POLICY+ PLUS

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Dear Policy+ Subscribers,

Thanks for joining us at our first-ever P+ Video Conference with Samm Sacks of New America on cybersecurity and digital-trade. For those of you who did not attend the event yesterday morning, here are some highlights for you:

US-China Relationship in a Perfect Storm:

- The speaker foresees a trade deal but also believes there is a long-term simmering conflict over technology and cybersecurity.
- **In DC**: there is growing hawkish view on China that is manifesting in several manners:

1. *Stricter review of investment by the Committee on foreign Investment in the US (CFIUS), and China has become the main target;*
2. *Revised report regime that might negatively impact scholar exchanges;*
3. *Massive initiative by the US Department of Justice to review and pursue cases involving Chinese nationals in research, business and technology;*
4. *Global efforts to convince US allies to ban the Huawei 5G network.*

- **In Beijing:** Xi has stressed the importance of increasing self-reliance in core technologies (e.g., semi-conductors and data processors), though they are yet to be officially defined.

Cyber-element in Bilateral Trade Deal

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- Previously considered as a separate issue, **digital policy** is at the front and center of the negotiating table right now. Some see the date extension of the ongoing trade talks as a good sign, as it indicates progress.
- The speaker believes that there are **three central issues** that have placed strains on the trade negotiations:

1. *Scope of data (i.e., commercial vs. national security) that is required to be stored locally;*
2. *Fast-developing technology industry is subject to regulatory scrutiny from government and other bureaucratic bodies that are not able to react quickly;*
3. *Over-restrictions on US cloud service providers.*

- In response to the trade negotiations, China may redefine **"critical information structure" (CII)** so that smaller players in the industry can face fewer regulatory burdens. China might also allow some kind of commercial data to be **exported without review** as a small gesture of concession. It is also possible that China will start to offer trials to foreign cloud services providers with the **right to own** their data centers in foreign trade zones (FTZs).

Digital Iron Curtain or Tech Decoupling?

- **Growing suspicions** will put multi-national enterprises (MNEs) in the cross fire in areas such as supply chains. For example, MNEs may face mounting pressure from DC to diversify their supply chains or even redirect them outside of China.
- Europe has become the battlefield for 5G for telecommunication providers. The Trump Administration did not anticipate the amount of pushback it would get from Europe, especially on Huawei. The speaker believes that there is going to be **a spectrum of responses in Europe** to the US demand that Huawei be banned.

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- The speaker believes there are three signs that suggest the US and China might be **heading towards decoupling** but she thinks it is necessary to step back from the cliff of decoupling and consider the dangerous consequences:

1. *A DIUX (the US Department of Defense's joint project with the Silicon Valley) report called for tighter restrictions on Chinese foreign investment. This was seen as a blueprint for the decoupling narrative which perceives certain technology transfers as a national security risk;*
2. *VP Pence's speech at the Hudson Institute last October;*
3. *A report by Bloomberg Business Week that accused China of placing microchips in US tech companies for espionage but later was debunked by some.*

"Small Yard High Fence"

- The speaker recommends that policymakers should adopt an approach that was described by former U.S. Defense Secretary Robert Gates as "small yard high fence." This approach means to **be selective** in choosing technologies that need protecting but **be aggressive** in safeguarding them.

That's all for today. Please let us know if you have comments or suggestions on our P+ programming. Additionally, our DC Door-knock Delegation is heading to the US very soon. If you have questions, please contact us as well. We will be hosting a post-trip briefing for P+ members in mid-May. Another upcoming event is the Hainan B.I.O. Trip that will take place between May 20 and 22. You can sign up here.

Take care,
AmCham China Government Affairs and Policy Team

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