THE NEW CHINA SYNDROME

How Beijing shakes down foreign businesses

By Barry C. Lynn

It's May Day, and a rambunctious crowd of well-dressed people, many carrying blue and yellow parasols, has pushed into a Ford dealership just north of Chongqing, China. Mist from a car wash catches the sun, and I watch a man in a striped shirt poke at the gleaming engine of a midsize Mondeo while his wife sits in the driver's seat and turns the wheel. Overhead, a giant banner of a Mustang painted Communist Party red ripples in the spring breeze.

At the showroom door, I am greeted by three saleswomen who smile and stare, clearly shocked to see a Westerner. Finally, a manager leads me over to a young man, the resident expert in English. Other than the Ford logo and the corporate mantra of the moment, GO FURTHER, the front of his card is entirely in Mandarin. He carefully pronounces his name for me: Yi Xuanbo. Then he leads me past a potted rubber plant to a small aluminum table and hands me a paper cup of tea.

Yi places a luxurious brochure on the table and flips to a picture of a silver Mondeo hovering over the Manhattan skyline. He then turns to a page extolling the interior and the sound system—in English, the accompanying text describes the car as "a sensory palace." Yi tells me how much a basic Mondeo costs before taxes: 179,800 yuan, or about $28,000. I ask him whether he owns a Ford and he shakes his head, but with a smile. "I think maybe next year, I can buy one, too."

For Ford executives, this scene might offer a welcome testimonial to their decision, in 2012, to dramatically increase investment in China. And Chongqing, a municipality of almost 30 million people in the center of the country, is key to their vision. The cars on display at the dealership I visited are manufactured only a few miles away, at Ford's main Chinese factory complex. If you take the subway eleven stops from the dealership to the Changfulu station, you can stand on the elevated platform and stare out over a shimmering desert of industrial roofing, which covers several million square feet of assembly lines.

Ford has pledged to do for China in the coming century what it did for America in the previous one, which is to produce vast quantities of high-quality cars that the masses can afford—even the company's own salesmen. The bet is paying off. In 2014, only two years after committing big money, Ford sold more than a million cars in China, almost as many as it sold in the United States.

For any American who has followed domestic debates over international trade, Ford's success in China—as well as that of General Motors and Chrysler—must be especially gratifying. Ever since the Japanese mounted the first major postwar challenge to American industrial preeminence, in the 1980s, the ability to sell U.S.-branded cars abroad has

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served as the prime test of the fairness of any given trading relationship. Japan itself has failed this test for the past three decades, keeping its automotive market mostly closed to foreign brands. In China, however, Fords, Chevrolets, Cadillacs, and Jeeps have been roaring off dealers' lots—largely at the expense of Japanese automakers.

This success might also appear to validate something more important than corporate canniness. Two decades ago, in the wake of the Soviet Union's collapse, a group of libertarian intellectuals in America put forth a radical vision: Lift all controls on the industrial and financial companies of the West, set them free to manage the world's trade without any strangulating regulations, and they would entice the People's Republic of China to join the international system. This would produce, in the words of Bill Clinton, who ardently embraced such thinking, a "more open and free China." It would also lead to wider prosperity for all.

But outside the Ford showroom, as I watch two children run laughing among the sparkling new vehicles, I wonder whether this great experiment in what we have been taught to call globalization really did work as promised. As our biggest manufacturers and traders and investors succeed in China, they also come to depend on China for future profits—which brings them increasingly under the sway of a Chinese state that holds the power to cut those profits off. What if the master capitalists and corporate bosses who have so cowed us here at home are themselves being cowed in Beijing? What if the extreme economic interdependence between the United States and China is not actually carrying our values into a backward and benighted realm, but accomplishing precisely the opposite—granting the Chinese Politburo ever-increasing leverage over America's economic and political life?

This may seem an odd moment to sound the alarm about China. In the past few months, we have seen the near collapse of the country's stock market, the devaluation of its currency, and the sputtering of its mighty industrial sector. But long term, the picture has hardly changed. China will soon pass the United States to become the world's largest economy; by some measures, it has done so already. Wages and consumption remain strong, the service and online-retail sectors are hot, and vast portions of the population have yet to buy their first car or iPhone. All of which is to say that China, however challenged, remains as attractive a market as ever for many corporations.

