



# **China and the Great Power Competition //**

## **How to Secure Your Business and Our Nation**

### **A BENS PRIMER**

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China has ascended to become a leading global power, and though many were once optimistic the nation's rise fostered opportunities for trade and mutual prosperity, recent policy decisions and stated aspirations by Chinese President Xi Jinping and the Chinese Communist Party (CCP) have created an adverse business environment and a global competition for geopolitical leadership and influence. And, while past great power rivalries centered on military might for success, this competition will be determined through economics and the robustness of the technology sector. Indeed, America's ability to continue to succeed and outpace China in the coming decades will be as reliant on programmers, engineers, and entrepreneurs, as much as Sailors, Soldiers, Airmen, Marines, and Guardians.

In response, Business Executives for National Security (BENS) has produced this primer to serve as an initial point of understanding for this Great Power Competition, its intersection with industry, and outline steps business leaders can take to offset Chinese strategies which place U.S. companies and security at risk. With this information, corporate executives, investors, and entrepreneurs will be able to safeguard their businesses and shore-up investments, while curbing the CCP's influence abroad. China is – and will remain – a valuable trading partner. And will play a prominent role in addressing global challenges such as climate change. However, the CCP must curtail any intentions to unfairly shape the international economic system or permeate their authoritarian principles globally. By minimizing their exposure to Chinese financing and markets, fostering the development and utilization of leap-ahead technologies like artificial intelligence and quantum computing, and building greater resilience within their supply chains, U.S. business leaders can take an active role in securing their companies and our Nation in this period of Great Power Competition.

# BAD BUSINESS



## Private enterprise is a policy tool of the Chinese Communist Party.

While China has adopted elements of capitalism and output has soared since employing market forces to drive their economy, their society and businesses are tightly controlled by the government. The CCP mandates the installation of political officials inside private firms, denies credit to private companies who do not adhere to state planning, and requires that executives tailor their businesses to achieve state goals. Meanwhile, the Chinese government is increasingly entangling itself in key industries that correspond with global public safety and security, such as financial services, pharmaceuticals, and technology. In 2019 alone, Chinese state firms spent more than \$20 billion to buy into private companies in these sectors, doubling their 2012 levels.<sup>1</sup> CCP economic control regularly creates a destabilizing effect on the Chinese economy and any foreign businesses operating there.

### ***In the News:***

*ARM-China, the Chinese subsidiary of UK-based chip manufacturer, ARM, raised alarm in September 2021 after its CEO, Allen Wu, declared that the company would begin making decisions independent of its parent company. ARM-China was a recipient of legal IP transfer from ARM but was 51% owned by Chinese investors, meaning ARM never technically owned ARM-China. ARM-China's decision comes conspicuously at a time when the Chinese government has sought to sever foreign links to domestic chip manufacturers<sup>2</sup> and now puts it in competition with ARM. Disconcertingly, U.S. venture-capital firms, chip-industry giants and other private investors have also effectively acted as financiers of China's push to dominate chips and advance in these areas. U.S. companies participated in 58 investment deals in China's semiconductor industry from 2017 through 2020, more than double the number from the prior four years.<sup>3</sup>*

*Even in the U.S., the CCP has attempted to manipulate private enterprise for its own ends. In November, 2021, it emerged that China's embassy in Washington D.C. had sent letters pressing executives to urge members of Congress to alter or oppose the U.S. Innovation and Competition Act (USICA). The letters insinuated the bill will inevitably result in a decline in China's demand for U.S. products and a loss of market share and revenue for American companies operating in China.<sup>4</sup>*

### **→ Impact**

The blurred lines between private enterprise and the CCP's policy goals should concern private businesses operating in China as companies are regularly directed or co-opted to meet government objectives which are at odds with American interests and create political risk for U.S. companies operating within their system. China may in essence come to control a U.S. subsidiary at any time, as occurred with ARM. CCP control also creates significant downside risk on American investments, as was seen in the crash of the Chinese tech industry and the destabilization resulting from Evergrande.

## The CCP has access to all data in China.



Pursuant to China's 2014 Counter-Espionage Law and its 2017 National Intelligence Law, companies are required to "support, assist, and cooperate" with the state's intelligence network, effectively making companies unable to protect any data and information from government demands<sup>5</sup> and making them an indirect intelligence collection asset to the CCP. The law extends to include employee rosters and customer lists, effectively granting the CCP access to the personal data a company holds on anyone worldwide. While other countries employ similar laws to prevent espionage, or protect citizens from attacks, China has formulated this law to extract valuable information from all businesses operating within its borders.

