Corporate Views on U.S. International Tech Competition

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Introduction

Crafting and implementing well-funded U.S. government policies that advance U.S. international competitiveness, especially in technology-driven industries and in relationship to China, requires at least a modicum of corporate political support, or at minimum, limited opposition. Gaining that full-throated support has been difficult, in part because there is no one corporate interest or even technology-industry interest, and because U.S. corporate interests are less aligned with state interests than at perhaps any time in U.S. history.

A Brief History of U.S. Government-Business Cooperation

Before discussing the current U.S. policy situation and the role of business in shaping it, it is worth starting with some history; in this case, when business was more aligned with state interests. As Arthur Herman notes in *Freedoms Forge*, a book about the role of U.S. industry in defeating fascism in WWII, “remarkable as it may seem today, there once was a time when the president of the United States could pick up the phone and ask the president of General Motors to resign his position and take the reins of a great national enterprise. And the CEO would oblige, no questions asked, because it was his patriotic duty.”

While that sense of duty diminished after the crisis of the war, during much of the Cold War, U.S. businesses, including the technology sector, were often quite aligned with the national security establishment. Companies like AT&T, IBM, RCA, and others worked on projects for the government and saw that cooperation as a core part of their responsibility as U.S.-based corporations.

While that sense of shared mission began to ebb in the 1970s as the Soviet Union weakened, a new challenge brought business and government together. Starting in the late 1970s, there were increasing warnings that Japan (and to some extent Germany) was challenging U.S. companies in advanced industries such as autos, consumer electronics, semiconductors, and telecom equipment. As a result, by the end of the 1980s, the two Republican White House administrations and the Democratically-controlled Congress had responded with a suite of important technology-based competitiveness policies. These included the research and development (R&D) tax credit, the creation of Sematech, the Bayh-Dole and Stevenson-Wydler Acts for technology transfer, new National Science Foundation (NSF) programs for industry-university research, changing the “prudent man” rule for pension fund investments, the threat of tariffs on Japanese auto and chip imports, and in 1989 the passage of the comprehensive Omnibus Act for Technology Competitiveness.

1 Before discussing corporate views on global tech competition and policy, the author would like to make the following disclaimer that he leads a think tank, not a trade association or lobbying shop. So, the author’s observations on the corporate political economy of advanced industry strategy come from an outside observer’s perspective, albeit one informed by conversations with company officials and the study of the political economy of advanced technology policies.

Trade and Competitiveness Act, which among other things renamed and repurposed the National Institute of Standards and Technology (and created the Advanced Technology Program and the Manufacturing Extension Partnership program) and created the special 301 provision in trade law. Despite what ideological naysayers might say about the inherent failure of competitiveness policies, this highly productive decade proved them wrong. The United States regained its competitive lead over Japan, in part because of these policy changes.

A major reason why the federal government took such strong, bipartisan action is that the U.S. corporate community, especially in advanced industries, was mostly aligned behind these steps. For example, corporate leaders, including Hewlett Packard CEO John Young, participated on Reagan’s National Commission on Industrial Competitiveness, as well as on the Congressional Competitiveness Policy Council.

One reason for significant business involvement is because unlike now, where U.S. firms are encouraged to enter the Chinese market to invest and sell, the Japanese market was more closed. Relatively few U.S. firms built factories or other facilities in Japan (IBM was one), because the Japanese government wanted to support its own firms. As such, the resulting competitiveness struggle was between Japanese capitalists and U.S. capitalists. In other words, U.S. corporations that were competing against Japanese peers had every interest in the U.S. government opening up the Japanese market, reducing Japanese advantages (including the trade and currency measures, as the Treasury Secretary did with the 1985 Plaza Accord on the value of the dollar), and helping U.S. companies compete through innovation policies. Today, with most major U.S. corporations deeply engaged in the Chinese economy, they have much less motivation for spurring government action.

At the same time, while most major U.S. corporations sold products outside the United States and had foreign affiliates, most still thought of themselves first and foremost as U.S. corporations. This changed with the rise of what former IBM CEO Sam Palmisano called the "globally integrated enterprise." But before this, most U.S.-based multinational corporations (MNCs) thought of themselves as U.S. corporations, rather than global corporations that just happened to be headquartered in the United States. That meant that while they may not have fully embraced “Engine” Charlie Wilson’s claim that “What’s good for the country is good for GM and vice versa,” they saw at least significant alignment between their company’s interests and U.S. interests.

