Geopolitical competition increasingly takes place not on the battlefield but in a tightly networked global economy. As distinctions between economic and national security collapse, governments are embracing economic statecraft as a vital element in their foreign policy toolkits. They are learning how to weaponize the interdependencies produced by economic globalization and how to leverage their positions in networks to manipulate and coerce other states.

Yet to exercise their power and accomplish their goals, states need to work with the private firms that constitute the networked global economy—the transnational banks, payment companies, technology giants, energy suppliers, and infrastructure conglomerates that can either bolster or thwart governments’ policy ambitions. This diverse network introduces a new factor for understanding contemporary geopolitical competition: differences in the structure of business-government relations influence states’ ability to project power in the global economy. Close, cooperative relations between businesses and the government act as a force multiplier—state power increases when firms are aligned with state goals and eager and willing to work hand-in-hand with the government to achieve them.

While the degree of cooperation between firms and governments differ even among market economies, the distinction is particularly sharp between today’s two great powers: the United States and China. In the United States, the government has historically kept an arms-length relationship with the private sector. After decades of deregulation and dwindling public investment in research and development (R&D), linkages between the government and firms are particularly weak...
today. The US government has limited means to compel firms to do its bidding and few reasons to expect that firms acting on their own initiative will seek to advance the state’s interests. In China, however, the relationship between firms and the government is much closer. The deep, extensive ties between the Chinese state and its private sector mean that the interests, knowledge, and capabilities of the Chinese government and firms are closely aligned. The Chinese government can and does rely on businesses to advance its geopolitical interests.¹

This dichotomy creates a key tension when it comes to weaponizing the interdependencies of the global economy. The United States controls the central nodes of many economic networks, yet the US government cannot as easily operationalize this positional power given its distant firm-government relations. China, though not as central to the world economy as the United States, can more easily exploit its position, given the government’s ability to coopt and guide Chinese businesses. Yet, precisely because Chinese firms are seen by others as political instruments of Beijing, they are facing resistance to their internationalization, which in turn limits China’s ascendance to powerful positions in global economic networks.

Ultimately, while Chinese firms are seeking to establish their independence from the Chinese state, the US government is likely to move in the opposite direction to increase its leverage over US companies. This leverage would allow the United States to better marshal US economic power in its geostrategic competition with China. Yet doing so will also present risks to the reputation of US businesses and the dynamism of the US economy: if US firms come to be seen as pawns of American statecraft, they may find it more difficult to do business overseas.

At the same time, longstanding warnings that a military-industrial complex will gain disproportionate influence and distort US foreign policy to its own private aims are also still relevant. Balancing the competing impulses of enjoining US corporations to advance the state’s geoeconomic interests while preserving a vibrant private sector will be a key challenge for American policymakers in coming decades.

Weaponized Interdependence and the Rise of Economic Statecraft

Economic statecraft, or states’ use of economic tools to achieve strategic goals, is not a new phenomenon. For centuries, states have blended their economic and political resources in projecting power abroad. The East India Company, for
instance, served simultaneously as a commercial enterprise and one of the leading edges of British imperialism. Similarly, the British-German rivalry of the nineteenth century was marked by stark economic competition.

Yet, recent geopolitical shifts have refocused attention on the economic dimension of great power competition. Whereas the Cold War was waged primarily on ideological and military grounds, the emergent rivalry between the United States and China is primarily economic. Over the last two decades, the Chinese and US economies integrated to levels that would have been unimaginable in the US-Soviet Union context. And the apparent success of China’s state capitalist model, which combines elements of a market economy with substantial government intervention in key sectors, suggests a potentially stronger and more resilient rival to US capitalism than Soviet-style communism.

At the same time, changes in the structure of the global economy have collapsed the traditional division between the realms of national security policy and economic policy. Grand strategy expert Edward Luttwak observed thirty years ago that economic globalization, rather than displacing conflict, combines “the logic of conflict with the grammar of commerce.” States—and particularly great powers—remain locked in competitive geopolitical rivalries, but the methods of conflict are economic rather than military. As political scientists Henry Farrell and Abraham L. Newman have argued, asymmetrical dependencies in today’s networked global economy allow privileged states to wield greater influence in world politics. Challenging traditional liberal accounts of globalization that highlight mutual gains from cooperation, Farrell and Newman contend that states that oversee critical hubs in global economic networks can strategically manipulate economic flows of goods, money, and information to their advantage.

