course, everyone knows that these exist on a continuum and there's no pure free market economy and no pure State-led economy, and China typifies that messy complex mixture of the two. So, you have incredibly free market pockets down in Shenzhen, for example, where products are on the market within days. But then they also have the old lumbering state-owned enterprises.

But what I think's interesting is that the discussion in western capitals in what we would call the modern democratic capitalist economies are increasing our State involvement in technological innovation. So there's now actually discussions here in DC on, wait a minute, we need to have industrial planning. It just needs to be better and different.

So, it strikes me that the fault line isn't necessarily on free market or laissez-faire versus command and control economies. 10 or 15 years ago, sure China's economy was reforming, but it was still fundamentally based on State dominance over what we'd call the commanding heights. So you had SOEs commanding all the upstream important sectors, telecommunications, infrastructure, energy. You had a communist party in command. It was putting out five-year plans. It was putting out yearly industrial plans, but we didn't have the consensus here that something needed to be done to push back against it. So we've been comfortable with China's command and control quasars state capitalist model for some time now, so that can't be the distinguishing feature.

And again, there's more appetite now for State involvement in western capitalist economies than there's been at any other time in recent history, and part of that's been driven by just a breakdown in support for that laissez-faire model. And I think that obviously capitalist economies took a gut punch in 2008 crucially for China, that's when the reformers within their system began to lose power because they couldn't point to these systems anymore and say, look we China need to become more like the United States because their system works so well. 2008 knocked them out at the knees at that point.

But I do think your question has a grain of truth in so far as the role of the Communist Party and Chinas more authoritarian turn has given a strength and I think opposition to China. And it's done so for legitimate ways but also fig leaf ways. The legitimate ways are since Xi Jinping came to power in 2012, but since 2015, 2016, the rate of authoritarian discourse and the force behind it has increased exponentially. No longer is the communist party just seen as a back burner, it was there in the shadows, but it didn't have much involvement in the day-to-day economic activity in China, it stepped out to the fore. You also had a real ramping up of industrial policy that had a geostrategic focus. So, things like Made in China 2025, which was announced in 2015, and gained strength in 2016 was seen in capitals around the world, but especially in Berlin and the United States as a real significant challenge to economic strengths.

I say fig leaf ways that it was used wherein there's just some good old-fashioned protectionism that exists in the United States and in capitals around the world. They're utilizing some of the political trends in China just to smuggle in good old-fashioned protectionism.

So, you see a lot of discussion on Made in China 2025 for example. It's very clear that a lot of people who are articulating a need for the US to push back against China because of Made in China 2025 have never read Made in China 2025, but that doesn't matter. It's become a very convenient bumper sticker phrase, which seems to encapsulate China's goal for global dominance. So, I think we're seeing just a mixture of legitimate concerns, but good old-fashioned politics and protectionism which are existing now. But the fault lines I don't think should be, if we put too much emphasis on that dichotomy of free market versus State led, I think we may miss some of the more interesting and nuanced tensions which are emerging. Because again, if you go to Shenzhen it does not feel like a command and control economy, but in many ways the technology is being innovated out of Shenzhen are spooking regulators here in the US.

By Paul Krake

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The US Government is playing defense. Will the play offense?

Paul: You are 100% right to say that to paint China as a command economy is thinking that is two decades past its due date. But outside of an academic/intellectual debate, predominantly in the Democratic Party regarding heightened State involvement in the economy, we are practically seeing a shrinking of government in the United States. This is a Trump administration that has expanded its fiscal deficits based on tax cuts. They have cut funding to NASA. This is a lessening of government involvement, not an expansion. And the way I would describe it as follows, that if you look at Made in China 2025, if you look at the policies that we are attacking, China is on the front foot in terms of trying to get to a place of development at some stage in the future, and Made in China 2025 it's a great example of that.

The US response is not development; it's negativity. Protectionism is not a positive for the economy. It is a defensive tactic that is designed to Stop China's advancement. There is no equivalent of Made in the USA 2025. The response from the US and CFIUS is a wonderful example of a negative response. Then again, this goes back to this discussion of the US-China view on the State, more the argument is that the US has not prepared itself to truly engage the State in development itself but it's more about how do we stop them?

