Managing the New Competition with China
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Introduction

Most people now recognize that “victory” in the Cold War was an illusion. Two powerful and suspicious ex-communist states believe now is the time to push hard against a weakened and befuddled West. Democratic governance and rules-based markets are challenged by these countries and by difficult social issues as they have not been for decades. The crux of the new competition is business and technology and dealing with it will require not only rebuilding the regulatory structures dismantled after 1990, but creating new ones and finding ways to accelerate U.S. and likeminded countries’ economies.

These two states, Russia and China, were allowed to join global institutions for commerce, trade, and finance. They are now deeply enmeshed in global supply chains. At the time this may have been the right decision (albeit seasoned with a degree of wishful thinking), but it has now become a strategic error. China and Russia are now connected to global trade and financial systems in ways that create risk and will be exceptionally hard to disentangle.

The goal of minimizing friction among international economies undergirds many post-1945 rules and institutions. China (and to a lesser extent Russia) took advantage of this openness without accepting the values that underpinned it. The direction of U.S. policy (and some of its allies) has been to restore and expand the controls on technology transfer and finance found in the Cold War. If there were no barriers, one could expect trade in goods and services and investment flows between China and the West to increase, but the immediate benefit of commerce with China needs to be carefully weighed against the long-term political and economic consequences of equipping China to better pursue dominance.

Three major changes since 1990 will shape the development of policy. First, the Cold War involved a small number of advanced economies, with a clear bifurcation and on one side, almost all democracies. China was not one of them. Many were NATO members or allies. Research, manufacturing, and finance were concentrated in these countries. This concentration has been diluted in recent decades as wealth, manufacturing, and innovation have become increasingly globally distributed, albeit unevenly, across countries in different regions, including the Middle East, Southeast Asia, and Latin America. The growth of a global market led to improvements in transport and telecommunications that let firms avail themselves of distributed resources for production and serve even wider markets, fueling the growth of international trade and investment in a single system that now faces the strains of bifurcation.

Second, the terms of competition are economic and technological more than military. Having a large or powerful military does not guarantee success in this contest, nor is military spending the fountain of innovation it once was in the last century. We are not in an arms race with China as much as a contest for ascendancy in economics and technology. Leadership (and security) will be the result of growth and innovation. Strong economies and technological innovation are the sources of national power, and in democracies, these are the products of private efforts, not
government policy (although having the right framework of policy, regulation, and law can provide advantages). Transactions that would have once been regarded as commercial now have direct national security implications.

The third is the shift to intangible goods and services as the source of wealth creation. Data and intellectual property can be a company’s most valuable asset. Since export controls, where transfers of certain technologies require prior government approval, are still largely based on Cold War rules, many countries’ regulations are geared towards tangible products ("hardware") and thus more appropriate for the twentieth Century. Intangible products, in contrast, are hard to “control.” They include data, software, and digital financial instruments (including cryptocurrencies). These are largely outside of control. Some transfers of these intangible products create national security risks while others provide an avenue for foreign influence and control. If Huawei is the poster child for China’s predatory policies in hardware, TikTok is the exemplar of managing any risk from intangibles and services. These three changes apply globally, but complicate efforts to reduce the risks of interaction with China.

Another complicating factor in the effort to regulate trade and investment with China is the inevitability of China’s rise. How far it will rise is another matter, but in the course of four decades it has become the second-largest economy in the world and aspires to become first. Rise need not mean dominance (China’s often ham-handed diplomacy is one impediment to this), and while its rate of growth will slow, China has joined and will remain among the economies that have dominated trade and investment for decades (Japan, the United States, and Germany). It does not share their values, and one strategic problem is how to reduce interdependence and vulnerability in an interconnected financial and technological environment where an authoritarian China plays a major role.

This kind of disentangling, as recent events have shown, is much less difficult when dealing with Russia, given its decaying economy. China is different since it is wealthy, industrialized, and “tech” oriented, and President Xi is focused on technology leadership. To the extent the Chinese Communist Party (CCP) allows, it also has an entrepreneurial culture, something that most nations lack. China’s role in the global economy cannot be easily replaced. There is already a complex web of connections. These connections create vulnerabilities that China (and Russia) will use to acquire technology and to create coercive pressures. Their companies and financiers participate in global financial and trade systems but are subject to Party control, and the multilateral institutions developed after 1945 are inadequate for managing this risk. Changing this situation of institutions too weak to deal with an aggressive China will be neither easy nor quick, but actions like cutting Russia off from SWIFT or denying access to airspace suggest that a forced unravelling of global connectivity has begun and could in some circumstances be precedential for China.