As a result of this trend, businesses have become key actors in contemporary geopolitics. Businesses are often crucial instruments in economic competition as they occupy the hubs that link the global economy, and their active engagement is required for economic statecraft to be exercised effectively. Yet, businesses are not necessarily under the direct authority of states and may have views and interests on the strategies and tactics of economic competition that diverge from those of their home governments.

This divergence suggests that the nature of business-government relations, and specifically the degree of alignment between commercial enterprises and the state, is a key variable in assessing states’ economic statecraft capabilities. When there is a close, dense relationship between government and businesses, it is easier for states to cooperate with firms in pursuit of geopolitical goals. These close relationships can be formally established, such as
through state ownership of major corporations, or they can develop less formally, such as through executives and policymakers sharing educational and social ties that lead them to identify shared interests and understandings.

Where these relationships are close, businesses’ commercial interests are more likely to substantially overlap with the state’s. For example, in countries where the state guides the allocation of capital, firms that are aligned with the state’s goals are likely to be rewarded with cheaper financing. Brazilian multinational corporations have benefitted from financial backing from the country’s state-owned national development bank, which since the early 2000s has supported firms’ internationalization in order to gain access to new technologies. The state and businesses are also more likely to share more knowledge and information between them, allowing the state to have a better understanding of businesses’ capabilities and limitations. This knowledge is crucial for crafting and exercising geoeconomic strategies.

By contrast, in countries where states and businesses are less densely connected, the government will find it more difficult to weaponize interdependence and project economic power abroad. Firms will not necessarily follow governments’ directives in their overseas operations. For instance, the US government has been proclaiming for years that it wants to see stronger commercial ties between the United States and Africa, yet so far US companies have been slow to respond. And in some instances, firms and home states may see their interests actively diverge. US Vice President Mike Pence recently argued that “far too many American multinational corporations have kowtowed to the lure of China’s money and markets by muzzling not only criticism of the Chinese Communist Party, but even affirmative expressions of American values.” This was on display when Apple, Activision, and the NBA acquiesced to China in limiting their criticism of the Hong Kong protests. As these examples suggest, when a state has limited influence over private firms, it may be disappointed when businesses go their own way.

Yet there are also trade-offs to close business-government relations when it comes to weaponizing interdependence. Trade and investment are necessary to maintain a vibrant and growing economy, but they also increase states’ vulnerability to cutoffs in key resources and economic coercion by other states. Thus, potential customers may be wary of partnering with a firm that is under control of a foreign government. And even if individual customers aren’t concerned, their own governments may act to block such transactions—for example, by implementing strict national security reviews of mergers and acquisitions involving state-owned companies. Close business-government ties can arouse suspicion in trade partners, which may limit commercial opportunities. This dynamic suggests that while cooperative state-firm relations allow governments to more effectively weaponize interdependence, such ties can also make it more difficult for companies and states to acquire influential positions in the global economy.
Influence between firms and governments runs both ways: just as states want firms to support their foreign policy objectives, firms also want to shape states’ foreign policy so that it benefits their bottom-line. In a world of deep economic interdependence, businesses may act as an important and influential constituency in favor of peaceful relations, because war would erode private sector profits—the premise of “commercial peace.”

But though firms may fear losing profits to military conflict, they may not be as wary of economic competition: indeed, profit motives may lead some businesses to encourage, rather than restrain, economic competition. This possibility suggests an escalation dynamic, where states are incentivized to pursue ambitious geo-economic strategies because close business-government ties allow them to more easily project commercial power, while simultaneously allowing businesses to shape foreign policy in ways that encourage geo-economic (mis)adventures so long as they generate rents for privileged firms. For example, Japanese infrastructure firms are likely to endorse their government’s efforts to challenge China’s Belt and Road Initiative (BRI), because it will include new financing opportunities for them. At the same time, the cooperation of the business community may encourage the Japanese government to expand the program more aggressively than it otherwise would.

This business-state relations frame is particularly important for making sense of US-China geo-economic competition. The biggest geopolitical rivals today are on opposite ends of the spectrum of firm-government relations, as the Chinese government exerts substantial control over Chinese businesses, while the US government has far less influence over the US private sector. This difference helps explain the contours of US-China competition today: China is using its network of state-aligned firms to expand its global influence, while a suspicious United States seeks to check its geo-economic rise. But the United States is constrained in this clash, relying primarily on sticks rather than carrots to sway US companies. We expect both that the existing structure of business-state relations will shape the US-China rivalry, largely to the benefit of China, and that the drive to compete with China will lead the US government to increasingly seek additional sources of leverage over US firms.

