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U.S. Firms, China Are Locked in Major War Over Technology

By JOHN BUSSEY

A titanic battle is under way between U.S. business and China, a battle reflected in President Barack Obama's State of the Union address last week and destined to dominate relations between the two countries for years.

At issue: Innovation.

China's bureaucrats have been rolling out an array of interlocking regulations and state spending aimed at making their country a global technology powerhouse by 2020.

The new initiatives shaped by rising nationalism and a belief that foreign companies unfairly dominate key technologies range from big investments in national industries to patent laws that favor Chinese companies and mandates that essentially require foreign companies to transfer technology to China if they hope to sell in that market.

To hear U.S. business executives describe it, Beijing's mammoth new industrial policy is like the Borg in "Star Trek" — an enormous organic machine assimilating everything in its path, in this case the inventions of other nations. Notably, China's road map, which is enshrined in the "National Medium- and Long-Term Plan for the Development of Science and

Technology (2006-2020)," talks in those terms. China will build its dominance by "enhancing original innovation through co-innovation and re-innovation based on the assimilation of imported technologies."

"It's a huge, long-term strategic issue," says a top executive at a U.S. technology firm operating in China. "It isn't just the crisis of the day for U.S. business. It's *the* crisis."

So it is that Mr. Obama, fresh from wrangling with Chinese President Hu Jintao over these issues, made U.S. innovation China-beating innovation a centerpiece of his State of the Union speech. China and India are "investing in research and new technologies," he warned. "We need to out-innovate, out-educate and out-build the rest of the world."

President Obama also wrested some concessions from President Hu during their summit last month, including getting China to scrub or promise to scrub new government-procurement lists that discriminate against foreign companies that don't design their products in China.

Spats over market access have been endemic to the U.S.-China

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Bloomberg News

Hu Jintao at the White House

business relationship from the start. But China's latest initiatives, which began getting traction at the end of 2009, have changed that game, revealing a much broader national battle plan for conquering global technologies.

Deluged by complaints from companies, the U.S. Chamber of Commerce, a business trade group, commissioned a report to measure the scope of China's actions. It found what it calls, in sometimes sparky language, an "intricate web" of new rules "considered by many international technology companies to be a blueprint for technology theft on a scale the world has never seen before."

US business is in a big tangle with China again over a range of new measures that china has taken to control its technology market. John Bussey talks with the author of an in-depth report on China's new initiatives.

The 44-page report, "China's Drive for 'Indigenous Innovation': A Web of Industrial Policies" (<http://www.uschamber.com/reports/chinas-drive-indigenous-innovation-web-industrial-policies>), maps the complex set of new initiatives that foreign companies face. The report received media attention when it was published last summer and then gathered steam over subsequent months, becoming a talking point in corporate and government offices globally in advance of recent negotiations with China.

"It's an outstanding piece of work," says Charlene Barshefsky, the top US trade negotiator in the Clinton administration. "It provided policy makers a far better understanding of China's policies than ever before."

It also sent up a warning flare over the broader business community. Representatives of companies as diverse as IBM, Praxair, Microsoft, Alstrom, Motorola, Cisco, Corning and Caterpillar got briefings. Chinese academics also lined up. And GE distributed the report to its senior management.

China says there's nothing threatening in its efforts: It simply wants to modernize. Developing homegrown technology is better than continuing to pay stiff royalty fees for foreign inventions, the Chinese ministries say. As for "re-innovating" or "assimilating" foreign technology, that's no different from what Japan and Western countries did when they industrialized, they add.

U.S. companies don't see it that way. They worry, for example, that China's new approval process is holding up products at the border as technicians examine designs with the intent of doing a little early "assimilating."

"We just connected the dots for the first time to show the scale of this industrial policy," says James McGregor, the author of the report and a senior counselor for APCO Worldwide in Beijing. (Mr. McGregor was also the Wall Street Journal's bureau chief and corporate representative in China during the 1990s.) "I had no idea this amount of stuff was going on, including the turn back toward emphasizing state industries."

Which puts Mr. Hu's promises to President Obama in context. China's commitment to its broad new program "the government's highest strategic economic priority," the Chamber says overwhelms any incremental market concession.

In the innovation race, China is thinking long term and big. Its goal isn't just to tinker with foreign technology. It plans to supplant it.

As any competitor might.

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