The Situation Today

Fast forward to today. U.S. corporations face significantly different foreign challenges, particularly from China. First, Chinese officials learned from Japan’s experience. Since Deng Xiaoping began the process of opening up China’s economy to the world in the early 1980s, a key underpinning of that strategy was to encourage foreign direct investment (FDI). At first the goal was to create jobs and earn foreign exchange reserves that could be spent on needed capital equipment (investing firms were required to export a certain share of production to generate needed
foreign exchange). But that strategy quickly evolved into one that utilized FDI as a tool for transferring foreign technology to Chinese firms. As such, today, thousands of U.S. companies produce in China for export. Moreover, thousands sell to the Chinese market either from Chinese production or exports. The fact that China’s GDP is almost three times larger than Japan’s means that very few U.S. corporations can afford to sit on the sidelines and not try to be in China. Therefore, most large U.S. corporations are reluctant to support policies that would lead to decoupling from China. This dynamic was apparent during the Trump administration when virtually all of the corporate community, including the technology industry, opposed the Trump tariffs on China.

Second, unlike Japan, the Chinese government has considerable power to inflict pain on any U.S. firm that does not comply with Chinese Communist Party (CCP) wishes. For numerous reasons, including Japan’s commitment to the rule of law and the fact it was dependent upon the U.S. defense shield, the Japanese government was never punitive toward U.S. companies, and so the latter did not fear supporting strong U.S. government action to compete with Japan, including supporting the U.S. government in bringing World Trade Organization (WTO) cases. Today, U.S. corporations know they often will be punished for taking any action that displeases the CCP. Take the recent Chinese government warning to U.S. corporations to not lobby for the Senate U.S. Innovation and Competition Act (USICA), a bill that would not only strengthen U.S. technology-based competitiveness policies but also add new measures the U.S. government could take against unfair Chinese economic and trade practices. This fear of retaliation makes U.S. companies naturally want to “keep their head down” and either oppose or be silent on many policies to win the competitiveness race, especially policies that would directly impact China.

Finally, most large U.S. corporations have evolved from MNCs to “globally integrated enterprises.” Palmisano describes the latter as:

The corporation, then, is emerging as a combination of various functions and skills—some tightly bound and some loosely coupled—and it integrates these components of business activity and production on a global basis to produce goods and services for its customers. This simple change in the corporation’s purpose and mission has many ramifications. Exxom CEO Lee Raymond reflected this when he said about Exxon: “I’m not a U.S. company and I don’t make decisions based on what’s good for the U.S.”

This is not to say that the leadership of most U.S. headquartered corporations do not feel some loyalty to the United States. Most do. But their charge is to lead a global corporation, not just their U.S. operations. Moreover, the United States is perhaps the only truly global economy in the sense that its businesses and consumers believe that their economic interests, not some vague

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sense of economic patriotism, should determine where to locate production and where to source consumption. Even many progressives have become globalists, putting the interests of the global “proletariat” above the interests of the nation.\(^7\)

Most other nations see it differently. When asking several CEOs of large Austrian manufacturing companies why they had not moved much of their production to China, one key reason was that they would be “shunned” socially if they did this.\(^8\) This is not unusual. Asian CEOs are reluctant to offshore production because of social pressures, including pressures from their governments.

And most foreign consumers show considerable loyalty to buying national. Japanese cars make up about one percent of car sales in Korea, while Korea reportedly exported only 32 cars to Japan in the first half of 2019.\(^9\) These are not open markets where consumers are making the choices they think are best, regardless of national origin. Compare that to the fact that Japan outsells U.S. car makers in the United States with almost 40 percent of market share.\(^10\)

The result is that compared to the 1980s, when it was much easier to get the full-throated support for federal competitiveness strategies, today that support is both more tepid and more uneven. In the 1980s, leading U.S. companies saw themselves in head-to-head competition with Japan and actively lobbied and used considerable political capital to push for the suite of technology policies described above. Today, because globally integrated enterprises seek favorable policies for their enterprise, which by definition is global, most will support domestic U.S. competitiveness policies, though their support is often lackluster, and will take a back seat to fighting for or against policies that would directly affect their firm, rather than their industry or U.S. competitiveness overall. Indeed, U.S. companies, especially technology companies, use government relations in China, the European Union (EU) and the United States to undermine their rivals, even if that reduces U.S. competitiveness overall. This is the case with the support by some companies of aggressive antitrust enforcement against “big tech,” and in the deals some technology companies make in China to give them an advantage while “throwing their U.S. competitors under the bus.” In this sense, Marx was wrong that capitalists think and act like a class. Today, their “class consciousness” has been replaced by a short-term “beat their competitor at all costs” view.

