

*The View by Dominic Ng*

## US must put strengths and values first in competition with China

- Competition is not necessarily a bad thing, but the US must promote smart competition that emphasises its strong points to avoid hampering innovation
- Two bills under debate in Congress offer a chance for the US to get its priorities in order and reinvigorate federal spending to strengthen the private sector



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US Speaker of the House Nancy Pelosi (centre) addresses an event on the House of Representatives vote on the America Competes Act in Washington on February 4. The bill aims to invest billions of US dollars into American manufacturing and scientific R&D as a means to compete with China's rising economy. Photo: EPA-EFE

In the coming weeks, the US Congress will debate two versions of legislation meant to reinvigorate American innovation and competitiveness: the Senate's Make it in America Act and the House of Representatives' America Competes Act. There are important differences between them, but both frame the innovation challenge as a competition with China.

In geopolitics, as in business, competition is not necessarily a bad thing. But what is needed today are measures that promote smart competition by playing to America's strengths and values. On this front, Congress has more work to do.

That work starts by recognising where innovation comes from. In the past, most of American R&D came from government spending, with the rest coming from the private sector.

Today, that picture has flipped. With government spending mostly flat during the past four decades, businesses now far outspend government on research and development, and the contribution from government has fallen to just 24 per cent.

Thanks to private enterprise, the United States spends more on R&D than any other country and is a patent leader in hi-tech sectors such as biotech. Yet at the same time, flatlining government expenditure on R&D has made it harder to stay ahead.

There are two powerful lessons to draw from this history. An innovation bill should reinvigorate federal spending, especially in ways that empower the private sector. It should also avoid including measures that could undermine the competitive strength of American businesses.

On that basis, the legislation now under debate earns a mixed review. On one hand, though the House and Senate bills are not fully aligned, they both include much-needed funding for government scientific research. The Senate bill would authorise more than US\$9 billion for a new directorate at the National Science Foundation focused on technology and innovation. Both bills include US\$52 billion in funding for semiconductor research and manufacturing in the United States.

The legislation also supports small business innovation by extending two important initiatives: the Small Business Innovation Research and Small Business Technology Transfer programmes. These provide grants to small businesses working on innovative technologies that advance the American research agenda.

The results can be transformative for businesses awarded these grants. Sofie Biosciences, a California-based company that develops compounds to identify and treat a wide range of diseases, won a proof-of-concept grant for a new technology in 2011, which led to a US\$1 million prototype development grant one year later.

Not only did this funding allow them to take their research to the next level, the review process involved with the award gave investors the confidence to support the company with their own capital. This is a perfect example of how smart government support can unleash private innovation.

While this is all to the good, the proposed legislation also has provisions that could hurt US innovation and competitiveness. The House bill, for instance, includes a provision that would require businesses to report any investment to China that touches on a broad range of sectors, including automotive, agriculture and more. A committee tasked with reviewing these investments could forward a recommendation to the president to block these deals.

A measure such as this poses many problems for businesses and ultimately for US competitiveness. A study by the Rhodium Group estimates that 43 per cent of US investment in China in the past two decades has been in sectors that could be covered under the bill. These are the makings of a bureaucratic nightmare, especially for small businesses without the resources or support to identify or report potentially covered transactions.



Tesla's China-made Model 3 vehicles are seen during a delivery event at its factory in Shanghai on January 7 in 2020. Photo: Reuters

US businesses fighting for market share in China could find their efforts to upgrade their factories hobbled. Foreign businesses in the US would also be affected, making the US a less attractive place to invest, especially in the hi-tech sectors where it wants to lead.

For these reasons, legislators now working to resolve differences in the House and Senate bills should consider which provisions should stay and which should go. Lawmakers should support measures that boost government spending on R&D, particularly where it helps small businesses compete in the global marketplace. They should drop provisions that add bureaucratic red tape and uncertainty for businesses.

But it doesn't end there. They need to take a hard look at what current policies are doing to US scientists of Chinese heritage. The China Initiative, a Department of Justice programme aimed at countering industrial espionage, has led to a string of unfounded accusations against scientists of Chinese heritage, who account for most of cases under the initiative. This has had a chilling effect on Chinese-American scientists who worry that their next idea could put them under suspicion.

Recently, the administration of US President Joe Biden took an important step in the right direction by dropping the China Initiative and refocusing efforts on actual national security threats. But in an era of heightened US-China tensions, it will take much more to ensure safety and freedom for scientists of Chinese heritage.

For the US to compete effectively, it needs to be smart. That means putting its strengths and values first.

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