The drive to compete with China will lead the US to seek additional sources of leverage over its firms.

How China, Inc. Blurs Commercial and Strategic Objectives

The Chinese government has close, cooperative relations with Chinese businesses—an outcome of its mixed economy model, which combines elements of market
competition with extensive government intervention. The ruling Communist Party has a long history of economic planning—such as setting five-year plans—which has compelled it to develop a range of tools and strategies, including both carrots and sticks, for guiding business activity.

Most obviously, many large Chinese corporations are directly owned by the state. These state-owned enterprises (SOEs) dominate lists of China’s largest firms including in key strategic sectors such as banking, oil, utilities, chemicals, and construction. While debates continue to rage on the extent to which these SOEs are commercially versus politically oriented, they provide the Chinese state with valuable vehicles for carrying out its foreign economic policy. When the Chinese government wants to strategically purchase oil from a particular ally or cut off soybean imports to send a message to an intransigent trading partner, it can direct SOEs to do so.

Consider, for example, China’s BRI, which has been variously described as President Xi Jinping’s “signature foreign policy initiative” and as a loosely defined array of disorganized deals, driven above all by firms’ profit motives. In truth, the BRI combines elements of both of these concepts: it is simultaneously an effort by the Chinese state to advance its geopolitical interests and influence, as well as an effort by firms—most notably Chinese SOEs—to access new markets. What is clear, however, is that the Chinese Communist Party (CCP) has devoted considerable political and financial capital to championing BRI, at least partially to position China at the center of new trade and investment networks. Investments in roads, railways, ports, pipelines, and other infrastructure strengthen interdependencies between BRI partner countries and China. Yet these projects are only possible because the state can mobilize SOEs to quickly and affordably carry out the government’s plans (based on one estimate, SOEs account for half of all BRI projects by number and for 70 percent by total value).

Moreover, the distinction between state-owned and private companies in China is not always so clear, as the government exercises substantial influence over all businesses operating in the economy. For instance, CCP officials are frequently embedded in private firms. Such Party cells have existed for many years, but under Xi Jinping they are playing an ever-larger role in steering private companies, both foreign and domestic. Whereas the cells were once primarily symbolic, recently Party officials have begun seeking to more directly manage and influence business decisions, or as one analyst put it, to “have a seat at the table when executives are making big calls on investment.” And even without formal channels of influence, informal practices—such as the traditional practice of Guanxi, or deploying personal or social connections to get favors—encourage substantial government influence over business decisions. All of this means that, with the Chinese government taking on a larger role in shaping private firms’ business decisions, the distinctions between state-owned and private
companies are blurring. As one expert recently noted, “Chinese domestic laws and administrative guidelines, as well as unspoken regulations and internal party committees, make it quite difficult to distinguish between what is private and what is state-owned.”

Even when the Chinese state isn’t directly influencing businesses’ decision-making processes, the CCP uses a range of commercial incentives and inducements that encourage firms to voluntarily align their interests with those of the state. The country’s activist industrial policy creates multiple opportunities for the government to guide commercial activity and ensures close channels of communication between the state and business groups. For example, the Made in China 2025 program, a 10-year strategy launched in 2015, identifies the Chinese government’s ambitions to develop indigenous innovation in key technology sectors and ultimately capture global markets. Through setting targets for these sectors, the government encourages firms to shape their own business decisions to align with the state’s priorities. It also uses subsidized financing to channel capital to favored firms in key sectors.

For all of the above reasons, the Chinese state has substantial formal and informal influence over both state-owned and private firms, and firms have strong incentives to align their interests and activities with those of the state. Moreover, in the relatively rare instances when firms might want to exert independence and push back against the state, they have limited means through which to do so. Given the nature of the one-party state, there are few alternative power centers or checks on the authority of the government to which dissident firms could appeal. Neither does the law provide substantial protection for firms seeking to defend their interests against the state. Most notably, the country’s cyber security law, which came into effect in 2017 and expanded in 2019, grants the state extensive powers to intervene in private businesses. The law explicitly permits the state to plug into companies’ private data networks, allowing the government to monitor the activities of both foreign and domestic firms, while leaving companies minimal channels for resisting government requests.