Not all connections with China create risk, but it can be hard to distinguish what can be safely done and what should be stopped. China is an alluring market and source of investment, but the situation is changing in ways that point to an increase in risky transactions. China will use the leverage it gains from market or technological power for coercive purposes, to make companies or countries do things they would not choose to do absent coercion.
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The mutual desire for bifurcation has led a few commentators to announce that this is a new Cold War. It is not a Cold War and may never become one. The temptation to use outdated strategic concepts and policy tools is powerful and a handicap for policymaking, if only because the Cold War analogy downplays China’s role in and interconnection with the global economy, something the Soviet Union lacked.

The task for policymakers is to manage disengagement in ways that minimize harm to Western economies while reducing the national security risk of economic interaction with China. Some transactions can be permitted, while others have become too risky and must be blocked. The direction of Chinese policy and China’s pursuit of primacy create the need for greater scrutiny of proposed transactions. A complete embargo would not benefit Japan or the United States. Better regulatory management will allow investment and trade with China to continue for now to maximize benefits of Western economies, with the relationship gradually being reduced as circumstances require.

The problem is also complicated because it is dynamic. Finding transactions that do not involve much risk now may grow increasingly problematic. Opponent policies and strategies will change in ways that could increase risk. Western companies have been reluctant to renounce access to Russian and Chinese investment (and in China’s case, to its market). Similarly, Russian and Chinese investors have been drawn to Western markets for financial reasons, but can be subject to great pressure from their governments to use their investments for Chinese or Russian policy goals.

In simple terms, we have three options. The first is a sharp bifurcation regardless of cost. This appeals to China “hawks.” The second is a balanced assessment of which transactions with China pose unacceptable risk and which do not, permitting the former. This appeals to technocrats. The third is a continuation of laissez faire, to pretend there is no security problem or contest, as when a Swedish official said that one could do business with China even when you have political differences. The trajectory of policy is most likely from laissez faire to bifurcation over the course of the next decade, assuming no political change on any side.

Shifts in Chinese Policy

Concern over technology transfer has been an element of the U.S. relationship with China since the 1980s, when it emerged from self-imposed isolation. The United States supplied some military technology (such as Blackhawk helicopters and guided artillery rounds) and allowed China to launch U.S. commercial satellites. Security cooperation was built on the presence of a common opponent, the Soviet Union. Commercial cooperation was shaped by the belief that China would become a market democracy and that bilateral relations would be amicable. However, Chinese policy changed to become more openly nationalistic and confrontational. Unlike Russia, China’s wealth and sophistication pose a more difficult kind of challenge for regulation and policy. Companies want to do business in China and the Chinese market makes up a major share of many companies’ revenue. China knows this and uses market access as a tool to pursue its policy goals.

One dilemma with the more open economic approach created after the Cold War is that Chinese policy is to use any means to extract technology from Western companies. This includes
investments. Huawei is the best example of a globally dominant Chinese company built along these lines, but there are others. Various strategies are employed, such as using barriers to trade, security regulations, procurement mandates, and acquisitions (both licit and illicit) of foreign technology, including through strategic investments in or acquisition of foreign firms. In addition, companies from the United States and other Western nations have found themselves under pressure to make long-term concessions in technology transfer in exchange for market access.

It is worth noting that China itself would prefer bifurcation, but bifurcation on its terms with the West still acting as a market for Chinese companies and a source of technology China cannot yet produce. It is not much of an exaggeration to say that Xi’s goal includes creating a kind of twenty-first century system of tributary states. China’s advantages in its pursuit of this goal include those that are legitimate and those that are illicit. When it opened to the West, China had an immense underutilized population, and has since spent much effort and money to create a strong technological workforce and has more citizens with entrepreneurial zeal than most countries. These advantages mean that China would have become an economic powerhouse no matter what.

But Chinese leaders were not content with the rate of progress these advantages produced. Perhaps out of paranoia and a sense of reclaiming China’s rightful place as the center of the world stage, China sought to accelerate and even leapfrog more advanced economies. It used a variety of illicit means to do this. A profound disregard for World Trade Organization (WTO) commitments—and the WTO’s failure to hold China accountable for two decades—for reciprocity in trade and investment (like the range of subsidies used to support Chinese companies) provided an unfair advantage. At the time, many in developed countries ignored these transgressions in exchange for market access. Predatory trade policy is a Chinese hallmark, as is the illicit acquisition of technology.