**Differences Within the Business Community**

Besides these broad environmental changes, it is important to understand that there are significant differences in the business community, both between and within industries that

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\(^7\) Robert D. Atkinson, “The Case for Competing in Advanced Industries” (ITIF, forthcoming, April 2022), itif.org.

\(^8\) Based on personal interviews.


influence attitudes toward China and domestic competitiveness policies. A recent report from the Information Technology and Innovation Foundation identified three key and usually conflicting industry interests in U.S. policy toward China.11

The first group see China mostly as a major market. For companies such as Apple, Boeing, Nike, GM, Intel, Hollywood studios, McDonalds, the National Basketball Association (NBA), Proctor and Gamble, Starbucks, Qualcomm, Walmart, and many others, China is often their largest non-U.S. market. Building this type of local trust and presence has often been difficult and has taken many years. Having seen how the NBA, Marriot, Mercedes-Benz, and many others have chosen to yield to Chinese pressure over seemingly minor statements and advertisements, companies with significant revenues in China want, at almost all costs, to avoid rocking the boat, and are mostly silent regarding the most pressing Chinese controversies. For example, the Chief Counsel of a Fortune 50 company shared an experience of meeting with a Chinese government minister to warn the minister that if the government did not take action to stop its theft of the company’s intellectual property, it would initiate a WTO case. The minister made the executive an offer he could not refuse: he told him that if the company did bring a case, it would never make a sale again in China. Needless to say, the company did not bring the case.12 For so many U.S. companies, walking away from this market is just too big a step as it would not only reduce their sales, but it would also cede market share to either Chinese or other non-U.S. companies, hurting their competitive position.

A second group of companies see China mostly as a major supplier. Walmart, Target, Dell, HP, Nike, the major pharmaceutical companies, and many others that rely on Chinese manufacturing generally support reduced dependency in the long run, but need to keep their supply chains running in the short term. For some companies such as Apple, China is a major market and a supplier.

These two groups of companies are highly integrated with the Chinese economy and thus tend to prefer continuity and integration as the best way to serve their short-term interests—and in many cases their long-term interests. They also know that if they say or do the “wrong” thing, China is entirely willing to, and capable of, damaging their hard-won business gains and exploiting their supply chain vulnerabilities. It is very much in their interest to keep things as calm as they can. While they are generally not big fans of rapid “decoupling,” many do support a tougher line on China—particularly in areas such as intellectual property theft and domestic subsidies—as they increasingly see that China is seeking to challenge their markets not only in China, but elsewhere. Indeed, many understand that absent serious policy changes in China and the West, their long-term market share in China and globally is under threat from often unfair Chinese competition. But while for some industries such as drones, solar panels, telecom equipment, and high-speed rail this has already happened, for most others, such as aerospace, automotive, internet services,

12 Based on a personal interview.
A third group see China mostly as a major business competitor, just as many U.S. companies in the 1980s saw Japan as a major business competitor. Companies in telecom equipment, steel, solar panels, furniture, textiles, and other sectors are much more willing to state publicly that Chinese competition is “unfair” in one way or another: intellectual property (IP) theft, government subsidies, currency manipulation, suppressed wages, protected markets, and other violations of WTO rules. Smaller, non-multinational traded-sector companies are also often in this camp, as are organizations that represent them, such as The Alliance for American Manufacturing.\(^{13}\)

Not surprisingly, these companies often ask government officials to “help protect jobs.” As China becomes increasingly competitive in more industries—especially the ones targeted by “Made in China 2025”—more industries and companies will likely shift over to this camp. The problem, of course, is that by the time a critical mass of firms and industries see China as a threat, rather than an opportunity, the overall advanced technology base of the United States will be considerably weaker vis-à-vis China, as it likely is now.\(^{14}\)

There is, of course, a fourth interest, and that is the state. The interests of the U.S. nation-state, advanced by the U.S. government, are first and foremost to ensure a strong state, domestically and internationally. During the Cold War, U.S. state interests were advanced by global integration. The more the United States could increase global trade, the more power it could have because it was the world’s largest and most technologically advanced economy.\(^{15}\) Just as the United Kingdom promoted free trade and global integration because it was the global economic leader in the last half of the nineteenth century, the United States did the same in the last half of the twentieth century and first decade of the twenty-first century. Hence, from the attempted formation of the International Trade Organization after World War II, to the formation of GATT in 1947 and John F. Kennedy’s Geneva round tariff reductions, to the free trade consensus that lasted until the second half of the Obama administration (with the failure to get the Trans-Pacific Partnership over the finish line), a central goal of U.S. foreign policy was to expand trade and global integration. In those days, such expansion and integration largely were coincident with U.S. power trade objectives, as the world’s principle global hegemon.

