



Enough is Enough: Confronting Chinese Innovation Mercantilism

EXECUTIVE SUMMARY



BY ROBERT D. ATKINSON

FEBRUARY 2012

EXECUTIVE SUMMARY

In the last decade, China accumulated \$3.2 trillion worth of foreign exchange reserves and now enjoys the world's largest current account balance. In 2011, it ran a \$276.5 billion trade surplus with the United States. This “accomplishment” stems largely from the fact that China is practicing economic mercantilism on an unprecedented scale. China seeks not merely competitive advantage, but *absolute advantage*. In other words, China's strategy is to win in virtually all industries, especially advanced technology products and services. One may argue that all countries do this and assert it is the essence of competition. But China's policies represent a departure from traditional competition and international trade norms. Autarky, not trade, defines China's goal. As such China's economic strategy consists of two main objectives: 1) develop and support all industries that can expand exports, especially higher value-added ones, and reduce imports; 2) and do this in a way that ensures that Chinese-owned firms win. It is time for policymakers in the United States and other countries to begin responding to today's reality for Chinese mercantilism represents a fundamental threat to not only the U.S. economy, but to the entire system of market and rules-based globalization.

China's strategy for globalization is to win in virtually all industries. Autarky, not trade, defines China's goal.

Because China is so large and because its distortive mercantilist policies are so extensive, these policies have done significant damage to the United States and other economies. The massive subsidies to keep production artificially cheap both reduce the cost of Chinese labor and move the world production system more towards labor and away from capital, reducing global productivity. The theft of intellectual property and forced technology transfer reduce revenues going to innovators, making it more difficult for them to reinvest in R&D. The manipulation of standards and other import restrictions balkanizes global markets, keeping them smaller than they otherwise would be, thereby raising global production costs. Further integration of global supply chains that link the United States and China could be good for both nations but not if Chinese policies continue to be based on absolute advantage and mercantilism. In this case, the results will be more of the same: the loss of U.S. industrial and high-tech output, and the jobs and GDP growth that go with it.¹ The logical evolution of this path for America is something akin to what happened to Great Britain: an economy that was once great but now suffers from a hollowed-out traded sector and hence now experiences great difficulty in creating good jobs and rising living standards.

China's goal of absolute advantage through innovation mercantilism runs counter to the effective functioning of the global trading system, which is grounded in the notion of competitive advantage: nations finding what they are good at or can be good at and exporting products and services in these areas to pay for the imports of goods and services they are not as good at producing. Running an integrated global trading system that

maximizes global economic welfare is impossible when the second-largest economy rejects the fundamental premise. As such, China's autarkic goals and mercantilist policies are fundamentally at odds with the principles of the open and rules-based international trading system that China committed to when it elected to join the World Trade Organization (WTO) in 2001. Countries that join the WTO make a commitment to a trading system, not an exporting system. Rolling back Chinese innovation mercantilism, while continuing to integrate China into the rules-based system of market-led global trade and investment, should be a key priority of U.S. (and European) trade policy.

The stakes could not be higher, for this conflict is not just about China, but about the future of the entire global trading system, especially as developing nations become more active participants in it. China's autarkic and mercantilist approach reflects a fundamental ideological difference between how China sees its role in bringing about state capitalism and the traditional western model of capitalism supported by global organizations such as the WTO. As China increasingly touts the superiority of the "Beijing consensus" over the "Washington consensus" (the latter rests on the premise that market forces work and governments should play only a minimal role in promoting the interests of their countries' companies and workers), there is a real risk that the former, not the latter, will become the guiding star of other nations around the globe seeking to boost their living standards. We already see this in nations like Brazil and India that are looking to emulate China by ramping up mercantilism. If this happens, it will be extremely difficult to maintain a global trading system that operates along the lines economists originally envisioned. In 1990 Francis Fukuyama wrote his well-regarded book *The End of History and the Last Man* which postulated that "a true global culture has emerged, centering around technological driven growth and the capitalist social relations necessary to produce it and sustain it."² Fukuyama did not, and perhaps could not, have foreseen that out of the ashes of the authoritarian anti-capitalist regimes of the right and left could emerge a powerful and successful alternative to free-market capitalism, in this case state capitalism as embodied in what could be termed the Beijing consensus.