This also means that basic patterns of behavior are unlikely to change anytime soon, and many of China's recent actions are disturbing in the extreme. Consider its growing bellicosity in Asia. Over the past couple of years, Beijing has unilaterally declared an "air-defense identification zone" over most of the East China Sea, parked a drilling rig off Vietnam, encouraged fleets of fishing boats to anchor around islets long claimed by Japan, and built entirely new islands on reefs claimed by the Philippines. The expansionist itch has been so reckless, so assertive, that Japan's prime minister recently compared China to Germany circa 1914.

What we have largely missed, though, is the emergence of a similar bellicosity within China, directed not at other nations but at foreign corporations operating inside its borders. When American corporations succeed in China, the result is not a mutual sense of comfort and familiarity, such as Toyota now enjoys in the United States. Instead we see a tightening of control, and increasing efforts to bend these powerful commercial institutions to the will of the men who run the Chinese state.

Rio Tinto, the world's number-two supplier of iron, was among the first targets of this approach. In 2010, global prices for metals were spiking, and China's state-owned steel mills pressed the corporation for a discount rate on

Illustrations by John Ritter

iron ore. Rio Tinto refused—and meanwhile began selling ore to a few privately owned mills in the country. In response, Beijing simply charged four executives in the company's Shanghai office, including an Australian citizen, with capital crimes. The tactic seems to have worked. While the four sat petrified in a Shanghai courthouse that March, Rio Tinto CEO Tom Albanese was in Beijing to, as one journalist put it, pay "homage to China's leaders." A couple of weeks later, a deal was struck on the pricing of iron ore.

Another early target was Walmart. In October 2011, authorities in Chongqing charged the corporation, which at that time controlled some 10 percent of China's hypermarket sales, with mislabeling pork products. Let's recall that Walmart was (and is) the world's largest company in terms of revenue. This didn't discourage the Chinese from jailing two of Walmart's employees, putting seven more under house arrest, and closing all of its outlets in Chongqing for two weeks.

What made the intervention especially telling was where it took place, and when. Chongqing is one of four cities in China directly controlled by the central government, which means the decision to target the U.S. company likely carried the imprimatur of the Politburo. The action also coincided with the publication of a long article in *The Atlantic* that purported to show how Walmart was cleaning up China's food supply chain by fighting "pollution, adulterated foods, [and] corruption." HOW WALMART CONQUERED CHINA, read the headline on the magazine's cover. In one stroke, Chinese officials made clear exactly whose practices needed cleaning up, and who had conquered whom.

Some observers believe that Chinese authorities target foreign corporations merely for mercenary ends. Their goal, this thinking holds, is to grab patents for Chinese companies, or to shake a little cash into national or personal coffers. These quiet aggressions often do result in measurable commercial advances. Beijing held up Glencore's takeover of Xstrata, an Anglo-Swiss mining operation, until executives agreed to transfer control of a lucrative Peruvian copper mine to a Chinese company. A lawsuit against InterDigital, which manages a vast portfolio of wireless patents, led that corporation to grant special treatment to Chinese enterprises. Litigation against the chipmaker Qualcomm had a similar effect, and in that instance Beijing tacked on a $975 million fine.

But the Chinese increasingly appear to aim at more direct forms of control over foreign companies. In China, there is no independent judiciary, no rule of law, no real property rights, and certainly no corporate "free speech" rights. Hence one way for Chinese functionaries to control a foreign enterprise is simply to habituate its executives to the lash of arbitrary power masquerading as law.

Just about any law can serve the purpose. Last year, Beijing used anticorruption statutes to fine the pharmaceutical company GlaxoSmithKline nearly $500 million. The year before, the tool of choice was a new antimonopoly law, which Beijing wielded during a sort of mass shaming of foreign executives. Functionaries from the National Development and Reform Commission reportedly summoned in-house lawyers from some thirty companies, including GE, IBM, Intel, Microsoft, Siemens, and Samsung. Once everyone was in the room, officials announced that half the companies present were already under investigation for monopoly crimes—but didn't say which. According to the Reuters journalist who broke the story, the officials instructed the managers to write down public "self-criticisms," a Maoist practice designed to coerce individuals into confessing wrongdoing in advance of any trial. A Chinese regulator made the consequences clear: if any company resisted, he might double or triple its fine.