That strategy succeeded and advanced U.S. geopolitical interests for decades. It was a significant force multiplier, until it was not. This is because the United States used power trade not to enhance its economy; if anything, it consistently sacrificed domestic economic interests in the service of foreign policy, as when it restricted exports as a foreign policy tool and reduced domestic


tariffs asking little in response. Rather, trade was used to extend U.S. global influence, keeping allies close and prosperous and pressuring adversaries.

One of the most significant trade weapons the United States had was access to the largest market in the world. For decades, the United States made U.S. market access contingent on other nations taking certain steps, like protecting human rights, without which they would not be granted market access through measures like Permanent Normal Trade Relations (PNTR).

In addition, the United States was willing to not only impose unilateral export restrictions in ways that reduced the global market share of its own firms; it was willing to let allied nations have unequal trade relations to ensure they would stay tightly aligned with the United States in the fight to contain and roll back Soviet communism. We saw this with East and Southeast Asia, where the United States long accepted one-side trade mercantilism from nations like Japan as the price to keep these countries’ economies strong against communist aggression. Likewise, the United States was willing to sacrifice U.S. firms’ foreign sales to pressure other nations to behave in ways of interest to the United States, seeing trade embargoes as a key diplomatic lever.

It is the exhaustion of this paradigm, based in large part on the relative decline of the U.S. economy, especially its leadership in advanced industries, coupled with the more rapid growth of output of China, which has led to a crisis of the old model. This is evident now in the uncertainty and timidity of the Biden administration’s trade policy, where it does not appear to know what to do: certainly not the old path, but not really a new path, despite administration rhetoric about a worker-oriented trade agenda, whatever that is supposed to mean.16 So far, it appears that the Biden trade agenda is the lack of one, with an inward-looking orientation focused on tougher “Buy America” provisions and an emphasis on “clean energy” even though that cannot be the source of U.S. industrial renewal because it is simply not large enough.

**Moving Forward Today**

Today, achieving U.S. state interests means taking more seriously U.S. domestic competitiveness issues and as such considering trade and foreign policy in a new light, with the U.S. government not so quick to trade away these domestic interests for achieving foreign policy goals. This is not to say that the foreign policy establishment has fully embraced this new reality, but it does mean that going forward it will be more difficult for the U.S. government to act with the impunity it once enjoyed.

This means that interagency debates around particular issues, such as export controls, technology cooperation, trade, and open markets (including government procurement and Buy America provisions) will likely be more contentious. Today, these domestic security interests are advocated most forcefully within the U.S. government by the defense and intelligence communities, and to a much lesser extent, the Commerce Department.

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There are also significant intra-industry differences, especially in the information technology industry (from semiconductor machinery to software and digital content). In part, this is because there is no single technology industry: there are companies making a variety of hardware, software companies, social media companies, and more. This is why unlike sectors like autos, motion pictures, and pharmaceuticals where there is mostly one main trade association, the tech sector is represented by a multitude of different associations, each representing a particular configuration of industry interests, often in opposition to each other.

In part because of this diversity, there is limited consensus among large technology companies on what to do vis-à-vis China and what to do with other policies. There is general consensus on supporting the elimination of the Trump tariffs on China and on not strengthening Buy America provisions, as the Biden administration seeks to do. The tech industry sees both as measures that would simply increase their costs and consumers’ costs.

