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The U.S. faces an innovator's dilemma in its relationship with China

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The new U.S. national security strategy refocuses America's relationship with China, referencing "geopolitical competition between free and repressive visions of the world order." Regaining the U.S. competitive edge with China dominates the U.S. national defense strategy, released in January.

The United States and China are competing to be the pre-eminent global economic, military and political power. Together they comprise 40% of the world economy in 2016, and the projected growth of China's economy has led to an emerging crisis of confidence in the U.S. The U.S. faces a striking innovator's dilemma, which as a market leader innovation is more challenging.

China can set policy and develop (or steal) technology without the burden of legacy industry and other limiting constituencies. China can set ambitious goals and upend entire industries while populist sentiment drives the U.S. to protect legacy industries. Despite these challenges, the U.S. maintains a superior system and talent pool to overcome the dilemma through strong leadership and effective strategic planning.

Technology, especially mastery of artificial intelligence (AI), is a key front in this competition. The nation with the best AI talent will spawn more profitable companies, become the home base for governing institutions (in particular security safeguards), and recoup economic advantage from commercial leadership. Talent, not money, is the critical resource, and talent is scarce. All things being equal, people will move freely towards the best opportunities in the freest societies. U.S. financial and political capital must be invested over the long term to attract talent and avoid the first pitfall of the innovator's dilemma. China is actively investing billions of dollars, which the U.S. must address assertively to attract and retain talent. The U.S. must return to its heritage as the leading country for entrepreneurial immigrants in addition to relying on the strengths of Silicon Valley.

The U.S. should be confident but not complacent. Success against China requires a clear-headed and concerted policy that engages public and commercial interests to counteract China's advantages. America need not enact tactics such as punitive technology transfer terms for foreign investors, or outright intellectual policy theft; however, a passive approach will surely fail. China will continue to expand absent concerted U.S. efforts to address economic growth at home, long-term investment abroad, and China's growing military strength.

U.S. firms often accept the enticing investment terms that China offers to outsiders despite the onerous technology transfer requirements. This illustrates the extent to which Beijing has mastered the innovator's dilemma, giving foreign companies short-term rewards, dangling potential medium-term access while appropriating long-term advantages. This hardheaded, long-term outlook has enabled China to parlay low cost, high output manufacturing expertise into the foundations of future technology dominance.

The U.S. should aggressively pursue trade fairness and advantages through the World Trade Organization and U.S. Trade Representative and actively encourage trade deals based on long-term strategic value. In particular, U.S. policy should discourage poor short-term intellectual property and financial decisions, challenge questionable Chinese behavior and make trade and immigration decisions through the lens of intense global competition. For example, South Korea recently agreed to halt the expansion of THAAD in return for the restoration of trade relations with China, when additional THAAD launchers and joining a

regional missile defense system should have opened the door for even greater trade and national security ties with the U.S.

The outcome for the U.S. will vary greatly depending on the strength and endurance of trade, national security, and immigration policies. The current approach will not be a match for the comprehensive course that China has set. The benefits of winning are several. First, leadership in AI will be an economic accelerator to rival the internal combustion engine. Second, the winner will define the technology's security, privacy and ethical standards. Finally, the national security advantages will represent a huge step forward akin to the development of air power in the 20th century. If the U.S. fails to compete aggressively, the world will be exposed to the kind of invasive uses of AI already seen in China today, but at a global scale.

Cold War analogies come easy when discussing Sino-U.S. competition. This is not because conflict is imminent or desired, but that to win the U.S. needs a comparable dedication of effort and attention from government and the private sector. The U.S. should be optimistic because it is superbly placed to win a fair competition. A continuation of historical openness and welcoming of talent, longer-term investment and focus can overcome the pitfalls of the innovator's dilemma. However, China is writing the rules of the game to suit itself. Therefore, the U.S. must engage firmly and immediately to integrate technology, trade, immigration and national security policy to confront the current dilemma.

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