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Globalised business is a US security issue

A broad group of experts think economic integration with China should be reversed

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When [Donald Trump](#) upsets free-market liberals with new tariffs, the US president's critics tend to pin the blame on him alone. "Trump's trade war", as the shorthand goes, is either a "negotiating position" (the optimistic view, now increasingly defunct with the introduction of broader tariffs on China) or the latest manifestation of what many see as a full-blown personality disorder.

The truth is both more complicated, and less flattering to Mr Trump's ego — there is a much broader group of people in both the public and the private sector who would like to reverse the economic integration of China and the US [for strategic reasons](#).

This was evident at a two-day event sponsored late last month by the National Defense University, which brings together military and civilian leaders to discuss the big challenges of the day. Dozens of experts, government officials, and business leaders gathered to talk about the decline in the post-second world war order, the rise of China, and how the US could strengthen its manufacturing and defence industries. The goal would be to create resilient supply chains that could withstand not just a trade war, but an actual war.

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Amid the broad and varied discussion, speakers shared a general sense that the laissez-faire approach to globalised business was over, and that there would be serious ramifications for US industry.

“If you accept as your starting point that we are in a great power struggle [with China and Russia], then you have to think about securing the innovation base, making viable the industrial base, and scaling it all,” said Major General John Jansen, the event organiser.

Included on the event’s reading list was *Freedom’s Forge*, which outlines the role that US business — notably carmakers — played in gearing up the US for war in the early 1940s. At that time, because of the depth and breadth of the auto industry’s manufacturing and logistical might, the sector was viewed as being just as important to national security as steel and aluminium.

That is not to say the US security community is pro-tariffs or trade war — or that Detroit will be asked to turn over its spare capacity to the Pentagon anytime soon. But there is a growing group of thoughtful people who believe that American national security interests will require a forcible untangling of the investment and supply chain links between the US and China. They point to high-tech areas like artificial intelligence, robotics, autonomous vehicles, virtual reality, financial technology and biotech as important not only to the military but also for private sector growth.

In January, the Defense Innovation Unit Experimental, a US government entity that funds private sector technology of interest to the military, put out a report looking at Chinese tech investment at home and in Silicon Valley. It concluded that Chinese companies now own key technologies and parts of supply chains that touch US military equipment and services, which have for years been increasingly outsourced to the private sector. Chinese companies participated in 16 per cent of all US venture capital deals in 2015.

The US Department of Defense has also issued a separate report to the White House that takes the supply chain issue further. We are likely to hear more alarming stories like the 2013 revelation that the US was relying on a factory in China to make a key propellant chemical for the hellfire missile. After the publicity, the DoD found a US factory to make the ingredient.

While America’s military is still figuring out how to make sure its supply chains are not controlled by strategic adversaries, the Chinese have played a much more sophisticated long game. The difference can be summed up in two words: industrial policy. China has one. The US doesn’t. The US has always steered away from a formal policy because critics see it as the government “picking winners”. But the Chinese don’t so much pick winners as use a co-ordinated approach to harnessing the technologies they need. They do it not only through investments and acquisitions but also through forced joint ventures, industrial espionage, and cybertheft.

No one is arguing that multinational companies should adopt that approach. But it is hard to imagine them continuing to do business as usual in this environment. Well before Mr Trump’s

election, the reputational and financial risks of globalisation were becoming clear.

Walmart's decision to contract out clothing production to third-tier suppliers in Bangladesh stopped making sense when the [Rana Plaza collapse](#) killed 1,100 garment workers. Boeing outsourced 70 per cent of its Dreamliner to save money, but the project ran over budget and behind schedule. No wonder many multinationals were [shortening their supply chains](#) even before the current trade conflicts.

It is a trend that will probably speed up. Multinational companies, much more than domestically focused ones, will suffer collateral damage from tariffs. They will also be a major target of Chinese backlash. Anecdotally, this is already leading some groups to shift production from China to other countries, like Vietnam. If the military-industrial complex in the US has its way, those supply chains might move even closer to home.

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