In other areas, there is considerable disagreement. For example, some technology companies, especially those that generate considerable IP, favor stronger intellectual property protections, domestically and in trade agreements, while others, especially those that rely more on licensing, favor less stringent IP protections. Depending on the amount and location of companies’ R&D, companies differ on tax policy, with some supporting a stronger R&D tax credit, while others favor a lower corporate rate and more favorable tax policies on foreign-source IP income.\footnote{Robert D. Atkinson, “Increasing Taxes on Innovation-Based Traded Sectors Will Reduce U.S. Global Competitiveness” (ITIF, October 2021), \url{https://itif.org/publications/2021/10/08/increasing-taxes-innovation-based-traded-sectors-will-reduce-us-global}.}

China has taken advantage of the intense rivalry between various tech companies and segments and artfully played off U.S. technology companies against one another. It is not unusual for Chinese officials to pressure particular U.S. technology companies into transferring some key technology to Chinese firms in exchange for favorable treatment in the Chinese market. In an offer they can hardly refuse, some U.S. companies have agreed to do this, especially transferring technology in which they are not market leaders. In doing so, they make a good deal for their company on two levels: they get market access in their other stronger product lines (at least until the Chinese figure out how to compete with them and shut them out of the market) and they help a Chinese company become a robust competitor to their U.S. competitors. While this divide and conquer game may be good for the company, at least in the short term, it is not good for the United States in any term.

We see this difference of industry interests in the reactions to Trump administration actions toward Huawei. For semiconductor firms such as Intel, Broadcom, and Qualcomm (or a software provider such as Google), Huawei is a major customer, and they did not favor employing the foreign direct product rule, which threatened any company anywhere with penalties if they sold chips to Huawei that used any American hardware or software in their production process. U.S. telecom services providers, principally smaller ones, used Huawei equipment and opposed the Huawei ban. For smartphone makers such as Apple and Samsung, computer providers such as
Dell, and EU telecom equipment providers such as Ericsson and Nokia, Huawei is a major competitor, although the export ban on Huawei principally affected its phone business (simply shifting their market to other Chinese cell phone makers).

When it comes to export controls on entire countries, as opposed to individual companies, the debate shifts. While U.S. technology companies recognize and support the need for export controls on products that give our adversaries a military advantage, given the increased dual-use nature of many technologies, the U.S. government often wants to expand that definition. For example, the Trump administration pressured U.S. semiconductor companies to not sell chips to China, believing that this would hurt Chinese technological advances. It would, but only in the short term. In the medium and long-term U.S. chip companies would be hurt from reduced sales, and China would accelerate its efforts to become self-sufficient. If this resulted, the United States would have lost leverage over China, because the next time it wants to threaten export controls, China would be relatively immune to damage. Needless to say, the semiconductor industry opposed these moves. Because of the gravity of a possible U.S.-Russia conflict, the tech industry did not publicly complain about the Biden administration export control limitations (by the United States and at least 30 other allies) on Russia.18

We can also see how these different interests play out in the debate over reshoring. No company in the first two categories (producing in China or sourcing from China) favored the Trump “stick” (e.g., tariffs) used to pressure China to change, because the effect was to raise their prices. But many companies in the third category (competing against China) did favor the tariffs, especially if the tariffs did not significantly impact their intermediate inputs. For example, groups like the Alliance for American Manufacturers, whose membership is predominantly domestic U.S. manufacturing companies with few international operations, remain strong supporters of retaining the Trump tariffs, in part because the tariffs benefit their members. But U.S. tech companies continue to pressure the Biden administration to eliminate or at least reduce the China tariffs.

Even if a majority of tech companies object to the “stick” of tariffs, most favor the “carrot” of incentives for reshoring. For example, major U.S. semiconductor makers like Intel, Texas Instruments and Micron strongly support the Creating Helpful Incentives to Produce Semiconductors (CHIPS) for America Act, which includes funding for companies that establish chip factories in the United States. Likewise, there is broad-based support for measures in the Senate and House competitiveness bill to provide funding, including low-interest loans, for beefing up U.S. production in critical supply chains, and for the NSF to provide increased funding for research, especially in key technology areas.

But overall, while many large innovation-based U.S. corporations and major trade associations such as the Business Roundtable, the National Association of Manufacturers, and the Information Technology Industry Council support the Congressional competitiveness legislation, their support is moderate at best. In contrast, those with a direct stake in the legislation have played

a much more influential role in shaping the legislation, exactly as political scientist Mancur Olsen predicted in his book, *The Logic of Collective Action*.\(^\text{19}\) Olsen predicted that in any group attempting collective action, individuals and organizations will have an incentive to free ride, while the more narrow the benefits or costs, the more engaged interests will be.