Jude: You're a hundred percent right, and I absolutely can't disagree with anything you say there. So, it's the US, and the EU I think is another good example of this, are absolutely framing the response to China in an overwhelmingly negative way. Export controls, CFIUS, the EU passed on April first its own investment screening mechanism, which is kind of a CFIUS light. We're looking at blocking visas of Chinese researchers from coming to the US out of concerns over corporate espionage. We've got this China initiative, which is coming out of the Department of Justice, which is essentially a law enforcement tool, which is going after Chinese companies for economic espionage. So, I 100% agree with you that the response is predominately negative.

I'm seeing within industry associations here and within the companies that we talk to, when I ask them what the solution is, I'm not hearing anyone say, the solution is purely standing up for a rule of law system and allowing companies laissez faire environments. What I'm hearing over and over again is, we've got to have our own better, smarter Made in the United States 2025.

Now that's different from if that's going to be a political reality, but I'm struck by unanimity of feedback I'm getting that industry associations and companies want a more concerted effort to have more formal industrial policy. So, I think that's one thing that I think is different about a laissez faire versus command and control dichotomy way of thinking about this. But I take your point that the political realities are such that it's difficult to see us moving through a smart targeted Made in the US 2025 anytime soon. And what we're likely to see is the consensus on China amongst Democrats and Republicans probably used mostly for political reasons rather than as a Sputnik moment of national unity to drive forward significant investments in education and stem and R&D.

I think we're entering into a period where some of these discussions will begin to bubble up, there's think tanks around DC which have their own quiet initiatives of fleshing out robust strategic responses to China, that are more framed in the positive, what do we do as an alternative rather than simply how do we block and how do we push back? So that space I think is going to be important to watch moving forward.

Does the US Government want US companies to succeed in China?

Paul: So, if we look back over the last 40 years, I think that the number one miscalculation that numerous American administrations have made over China is a belief that you couldn't have true economic freedom without political freedom. And if you look at the response to China in recent decades, the demands have always been from the United States to China, that they need to open up their markets. That there was a belief that with open markets and a flexible capital account and all the things that repetitive US administrations have demanded that that would eventually lead to growing political freedoms. Clearly, that has not been the case.

So, does the US government want US companies, particularly on the technology side of things, to have large scale operations in China? Is the talk of wanting the market to be opened up legitimate? Ambassador Lighthizer promotes this as part of a necessary consideration from the Chinese for a trade deal to be done. Is that all smoke and mirrors or is it something that still remains a core policy?

Jude: It's a fantastic question and an important one. The first point I'd like to make is when we use the phrase, does the US government want "X", I think what we're seeing now is a bifurcation of interest within the United States government. You unquestionably have pockets of the US government which think the whole underlying framing of the transaction between the US and China going back to the start of reform and opening in 1978-79 was mistaken. And that essentially you need to decide if you play for team USA or team China, and that the idea of a multinational corporation is no longer a viable position in this era of more intense geostrategic competition.

If you're an Amazon, if you're Boeing, if you're an IBM, if you're a Cisco, who are you playing for. And I think it's unquestionable that executives at big companies like this are having to navigate this territory of how do we stay competitive in a global business environment where we navigate what is essentially open hostilities, geostrategic hostilities between the first and second largest economies in the world? And that's a conundrum of stratospheric complexity, that again if we go back to a point I was making on the intricacy of global value chains and supply chains, how the heck do you do this in real time when you have policies and regulations coming out of multiple governments that are looking to change or modify the way you do business. I don't envy anyone who's having to think through this.

I don't think the US government as a cohesive entity has a position on this. And we're seeing that breakdown in consensus across a multiplicity of areas. But US China relations is one, where we can think of Department of Commerce, which is coming up with the new rules on

export controls, has a view that is slightly different from the US trade representative, who has a slightly different view from US treasury and again treasury is the head of the interagency, the process that is CFIUS. They have a different view from the Pentagon, which has a different view from the Trump administration. There is no coherent, cohesive US policy on China, that's one problem here. And it would be easier for companies to navigate this world either way if there at least was some coherence and some longevity and sustainability on what the US policy vis-a-vis China and the Asia Pacific was.