If free trade is to prevail over the Beijing consensus, it's not enough to tout the superiority of the Washington consensus, for it is in fact now a deeply flawed model for growth and prosperity. It places too many limitations on legitimate government roles to spur innovation and competitiveness. But the Beijing consensus is also not only seriously flawed, it is a fundamental threat to global economic integration. Instead of a choice between these two schools of thought, it is time to consider an alternative model, what might be termed the "Helsinki consensus." Finland and many other countries are fundamentally committed to a vision of global integration and free trade, but at the same time recognize that "good", non-mercantilist innovation policies (e.g., funding for applied industrial research and technology transfer, support for STEM education, R&D tax incentives, national technology strategies, etc.) are critical to enable them to effectively compete in global markets. They focus on both consumer and producer welfare and recognize that globalization is an unalloyed good but only if other nations also play by the rules. Yes, the Washington Consensus suggests funding basic research and education, but it is loath to develop a real national innovation strategy focused on key technologies and industries. It also assumes companies compete against other companies and ignores the fact that

countries also compete, whether through legitimate or dubious means. The World Bank, IMF, and other multilateral organizations need to start advocating the Helsinki consensus around the world so that nations are not forced into an unproductive choice between the Washington consensus and the Beijing consensus. For if their choice is so limited, too many will default to the latter, especially as they look at the respective economic performances of the United States and China.

The Nature of Chinese Mercantilist Policies

In contrast to American economic policy, Chinese economic policy is not about maximizing short-term consumer welfare through free markets. Rather it is about maximizing long-term producer welfare and achieving autarky. And it's a particular kind of producer welfare where the owner of the factors of production is the Chinese Communist Party. As such, the focus on producer welfare is tied not just to a particular theory of economic growth but to direct self-interest of the Chinese government and officials in it.

To maximize producer welfare, China has put in place an array of mercantilist policies whose principal focus is on helping the home economy in an unfair manner at the expense of the global economy. For Chinese mercantilists, it is not enough to compete to make a better product. Instead, they seek to destroy the competition and make the only product.

There are two distinguishing features of these mercantilist policies. The first is their scope and size. While virtually all governments have crafted economic development policies to boost competitive advantage, China has developed the most comprehensive set of policies, with most of them violating the spirit, if not the letter of the law of the WTO. The second is their focus on Chinese firms, rather than Chinese establishments (e.g., Chinese factories and offices owned by Chinese or foreign firms). Most governments provide incentives to any establishment within their borders, regardless of its nationality. For Chinese leaders, at least since after 2006, Chinese firms are the key. Chinese mercantilist policies champion Chinese firms in two ways: the first is through policies designed to unfairly spur exports and reduce imports that help Chinese firms but also foreign firms in China. These policies include currency manipulation, relative high tariffs (three times higher than U.S. tariffs); and tax incentives for exports. The second is through policies designed to help Chinese firms while discriminating against foreign establishments in China. These policies take numerous forms including discriminatory government procurement; controls on foreign purchases designed to force technology transfer to China; land grants and rent subsidies to Chinese-owned firms; preferential loans from banks; tax incentives for Chinese-owned firms; cash subsidies; benefits to state-owned enterprises; generous export financing; government-sanctioned monopolies; a weak and discriminatory patent system; joint-venture requirements; forced technology transfer; intellectual property theft; cyber-espionage to steal intellectual property (IP); domestic technology standards; direct discrimination against foreign firms; limits on imports and sales by foreign firms; onerous regulatory certification requirements; and limiting exports of critical materials in order to deny foreign firms key inputs.

In essence, China has long worked to attract foreign companies to operate there, often using unfair or illegal practices. And it is now targeting help to Chinese-owned firms.

After the MLP in 2006, China was to seek the capability to master virtually all advanced technologies, with the focus on Chinese firms gaining those capabilities through indigenous innovation.

The Shift to “China Inc.” Through Indigenous Innovation

Until the mid-2000s China actively encouraged foreign direct investment in the country through a vast array of incentives, many of them mercantilist and unfair in nature. While the consequences of the mercantilist policies might not have always been good for the U.S. economy, and especially for many production workers in traded sectors, U.S. multinational corporations benefited from access to a low-cost production platform. And Americans in their role as consumers benefited from lower cost goods. And while China occasionally engaged in policies that brought complaints from U.S. industry, by and large U.S. industry was satisfied with the relationship.