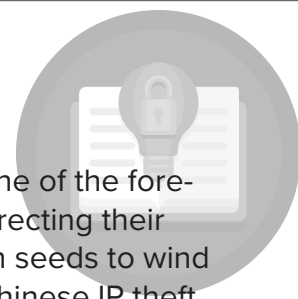
### ***In the News:***

*In May 2021, it was discovered that technology giant Apple adheres to Chinese government mandates to store customer data on Chinese servers within the country, allowing personal data to be stored on state-owned servers operated by Chinese state employees. Apple's compromises have made it nearly impossible for the company to stop the Chinese government from gaining access to the emails, photos, documents, contacts and locations of millions of Chinese residents. Further, the encryption keys required for decrypting messages is stored on hardware bespoke to China, distinct from the encryption key storage hardware Apple uses for the rest of the world.<sup>6</sup>*

### **→ Impact**

U.S. businesses operating in China with local partner companies are liable to be spied upon by the Chinese government through their partnering company, much of the time with the aim of stealing IP or directly undermining the long-term prospects of said foreign business. The ability of the CCP to obtain customer data also makes US companies vulnerable to customer law suits or reputational damage.

## U.S. intellectual property is at risk.



Illegal and quasi-legal Chinese acquisition of U.S. intellectual property remains one of the foremost challenges for both U.S. business and security, with Chinese state actors directing their efforts towards companies engineering everything from proprietary rice and corn seeds to wind turbine software and high-end medical devices.<sup>7</sup> It is estimated that the cost of Chinese IP theft to the U.S. economy ranges from \$225 billion to \$600 billion annually, which does not include indirect costs such as loss of competitiveness and devaluation of trademarks.<sup>8</sup> Moreover, according to the FBI, China is not just focusing on innovation and R&D IP. They are also obtaining a multitude of data that could give them a competitive edge, to include cost and pricing information, internal strategy documents, and personally identifiable information.

### ***In the News:***

*A review conducted by the Wall Street Journal of 10 cases in U.S. federal courts, and dozens of interviews with U.S. officials, former employees, competitors, and collaborators suggests Huawei has achieved its status as one of the world's largest technology companies thanks in signif-*

ificant part to IP theft. In one case, for example, a relative of Huawei's founder Ren Zhengfei, who worked for Motorola, was alleged to have brought secret details of the U.S. company's technology to a meeting in Beijing. IP theft has been considered so flagrant that Cisco accused Huawei in January 2003 of copying its software and manuals, noting that they made verbatim copies of whole portions of Cisco's user manuals. The copying was so extensive that Huawei inadvertently copied bugs in Cisco's software, according to the Cisco lawsuit. Examples such as this and many others, are considered to be key reasons why Huawei is now one of the most profitable tech companies in the world, far exceeding the fortunes of Ericsson or Nokia.<sup>9</sup>

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→ **Impact**

The Chinese government and Chinese companies take U.S. company IP and regularly use it to support a Chinese competitor to a U.S. company.

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## China's ESG hypocrisy.

Though the CCP regularly touts future environmental goals, its other actions are a nightmare of environmental, social, and governance (ESG) violations. The Chinese Communist Party's mistreatment of the minority populations in its Western Xinjiang region, for example, is now well documented. Over the past four years, the Chinese government has detained more than a million people from the region, most of them Uyghurs, in internment camps and prisons where they endure ideological and behavioral re-education along with forced labor. It is the policy of the United States and multiple other countries that this constitutes genocide. Meanwhile, China is systematically censoring U.S. media and entertainers as occurred with the the NBA and John Cena.

### **In the News:**

In September 2019, the UK's Guardian newspaper obtained leaked documents detailing TikTok's moderation guidelines, which forbade "criticism or attack towards policies, or social rules of any country," but listed Tibet and the Tiananmen Square massacre as examples of content to take down.<sup>10</sup> Further, at a UK parliamentary committee hearing in November 2020, TikTok's UK director of public policy was asked by Members of Parliament whether it quashed content about the Uyghur crisis in Xinjiang, prompting her to admit that they had, in the past, censored content likely to anger China.<sup>11</sup> She did, however, claim that Tik Tok no-longer engages in censorship.

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→ **Impact**

U.S. businesses and investors should be aware that attention to the CCP's treatment of the Uyghurs is likely to increase in the years ahead, and scrutiny of China's environmental track record is likely to become more intense. This leaves any U.S. company doing business with China with significant reputational risk. Consumers could mount boycotts of products produced in connection to any of these ESG factors. For example, H&M, Nike, Adidas, and Burberry recently came under public pressure to cease their sourcing of materials from Xinjiang, thanks to a public boycott.<sup>12</sup> CCP human rights violations are morally wrong, but also bad for business.