Now more directly, I want to go back to your question because I think recent reporting and this political narrative in Washington DC that's much more ominous and hawkish towards China are reinforcing this choice that companies must make. Recently, Microsoft was called out for a collaboration in which there were researchers who are tied to China's People's Liberation Army. And there's a whole bunch of stories that follow a similar narrative. The Wall Street Journal had a piece two weeks ago on Boeing satellites which were purchased by a Hong Kong registered company called AsiaSat, which Carlyle's an investor in. Which are essentially putting satellites up to cover the Asia Pacific region, and one of the people who is buying spectrum off this was the People's Liberation Army.

So, these are complicated issues that companies are having to think through. But I do unquestionably think that there are powerful actors in the US government who think it's imperative on "US national champions", to do everything they can to make sure that economic or technological benefits are not rebounding to China. And that's an incredibly difficult position to put any large US companies in precisely because you can't ignore China. You can't ignore China from a shareholder value perspective, you can't ignore China in the sense that we can't have a balkanized economic system where we're forcing countries and companies to pick between one or the other. But at a rapidly galloping pace that's precisely the position where we're putting companies in.

The reluctant Superpower

Paul: Let's look at this from the Chinese perspective. I've always been deeply skeptical that China has global ambition, and when I say that, I don't know if China is prepared economically and from a financial stability standpoint to for example, open up its capital account to make the Renminbi a direct competitor to the US dollar. They are well aware that bond crises over the years have been driven in places like, Thailand or Mexico, predominantly by foreign entity selling local bonds. And that never happened in Japan, because 95% of the JGB market is owned domestically.

So, in a roundabout way, if China is able to fulfill its goals of China 2025 as an example, do the Chinese need the US going forward? Do they need to be true global competitors to the US or will they be satisfied building their own incredibly robust economy domestically and looking inward going forward?

Jude: That's a great question and one that I think occupies a lot of thinking here amongst my peers and in think tanks. What is China's ultimate strategy? And you do hear persuasive arguments on both sides of this issue. So, some people saying essentially China's global exertions are ultimately domestically oriented, and they stick their head out globally to do whatever they have to, to make, to stabilize and put China's own economy and political system on a sustainable footing. There are others who say absolutely not. If you look at core strategic Chinese documents, they do articulate a much more expansionist vision for their role in the world that includes returning to a position of China as the Middle Kingdom with its economic and military empire stretching out across the globe. I kind of take a middle way position on this.

I think, undoubtedly, the reality is that a country of China's size may not have imperialist intentions, but reality has a way of pulling you out into the world. And so even if you start from the perspective of, look we just want to have our own essentially self-sustaining domestic industries where we have technological sovereignty, where we don't feel exposed to global supply chains and third-party suppliers. We're creating value in-house rather than in old in a neo-mercantilist perspective where we are going out and having to buy goods and services and products that we can create ourselves. That's still going to push you out into the far reaches of the globe.

The Belt and Road Initiative is a great example of this where China has clearly articulated that it doesn't see this as an imperialist project, but nonetheless it looks awfully similar in terms of its scope and reach. So, the conundrum China faces moving forward is if you want to essentially fulfill the obligations or the goals you've set out in Made in China 2025, that's going to require you to be an engaged geostrategic shopper and actor across a multitude of geographic areas. And so, I think China's very rapidly trying to catch up to how do we become a reluctant superpower but a global superpower, nonetheless.

Again, I'd like to say they're folks who make a very persuasive argument on either side of that position that I staked out and China is fairly good about being coy about what its ultimate strategic intentions. However, I should say that pick your flavor, if you want to see China as a globe expanding imperialist there's enough there in the documents to support that. If you want China the very reluctant hegemon, you'll find that as well.

Can China be a Superpower without Brand and Allies?

Paul: So just taking that point a step further about the reluctant superpower. If you were to give the world's population an airline ticket to somewhere, where would they go? I think the vast majority would go to the United States. And I think if you were to give the population of China an airline ticket to somewhere, they also would travel to the United States.

