

**Ken Wilcox, Asia Society Northern California Chair**

Speech on U.S.-China Relations at HYSTA's Annual Conference

For the past 35 years I've been financing technology companies in Silicon Valley and in other innovation centers around the world.

For the past 28 years I've been with Silicon Valley Bank. At the end of 2010, after ten years as CEO, I was scheduled to retire. The next CEO, Greg Becker, who--by the way--has done an excellent job for the past eight years now, was ready to succeed me. I was on my way home, to spend more time with our grandchildren.

At exactly that point in time, we began to receive signals from the Chinese Banking Regulatory Commission that they were on the verge of granting us a license to create a new bank, in Shanghai, as a joint venture, in partnership with Shanghai Pudong Development Bank, to serve the innovation space in China. I spoke to my wife, Ruth. She was excited. We decided to accept. A few months later, we were in Shanghai.

Ruth and I spent four years in Shanghai, and we loved every minute of it. We did everything we could to learn as much as possible in the time we had there. We really wanted to dig deep, to understand our new environment as thoroughly as we could. We traveled to more than half of China's provinces, we read well over fifty books on Chinese history and culture, we both studied the Chinese language, and Ruth studied Chinese art. We met as many people, both Chinese and foreign "Old China Hands," as we could. In short, we embraced our new environment with an open mind and an open heart. Our first rule was: Whatever unusual behavior pattern we observed, gave it the benefit of the doubt. Reserve judgment. Assume innocence.

After four years in China, our summary judgment was: The most interesting four years of our lives. Chinese culture: fascinating. Chinese people: wonderful. Chinese government: very difficult.

Today our two great nations are at loggerheads. The tension between us is intensifying. The outcome will be the result of how we both behave, and it will have a huge impact on both the future of each of our two countries and the rest of the world.

In the past five years, Chinese investment in the U.S. has skyrocketed. After years of being so small as to seem insignificant, it has, almost overnight, risen to heights great enough to capture the attention of a lot of people, most particularly in Washington. I spent much of these past five years meeting with Chinese investors newly arrived from Shanghai, Beijing, or Shenzhen, to chat with them about their plans in Silicon Valley. Almost all of those I met purported to have a lot of money at their disposal, and they all wanted to buy technology. Most had seemingly no idea in what form (direct investment, investment in an intermediary like a venture firm, acquisition of an entire company) they wanted to invest, and many did not even seem to know what kind of technology (semi-conductors, biotech, artificial intelligence) they wanted to buy. And, which I found most frightening, many didn't even seem to know where the billions they purported to have at their disposal would come from. When I asked pointedly, often as not, the answer was: Beijing.

This phenomenon has piqued the interest of people in Washington. Congress has grown increasingly concerned about the impact that all this investing could have on national security. What are these Chinese investors buying, and where will what they buy end up? If all this had happened more slowly, it might not have created such a stir. But it was quick, and in such apparently large amounts that Congress was almost forced to take notice. As a result, members of Congress have been working on increased scrutiny of foreign investments as well as enhanced export controls.

Simultaneously, and in a way that may or may not be related to what is going on in Congress, the White House is ratcheting up its trade war with China, significantly increasing the number of Chinese manufactured goods to which higher tariffs would apply. This has been a long time in coming, in that our tariff regime has been weighted in a way much more favorable to China than to the U.S. for many years now. For example, up until just a few months ago, Chinese consumers paid a 25% tariff on American automobiles, whereas Americans paid

an only 2.5% tariff on Chinese automobiles. In other words, we were shooting ourselves in the foot in order to help China. But the Trump administration is determined to correct this imbalance, come hell or high water. Thus the trade war. One can, and I believe should, criticize the way Trump has conducted this war; but it is hard not to agree that a correction was necessary.

These actions, on the part of both Congress and the White House, are resulting in an escalation of the tensions between us. Of course, China will respond with counter-measures of its own, further escalating the tension. This cannot be good for the U.S., and it cannot be good for China.