Perhaps less visible but an even more damaging Chinese behavior was its reliance on coercion and espionage to obtain technology. This began after Deng Xiaoping opened China to the West and accelerated rapidly after the introduction of high-speed global networks, which gave China access to poorly protected networks and data in the United States, Japan, and Europe. The only reason to recall this catalogue of malicious Chinese behavior is that it points to the requirements for future U.S. policy: holding China accountable for its predatory trade practices and for its espionage. Accountability does not necessarily mean retaliatory acts as much as it means creating ways to restrict Chinese access to Western markets and technology through regulation.

There have always been regulatory impediments to cross border flows of money and technology, as countries seek to protect their national interests. These impediments shrank after 1990 but in the last decade they have returned. If anything, there has been a resurgence, tied not only to the risks created by Chinese behavior but by larger national desires to assert sovereignty in technology, political narratives, and rulemaking. The assertion of sovereignty is perhaps a reaction to the U.S.-led, one-world ideology of the 1990s and has become a goal for many countries. It is an obstacle to cooperating in regulating technology transfers and finance with China, particularly for the European Union, where some define tech sovereignty as avoiding "capture" by either China or the United States.
China’s strategies for acquiring technology and circumventing investment restrictions are relatively agile and well-resourced. The long-term viability of China’s managed economy model under increasingly tight political controls is an open question, but in the near term, it is competitive, and this creates new risks for U.S. companies and for national security. One question is whether the existing regulatory tools to manage risk are adequate. The answer varies from country to country. These tools include export controls and foreign investment screening. Another question is whether a defensive strategy of limiting engagement with the Chinese economy and seeking to block Chinese acquisitions is enough. The answer in both cases is that there is room for improvement. Revising regulatory tools and improving the ability to compete are essential for competition with China.

**Export Controls**

Export controls need to be strengthened and modernized to deal with China. The history of export controls is one of efforts to find ways to engage in trade with opponents rather than relying on a complete embargo. This requires a bureaucratic process to decide what trades do not create risk. The current system embodied in the Wassenaar Arrangement dates back to the 1950s and the start of the Cold War with the Soviet Union, a time when production and innovation relied largely on national systems, making exports easier to manage. Wassenaar is the primary vehicle for multinational cooperation on technology transfer, but it still strongly resembles the process of the 1980s.

The most difficult problem for the control of intangible technologies is in human capital. Employees can acquire knowledge at one company and move to another. China actively recruits such people. While there are regulatory efforts to address this, they are ineffective. Many companies acknowledge the leakage of technology through employee movement but believe that the net benefit outweighs any loss. A solution to the human capital problem may lie outside of export control and rely more on legal measures, such as non-disclosure agreements, and increased enforcement of laws against intellectual property (IP) theft and espionage.

The questions for export control policy are relatively straightforward. The chief issues are how to modernize regulations (including mechanisms for identifying what technologies are truly sensitive), how to deal with emerging technologies and “intangibles” like software, and how to build a cooperative approach with allies and partners. There have been some successes. China’s military modernization has been slowed because of an embargo on military trade imposed after the Tiananmen Square massacre. Access to advanced chips needed for 5G and the production equipment needed to make them have been cut drastically.

Modernization of regulatory processes is the chief requirement. As the threat of the Cold War receded, Western countries acting collectively sought to lessen restrictions. They did this by creating performance thresholds. Goods and technologies above a certain performance threshold

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1 Skills, knowledge, and experience possessed by an individual
2 While its revenues declined markedly as a result of sanctions, Huawei is nonchalant, knowing that it has the financial and intelligence backing of the Chinese state. It plans to regain a globally dominant position in cloud services and 6G networks.
were restricted and required approval for export. Those that fell below were allow go to freely. Every few years, thresholds were amended to reflect technological improvement, so that a chip that required approval for sale when it appeared on the market might no longer require approval some years later. Some companies are reluctant to change this, as moving away from the threshold approach would likely increase the scale of regulation and increase regulatory uncertainty.