The debate over Huawei’s relationship to the Chinese government exemplifies many of these issues. Huawei claims independence from Beijing, citing legal opinions arguing it would not be obligated to carry out espionage at China’s request. However, the question is not, in a technical legal sense, whether Huawei would be obligated to follow Beijing’s direction, but whether the firm’s interests are aligned with those of the Chinese state. As US State Department Assistant Secretary Christopher Ashley Ford recently argued, “when push comes
to shove with the nominally private Chinese technology firms—that is, when Chinese Communist Party authorities really want them to do something—they too will almost certainly act, and must therefore be treated, as the functional equivalent of state-owned enterprises. This is critical, inasmuch as their non-separateness from the Chinese Communist Party’s authoritarian governance system makes these companies enablers for and instrumentalities of Party power.”23 However much Huawei may want to distinguish itself from the Chinese state, the structure of firm-government relations in China makes such claims dubious.

In sum, then, while the Chinese state doesn’t necessarily control every decision that businesses take, when the Communist Party comes calling with a particular request, businesses—whether state-owned or private—are highly incentivized to comply. This influence allows the Chinese government to weaponize interdependence and implement its economic statecraft agenda more easily and aggressively than it otherwise could.

**Liberalism Constrains Weaponizing Interdependence**

Business-government relations are drastically different in the United States. The US government has traditionally maintained an arms-length relationship with US firms, characterized by limited market interference and a business culture that celebrates independence from the state. Whereas in China, firms’ commercial incentives are frequently best served by aligning closely with the state, US firms’ business strategies often encourage them to resist government influence. The result is that the US government is much more constrained in enlisting firms for its economic statecraft agenda.

The United States’ liberal market economy means the government has limited mechanisms for influencing the private sector. The state does not manage major publicly owned enterprises or carry out an extensive industrial policy, and it maintains a light-touch regulatory approach that broadly lets firms define their own strategies. Relative to other countries with more interventionist governments, there are fewer channels for communication and knowledge exchange between business and the state.

Moreover, American domestic political institutions grant the executive branch limited formal powers to compel business cooperation on American foreign policy. The separation of powers within the United States creates multiple veto points for businesses to resist the initiatives of law enforcement and intelligence agencies. Businesses can lobby Congress, create justiciable cases for the courts, or appeal to the inspector general to rein in the executive branch.24 For example, Section 702 (50 USC 1881a) of the FREEDOM Act specifies that the government
cannot compel US internet service providers to provide user information without a court order. It also allows service providers to challenge government directives in court, and the congressional intelligence committees and inspector general to review such requests.\textsuperscript{25}

To be sure, the US government still leverages its power over firms on occasion: witness, for instance, the secret files leaked by Edward Snowden that revealed US technology companies had facilitated government surveillance programs. Yet, the fact that such revelations were treated as surprising and as a blow to the firms’ reputations underlines the extent to which such cooperation cuts against the traditional nature of firm-government relations in the United States.

These constraints on the government’s coercive power over firms matter because US businesses often have incentives to resist cooperation. For instance, internet service providers need customers to trust that their personal information will be secure and private. Concerns that the US government is accessing user data can cost firms millions in lost sales; by some estimates, Snowden’s revelations of American government surveillance led US firms to lose between $35 and $180 billion in global cloud service contracts. AT&T was one firm that took a blow to its reputation for collaborating with the NSA, with German and European officials resisting its expansion into their territory.\textsuperscript{26}

More generally, American business culture is sometimes at odds with close business-government cooperation. For example, legal scholar Alan Rozenshtein notes many managers and leaders of major tech companies ascribe to a “Californian ideology,” explicitly seeking to decentralize power away from the government and protect individual privacy in a way that is antithetical to business-government cooperation.\textsuperscript{27} The creators of WhatsApp, for instance, described end-to-end-encryption, which prevents third parties from reading user communication, as restoring the balance of power between security and privacy.\textsuperscript{28}

Given these financial and ideological incentives to distance themselves from the state, US businesses can frustrate US government efforts to weaponize interdependence and are often only reluctant partners in the government’s economic statecraft. For this reason, the US government typically reverts to using sticks, such as sanctions and subpoenas, to compel business compliance, rather than carrots to develop a cooperative (and arguably more powerful) geo-economic strategy. US businesses have fought back in response; US technology companies have spent billions to develop end-to-end encryption services that, as Apple put it, mean “it is not technically feasible for us to respond to government warrants” for the extraction of user data.\textsuperscript{29}