We saw this dynamic in Congressional action regarding the proposed applied research directorate in the NSF. The original Endless Frontier legislation proposed by Senate Majority Leader Schumer (D-NY) and Senator Todd Young (R-IN) include a provision to create a new directorate at the NSF focused on applied, industry relevant research in ten key areas needed to effectively challenge Chinese efforts, such as artificial intelligence and autonomous systems. This was to be as large as the rest of the NSF budget. While this would provide some benefits to technology-based companies, the benefit would be somewhat diffused and realized over the long term. In contrast, this was seen as a direct threat to the interests of the academic science community, which is organized around a system that funds principal investigators to do basic research on topics they choose, with no emphasis on ensuring that the results get used in the U.S. economy. The idea that the NSF would now not only focus on key areas but require that the research actually had to be relevant and applied to U.S. competitiveness needs is anathema to this community.\(^\text{20}\) The very last thing they want is for some NSF funding to be restricted to focusing on national goals and for them to be held accountable for their research actually making an economic impact. As such, their active opposition and lobbying, particularly in the House Science Committee, resulted in a vastly neutered House proposal that appeared to support U.S. competitiveness, but in fact did so only weakly.

There is perhaps no issue that is more unifying than that of digital trade. This is because almost every large corporation (and many small ones) in most industries move company data across borders, and do not want to see that freedom restricted. However, that is what nations have been doing. While China’s data policies are problematic in this space, so too are the EU’s and many others. In fact, ITIF has found that 62 countries have imposed 144 restrictions on data flows, and dozens more are under consideration.\(^\text{21}\) As a result, it is hard to think of a U.S. company or industry that opposes U.S. government efforts to ensure open cross-border data flows. This is one reason why the Biden administration has made this a priority, including in the EU-U.S. Trade and Technology Council.

However, when it comes to regulatory policy, U.S. technology companies do not have a unified position; rather they regularly try to use foreign governments to limit their U.S. competitors. Some of the strongest proponents of the EU’s Digital Markets Act, which would impose asymmetrical regulatory obligations on large digital “gatekeepers” (companies like

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Google, Facebook, and Amazon), were U.S. technology companies like Yelp that compete with these big platforms. We see the same splits domestically, where some U.S. technology companies are urging policy makers to use antitrust to crack down on large technology platforms, especially Google, Facebook, and Amazon.

We see similar tensions on export controls. Semiconductor companies generally want limited export controls on chips to China but are more accepting of controls on semiconductor equipment. Not surprisingly, the latter oppose export controls on their equipment.

Because of all of these tensions and conflicts within industry and because of serious misalignment between the interests of some corporations and the state, the path forward for productive international technology and economic policy is not an easy one. But below are a few suggested principles.

First, with few exceptions, try to not limit U.S. company access to foreign markets. Exceptions should be limited to export controls, sanctions, and other genuinely national security-focused tools that impact trade. Since the start of the Cold War, the U.S. government has used trade sanctions as a foreign policy tool to get other nations to do what the U.S. government wanted because in the past the U.S. technology economy was so large and dominant that these restrictions sometimes worked, even as targeted nations sought non-U.S. imports. Moreover, the damage to U.S. companies was not all that serious, given their lead. Those days are clearly over. In particular, telling U.S. companies that they should not sell technology products to China, leaving out militarily sensitive ones, will only result in fewer sales for U.S. companies and more sales to foreign competitors, including in China. The result is the reduced long-term competitive position of U.S. companies.

Second, work more closely with allies. When a senior Chinese government official was asked about U.S. pressure to get China to change course away from some of their more problematic practices, he said, “China is not worried about the G2 [U.S. and China], or the G20, we are worried about the G3.” 22 When asked what he meant, he responded that in any one-on-one trade conflict between China and the United States, China could easily hold its own and inflict as much pain on the United States as it could on China. The four years of Trump administration policy toward China demonstrated the wisdom of that view. He was not worried about the G20 because he said China could always play countries off against each other. What worried him was the G3, where Europe and the United States “ganged up on China.” It is unlikely, at least in the near term, that Europe will join the United States in any real serious way to push back on China, because too many nations there, especially Germany, look out principally for their own short-term economic interests and do not want to risk rocking the boat with China. But Japan could very well be a different story, as in the case of recent efforts by Japan to boost military spending and publicly support Taiwan. That is why the Quad is so important (involving Australia, India, Japan, and the United States).