One problem with the hardware threshold model is that it dates back to the 1980s and does not always address the importance of software or the emergence of new technologies. An end user/end use approach avoids some of export controls’ most daunting problems, which are the rapid pace of technological change and the still deep interconnectivity of the global economy. This approach comes from an amendment to the threshold model to control the proliferation of weapons of mass destruction by focusing on intended use and recipient to determine if there was risk and a transfer should be prohibited. Recent U.S. regulations, for example, restrict transfers of semiconductor manufacturing equipment when it is intended for military end users or end uses. This approach, while unpopular with business, is modeled on the regulations used to control exports of goods and technologies necessary for weapons of mass destruction or for money laundering: know your customer. Modernization of export control requires new approaches to deal with data and software, and a greater focus on ending access to technology by dangerous recipients

**Investment Screening**

Technology transfer is not the most difficult problem, however, in dealing with opponents. It is the interconnections in the financial system in which Russian and Chinese investments can play a large part. The world is awash in money. Liquid capital is greater than it has ever been and one of the successes of the post-Cold War restructuring is that it is easier to move this money among capital markets than ever before. Three kinds of investments create security risks. The first involves the purchase of a company to gain access to a technology, data, or a building. The second is a purchase to gain control of an infrastructure like a port, telecom network, or electricity grid. These threats are recognized. The more complicated challenge comes from foreign investments that do not involve the acquisition of technology or infrastructure. This kind of investment by China which does not involve the acquisition of a company can be more insidious in its ability to influence and perhaps shape decisions by companies and governments. If nothing else, an investment presence gives China insights into market trends and emerging technologies that were unavailable to the Soviet Union, and allows it to mimic western market-driven investment decisions.

Money is fungible and easily “laundered.” The growth in China’s wealth and the concentration of that wealth in an investor class (something not unique to China) has created a pool of funds that will seek the best results possible in global markets, even if constrained at times by Chinese monetary policy and by Western regulations. The raison d’être of the investment is presumably to maximize revenue or improve a firm’s competitive position. But investors are subservient to the Party and will pursue its strategic goals for the acquisition of technology and "know-how." This means there are many legitimate investments intermingled with those that pose security risks.
Some of the risk from a Chinese investment can be mitigated, but the space for risk-free acquisitions by China has shrunk dramatically. The motives behind risky Chinese investments can be difficult to disentangle; the profit seeking motive of a Chinese investor and the advantage seeking motive of the Chinese government. These two can overlap. Chinese private money will look for places to go. If these were passive investments, where the Chinese funder did not exercise control or influence, any security risk is much smaller. Unsurprisingly, however, some investors demand a more activist role. This is understandable but increases risks, unacceptably in the case of certain technologies, data, or locations regardless of whether there is Chinese government involvement. For some strategic technologies, the Chinese government both guides and indirectly funds (often using multiple layers of obfuscation) acquisitions efforts. Investment screening must ask two questions: is this purchase in the nation’s interests (in light of the growing concern to defend sovereignty) and does it help China achieve its strategic goals.

**The United States Investment Review Model**

The United States investment review process can offer useful lesson, given its thirty-plus years of experience. It has been significantly reformed to expand its scope while also streamlining its processes. The United States began its foreign investment review process more than thirty years ago as an effort to protect the defense industrial base and defense technologies. This became a precedent for many nations. Recognizing the potential risks of foreign investment, the United States created a process to review foreign acquisitions of United States firms for their potential national security implications—the Committee on Foreign Investment in the United States (CFIUS). CFIUS is an interagency body staffed by officials from the Department of Defense, State, Justice, Commerce, and the Office of the United States Trade Representative (USTR). It is chaired by the Treasury Department. Representatives from the Federal Bureau of Investigation (FBI) and the intelligence community (in an advisory capacity) are also involved. The President made the Department of Homeland Security a member of CFIUS in April of 2003. CFIUS was originally created to monitor the economic implications of foreign investment in the United States, which is why it is chaired by the Treasury Department, but it was later given the role of reviewing the national security implications of foreign acquisitions of U.S. companies and this function has become its most important.

After September 11, Congress added homeland security and critical infrastructure protection to the factors CFIUS considers in reviewing cases. The CFIUS mandate has been expanded recently to include location and access to data as risk factors. This latter change highlights the importance of digital data. The Chinese have always made massive efforts in data analytics and biometrics (e.g., facial recognition, fingerprinting, DNA analysis), to create comprehensive surveillance programs. Data analytics and AI have transformed intelligence collection and analysis the same way they are transforming business. Data analytics and AI are the future of intelligence and can significantly improve the effectiveness of counter-espionage and counter-terrorism operations.