AFTER A FRENZY OF CRITICISM, APPLE CEO TIM COOK PROMISED CHINESE CUSTOMERS A "PROFOUND REFLECTION" ON HIS COMPANY'S POLICIES

This predilection for mass shaming is not confined to the boardroom. In recent years, China's state-run television station, CCTV, has produced what is known as the 315 Gala—an annual "consumer-rights program" in which the hosts finger foreign companies for their bad behavior. Hewlett-Packard, Starbucks, and McDonald's have all taken turns in the dock. In 2013, one of the main targets was Apple. At first, the world's most valuable corporation refused to flinch. But after the *People's Daily* and other state-owned media orchestrated another frenzy of criticism, Apple CEO Tim Cook delivered a formal apology to Chinese consumers, promising them a "profound reflection" on the company's repair and warranty policies.

Before we rush to excoriate the Chinese for interfering with private business, we should remember that for most of our own history, we in America have done much the same thing. Here, too, country has long trumped company.

A relatively recent myth argues otherwise. It holds that Americans have always allowed actors in the economy to do exactly as they pleased, without any form of regulation, and that the result of this laissez-faire policy was a nation glorious and grand. There is no truth to this myth. From the first, the founding generation recognized that the only way to achieve real liberty for the individual was to use the power of the state to prevent the infringement of that liberty, be it at the hands of the private monopolist at home or the mercantilist abroad.

Henry Adams captured this paradox in his *History of the United States During the First Administration of Thomas Jefferson.* No American has ever decried government power more eloquently than Jefferson. But on taking office, on the cusp of the Napoleonic Wars, Jefferson confronted a world in which most trade was micromanaged by London or Paris. His response? He threatened to divert vital goods from one European power to another, as a way of guaranteeing the independence of American traders—and, more important, of the nation itself. The United States at the time was a small country, so this initial effort had limited effect. But looking ahead, Jefferson imagined a day when the president's power to regulate foreign commerce would serve, in Adams's words, as "the machinery for doing away with navies, armies, and wars." The goal was idealistic; the means, coercive. In place of military power, America would use trade power.

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So it continued for the next century and a half. The industrial tariffs of the Republicans, the reciprocal-trade concepts of Progressive Era Democrats, the federal government's structuring of companies such as RCA after the First World War—all were intended to ensure that the U.S. business community did what Washington considered necessary for the nation's security. Perhaps the most dramatic example was the trading regime that the United States imposed on Europe and Japan after 1945. The goal, again, was utopian: an international economic system organized, in the words of a leading historian of the Marshall Plan, to make war "materially impossible" by making nations industrially interdependent. But the means were entirely realist. The U.S. government, along with its allies in Europe and Japan, determined which corporations did business where, how, and with whom. By doing so, it also kept real limits on how much the United States depended on any other nation.

Throughout most of the postwar era, no one pretended that the international economy was anything other than a system of political power. The turning point came with the triumph of modern libertarianism, with its sophisticated, Orwellian method of hiding corporate power behind the rhetoric of individual liberty. The key thinker, as with so many libertarian schemes, was Milton Friedman. In *Free to Choose* (1980), Friedman likened regulation of trade to "masochism and sadism." He described the world economy not as a system deliberately constructed to promote stability and peace while distributing prosperity, but as a "world market" regulated by the infallible law of supply and demand.

Even today, Friedman's writings give off a slight hippie vibe, with free trade sounding suspiciously like free love. Yet hidden behind the author's beatific smile was a specific and very pragmatic goal: to get Washington out of the business of governing international commerce so that the managers of private corporations could take over instead.

Ronald Reagan is widely viewed as the chief votary of the libertarians, and in matters of domestic corporate policy, he certainly heeded Friedman's views. But when it came to trade, Reagan stuck to traditional Jeffersonian principles. The state must retain ultimate control. Dependence on foreign nations must be avoided. Never did Reagan prove this more robustly than when he used trade and monetary policy to quash Japanese efforts to dominate such industries as cars and semiconductors.

It was not until 1993 that Friedman found a true acolyte in the White House. When Bill Clinton took office, he moved with remarkable swiftness to shore up the power of private corporations—especially when it came to trade. By 1994, he had negotiated and signed an agreement that shifted the regulation of America's commerce from the people's government in Washington to the corporate-dominated World Trade Organization. By 2000, he had succeeded in winning permanent most-favored-nation trading status for China. In tandem, the two acts effectively gave a few corporations free rein to manage our trade with the autocratic regime in China.