In 2006, that began to change. For that was when China made the strategic decision to shift to a “China Inc.” development model focused on helping Chinese firms, often at the expense of foreign firms. Chinese leaders decided that attracting commodity-based production facilities from multinational corporations (MNCs) was no longer the goal, as it had been since the early 1980s when Deng Xiaoping made the decision to open China up to international investment. The path to prosperity and autonomy was now to be “indigenous innovation” (or in Chinese, *zizhu chuagnxin*) with Chinese firms the focus.³

The seminal document advocating this shift was “*The Guidelines for the Implementation of the National Medium- and Long-term Program for Science and Technology Development (2006-2020)*.” The so-called “MLP” sought to “create an environment for encouraging innovation independently, promote enterprises to become the main body of making technological innovation and strive to build an innovative-type country.”⁴ This was much more than a strategy to target some key areas where China had some preexisting capabilities. Rather, the MLP “must be made a national strategy that is implemented in all sectors, industries, and regions so as to drastically enhance the nation’s competitiveness.”⁵ The MLP called on China to “master core technologies” in virtually every area Chinese state planners could imagine. Included were some 402 technologies, from intelligent automobiles to integrated circuits to high performance computers. After the MLP in 2006, China was to seek the capability to master virtually all advanced technologies, with the focus on Chinese firms gaining those capabilities through indigenous innovation.

One way China sought to implement indigenous innovation was through regulations requiring the creation of catalogues of innovative products the central government would rely on when making procurement decisions. To qualify for inclusion the product not only had to be made in China, the intellectual property on which it was based had to be Chinese or transferred by a non-Chinese firm to China. Applicants were asked about whether their shareholders were foreign or domestic, presumably to ensure that Chinese-owned firms would be the main beneficiaries. Chinese agencies took steps to rescind the official rules in July 2011 in response to intense foreign pressure. This policy was an important, but not the only, manifestation of China’s shift via the MLP to China, Inc.

Since 2006, China has shifted more to the Japanese and Korean model of development, based on helping its own domestic companies grow by moving up the value chain and gaining global market share. As such, conflict now exists not just between American and Chinese workers; it’s between American companies and Chinese companies, just as it did

between Japanese companies and American companies in the 1980s and early 1990s. This fundamentally changes the dynamics and the politics of U.S. trade policy toward China.

Chinese Justifications for Innovation Mercantilism

Chinese leaders are aware that China's mercantilist policies are being scrutinized by policymakers in other nations, particularly the United States. And they have developed highly sophisticated justifications for them based on careful analysis of U.S. economic policies, practices and vulnerabilities. Moreover, these justifications are often repeated whole cloth by Western defenders of Chinese economic policy. They include:

- China may engage in some mercantilist practices but so does the United States.
- China is doing nothing different than America did when it was at China's stage of development.
- China needs the jobs.
- China needs to run trade surpluses to maintain adequate foreign currency reserves.
- China would not run a trade deficit with the United States if the United States ended its export controls on high-tech products.
- Indigenous innovation is key to raising standard of living.
- Indigenous innovation is needed to reduce dependency on exports.
- Indigenous innovation is needed to deal with high labor costs.
- Indigenous innovation is needed to deal with future demographic challenges.
- Indigenous innovation is needed to address environmental challenges, including global warming.
- Indigenous innovation is needed to deal with social imbalances.
- Indigenous innovation is needed because China receives such low returns on its foreign investments.
- Don't blame China, it is poor and dependent.
- Intellectual property is a form of Western imperialism.
- Give China time: it is still learning to be a market-oriented economy.
- China can help the U.S. economy by investing its massive current account surpluses in the United States.
- United States' weak economy is its own fault, not China's.
- China isn't mercantilist.
- If the United States pressures China, the United States will become protectionist.
- The United States has no right to interfere in internal Chinese matters.

This strategy of promoting strategic emerging industries, the centerpiece of Chinese economic policy, at best will generate the equivalent of 14 months of Chinese economic growth.

This report analyzes the logic and factual basis for each of these justifications and asserts that none of them withstand close scrutiny. These claims are no more than rhetorical flourishes employed by Chinese officials to distract and throw off balance their opponents. As such, they should not be taken seriously.