CFIUS will often approve cases where it has concerns if a risk mitigation agreement can be reached with the acquirer, but there may be no credible way to guarantee that Chinese agencies could not coerce the acquiring company to obtain access to data. China’s trade and technology
policies, its amplified nationalism, and the increased importance of enormous data sets for analytics and intelligence are all problems because China has a long track record of commercial espionage and mass surveillance, where the rule of law is conditional on the interest of the CCP.

The location of an acquisition can also be grounds for concern. Chinese entities will see to acquire property near sensitive U.S. facilities, providing the possible use of these for intelligence collection. Examples include wind farms next to weapons testing facilities. This is not a hypothetical concern. A less probable concern, but one that cannot be dismissed, is the acquisition of critical infrastructure. Some Nordic countries, for example, found China and Russia were acquiring maritime facilities that provided the potential for disruption action in ways that, after review, they found unacceptable.

CFIUS uses several criteria for its review of a foreign investment: the sensitivity (e.g., the ability to affect national security) of the transfer and the sensitivity (e.g., their relations with the United States) of the acquirer. These can include the acquisition of technology of potential military value or access to data or infrastructure that could provide intelligence advantage. This means that reviews generally track with broader foreign policy.

Foreign investment reviews of technology acquisitions can sometimes be linked to “controlled” technology found on an export control list. This is an easy regulatory shorthand, but reviews should not be linked to export controls thresholds since these can be an inadequate reflection of the sensitivity of a technology. Moreover, the risk of an acquisition can also become outdated. In addition, certain technologies may not yet be subject to export controls, or not yet controlled multilaterally because they are emerging technologies. As such, they have not yet been evaluated for their national security effect and could be overlooked by foreign investment reviews.

The United States does not consider economic or commercial arguments for investment review, although with every legislative amendment of the authorizing authorities, proposals to change this resurface. The argument behind these proposals is that the economic effects (on competition or the workforce) should be considered as well as the national security implications. However, a broader focus that includes economic factors can lead to strange outcomes, as when the Government of France denied the acquisition of Danone Yoghurt by Pepsi because it threatened France’s national interests (including, presumably, its cultural heritage). If the intent to preserve and maximize foreign investment while mitigating any security risk, adding economic criteria is a mistake.

The United States has consistently opposed this kind of expansion of regulatory scope (e.g., not allowing the Department of Labor to join CFIUS), but in other countries, protectionist impulses are increasingly reinforced by a desire for “technological sovereignty” and a recognition of the importance of technology. The UK review of the acquisition of ARM by Nvidia, an U.S. company, does not create risk in the traditional sense used previously in foreign investment review—contributing to an improvement in an opponent’s military capabilities—but it can be interpreted as a diminution of the UK indigenous technological base and hence, its technological sovereignty. What is not as well recognized is that more open innovation systems perform better, so an over-emphasis on restriction may provide short-term benefit but cause long-term harm.
Technology is a source of national power, and countries seek to protect their technological base. That said, open economies that rely on market forces to guide investment, reinforced by adequate support for public goods like research, education, and infrastructure, outperform closed or managed economies. Blocking sales to foreign investors is not enough to ensure technological strength, but it is easier, can appeal to emotion, and does not require funding. In the case of China, the question is to what extent can we continue to allow Chinese investment, given that some acquisitions improve China’s capacity to compete technologically or upgrade its military, a problem reinforced by its disregard for the rule of law. The question posed by the United States in its investment reviews—does this acquisition create national security risk to the United States—remains the best basis for policy and is mirrored in the regulations of other major economies.

**Outward Investment**

A new area of concern is Western investment in China, with some feeling that this should be restricted or even eliminated. The argument for restriction is that U.S. or Japanese money should not be used to build China’s economic or military power. The counter is that if the gains from investment outweigh the risk, investment should continue. This makes the determining factor the assessment of risk in transactions with China. If there is no technology transfer and no direct engagement with military-related entities in China, under a more open approach, risk would seem limited. However, the laws, regulations and agencies needed for such review do not exist in most cases. An easy solution would be to give the agencies that now review inward investment the authority to also review outward investment (which would require an infusion of new resources as well).

If any support for Chinese companies creates risk, tight restrictions are justified. This is an overestimate of risk, however. An intermediate position is that commercial investments that do not improve China’s military or technological capacity—in real estate, consumer goods and services, or yoghurt production, for example—should be allowed to continue for now. One light regulatory requirement would be to require companies investing above a certain threshold in China or in certain sectors to have to notify CFIUS of the decision to invest.