No matter how Clinton and his advisers may have chosen to depict their actions, these were not naïve men. The Clinton White House fully accepted that America would need to exert real and punishing power abroad. To that end, they upheld the military strategy concocted by Paul Wolfowitz and Dick Cheney in 1992, whose primary mandate was that "no rival" must ever again emerge to challenge American arms. Together, the decisions to surrender America's trade power while buttressing America's military power added up to a radical overthrow of this country's republican traditions. Worse, they left our nation unable to defend itself or its allies against the trade power of predatory foreign nations.

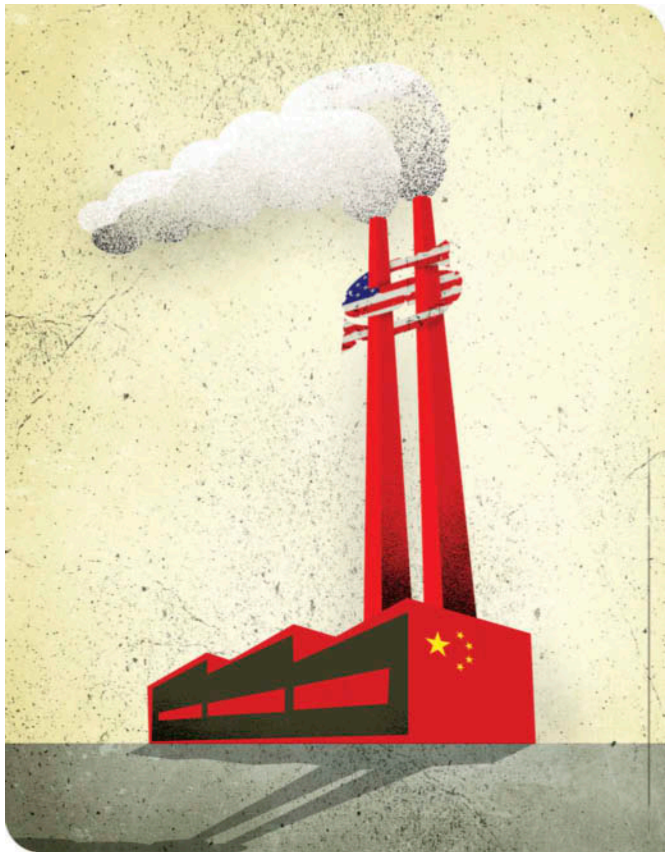
It's hard to feel sorry for the executive of a multinational corporation. Sure, she must swap the amusements of Cincinnati and Dallas for the discomforts of Singapore and Geneva—but expat salaries, chauffeured cars, live-in maids, and private schools help ease the pain. And if she must sometimes jet from Shanghai to Berlin to São Paulo, she will at least find a gauntlet of obsequious servers proffering hot towels, cold drinks, and aromatic spa treatments to ease the way. Yet sit down with Jeremie Waterman, who directs China policy at the United States Chamber of Commerce in Washington, and you may find yourself feeling a bit weepy about the travails of today's corporate leaders—at least those who work in China.

When I first ask Waterman about Beijing's treatment of American companies, he stares at me, as if unsure how to respond. Then he shakes his head. When a U.S. corporation does business in China, he says, its executives are "going up against the whole system—the courts, the companies, the regulators, the government." For a growing number of firms, even giants like Boeing, day-to-day business increasingly means striving "to please the Chinese government and the Communist Party."

Waterman and I don't bother to discuss why executives at American corporations would so readily expose themselves to the power of the Chinese state. To anyone in the business community, the answers are self-evident. First is the fact that so many U.S. companies now depend on China for the products they sell. For Walmart, it's barbecue grills and shoes. For Apple, it's assembly work. For Pfizer, it's chemicals. And while foreign companies have talked a lot about reducing their reliance on China, they nevertheless keep upping the ante, year after year. Just last April, General Motors announced plans to pour another $16 billion into China. In September, Dell pledged a whopping $125 billion over the next five years, with an ominous promise to "closely integrate Dell China strategies with [Chinese] national policies."

A second reason corporations are so willing to accede to Chinese diktats is the allure of Chinese markets. For General Motors, China already accounts for roughly a third of the cars it sells. For Qualcomm, China accounts for roughly half its business. For Rio Tinto, China accounts for considerably more than half its output of iron ore. Chinese sales of Apple's iPhones topped U.S. sales in 2015—and when global markets were tanking in late August, Tim Cook helped arrest a rout in the company's stock by publicly assuring investors that the Cupertino giant had "continued to experience strong growth for our business in China through July and August."

