

Balancing **National Security** and **Commercial Interests**

Finding the sweet spot in Sino-US cooperation on commercial aircraft manufacturing

 By Nina Hsu



Successful trade policies require striking the right strategic balance between a country's national security and economic interests. Governments and businesses may disagree at times over the necessity

and implementation of trade laws, but more often than not, their fundamental interests are aligned. This is why China's emerging commercial aircraft manufacturing industry offers the governments and businesses of China and the US a unique opportunity to

forge a new path that furthers the national and economic interests of both countries.

CREATING EFFECTIVE TRADE POLICIES

Current US trade policy aims to fa-

cilitate commercial trade between the US and China, while preventing the export of products and technology that could enhance Chinese military capabilities. This policy is unlikely to change fundamentally in the short term, but newly-appointed US Secretary of Commerce Gary Locke has expressed a desire to revisit export control policy and strengthen commercial trade with China. The nascent Chinese commercial aviation industry presents opportunities for a new stage in Sino-US high-tech cooperation, but the challenge from the US government's perspective is determining what level of technology cooperation US companies should offer their Chinese counterparts.

The machine tool industry illustrates the dangers of overly restrictive and outdated export controls. In the past, China manufactured lower level machine tools domestically, but imported higher precision and multi-axis tools from abroad. US restrictions on the export of five-axis machine tools to China resulted in delays and prohibitions for many potential Chinese customers and prompted China to recognize their dependence upon foreign imports. As a result, the Chinese government launched initiatives to inject capital and promote the domestic development of five-axis machine tools.

As China built up this domestic industry, it continued to import the high-tech equipment it still needed from companies in Western Europe. Now, China has established several large and competitive high-precision, multi-axis machine tool manufacturers that are directly competing with foreign suppliers in the Chinese marketplace. Overall, export controls have resulted in millions in lost sales for US companies.

EMPLOYING SUCCESSFUL BUSINESS STRATEGIES

Many government officials do not recognize the competition and financial viability studies companies conduct as they evaluate business strategies. Businesses constantly balance the risks of technology transfers against the bene-

fits of market access. Some businesses also find the barriers to entry and the financial costs of product development so high that one firm is hard-pressed to take the path alone. In the aircraft engine business, for example, many industry leaders can be both fierce competitors and partners at the same time.

One prevalent strategy that companies employ to protect their busi-

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ness interests is the implementation of an internal compliance and technology control program that outlines clear procedures for handling sensitive technologies. Such programs are common in US businesses and have begun to spread to their Chinese partners. American firms have the opportunity in the growing aviation industry to urge their Chinese counterparts to adopt rigorous trade compliance measures as a means of improving efficiency and encouraging deeper integration into the global supply chain.


BUILDING COMMERCIAL AIRCRAFT IN CHINA

China is pushing full steam ahead to become a member in the global community of commercial aircraft designers and manufacturers. The challenge for US companies has always been the co-mingling of commercial and military aerospace. However, the creation of the Commercial Aircraft Corporation of China (COMAC), China's new commercial aircraft industry, was a critical first step in demonstrating China's intent to engage with foreign companies on commercial-only programs. COMAC leaders have communicated that the

new C919 large commercial transport aircraft program will be a cooperative program with international suppliers and manufacturers. It will require the support and approval of the US government for US companies to participate in this large-scale and potentially profitable program.

Over the past four years, AmCham-China has supported US government efforts to implement export control regulations that are consistent with market realities in China. AmCham-China's Export Compliance Working Group (ECWG) Forum draws upon its resources to gather fact-based data for industry-focused reports. These reports cover dual-use areas in which US export controls have or will affect commercial trade with China to the detriment of American firms. Seven out of the eight reports the ECWG has written to date have touched upon sectors within the Chinese aerospace industry.

In the most recent report, "Lost US Sales and Opportunities in China," the ECWG collected compelling evidence of numerous cases in which US exporters and manufacturers lost billions of dollars in sales of high-tech items. AmCham-China conducted a survey of its members earlier this year, and among respondents whose businesses involve US export licensable items in China and have lost sales due to export controls, 93 percent reported that their customers purchased the item from other sources and almost always from a non-US foreign competitor.

We are hopeful that the efforts of the ECWG and American businesses will result in changes for US export controls and allow US companies to engage as responsible partners in future Chinese commercial aircraft programs. Time, however, is critical as European competitors are poised to fill any gaps that US companies are unable to fill. 

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