There is no bifurcation in the world of private finance, nor does there appear to be much desire for it in the private sector. While banking is tightly regulated, private decisions are not, allowing investors to decide where they believe the ratio of risk and return is favorable. This is the best economic outcome and state-directed investment is less efficient (a problem for China). Private decisions mean that U.S. investors want to invest in China and Chinese investors want to invest in the United States. While their decisions in most instances are driven by profit motives, there is a strong possibility that the Chinese state will use private investment to gain advantage, as when Beijing, using multiple front companies, funded a Chinese group in its effort to acquire the U.S. semiconductor firm Sequoia.

China’s desire to create its own financial markets to end reliance on Wall Street, London, Tokyo, and Frankfurt raises the following problem: should Western financiers be allowed to invest in Chinese companies listed on Chinese exchanges? Similarly, should Chinese companies be
allowed to list (assuming Beijing will continue to permit it) on Western exchanges? On balance, if there is no technology transfer, it is probably in the interest of the United States and Japan to allow such investments to continue. However, though strengthening regulatory processes for transparency and reporting for such investments would be burdensome, it may become necessary.

Where does Japan fit in this investment picture? The exemplar is Softbank, the Japanese investment firm power that made several shrewd investments in China and once had plans for a major spending program there. China’s market remains an immense draw and Japanese foreign direct investment (FDI) continues to slowly increase. At one level, it could be argued that any investment in China helps strengthen a hostile regime and should be cut. Another approach would be to say that only investments that involved sensitive technologies should be blocked.

Chinese investment in Japan poses a more direct risk. Japan’s foreign investment regulations allow foreign investors to make investments and requires prior notification for investments in some sensitive sectors (along with some ex-post facto reporting). Japan expanded its investment review process, lowering notification thresholds to one percent for designated industries. Japan will need to balance the requirements of commercial benefit from continued trade with China against the risks to its own national security and to its relations with allies. Chinese investment is still relatively small, suggesting that Japan could expand its oversight of inbound investment from China and the economic harm from further restrictions would be minimal.

Perhaps the biggest area for potential cooperation between the United States and Japan on financial reviews is in intelligence sharing. Many deals are opaque, especially with China, and actual ownership may be concealed through several layers of investments and front companies. This is a problem for the United States as well as Japan, but pooling information could beneficial. Progress in sharing intelligence, however, requires Japan to improve its security clearance processes to control access to sensitive data.

**Conclusion: Regulating the New Globalization**

The global economy was restructured after the end of the Soviet Union to ease flows of money, technology, and goods (the free flow of services lag). But the global market this created is increasingly distorted by political risk. Ukraine signals a major shift in global order. The challenge before Ukraine was remaking governance to deal with rising powers like China and to accommodate digital change. Ukraine showed the need to restructure relations and institutions to take conflict into account. This highlights the need for partnership in export control and reviews. However, there are frictions that Russia can exploit, as when Europeans talk of digital sovereignty and “European values.” Strategic autonomy has been a dream for some since de Gaulle, but it remains unrealistic for the Western community of democracies and while possible for China, could eventually prove harmful to that country’s growth.

Given the deep interconnections that have grown between the Chinese economy and the rest of the world since 1980, a bifurcation similar to that seen in the Cold War would be difficult, costly, and not in U.S. national interest. But allowing interaction with China without regard to managing the security risks would be foolhardy and damaging to both economies and security.
This creates the fundamental tension for policy—how to restrict Chinese access to technologies and limit the political influence of its investments, while minimizing risk and damage to the economies of the United States and allies from both Chinese access and overly aggressive restrictions. Blanket denials or other draconian measures are likely to do more harm than good.

Cooperation on expanding rules and norms for technology and for managing technological risk with China is part of U.S.-Japan relations. Expanding this cooperation to include other partners is an essential first step. Another step for each country is to ensure closer alignment on export controls and investment screening. Both countries will need to balance the requirements of commercial benefit from continued trade with China against the risks to their national and economic security and, equally important, their own need for growth and innovation.

In this environment, strengthening technology transfers restraints from the United States and its allies to China is essential, but this must be balanced by a recognition of the interconnections between the two economies. This is a complicated strategic problem since Cold War solutions will not work. The United States and its allies will need to think in new ways not yet identified. For thirty years, the United States and its allies have had the luxury of not having to think seriously about strategy and have sought to reduce barriers to trade and finance. The task now is to decide how these barriers should be rebuilt.