Because businesses are often reluctant partners in economic statecraft, the US typically reverts to sticks.
Other companies have adjusted their operations to circumvent US efforts at economic statecraft. American chip manufacturers relied on their global supply chains to find workarounds that allowed them to evade sanctions on Huawei. Similarly, Microsoft, Facebook, and Google have moved their data to servers abroad, challenging the extraterritorial reach of US law enforcement. US companies are also redirecting investments in new technology research and development from American labs to locations in Canada, Israel, and Britain to better ensure access to the Chinese market. Business practices such as these raise the technical and political costs of weaponizing interdependence for the US government.

American companies also turn to the court system to distance themselves from the reach of the state. The US legal system grants American firms multiple protections against state influence, and firms take advantage of them. Companies typically demand a court order or subpoena in order to comply with government requests, and even then they will seek to delay and minimize their cooperation. For example, when the Federal Bureau of Investigation (FBI) served Apple a court order to disable some of the iPhone’s security features, the company refused, claiming the government failed to establish that it needed Apple’s help and that the order encroached on the company’s First Amendment rights. The FBI ultimately withdrew the request and ended up paying an estimated $1.3 million to an undisclosed third party to access the encrypted iPhone without Apple’s help.

While American companies do not always win when they challenge the state’s efforts to weaponize interdependence, even the potential of court cases can increase costs and chill interventions. As Rozenshtein explains, the resistance of technology companies matters: “government investigators issue fewer and more limited orders than they otherwise would, aware that their orders will be scoured for defects—real or imagined—and eager to avoid delays and fights with corporate counsel.” In 2016, Microsoft challenged the government’s secrecy order that banned the company from informing its users of government warrants to access their information. The Department of Justice was forced to issue new secrecy guidelines that narrowed the scope of such orders to defined periods of time.

Overall, then, the nature of business-government relations in the United States means the American government has only limited ability to influence business decisions, and American firms do not necessarily see their interests as closely aligned with those of the state. While there are close, cooperative relations in some industries—most notably in the defense and aerospace sectors, where firms are far more dependent on government purchasing—in many fields, these relationships are more distant and often strained. The result is that in the core sectors most important to contemporary geoeconomic competition—namely advanced technology manufacturing, finance, and information
and telecommunications services—the US government cannot act as quickly and decisively as it might like. This limitation has significant implications for understanding the relative positions of the United States and China in the war of weaponized interdependence.

Reassessing US-Chinese Economic Competition

Despite China’s dramatic economic growth in recent decades, the United States remains the world’s dominant economy. Moreover, it is in a particularly strong position in the sectors crucial for contemporary geoeconomic competition. The US dollar remains the world’s reserve currency, and there are twice as many American technology firms on the 2019 Fortune Global 500 list than Chinese firms.

The US position in global economic networks will remain stronger than China’s in the near future.

Yet, due to differences in the nature of firm-government relations, America’s advantage in geoeconomic competition is not as strong as might appear at first glance. Consider, for example, an arena where the United States has been seeking to match Chinese competition: economic influence in Africa. In late 2018, the US government announced its new “Prosper Africa” strategy, which is explicitly framed as countering China’s influence on the continent.

The overarching objective is to increase trade and commercial links between the United States and Africa, but doing so will require action on the part of American firms. With limited mechanisms to encourage such business decisions, the American government may struggle in realizing these goals.

The contrast with China’s approach is telling. When an African minister tells the Chinese ambassador the country is interested in a new rail project, for instance, the ambassador can quickly mobilize the state-owned China Rail Engineering Corporation and China Civil Engineering Construction Corporation to implement the project, backed by billions in financing from Sinosure and the Export-Import Bank of China. The US ambassador, in the same position, can do little more than pass the information along to an American company and hope they might express some interest. (Although the new US Development Finance Corporation, which began operations in early 2020, should soon offer an additional potential source of financing.)