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# CHINA'S STRATEGIES & TOOLS

## Made in China 2025

A state-led industrial policy aimed at making China the dominant global power in high-tech manufacturing, Made in China 2025 establishes benchmarks, along with government investment and resources, to mobilize state-controlled enterprises in ten high-value industries: information technology, robotics, aerospace, ocean engineering, highspeed rail, green technology, power equipment, new materials, medicine and medical devices, and agricultural equipment.<sup>13</sup> While the policy's success has been mixed, Chinese firms have mastered production in key areas such as renewable energy, electric vehicles, high-speed rail supplies, heavy machinery, and automotive parts. Most notably, China is at the forefront of 5G deployment, boosted by the Chinese-backed firm Huawei, and its strength in mobile networking equipment.<sup>14</sup> Huawei had access to as much as \$75 billion in state support to help it grow from a little-known phone switch vendor to the world's largest telecom-equipment company.<sup>15</sup>

### **In the News:**

*WuXi Biologics, a China-headquartered pharmaceutical company, has, since 2019, built a vaccine manufacturing facility in Ireland, announced plans for a production facility in Massachusetts, and acquired a Bayer plant in Germany.<sup>16</sup> A recent report by the U.S. intelligence community claimed the data collected by likes of WuXi Biologics and other Chinese advanced manufacturers could ultimately end up in the hands of the Chinese government.<sup>17</sup> The report claimed China already has the greatest access to medical data of any country, with the increased opportunity for data collection and advancements in technology, potentially leading to the U.S. becoming wholly dependent on China for advanced medicines and biotechnology. Perhaps of most alarm to Americans, Chinese biotech companies have engaged in efforts to collect DNA from people across the world, including the U.S. When combined with the cyber hacks of credit and travel information, "it creates an incredible targeting tool for how the Chinese could surveil [people], manipulate [people], and extort [people]," according to the National Counterintelligence and Security Center.<sup>18</sup>*

### **→ Impact**

Picking winners and business subsidies are nothing new, but American businesses may find it difficult to compete with the sheer scale of support. Competition from Chinese businesses benefitting from this support could degrade the position of U.S. companies in export markets in which Chinese competitors are found. More alarmingly, the CCP can use its de-facto control of private enterprise to build-in spying or censorship capabilities which create further risks for IP theft and unfair competition, not to mention the prospects of a global totalitarian system of control.



## Belt and Road Initiative

Designed to build a unified market of international trade, economic reliance, and cultural exchange – with a fundamental objective to preserve the legitimacy of its rule<sup>19</sup> – the Belt and Road Initiative (BRI) offers \$1.3 trillion in infrastructure funding and economic incentives throughout Asia, Europe, the Middle East, and Africa. These funds are used to build infrastructure like roads, ports and telecommunications equipment. The program, with its Chinese investments, loans, credit, and cooperative banking assistance, has expanded to more than 65 countries which comprise one-third of all world trade and GDP and almost two-thirds of the world's population, steering China to become the leading trade and economic hub in the world.<sup>20</sup>

### ***In the News:***

*China crowded out competition from Canada, France, Germany, South Korea, and especially Japan, for a new high-speed railway in Indonesia. Originally the brainchild of the Japan International Cooperation Agency (JICA), the project was initially approved with JICA agreeing to bankroll 75% of the project at a 0.1% interest rate as long as the government provided a loan repayment guarantee. Although Japan had spent two years conducting a feasibility study, China won the rail contract, with the promise of a cheaper project price, an earlier completion date and superior liability demands, including the omission of a sovereign guarantee on loan repayments.<sup>21</sup>*

### **→ Impact**

China is likely to feature much more heavily in these markets at the expense of U.S. business. U.S. companies will not be competing on a level playing ground, with systematic delays in transport, port usage or other logistics systems aimed at harming U.S. companies for competitive purposes.