The claim that China needs to practice innovation mercantilism to get rich, is particularly faulty. The evidence shows that the lion's share of productivity growth in most nations—and especially large- and medium-sized ones—comes not from expanding higher productivity industries, as China seeks to do, but from boosting the productivity of all firms and organizations, even low-productivity ones. Consider that China set a goal for the value-added of “strategic” emerging industries to reach 15 percent of overall GDP by 2020. This strategy of promoting strategic emerging industries, the centerpiece of China's economic policy, at best will generate the equivalent of 14 months of Chinese growth. In other words, China does not need indigenous innovation to raise living standards.

Why America Should Care About Chinese Mercantilism

It's not as if American experts and policymakers are not aware of what China is doing, particularly as it shifts to indigenous innovation. But there is considerable disagreement both over whether Chinese policy is mercantilist and whether it represents a threat to the U.S. economy. Unfortunately however, the debate about Chinese economic and innovation policy mostly gets it wrong.

On one side are the analysts who look at China's heavy-handed statist practices, its lack of respect for intellectual property, and its massive subsidies of particular technologies and argue that there is no way for this model to be successful, and therefore America does not need to worry. In fact, it is increasingly in vogue to argue that “China is about to fail.” The advice? Just be patient. No need to do anything. Proponents of this view believe as an article of faith that the Washington Consensus is the only real playbook for economic prosperity. Any nation misguided enough to follow an alternative model, especially one as distorted as the Beijing consensus, must by definition fail. Moreover, if the Chinese government is misguided enough to subsidize its exports, American consumers are the better off for it.

But this school of thought ignores the fact that the Beijing consensus model has shown success; an economy growing at more than 10 percent per year for a decade is not failure. And even if China's policies will mean its economic stagnation in the long term, they certainly inflict lasting damage to the U.S. and other countries, both in the short term and the long term. Moreover, the standard for judging the threat from Chinese mercantilism is not whether China will succeed in dominating the industries America is good at, but rather whether Chinese mercantilist policies per se will harm the U.S. economy. On that basis, there should be no doubt.

The other prevailing view is the polar opposite. Rather than see the Beijing consensus as a flawed model that can only lead to failure, including failed innovation, devotees see an industrial and technology leviathan, eating America's technology lunch through superior implementation of world-class technology policies. They would like the Beijing consensus

China does what it does not because its policymakers don't understand the merits of the American system and the Washington consensus. They fully understand the arguments embedded in the Washington consensus. They just reject them in favor of the Beijing consensus.

to replace the Washington consensus. And when pressed about whether China is using mercantilist means to win, China devotees protest vigorously. They insist that our economic problems are all our own making, and call for a stop to all the “China bashing.” For these China defenders, China bashers include anyone who argues that Chinese intellectual property theft, forced technology transfer as a condition of market access, currency manipulation, government procurement bias in favor of Chinese firms, standards manipulation, and a host of other mercantilist practices are rampant and hurting the U.S. economy. To be sure, China has “good” innovation policies like R&D support and R&D tax incentives. But these are supplemented by an array of unfair, mercantilist policies.

What Should America, Europe and Other Market-Oriented Nations Do?

If the United States is to effectively address this central challenge, it's critical that policymakers and experts have an accurate view of Chinese economic policy and China-U.S. trade. Unfortunately the two prevailing views on these topics are misguided. The “free trade” view holds that efforts to press China to end its mercantilism will only backfire, and limit what is largely a mutually beneficial trading relationship. For this camp virtually all trade is win-win, even when it is lopsided (mercantilist on one side, free trade on the other).

The “protectionist” view in contrast, holds that trade with China is fundamentally bad for American economic interests. There is no way, the view goes, that American workers can compete with Chinese workers who are paid less than 10 percent of American wages. Better we impose protective tariffs, “Buy American” provisions, and other protectionist measures and build our own autarkic economy.

Both views miss the mark. Free traders are right that it is in the economic interests of the United States for China to be an integral part of the global trading system. But they are wrong in thinking that these benefits can accrue if China's policies undermine that trading system and China continues its strategy of absolute advantage implemented through mercantilist policies. Until China renounces its mercantilist strategy and the policies supporting it, the U.S. economy, particularly its industrial and technology base, will be hurt, more than helped, by trade with China.