So the dominance of the United States on the world stage still revolves a lot around its brands and the like. So you mentioned China being a reluctance superpower, but can it truly be a superpower if it doesn't have the scale of consumer brands like the United States does? And can

it on the other side of the coin be a true superpower if it doesn't have true global allies like the United States?

Jude: I know this is one that you have thought about a lot, which is the issue of Chinese brands abroad and how important that this is to soft power. Just to think out loud on this, I mean one of the issues is how are we defining this, where's the delineation between non-superpower and superpower? I think it's the way that you talk about a country and its importance is many ways more important than what the actual position of the country is. And so, we talk about China as if it is already a superpower, what China does, the size of China, the breathtaking nature of their development, that still that 1.4 billion number, pick any industry and that's going to light up eyes.

The double-digit growth in investment into China's military, the exponential growth in its capabilities, this Belt and Road Initiative, which is now expanded way beyond the old Silk Road and is now in Latin America. We have seen some great reporting by the New York Times recently on Chinese surveillance technology now being utilized in areas like Ecuador. The battle for 5G in many ways is taking place in Latin America and countries like Panama. So I think we can make a pretty good argument that China is a superpower already, even if it isn't at peer capabilities with the United States and it does not have globe striding recognized brands.

Another point I'd like to make is I think we oftentimes frame China reaching its objectives as if it must get 100% of the way there. So, in Made in China 2025, it articulated getting 65% to 75% domestic market share in 12 core areas, like integrated circuits, semiconductors, robotics, etc. Imagine it doesn't get anywhere near that but gets to say 30% market share. That's going to change the world in fundamental and important ways.

So, I think we should also start imagining a world in which China doesn't get everything it wants. That already there is going to change the way all of us do business. So look how important China is without real globally trusted and recognized brands, and again, I just do the old mom and dad test where if I went to ask my parents to name some Chinese brands, maybe they'd get Alibaba but that is about it. If they got Huawei they would mispronounce it. That's China doing a fundamentally important geostrategic altering moves without having true superpower status. Imagine if it just continues along the linear curve it's already going to be changing the world. So in short, I'm not sure we need to think about it in that dichotomy as a way of what happens if China is a true superpower. I think it's already changing the world at 20% capacity.

Paul: Let's go back to the phrase "reluctant superpower". If they are as reluctant as what you say, if they are as domestically focused as what we see, do they view the relationship with the United States as a competition, or is the relationship more a necessary evil in their path to achieving 30% of their goals, 60% of their goals, whatever it is by 2025 and beyond?

Jude: Just as there is no unified US government perspective on China, China has a robust political debate as well, all be it under the strict and iron control of the Communist Party. The United States, specifically the United States versus other developed countries holds a very

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unique position in China's political discussion. You have significant sections of the Chinese population who still look with real admiration at the United States, still see it as a place of unique importance to China's own position and still as a beacon in many ways for the values that a lot of people hold dear.

On the other hand, you have large chunks of the party national security military apparatus who unquestionably frame, and have framed for some time, the United States as the big obstacle to China's ultimate sustainable rise. So, this is because, going back to the 1950s, China, starting under Mao Zedong has seen an active containment strategy by the United States to thwart the rise of China. This has continued straight up to today, undulating in strength. So after the leaks of Edward Snowden, that seemed to show an effort by the United States working through its Telco's to infiltrate and monitor China, this reached an apex. But it was all throughout the 1990s and 2000s you had events which confirmed to hawks within China that the United States was out to hold China back. The Taiwan Straits crisis of 1996 when the United States sailed an aircraft carrier through the Taiwan Straits, the bombing of the Chinese embassy in Belgrade in 1999, the EP3 spy plane incident in 2001.

So I think both sides of what you articulated are true. The United States is a place where wide swaths of the Chinese population, and crucially, businesses and investors / venture capital funds look to with great admiration and in a sense of that they need to emulate it. At the same time, there are increasing sections, I think of the military, national security bureaucracies who are dead set on unseating the United States certainly as a regional hegemon in the Asia Pacific that's for sure. But possibly, even with more looking globally, to unseat the United States, and I think it's in many ways those hawkish forces in the United States and Chinese governments who are going to be driving much of the conversation moving forward.