## Military-Civil Fusion

Developed to establish China as the most technologically advanced military in the world, Military-Civil Fusion is the CCP's national strategy to combine the military and civilian businesses in support of state, military, and geopolitical goals. It achieves this through the acquisition of intellectual property, research, and technological advancement via licit and illicit means. This includes government investment in private industries, talent recruitment programs, directing academic and research collaboration for military gain, forced technology transfer, intelligence gathering, and outright theft. The CCP specifically seeks to exploit the inherent 'dual-use' technologies such as quantum computing, 5G, advanced nuclear technology, aerospace technology, and AI.<sup>22</sup> China's national

strategy of military-civil fusion has highlighted biology as a priority, making the People's Liberation Army a prime beneficiary of biotechnology advances and the bio-weaponry that may be developed as a result.<sup>23</sup>

#### **In the News:**

*Major civilian research institutes, for example, the Shenyang Institute of Automation (SIA), have been crucial in helping the People's Liberation Army Navy develop Autonomous Underwater Vehicles.<sup>24</sup> SIA trialed the Qianlong III in 2018, collecting reams of data on natural gas hydrate and metallic nodules, in support of Chinese interests in natural resources on the South China seabed.<sup>25</sup> Despite being painted like a clownfish from Finding Nemo, the "mouth" is a navigation sonar, and its vertical tail has a magnetometer - useful for detecting metals like manganese nodes or foreign submarines.*

#### **→ Impact**

Advanced technology businesses operating in China could find themselves unwittingly aiding the development of weapons and strategies designed principally with the United States as the adversary.

## **OPPORTUNITY FOR COOPERATION & COLLABORATION**

### **Addressing Climate Change**

Climate change is the foremost, persistent challenge of our time, and as the two largest contributors of carbon pollution in the world, it is incumbent on both the United States and China to lead international mitigation efforts to stem rising temperatures and identify solutions that will help global communities adapt to the devastating effects of extreme weather events. Though China has already signaled that it will treat climate change as part of the competition.



#### **→ Impact**

American businesses can take advantage of their importance in China's economic model to negotiate better environmental regulations from the Chinese government, at the national and local level, and ensure their enforcement.

## WHAT BUSINESS LEADERS SHOULD DO

### Realize your IP, brand, and autonomy are at risk if expanding into the Chinese market

While China can be an appealing marketplace or center for production for many industries, entry into their economy exposes companies to Chinese state-control and influence. This includes forced transfer of intellectual property, inability to repatriate earnings, and adherence to Chinese Communist Party doctrine.



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### Build greater resiliency into your production and supply chain

Geopolitical tension and the global economic disruption caused by the COVID-19 pandemic exposed long-standing vulnerabilities to a production and supply chain model dependent on China.<sup>26</sup> Diversifying manufacturing bases back to the United States or friendly nations; right-shoring production of critical components for advanced technology such as semiconductors; and having a complete, enterprise visibility of the value chain will make U.S. businesses more resilient to disruption and fortify the nation's economic position.

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### Secure and employ capital from trusted sources

Though Chinese Foreign Direct Investment in the U.S. has reduced significantly in recent years, driven in part by modernized regulations governing the Committee on Foreign Investment in the United States, China continues to offer U.S. firms billions in capital.<sup>27</sup> Senior executives and corporate leaders looking to grow their business should examine financing options closely, as capital originating from China could place a firm's intellectual property and control at risk.

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### Consider the U.S. Government a potential customer for dual-use technologies

Private enterprise is developing and mastering a number of technologies that would enhance the federal government's ability to protect and serve the American people, to include artificial intelligence and game engine technology. Business leaders should work with federal agencies, particularly those at the Departments of Defense and Homeland Security, to explore how their products could aid government efforts.



## **Prioritize trade with allies and investment in emerging markets beyond China**

Although China will eventually become the world's largest economy, it will still only be about 15 percent of global GDP<sup>28</sup> – leaving significant opportunity for growth in other markets. Trade and investment with friendly nations, to include many countries targeted by China's Belt and Road Initiative, creates economic efficiency and integration that would be a hedge against Chinese expansionism and influence. Trade with other countries can act as a hedge for when China tries to oust U.S. companies and have its own dominate.

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## **Get ahead of ESG issues**

Partnerships with Chinese companies harbor significant ESG risks that could soon be at the forefront of consumers' minds. Businesses should price these ESG risks into their Chinese operations and determine whether the potential cost of doing business in China remains a viable business model.

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## **Comprehensively assess Chinese investments on business balance sheets and U.S. pension plans**

Investment into China is directed by the CCP into political priorities, rather than being governed by the market. Investments are, therefore, funneled into Chinese businesses hoping to compete with Western ones, and further Chinese geopolitical aims. The politically driven nature of the investments means their returns are not what they may appear, and are, in fact, becoming increasingly precarious positions to hold.

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## **Speak collectively**

America's business leaders are best positioned to inform their industry peers about the risks of the Chinese business environment and speak out about the authoritarian practices of the Chinese Communist Party. Also, when unified, business leaders are a powerful voice who can educate policy makers on the necessary incentives and steps needed to outpace China.

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