I believe both sides are responsible. Both sides need to do some soul-searching. Both sides need to change.

So, let's take a step back and look at what has led up to the current situation.

In the past 20 years, China has made a huge amount of progress in a record period of time. It is possible that no other country in the history of the world has made so much progress so quickly. Between Mao's death in 1976 and today, China has gone from being one of the world's smaller economies to becoming the world's largest in terms of total GDP.

It has developed technologic expertise of its own in a number of areas, including: artificial intelligence, automotive, and genomics. China has many advantages over most other countries: it has a very large population, that works very hard, and whose efforts enjoy a lot of support from its government. Its leadership is experienced, knowledgeable and strong, and—although I would not want it for myself—China's one-party system, with very little in the way of checks and balances, allows its government to accomplish a lot, good or bad, without the interference of opposing views. Clearly, as an American, I favor a two-party system. That said, I would prefer to have two parties that knew how to work together, and how to achieve results through compromise. At present, we have the worst of all possible political systems: a two-party system in which the parties cannot work together in a way that accomplishes much of anything at all.

So, while China has been rising, we here in the U.S. have been sliding sideways, if not downhill. I would arbitrarily identify 9-11 as the onset of this development. As a result of 9-11, the U.S. has been pre-occupied with the Middle East for most of the past 18 years. If you were a regular reader of the NYT, as am I, and had gone to the trouble of counting the articles on events in the Middle East in the past 18 years, you too might have been surprised at what a high percentage of the total they represented. Meanwhile, we were paying a disproportionately small amount of attention to events in Asia.

Hidden from view by our obsession with events in the Middle East, we were losing millions of jobs to automation and to globalization, while China was gaining jobs through industrialization. The loss of jobs ultimately led to a polarization of wealth here in the U.S., which in turn led to a polarization of our two political parties. Of course, many other factors led to this political polarization as well, but polarization of wealth was certainly a contributing factor.

If we go back even further, say a few hundred years instead of just 20, we get an even clearer view of what led up to the tensions between the U.S. and China today.

Let's start with the Chinese point of view. Almost all Chinese believe, and with some justification, that China was, for centuries, the most advanced civilization in the world. However, at the beginning of the Ming Dynasty, in the early 1400's, China turned inward. Many people believe that the decision of emperor Hong Xi to "burn the ships" of the great Chinese explorer, Zheng He, around 1424, marked the beginning of this extended era of isolationism. In any case, as the West was enjoying the Age of Enlightenment, followed by the Age of Industrialization, China was still not much further along that it was when it "burnt the ships."

As a result, when the British Empire, impatient with the refusal of the Chinese emperor to open up China to an expansion of trade from the West, initiated the First Opium War in 1842, from the Chinese point of view, the "150 years of humiliation" began. Between 1842 and 1949, when the Chinese Communist Party

gained control of all of China (except Taiwan), China was in a state of chaos, marked by almost constant wars, with western powers (England, etc.), with internal powers (insurgents and warlords), and with eastern powers (principally Japan).

Many Chinese hold Mao in high regard because, against the backdrop of these “150 years of humiliation,” he defeated the other contenders to unify China under the banner of the CCP and enabled the Chinese to “stand up” for the first time since 1842. That said, Mao governed in a way that precluded economic progress pretty much altogether. However, he died in 1976 and shortly thereafter, as Deng Xiao Ping rose to power, the “reform and opening” began, as a result of which China has risen to become a competitor with the U.S. for number one economy in the world.

For reasons that I understand, but do not believe are valid, most of the people I know in China today believe that the U.S. is intent on “keeping China from regaining its position as number one economy in the world.”

The truth is, I know very few Americans who want to keep China from achieving whatever it wants to achieve, as long as it doesn’t include taking over the U.S. In my experience, very few Americans spend much thinking about China at all, and when they do, they are not thinking about how “to keep China down.” At most, they are thinking about how to prevent China from keeping the U.S. down. More on that topic later.