US Allies and their engagement with China

Paul: If the hawks are going to be driving the agenda, both in Beijing and Washington, how does the US government get comfortable with our allies around the world who are still engaging with China? How does the US share intelligence with an ally that is using products from the likes of Huawei, which the US believes is a national security threat?

Jude: I think this is about the reactions from US allies who are being forced to choose one side or the other as they try to navigate the much trickier third way. This is the debate going on in the UK and Germany. How do we utilize what we think is the best technology but mitigate against what are the very, very clear risks associated with it? US Secretary of State, Mike Pompeo came out in February and threatened any US intelligence ally who has Huawei 5G on their core network, that the United States will no longer share intelligence with them. That specific threat I think is one where the United States is going to have to come to a different equilibrium, because threatening to cut off your allies is essentially saying you're also threatening to cut off yourself. Because our collaboration with what are known as the Five Eyes which are our key intelligence community allies across the world, it rebounds to the United States as much as it does to the countries who are a part of it.

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This is where the United States is likely going to have to moderate its position if enough allies make a decision that they're going to adopt the Germany/UK approach of, we're going to utilize, but we're going to put in robust risk mitigation processes because like any tolerable risk, this is one we think we can manage rather than making a decision to boot Huawei off entirely. So, that's one issue where the US is going to have to shift its stance. But how are US allies going to position themselves vis-a-vis the United States as the demands from the US to essentially cut off from China become more severe? And I think that's going to be an incredibly important fault line moving forward, and is as much going to depend on underlying economic fundamentals as anything else. Because, going back to, it's the economy stupid.

Even our position in the United States is likely to moderate on how much we press our allies depending on how our own economic position is. If we get a critical mass of allies essentially saying we're not going to accept this idea that we've got to choose one or the other, that's going to feed back into our own calculus here and we've seen this play out before. Unfortunately, the United States took an obdurate position, vis-a-vis the Asia Infrastructure Investment Bank, the AIIB, where we essentially stated, under President Obama, that we don't want any of our allies joining China's AIIB, you've got to make your choice, it's our way or the highway. And the UK crucially said, well we're going with AIIB, and a bit like a paper tiger the US opposition folded quite quickly now that one powerful ally chose to side with China and AIIB.

So the United States I think is very much looking at that AIIB precedents and is right now barking pretty loudly, but I think it's going to be important to watch how allies respond, and if enough of them, if we've got Germany, UK and a few other allies essentially say we're going to manage Huawei risks. I don't see the United States shooting itself in the foot and taking a position of, well fine, we're not going to share any intelligence with you.

Will companies like JP Morgan and Google be big in China?

Paul: Finally, is there any prospects for Western companies going forward to be truly significant in both China and the United States? Will J.P. Morgan ever have a meaningful presence in China? Will Google? Or is the skepticism on both sides just too great to allow that to happen?

I think the answer is yes. The idea of a decoupling or bifurcation or balkanization is going to absolutely exist in certain sectors and in certain technologies. So you can imagine a scenario where you essentially, you duplicate your R&D process or your product production where you have a US produced product and you have to have a separate China produced product within those bifurcated production zones, because of regulatory requirements on both sides of the Pacific.

But there are positive signs here that are coming out of the pressure that the Trump administration has been putting on China. And I think if you and I were talking about the insurance industry or financial services, those a) are not the industries that are being targeted by hawks here, and b) we're seeing China making more significant market openings there than I think many of us would have assumed possible even just six or 12 months ago. So I think for

any company now who's looking at doing business in both China, first tip is you've got to take all this squarely on the chin and no more denialism about where the bilateral relationship is going. Coming forward with a strategy must start with recognizing the reality of the bilateral tensions and not wishing these away and not expecting that economic led pragmatism is going to force both countries to return to 2001 when China joined the WTO. Those days are gone. Technological innovation and national security concerns are driving the conversation.

So I think it's about finding opportunities amidst this uncertainty, and we're seeing companies who are doing this quite smartly, but it has to start with recognizing those fault lines. But the equation for J.P. Morgan is very, very different for the equation for a, a Series D startup in Silicon Valley who's looking to bring their technology and robotics or facial recognition, or 3D printing into China, that is a minefield.

Paul: Jude thank you very much.

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May 19th, 2019

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