Indeed, the Chinese government has arguably been more effective at enlisting American firms in its foreign policy than the US government has. Since China
exerts more control over business activities within its borders than the United States does, Chinese coercive threats are more credible than American ones. Consider the two countries’ relationship with Apple. Whereas Apple refused to unlock an iPhone to help the FBI investigate a known terrorist, it acquiesced to a Chinese request to remove an app used by pro-democracy protestors in Hong Kong.\(^4^0\) Similarly, China was able to curtail the political speech of the gaming company Activision Blizzard and the National Basketball Association, even as American lawmakers pressured the two companies to stand firm.\(^4^1\)

Yet, close firm-government relations also create complications for governments seeking to weaponize interdependence—a lesson China has learned in recent years. As other companies and governments come to associate firms with their home country governments, these third-party actors in turn begin to treat such firms as inherently political actors. This response is part of the reason that both Huawei and the BRI have received significant pushback, as potential customers are wary of finding themselves the targets of Chinese political action. American officials have sharply opposed Huawei’s international expansion, fearing that Huawei will allow the Chinese government to spy on the vast data flows sure to pass through 5G networks.

Similarly, European Union officials are considering reforming EU competition law to make it easier to intervene against foreign state-owned companies.\(^4^2\) For Chinese businesses, such concerns mean companies may at times want to distance themselves from Beijing for commercial reasons—Huawei has done this repeatedly, and there are reports that some Chinese firms have complained about their private investments being branded under the BRI, bringing unwanted political attention.\(^4^3\)

This perception of political influence ends up limiting China’s ability to develop strong network positions that it could then weaponize. Farrell and Newman similarly note that when powerful states repeatedly exploit their network position arising from weaponized interdependence, other actors are subsequently incentivized to develop alternatives, ultimately undercutting the powerful state’s influence—what they refer to as a “use it and lose it” dynamic.\(^4^4\) In other words, if Huawei were to become a key global player, the Chinese government’s influence over the company would improve China’s geoeconomic capabilities; but to the extent that fears of political influence limit Huawei’s expansion, Huawei may not get there, and China may have less power than it did in the first place. China, for its part, appears to understand such dynamics and is already acting to assuage the fears of other market participants. For example, the Chinese government has recently introduced “third-party market cooperation” instruments to BRI, which allow Western firms to partner with Chinese firms on infrastructure projects without explicitly endorsing the initiative.\(^4^5\)
How the US Government Will Fight Back

Given the competitive advantage China gains from its close firm-government relations, the US government will likely look to increase its leverage over American firms in order to better compete with its geopolitical rival. There are three broad approaches the government can pursue to increase its influence over the private sector: changing legal and regulatory requirements, appealing to normative claims of patriotism, and providing financial incentives to encourage firms to align with the state’s interests. There is some evidence that each of these strategies are already underway, yet they are likely to play out over many years, whatever the outcome of the 2020 election or the current trade war with China.

First, the US government can seek to revise laws and regulations to compel firms to cooperate with the state. As part of its recent push to renew a National Security Agency (NSA) program that allowed the agency to collect call and text data, the Trump administration pointed to the need to keep pace with geopolitical rivals: “as technology changes, our adversaries’ tradecraft and communications habits will continue to evolve and adapt.” Recent American efforts to revise such laws include permanently authorizing the government’s bulk-surveillance program and expanding rules for screening foreign investments.

Yet there are limits to this legal/regulatory approach. To begin with, institutions are notoriously sticky, meaning that any regulatory change is likely to face resistance from stakeholders. Already, Congress has been skeptical of ceding its authority over the NSA surveillance program to Trump. More fundamental changes that proscribe firms’ legal protections to challenge the government would be even more difficult to implement. Additionally, such a legal/regulatory approach continues to rely on a coercive, adversarial relationship with firms in which businesses only comply when they are compelled to by law. Thus, firms will likely continue to drag their feet and evade restrictions wherever possible.

If the US government wants to shift firms’ preferences so they are better aligned with the state’s own geopolitical interests, it can begin by making normative, patriotic appeals in favor of cooperative behavior. Financial Times columnist Rana Foroohar recently argued that “we’ve entered the era of ‘patriotic capitalism’ in which companies are being forced to pick sides—are they with the US? Are they supranational? Or are they still trying to hedge their bets?”

The government can cultivate personal relationships with business leaders through advisory councils and informal consultations with business stakeholders, in order to develop shared understandings of US national interests. Late in the Obama presidency, for instance, the Defense Department recruited major tech leaders to the Pentagon’s Defense Innovation Board “by appealing to their patriotism and enticing them with the proposition that the DOD needed the insight and culture of Silicon Valley.” Similarly, the State Department has recently been
trying to convince American companies to sign on to a list of principles for promoting “trust” in the technology sector, which one observer described as “quite obviously aimed at Huawei.”\textsuperscript{52} Businesses, however, have resisted this anti-Huawei push.