If Americans were really as much against China as the Chinese government repeatedly claims, how do you explain:

- Why so many Americans shop at Walmart (they *could* outlaw Chinese goods)
- Why do Americans allow almost 500,000 Chinese students to enroll at American colleges and universities (they *could* outlaw Chinese students)
- Why most of the time when my wife and I go to the movies, it is to a theater owned by a Chinese company (they *could* outlaw Chinese purchases of movie theaters)

The idea that we are all trying to “keep China down” just doesn’t hold water.

Of course, this view is reinforced by a Chinese press that is dominated by a single voice, and we all know that when people hear a single voice day in day out, they begin to believe whatever it says. Of course there are many voices in China, but the fact is there is only one that dominates the press.

In the U.S., on the other hand, there are also many voices, but—unlike the situation in China--no single voice dominates the press.

I would like to describe some of those voices to you today, in particular as regards American attitudes toward China. But before I do, I would like to take a minute to tell you about something that surprised me when we moved to China.

Early on in our stay we visited the Propaganda Museum in Shanghai. In the “gift store,” right before the exit at the end of our tour of the museum, we purchased what were alleged to be originals of Chinese English-language textbooks from the Mao era. I was surprised to see how America was depicted: as THE enemy. Having been born in 1948, I grew up in the Mao era. What I remember learning as a child was much different. Chinese people were not our enemies, they were nice people who unfortunately did not have enough to eat, for which reason our mothers insisted that we eat everything on our plates, no matter how much we didn’t like it. China was not the enemy. The Soviet Union was the enemy. And I remember being afraid at night that the Russians would invade and snatch us out of our beds and drag us off someplace, without our parents, whom they would have killed.

In any case, the Mao era came to an end, and Deng Xiao Ping began to open up China. In the early 1980’s, right after Deng came to power, large numbers of young Americans went to China to study. For the most part, notwithstanding the understandable American objection to totalitarian government, these early “explorers” fell in love with China: Chinese culture, Chinese language, and in many cases, Chinese spouses.

So I’d like to begin my recounting of American views on China today, by describing those of these “Old China Hands,” as we refer to these early explorers today. As a group, they have had a major impact on American policy for the past 35 years.

Many became academicians, and many of those academicians joined think tanks, and many of those think tanks influenced the policies promulgated by

Washington since Deng's opening up of China. Their attitude was this: We should be nice to China, partially because China is a wonderful place and it is the right thing to do, and partially because if we do, China will be nice to us. The Old China Hands have held to those views for years, essentially until four or five years ago.

However, in these past four or five years, they have come to feel betrayed. Many of the policies put into place by the Chinese government in these past four or five years, look like a throw-back to the Mao era. In particular, the militarization of the South China Sea seems to them not only gratuitous, but also like a slap in the face. The Old China Hands are reacting like spurned lovers, hurt, disappointed, and angry. Yes, they are angry, but they certainly do not want to "keep China down."

But they are not the only voices we hear in American today. In addition to the Old China Hands, there are the venture capitalists. By and large, they are still very happy with China. Venture capitalists build companies in order to sell them, and Chinese investors seem willing to pay prices far above the market in order to secure technology. So, venture capitalists certainly have no interest in "keeping China down."

Next in my analysis are the many American companies who have done very well in China. They are happy with their experience in China. They do not want to "keep China down." They just want to continue to make money in China.

Then there are the many companies who have gone to China and had relatively bad experiences. Either they have been the victim of selective application of China's many regulations, in ways that favor Chinese companies and disfavor foreign (not just American) companies. Or they have had their technology either stolen or, with the help of the Chinese government, appropriated. However, they don't want to keep China down. They just want to be treated fairly in China.