“Protectionists” are right in that it is important to ramp up the pressure on China to get it to start playing by the rules. But the notion that America can't be competitive against China, even if the latter plays by the rules, is wrong, as is the notion that global integration with China can't be in America's and the world's interests. America doesn't need to close its borders to be a vibrant competitor. It must, however, require that other nations, especially large ones, like China, play by the rules.

Yet there is no evidence that China intends to voluntarily abandon its innovation mercantilism. Despite ongoing efforts by successive U.S. administrations to engage the Chinese in dialogue, there's little evidence that this process is doing anything more than helping to manage particular issues that come up. In cold-war terms, at best it is containing, not rolling back, Chinese mercantilism. It's time to realize that China does what it does not because its policymakers don't understand the merits of the American

system and the Washington consensus. They fully understand the arguments embedded in the Washington consensus. They just reject them in favor of the Beijing consensus.

As a result, it is time that the United States and the market-based global trading community at large take stronger action to press China to join the community of trading nations and curtail its mercantilist policies. The United States can and should take a number of specific steps unilaterally, but it should also press its like-minded trading partners to take steps on a bilateral and multilateral base, including through the WTO.

But the single most important steps are to recognize the severity of the problem and then commit to real, sustained and vigorous action to address it. Until Chinese innovation mercantilism is seen as the serious threat to U.S. economic prosperity that it is, U.S. responses will not be as strong as they should be, and easily trumped by other concerns, especially foreign policy ones.

Once policymakers take the threat seriously, the next step is to take serious action. It's not the purpose of this report to lay out a comprehensive set of action steps, although many are listed. Rather, trade and foreign policy experts both inside and outside the U.S. government need to make a serious effort to explore and identify all possible avenues of action to reduce Chinese mercantilism.

Another immediate step is to take stronger action under existing authorities. This will require expanding the resources of the United States Trade Representative's Office as President Obama's FY2013 budget does. Given the scope of the challenge of fighting global (and especially Chinese) mercantilism, USTR is significantly underfunded. Any increase in the USTR budget should be tied to a strategic reprioritization toward enforcement.

Moreover, USTR too often engages in fighting the last wars—the tariff war and the war to sign trade agreements. It's not set up, either institutionally or philosophically, to fight the current war—the war against rampant innovation mercantilism fueled by a wide array of non-tariff barriers. To help address this, Congress should authorize and appropriate \$5 million to create an Office of Globalization Strategy within USTR, run by a Deputy for Globalization Strategy. Similar to the State Department's Office of Policy Planning, the office would be charged with systems thinking about the design of U.S. trade policy in the context of globalization to ensure renewed U.S. competitiveness.

USTR also needs to become more assertive in bringing enforcement cases against China. Companies are often reluctant to initiate complaints because they know that they will face retribution from the Chinese government. The U.S. government should address this conundrum by making it national policy for USTR to bring cases whenever U.S. interests are being hurt, even if U.S. companies don't want them to proceed.

Perhaps the most significant challenge facing the United States in pressing China to reform is that too many U.S. officials believe that they have few arrows in the quiver to use in forcing China to change. They can harangue Chinese leaders at G-20 summits or attempt to persuade them at S&ED meetings, and take the occasional WTO action. But by and

large the view is that America is largely impotent to get China to change unless China sees change in its own interest. The best we can do, the thinking goes, is hope that China will change on its own before the damage to us is too great.

This fundamentally passive stance must be revised because the status quo situation is not tenable. It's incumbent upon the U.S. foreign trade establishment to thoroughly analyze all the current legal means by which we can pressure China to change and to take vigorous action based on those.

But while necessary, this is not sufficient, for much of what China does skirts international law. As a result, U.S. policymakers need to do two things. The first is to identify areas where stronger legal tools are needed and press for their implementation, either domestically or in global agreements like the WTO. For fundamentally the WTO system is designed around "trade" agreements relating mostly to imports and exports and issues like tariffs. Thus, it addresses issues like export restraints and export quotas. But more systemic distortions, such as government-run production cartels or the use of regulation and standards to discriminate against foreign firms is not really addressed. The second is to band together with other like-minded nations to use the power of exclusion and pressure.