Alternatively, the government can publicly criticize American companies that appear to value their commercial stakes in China above their loyalty to American values and interests. President Trump has called Google a “national security concern” because of its relationship with China, suggesting he will launch a probe into the company.\textsuperscript{53} Efforts targeted toward individual firms can have broader impacts; so long as a few outspoken businesses such as Paypal\textsuperscript{54} and Amazon\textsuperscript{55} embrace the logic of “patriotic capitalism,” they can seek to convince their peer companies to also work more closely with the government.

Normative appeals alone may have limited effects, however, so the US government will likely also use financial enticements to align the interests of powerful American firms with those of the state. For example, Microsoft recently beat out Amazon to win a US$10 billion contract awarded by the Defense Department to transform the agency’s cloud computing systems; with such sums at stake, technology firms may want to cultivate closer relationships—formal and informal—with government officials in the hopes of winning future procurement contracts.\textsuperscript{56} Moreover, increased public resources in the form of industrial policy subsidies and tax breaks or support for research and development could further strengthen relations between businesses and the state, again with a focus on the technology sector.

Executing such policies effectively, however, may prove challenging at first. The US government is out of practice in implementing industrial policy and may face a steep learning curve as it adjusts. American efforts to cultivate a non-Chinese rival to compete with Huawei on 5G exemplify these difficulties.\textsuperscript{57} In February of this year, White House economic advisor Larry Kudlow announced that the administration was working with US technology companies including Dell, Microsoft, and AT&T to develop cloud capabilities that could “replace” 5G.\textsuperscript{58} Later that same week, Attorney General William Barr instead floated the idea that the US government could take a controlling stake in Huawei competitors Nokia or Ericsson—a proposal that was quickly shot down by other members of the administration.\textsuperscript{59} Separately, a bipartisan group of senators have proposed a new US$1.25 billion fund to subsidize Huawei competitors—which the White House still hasn’t signaled it will support.\textsuperscript{60} The overall disarray and incoherence in this approach underscores some of the stumbling blocks the US government faces in learning how to work effectively with private sector partners.

The US is out of practice in implementing industrial policy and may face a steep learning curve.
The risks of an inconsistent approach include not only ineffectiveness but also capture by private interests. As the US government acts to enlist businesses in helping it realize its geopolitical ambitions, firms will try to spin such dynamics to their own advantage. Indeed, firms are already appealing for advantageous treatment through the lens of heightened geopolitical competition. For example, when US officials began wondering about how to onshore computer chip production, for the express purpose of minimizing exposure to China, the Taiwanese chipmaker TSMC told the US government that manufacturing at a US subsidiary would require “major subsidies.” Similarly, in October 2019 Facebook founder Mark Zuckerberg obliquely warned that American regulators should support the firm’s cryptocurrency, Libra, because otherwise China would come to dominate the sector. As these cases suggest, private firms understand their importance in new geopolitical competitions and are seeking to be compensated for their cooperation.

Who Changes Whom? Government-Business Tension Ahead

This last point highlights a key challenge for American policymakers. US-Chinese economic competition is ushering in an era of tighter relations between states and firms, where firms are central players in geopolitics and governments need to accommodate their interests to secure their own foreign policy goals. As the US government seeks to increase its leverage over American businesses, however, it will need to grapple with some fundamental tensions.

China’s own experience suggests that, though close relationships between business and the government may facilitate the weaponization of interdependence, it can also create more opportunities for corruption, a less vibrant market economy, and pushback from potential partners abroad. To manage these tensions between economics and security, policymakers will need to better coordinate national security policy with industrial as well as anti-trust policy and develop clearer guidelines for balancing these competing priorities.

Ultimately, to keep pace in this world of weaponized interdependence, the US government must get the likes of Apple, Google, and Facebook firmly on its side. It may take some time for policymakers to develop such capabilities, and there will likely be some missteps along the way, but the direction of change seems clear—the era of “stateless multinationals” is passing, and pressures on states to assert control over global businesses will grow.

Notes


60. Davis and Fitzgerald, “U.S. Pushing Effort.”
62. Clark, “Pentagon, with an Eye on China.”