Then we have the Department of Defense. They, too, do not want to “keep China down.” They just don’t want to have American technology that has military application find its way through commercial channels to China, only to ultimately end up in the hands of the People’s Liberation Army. This can happen, given that both the companies buying American technology and the Chinese army are owned by the same entity, namely the Chinese government.

Finally, there is the Congress. Congress is focused first and foremost on getting reelected, not on “keeping China down.” Rightly so, many Congressmen and women feel that they can get reelected protecting Americans from the PLA. However, this is not the same as “keeping China down,” or at least it shouldn’t be, unless China really does want to threaten us.

And, finally finally, there is the White House. It would be presumptuous of me to believe that I could explain to you what is motivating the White House. But, given the extent to which our current White House appears to have a policy of isolationism, it does not seem to me that it wants to “keep China down.” If anything, Trump just wants to avoid China altogether.

I must admit, I can identify with most of the concerns of these various groups, as I have described them to you. I, too, am afraid of China. In comparison to China, our country is much more vulnerable. Our economy is more porous. Even if I were armed with a trillion dollars, the Chinese government would never let me buy the largest movie theater chain in China. But Wanda, a somewhat state-owned company has done just that in the U.S. with its purchase a few years ago of AMC. We are more receptive to foreign investment than is China. There are several major industries in China in which foreigners are not allowed to invest. There are very few protected industries in the U.S. We are more receptive to foreign political influences than is China. Chinese with money can buy influence in the U.S. through PAC’s and lobbyists. For us to do something similar in China would be virtually impossible. Finally, it is much easier to become a U.S. citizen than it is to become a Chinese citizen. Every day, pregnant Chinese women arrive in L.A. or N.Y.C., deliver their babies, and then fly back to China. Their babies can become U.S. citizens by virtue of having been born on U.S. soil. You could move to China from the U.S. today, learn Chinese, marry a Chinese citizen, and stay in

China for the rest of your life, and you would never be allowed to achieve Chinese citizenship.

If our relationship with China is to improve, both sides will have to change their approach.

My recommendation would be that both sides should:

- Stop the constant public criticism of the other
- Stop propagating myths (especially negative ones) about the other
- Stop conducting ostentatious shows of military strength, like building forts in the South China Sea (to protect whom from what?)
- Stop the constant comparisons (“we’re better at AI than you are,” “our military is stronger than yours,” “our GDP is bigger than yours”)
- In general, stop worrying about who is on top. The best relationships are between equals. The Thucydides trap is a myth.

At a person-to-person level, no one has ever improved relations with another person by constantly reminding the other person that they themselves are bigger, stronger, richer, or more handsome/prettier. Why should it be any different among countries, and especially publicly, and even more so if the other country is Asian, where face really matters.

Both countries need to ask themselves what they themselves can do to improve relations. Neither country has the ability to force the other to change.

In my view, both sides are acting out of fear of the other. Both sides are trying to defend themselves, and to defend their right to be themselves. And, as is so often the case, both sides are putting on a strong offense, because people who feel threatened always believe that the best defense is a good offense. That is human nature.

The U.S. in general does not want to keep China down; they just don’t want to be dominated by China. They don’t want our western companies to compete on an uneven playing field in China. They don’t want our internal affairs, in government or in academe, to be influenced by foreign agents. They don’t want a small spy in

that chipset they are purchasing through the global supply chain. They don't want others telling them what to do.

Nor does China want to dominate the U.S., at least I hope not. They just don't want to ever again suffer through another 150 years of humiliation. They want to be recognized on the world stage as an important, if not the most important, actor. They want to have pride in their accomplishments.

But both sides feel vulnerable. And when people feel vulnerable, they feel afraid. Out of fear, they see the other side as threatening, and they don't recognize that what they themselves do is often seen by the other side as threatening. People who fear each other find it difficult to collaborate with each other.

There is more to be gained by collaboration than by confrontation. In collaboration, both sides can win. In confrontation, both sides will most certainly lose.

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