Until Chinese innovation mercantilism is seen as the serious threat to U.S. economic prosperity that it is, U.S. responses will not be as strong as they should be.

The most important question for the United States is what its overall strategic goal should be vis-à-vis strategic trade engagement with China. To date, that engagement has largely been what can be described as "whack a mole." The United States expends resources to identify, respond to, and combat particular instances of Chinese mercantilism. Even if it wins such battles, all too often the damage has already been done. The whack-a-mole strategy ultimately will be unsuccessful going forward because the Chinese government has shown that it can erect new mercantilist policies faster than the United States can get it to remove old ones. As a result, a new strategy needs to be grounded in a results-oriented trade regime. America and the broader community of free-trading nations, should hold China to specific goals. One is the significant reduction of its global trade surplus. China also needs to be held accountable for specific, quantifiable commitments to reduce levels of intellectual property piracy, use of global rather than domestic technology standards, and abandoning requirements for joint ventures and forced tech transfer, among other steps toward fair trade.

While the United States needs to step up its unilateral actions against Chinese innovation mercantilism, to be fully effective it will need to enlist the support of other free-trade nations. Accordingly, the United States should work with the Europeans, Canadians, Australians, Japanese and whoever else will come aboard to lay out a renewed vision for globalization grounded in the perspective that markets should drive global trade and investment, that countries should not seek to accrue sustained trade surpluses, that currency prices should not be manipulated for competitive advantage, and that fair competition forces countries to ratchet up their game by putting in place constructive innovation policies that leave all countries better off.

This new alliance of free-trading nations needs to get progressively tougher on China until it significantly scales back its mercantilist policies. In addition, it should create a new free trade zone, involving only those countries genuinely committed to adhering to the

principles and reality of open, free, and fair trade. Toward that end the United States should also work to establish a Trans-Atlantic Partnership (TAP): a new trade agreement with Europe and perhaps all the Commonwealth nations.

The World Trade Organization must also better understand that what has been transpiring is not occasional and random infractions of certain trade provisions by a wide variety of countries that need to be handled on a case-by-case basis. WTO officials need to realize that many of its members, particularly China, do not accept the principles the WTO stands for and as such constitute a threat to global integration. The WTO must develop an enforceable regime that addresses the many non-tariff mercantilist actions nations take. One place to start would be to institute enforceable actions with regard to rules for joint-venture and technology-transfer requirements and to allow the interpretation of requirements to be based on real conditions on the ground not some provisions in a government legal code. A second area of opportunity is in how to address state-owned enterprises (SOEs). The idea that opaque, heavily subsidized, and favored SOEs are competing with firms that must raise their own capital in the marketplace makes a mockery of the idea of fair and welfare-enhancing competition. A third area is standards. Standards manipulation for competitive advantage should be more easily WTO-actionable.

It's not too late for the United States and allies to contain and roll back Chinese innovation mercantilism. But action will be resisted not only by Beijing but also by Washington. Many in the U.S. foreign policy establishment refuse to recognize the real nature of the threat, preferring to see themselves first as members of a global community of elites, rather than as American patriots. As such, they will offer a number of rationalizations for the status quo.

Perhaps the most pernicious concept limiting tougher action against Chinese innovation mercantilism is that as long as the United States is not mercantilist it still benefits from trade with China. But this is not the right way to frame the issue. The right way is to ask whether reduced Chinese mercantilism would have non-trivial beneficial impacts on the U.S. economy. Only the most zealous neoclassical ideologues and "Friends of China" would assert that it would not.

Even if some will admit that Chinese economic mercantilism hurts the U.S. economy, many in the trade establishment ascribe America's economic problems to America. According to this view, rather than focus on China's unfair practices, we should instead get our own house in order. Of course, as ITIF has long argued, the United States needs to do more to be more globally competitive.⁶ But unless China reduces its innovation mercantilism, these actions will fall far short of producing the kind of high-growth economy America needs.

Finally, many in the Washington trade and foreign policy establishment will assert that any efforts to roll back Chinese mercantilism will lead to a destructive trade war. But the trade war is already more than a decade old, and China has fired virtually all of the shots and done almost all of the damage. Working to roll back Chinese mercantilism is not protectionism; it is a defense of the global, free market economy.