A handful of U.S. companies have avoided exposing themselves to Chinese control, sometimes at great cost. In March 2010, in response



to growing censorship and a surprisingly sophisticated hack, Google redirected Chinese- and English-language searches from the mainland to servers in Hong Kong. Beijing responded by temporarily cutting off access to Google's search engine and, more recently, to Gmail. The cost to Google? Access to the world's largest market of Web users, 649 million strong and growing.

The story is much the same with the *New York Times*. In October 2012, the paper published an article detailing how the family of former premier Wen Jiabao had accumulated more than $2 billion in assets by taking advantage of the "intersection of government and business." Chinese authorities responded by blocking domestic access to the paper's Chinese-language website and refused to provide visas to its reporters. Despite being cut off from millions of potential readers and seeing a key bureau hobbled, the *Times* has not budged.

But absent any coherent and countervailing pressure from the U.S. government, most companies have continued with business as usual, no matter what Beijing demands. The overall result, in almost every sector of the U.S. economy, is a deeper and deeper dependence on China for both labor and cash.

Hollywood, too, has learned to bow and scrape. There's a delicious irony here: for decades, Americans assumed that one of the surest ways to export liberal values was on 35-mm film. But that was before China got on a path to become the movie industry's largest market by 2018. And that was before a Chinese billionaire used Chinese state money to assemble the biggest chain of cinemas in the world, including AMC Theatres in the United States. And that was before Chinese moguls became top investors in American-made films. One result is that we now get to watch history being rewritten before our eyes. It was, for example, the Chinese army that in 2007 fired a missile into an old weather satellite, triggering a debris storm that threatened other satellites. By 2013, when the story made it to the big screen in *Gravity,* the oafish deed had been pinned on today's stock villains, the Russians.

That the Chinese company Shuanghui, which in 2013 purchased America's biggest pig processor, Smithfield, is now apparently using Smithfield's lobbying power to rewrite state laws in Nebraska is not surprising. What we must now get our heads around is that Morgan Stanley and Goldman Sachs, though based in New York, are not all that different a case. These bankers have for years profited by serving as procurers for Chinese investors who long to get their hands on American technologies and other assets. Their real interest nowadays? To subject their companies even more directly to Chinese influence by, as Morgan Stanley bluntly put it, hiring the "sons and daughters" of China's sitting rulers.

Democracies tend to approach empire differently than autocracies. People in democracies typically want other people to embrace their ways, not merely to yield to them at gunpoint. And so the empire Americans built after the Second World War was in fundamental respects unlike those of other modern powers. To be sure, we regularly used military muscle to shape the world—and often made a hash of it. Yet when we reverted to Jeffersonian principles and used our trade power, as we did with the Marshall Plan in Europe and the Kennedy Round of trade liberalization, the frequent result was peace, prosperity, and liberty.

Geir Lundestad, the former head of the Nobel Peace Prize committee and one of Europe's most celebrated historians of U.S. power, notes that imperial America has been "much more comfortable with spontaneity and self-organization than earlier great powers." Indeed, for much of the past half-century, Washington's approach to the world was not unlike the president's approach to Congress: alternately pleading, horse trading, and whipping. Americans cajoled allies and built coalitions, developed clubs and fostered interests, then used our global trade power to orchestrate the whole enterprise.

What never occurred to us was that another state might rise to inhabit the global trade system we built. Or that the leaders of this other state might learn how to manipulate the same corporate and financial levers that our own leaders have long manipulated. Now, suddenly, Washington is rife with suspicion that China is playing a very different game from the one our leaders imagined when they dreamed their libertarian dreams twenty years ago. This suspicion undergirds Obama's vaunted Trans-Pacific Partnership (TPP), which, at least in theory, aims to peel some commerce away from China. It explains the Pentagon's shift of troops and ships to Asia to buttress allies such as Japan and the Philippines, who suddenly find themselves the target of Chinese aggression. And it lies at the heart of a recent Council on Foreign Relations paper warning of China's threat to "U.S. primacy in Asia."

In the run-up to last summer's vote on fast-track negotiating authority for the TPP, President Obama warned that what is now at stake is who gets to "write the rules for trade in the twenty-first century." What America's political class and security establishment have yet to realize is that in a world in which nations are intertwined by global corporations, there is something else at stake: who gets to write the rules for liberty here in America. The difference between traditional American hegemony and Chinese hegemony cannot be overstated. When the United States wielded power over corporations in the postwar era, our overarching goal was—with some notable exceptions—stability, peace, and prosperity. When China wields its power over foreign corporations, the ultimate goal is—always—command and control.

