David F. Day
Co-Chair NADEC Trade Policy Committee

The Potential "Squeeze-out" of Western Firms in Certain International Markets

Those of you attending the recent NADEC Annual Conference this past May will recall a number of references in various programs to the rising presence and investment of PRC Chinese firms in Latin American, Africa, the Pacific Islands, and even in our own nearby Caribbean, as well as in Southeast Asia. It is not the presence of these firms that is troublesome; it is the potential market damage for American exporters should PRC firms gain sufficient influence, particularly in the area of data capture and control, over the internet backbone and telecommunications of a given country. Such control will become is seriously problematic for American firms attempting to operate in that Country.

Once the PRC via its Chinese State-owned Enterprises (SOEs) take real control over the internet and telecom backbone of a country, the business risk factors for an American or Western firm skyrocket exponentially. This is the "Huawei" problem in spades. In addition to the normal risks of doing business in a foreign market, like Chile for instance, now the astute CEO and Board of Directors must look carefully at the following (only partial) list of add-on risks that must be considered as to whether to even go into that market at all or, if the company is already doing business there, get out and move elsewhere. This is the concept or warning of the potential "squeeze-out."

Here is a partial list of new, add-on risks that the business must now take into consideration:

(1) The virtual certainty that the Chinese SOE will be undertaking extensive data mining from both the internet and the country's telecoms. That data will be stored large data farms which have already been constructed in the PRC over the last few years. Once that data is acquired, it can then be manipulated and used for all kinds of market purposes, putting other non-PRC firms at a real competitive disadvantage. The rubric, "*he who controls the data, controls the market"* is applicable here in spades. See Facebook and Google for instance. Data control also brings with it the ability to run the economic life and governance of a country—no small achievements.

(2) Expect to see enhanced risks of IP theft and corporate/business espionage.

(3) Also expect to see rising economic influence by China over the host country. One way that this is initially done or started has to do with the actual currency control of a country. Today, the PRC handles the printing (quite elaborate with holograms, etc) of the actual paper currencies of 22 countries. As China's digital influence via the internet and telecom control increase, additional countries will be tempted to outsource their currency printing to Beijing. The paper currency printing will evolve into digital tracking of finances, transactions, and even the use of the Digital Renminbi as a means of exchange, bypassing the Dollar. The economic influence side may also include business registration "services", various aspects of taxation, etc., as the economic influence factor is enhanced over time. All of this happens because once China has control of a country's internet and data, it is then in a position to build the digital platform to offer all kinds of services for the host country—easy to select and implement.

(4) Combining the data mined from the population of a given host country with artificial intelligence and various translation tools, the PRC is then in a position to influence social media, thought, opinion, etc. in the host country. There is an excellent piece of research on these capabilities undertaken by at Australia's ASPI by Dr. Samantha Hoffman. Dr. Hoffman's case study of China's GTCOM and the development of its "Language Box" language translation tool is frightening. See, "*Engineering global consent: the Chinese Communist Party's data-driven power expansion*," https://www.aspistrategist.org.au/engineering-global-consent-the-chinese-communist-partys-data-driven-power-expansion/ . The impact of this capability is that U.S. firms will be at the mercy of potentially manipulated public opinion in a given country. A manipulated public opinion alters the risks in contract biddingk applying for government permits, lending requirements, compliance with host government regulations, maintaining customer goodwill, and the simple ability to operate in the market.

(5) U.S. and Western firms will face an enhanced ability of the PRC and competing SOE's to engage in various forms of economic warfare to impair, block or discourage them doing business in that market. We could see this in undercutting

bids with data derived from espionage efforts (above). This becomes an area ripe for business disparagement on a grand scale, resulting in reputational damage which could spread to other markets, including back here in the United States.

(6) No doubt you are seeing various forms of “leverage’ being exerted over the host country as a consequence of this control of the country’s internet and telecommunications backbone. One additional area of risk has to do with China’s increasing ability to impose its own technical standards in the IT, manufacturing and other fields within the host country over time. Once the host country begins to adopt China’s technical standards, the costs and willingness of U.S. firms to redo their own standards and then retool to match the PRC requirements will be a market killer for many U.S. firms.

(7) Finally, there is the issue of governance. As China builds out the digital platform for the host country, it is in a position to offer the host government all kinds of “services” to enable it to stretch its budgets further. Since the PRC will have the country’s data (in addition to those “services” mentioned above) it can then and plans to offer services like the following: (a) the HR needs of the host government, (b) building permits, (c)real estate conveyancing, (d) digital election services, (e) government purchasing, etc., etc. All of these services can be included in the host country’s digital platform-- built and operated by China.

One final comment. We do not have to see this partial list completely implemented before the risk analysis undertaken in the private sector boardroom will essentially force the firm to “squeegee out" a given country from the list of available markets. As even a few or these factors come to be deployed in a given international market, the business risks become unacceptable to many firms.

This is why the digital footprint which China obtains in a given host country becomes potentially so damaging to the business interests of other non-PRC firms attempting to compete in that particular market.