*Working to roll back
Chinese mercantilism is
not protectionism; it is a
defense of the global, free
market economy.*

We have seen this movie before. In 1989, Shintaro Ishihara, then Japan's Minister of Transport and Akio Morita, Sony co-founder and Chairman, wrote an influential essay titled "The Japan That Can Say No."⁷ It criticized the American economic model and advocated that Japan start standing up to America, including on economic policy issues. China is rapidly approaching the same position where it will soon be "The China That Can Say No" and not have to negotiate with the United States over trade issues.

But at least for the foreseeable future China needs America more than it need China. It needs American markets and technology. It is therefore critical that the United States and its free-trade allies take the needed steps now to "contain and roll back" Chinese innovation mercantilism, before it is too late. For each year we wait means losing some of the leverage we have. At some point within the next decade, the leverage of the free trading, market-oriented nations will be gone with the very real possibility of the Beijing consensus, rather than the Washington or Helsinki consensus holding sway, not just in China, but in much of the developing world. That would be bad for America, bad the world, and ultimately bad for mercantilist nations. It's time to say, "Enough is enough!"

ENDNOTES

1. Stephen J. Ezell and Robert D. Atkinson, *The Case for a National Manufacturing Strategy* (Washington, D.C.: ITIF, 2011), <http://www.itif.org/files/2011-national-manufacturing-strategy.pdf>.
2. Francis Fukuyama, *The End of History and the Last Man* (New York: Avon Books Inc, 1992).
3. Zizhu in English means self-determined and chuangxin means innovation.
4. “CPC Central Committee's Proposal on Formulating the 12th Five-Year Program on National and Social Development,” *Xinhua*, (adopted on 18 October 2010 at the Fifth Plenary Session of the 17th CPC Central Committee, Beijing, October, 2010).
5. “National Medium- and Long-Term Program for Science and Technology Development of China (2006-2020): An Outline,” *Wenzhou*, January 2, 2012, http://english.wzj.gov.cn/program/program_detail.aspx?id=1.
6. See for example: Stephen J. Ezell and Robert D. Atkinson, *The Case for a National Manufacturing Strategy*.
7. Shintaro Ishihara, *The Japan That Can Say No*. (Japan: Simon & Schuster, 1989). Translated by Frank Baldwin as *The Japan That Can Say No* (1991).

ACKNOWLEDGEMENTS

The author wishes to thank the following individuals for providing helpful comments on earlier drafts on this report: Stephen Ezell, ITIF; Seamus Grimes, Professor, National University of Ireland; Patrick Mulloy, Adjunct Professor, International Trade, Catholic University School of Law and former Assistant Secretary, U.S. Department of Commerce; Morgan Reed, Alliance for Competitive Technology; Nabil Sakkab, independent consultant and former Chief Technology Officer, Proctor and Gamble; and Alan Wolff, Dewey and LeBoeuf. Any errors or omissions are the author's alone. The views of this report are solely those of Robert Atkinson in his role as ITIF President.

ABOUT THE AUTHOR

Dr. Robert Atkinson is the President of the Information Technology and Innovation Foundation. He is also the author of the books, *The Race for Global Innovation Advantage and Why the U.S. is Falling Behind* (Yale University Press, 2012) and *The Past and Future of America's Economy: Long Waves of Innovation that Power Cycles of Growth* (Edward Elgar, 2005). Dr. Atkinson received his Ph.D. in City and Regional Planning from the University of North Carolina at Chapel Hill in 1989.

ABOUT ITIF

The Information Technology and Innovation Foundation (ITIF) is a Washington, D.C.-based think tank at the cutting edge of designing innovation strategies and technology policies to create economic opportunities and improve quality of life in the United States and around the world. Founded in 2006, ITIF is a 501(c) 3 nonprofit, non-partisan organization that documents the beneficial role technology plays in our lives and provides pragmatic ideas for improving technology-driven productivity, boosting competitiveness, and meeting today's global challenges through innovation.

FOR MORE INFORMATION, CONTACT ITIF BY PHONE AT 202.449.1351, BY EMAIL AT MAIL@ITIF.ORG, ONLINE AT WWW.ITIF.ORG, JOIN ITIF ON LINKEDIN OR FOLLOW ITIF ON TWITTER @ITIFDC AND ON FACEBOOK/INNOVATIONPOLICY.