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22 When the author served as co-chair of the U.S.-China Innovation Experts Group during the Obama administration, he was in Beijing for the annual innovation dialogue, and over lunch spoke to a senior Chinese government official.
Third, government officials need to find a middle ground between accusations of “Benedict Arnold” for CEOs that have their companies produce in China, and complete laissez faire. The former accomplishes little, other than to alienate U.S. corporate leaders, while the latter provides them with no guidance or pressure. Rather, U.S. government leaders need consistently to press upon U.S. CEOs their responsibility to the U.S. economy, while recognizing the role of government policy to make that U.S.-centric choice easier than it might otherwise be.

**A Joint U.S.-Japan Digital Security Agenda**

Given Japan’s technological capabilities and interest in emerging technologies, coupled with the significant threat to its advancement from China, the United States and Japan should work much more closely together on a joint technology and competitiveness agenda, including digital security.

On data, Japan has taken a lead role, particularly with former Prime Minister Abe’s proposed initiative for “data free flow with trust,” which is grounded in the belief that data should flow freely, but that nations also establish appropriate safeguards and rules to enable trust. The Biden administration should work closely with the Japanese government and other interested allies to move forward to make this agenda concrete. The U.S.-Japan Digital Trade Agreement reflects their joint interest in enacting new rules around data and digital trade, but there is much more they can do together, including how best to encourage other countries in the Asia Pacific to enact similar rules and agreements.

However, any agenda has to go beyond cooperation on rules and frameworks. It has to focus on ensuring allied technology leadership over China. All the joint rules in the world will be for naught if China is the dominant player in information technology, including in chips, telecom equipment, computers, and emerging technologies such as quantum computing, autonomous systems, and artificial intelligence.

This means as a start, aligning U.S. and Japan technology and competitiveness programs. Given the complexity of both the existing and emerging technology systems, even an economy as large as that of the United States cannot hope to be a global leader in all key technologies. But it can hope that, collectively, the United States and its allies, including Japan, are leaders. In this sense, the United States needs not just a national industrial strategy but an allied industrial strategy to ensure, as a group, allied, democratic nations have the ability to produce innovative products at competitive prices in a set of key areas. One way to take such an unprecedented step would be for the United States and Japan to work together on such a strategy. Analytically this would mean joint supply chain mapping, including better understanding of intermediate and final goods trade flows in advanced industries between the two nations. Among other things, this means the United States entering into a reciprocity agreement with Japan such that U.S. firms gain access to their technology policy support programs in exchange for their companies being permitted to participate.

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in U.S. programs. Likewise, U.S. and Japanese officials should work together on how best to encourage other allies, especially reluctant ones in Europe, to align their respective technology policies via a revitalized EU-Japan-U.S. Trilateral Framework. To start, each government could form a joint industry working group, perhaps led by the Information Technology Industry Council on the U.S. side and their counterpart the Japanese Electronics and Information Technology Industries Association. In addition, more specialized associations like the Semiconductor Industry Association in the United States could work with Japanese counterparts to help identify how to design respective government semiconductor programs so they are mutually beneficial.

Such “coopetition” can be tricky. U.S. and Japan advanced technology firms, as well as the U.S. and Japanese economies, will still continue to compete, but they can also cooperate. All parties should see that China is the larger competitive threat to both. That is why it is critical that each nation’s industrial and technology policies are open to companies from both countries. For example, the CHIPS Act allows Japan’s semiconductor firms to participate and ideally the Japanese program counterpart would do the same. But for this cooperation and engagement by industry to work, both governments will have to lead the way. Firms are focused first and foremost on their own competitive challenges. If the U.S. and Japanese governments want them to be engaged, they have to start by helping to lay out a framework by which they can engage.

Some will worry about an “arms race” around industrial policy, that if the United States steps up, that other nations, including Japan, will have to match that. But this view misses both the new nature of global competition and the particular kind of competition that should be encouraged. To the extent Japan and the United States step up their technology promotion efforts, such as a higher R&D tax credit or more subsidies for reshoring technology operations, the allied world benefits vis-à-vis China. And the kind of technology policy both nations are focused on is “high-road” competition designed to help companies compete on skills and innovation, not simply low costs.

**Conclusion**

Unfortunately, history did not end after the Cold War. It continues to evolve in transformative ways. Even if not all policy makers and advisors acknowledge it, the United States faces a fundamental new reality, especially in the face of a new, technological advanced competitor in China, as well as a domestic corporate politics that make effectively responding to that challenge more difficult than in prior periods. The United States and Japan should develop a joint technology and competitiveness agenda including digital security to manage the complexities of the digital economy.