In late April, I wait on a bench in the ground-floor offices of a Manhattan startup. Soon a wry-eyed man in his mid-forties walks up, shakes my hand, and leads me through a high-ceilinged room crammed with blond desks, cheap sofas, and trim young men and women hunched over Apple monitors. Outside, a stiff breeze off the Hudson bends the daffodils double. But the stuffy room where we sit down to talk is windowless, its walls adorned with memos and jottings from previous meetings.

The informal setting is deceptive. My host knows as much as anyone about the role of business in the relationship between the United States and China, having spent years establishing the Chinese operations of one of America's largest corporations, then working a stint for the government in Washington. He is now involved in a variety of high-tech enterprises, which accounts for his insistence on anonymity.

He regards me warily at first, and answers my questions with brief, noncommittal sentences. But after a few minutes, he suddenly leans forward, as if someone has flicked a switch, and the words spill out. It's almost as if he is confessing, his face alternately expressing anger and shame and relief.

His story follows what I have come to realize is a standard trajectory of disillusionment for midlevel American executives in China. In this case, it started in 2004, when he was dispatched to Shanghai and Beijing to investigate whether and how his firm should invest in China. Like most American executives during those days, he assumed it was an opportunity to earn good money while doing good work, in the form of liberalizing China's autocratic system—or, as he put it, to "create greater room for speech and innovation."

Those expectations were dashed the moment he began to interact with the government. "I would like to say that we negotiated with the Chinese," he tells me. "But that implies give-and-take."

More disturbing, he said, was the realization that his company could not trust its new Chinese employees. In any business venture, there is always competition among members of the team. The difference in China, he says, is that employees were angling less to serve their own interests than those of hidden masters. "We realized that the loyalties of many of our employees were entirely split. Even if they had the best of intentions, even if they really wanted to drag China into a more open and democratic era, they were still under immense personal pressure to serve the state."

After a couple of years on the ground, my host concluded that succeeding in China would dictate various forms of personal compromise. "The more entangled you are with China economically, the more subject you are to their power, to their ways of getting you to do things." Most demoralizing, he says, was the sense of becoming complicit in such an abusive system. Eventually he recommended that his employer pull out of China. The company's board decided otherwise, and soon thereafter, he left the firm.

I ask him whether the American business community is naïve about its role in China, and he squints at me, as if I'd asked the wrong question. Then he half-smiles. "We are at a tipping point where we are no longer in control."

It has become conventional wisdom that George W. Bush's war in Iraq was the greatest strategic blunder in American history. And certainly there's a good case to be made. The needless slaughter of hundreds of thousands of Iraqis. The political destabilization of an entire region. The myopic disdain for allies and compromise. And that was all before Bush's bastard child, the Islamic State, learned to walk and stalk.

Yet the Clinton White House's derangement of trade policy in the 1990s now poses far graver dangers to the security of the United States and its citizens. Not only did the administration abandon the precept that America must not depend on any other nation. Not only did the administration unilaterally discard the trade power with which Americans had wrought such wonders. Clinton also violated the most important rule of the postwar international system: that we trade liberally only with democracies. The result? We, along with our allies, are now caught in the grasp of one of the most sophisticated, resilient, and forward-looking autocracies in the history of the world.

It is impossible to tell how China will pull these strings. Perhaps one day soon Beijing will threaten to cut off basic supplies of drugs and electronics, in an attempt to sweep our ships and troops from the Pacific. (To understand this ploy, Chinese leaders would need only study the actions of President Eisenhower in 1956, when he drove the armies of Britain and France from the Suez by threatening to cut off supplies of money and oil.) The more likely scenario, however, is less dramatic. Given America's almost moribund federal authority over trade, China is largely free to manipulate the greed and cowardice of our corporate leaders, in ways that every day concentrate more control in their own hands. The national interest? Only a cacophony of interests manipulated from afar, like France in the days just before Vichy.

Is there any hope of reversing this sorry trend? Of course—if we move immediately to put country above company, and to restore the systems of checks and balances we used for two centuries to distribute power safely at home and abroad. But to do so, we must first understand that Beijing, however terrifying, is not our immediate enemy. To regain our liberty, we must first target the oligarchs in our midst. In tearing down the fences to gain more absolute liberty for themselves, it was they who let in the wolf. ■