The Chinese have done us a historic favor by highlighting the centrality of economic strength to national security in the twenty-first century. I will assume that by now, that is an accepted reality. From the Chinese perspective, in the economic arena, their culture and system of state capitalism give them both a competitive advantage and the natural grounds on which to contest American leadership. The context in which this contest will take place is likely to be a multipolar world. Yes, the U.S. and China will be the two big players, but other countries will not necessarily choose one over the other. Rather, many will seek to have a strategically balanced relationship with both. This landscape is new and must reframe our challenges and response. In constructing our response, we need to start with a deeper look at the potential consequences of this dynamic, including:

1. the dynamics of a global competition centered around geo-economics versus those of geopolitical competitions. The latter is where we have muscle memory, the former will shape our future.

2. the dynamics or business model of "keystone" tech sectors, because that world may have different drivers than the business model that drove U.S. success in the twentieth century industrial world. This observation is perhaps most outside of the comfort zone of our policy thinkers. If accurate, it speaks to the scope of the challenge for our policy makers.

3. the U.S. needs to align and integrate the business community into our national security needs. If economics is now a key driver of national security, it is the business community that executes in the economic sector. In the twenty-first century, many of society's biggest problems are being tackled with interdisciplinary collaboration. It should not surprise us that our national security now falls into this same category. Hopefully that collaboration will yield new approaches to public-private initiatives around keeping the U.S. economically vibrant in the twenty-first century.

Economic security and national security are intertwined not because of China alone, but also because of a series of seminal changes in the landscape of the twenty-first century. These include the rise of a global middle class, the tsunami of global connectivity, and the nature of technology businesses and the platforms they create. A China strategy should embrace not just the China challenge, but also these global realities.

Let me start with some general observations and thoughts about China.

1. **It's working.** What China is doing is working for China. China has crafted an effective strategy for a mercantile policy that works and is supported by its system. It is true that authoritarian systems are inherently unstable. It is also true that China is not 10-feet tall, and it has some serious challenges. At the same time, if we look at the accomplishments of its version of state capitalism, they are impressive and it would be a mistake to build a strategy around the assumption of a systemic collapse.

2. **Urgency.** Yes, we can and must define areas of common interest, such as climate and health, but we should be clear-minded about the nature of our relationship. The highest probabilities should be assigned to our being natural rivals and competitors. The Chinese use that as their working assumption. It is important to note that we are rivals not because of some innate or malevolent attitudes, but because of our conflicting systems,
differing cultures, and divergent national interests. While that is an unfortunate dynamic, a strategy that relies on changing their system is not a likely path to success. Hope is not a strategy.

3. The past. The free market rules and policies that were designed in the 1950s may not work in a twenty-first century economy where success will be driven in part by dominance in certain keystone technology businesses. In technology, time is of the essence, and scale may be more important than early profit or efficiency. That is a significant change in the driver of growth and economic success. The government’s job is to now create the tools for our economic security in this new context. So how do we do that?

The blunt answer is that the United States needs to design a modernized version of an alliance-based “industrial policy” whose focus is American leadership in the twenty-first century. It needs to be tailored to our values, but the change needs to be proportionate to the centrality and severity of the challenge to our national security and our global leadership in the twenty-first century. I have put industrial policy in quotes because I do not mean the traditional version of central planning or picking winners and losers within the private sector. This policy needs to set priorities and budgets that lean into the intellectual and physical infrastructure that will enable the private sector to drive a robust economy over the next twenty years.

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What the U.S. government doesn’t know about is aligning economics and our business community with our national security effort. This shouldn’t be a surprise because in the past the government could largely put boundaries in place and then look to the private sector to drive U.S. dominance in world markets. That, of course, was in a world where we had no significant economic competitors. At the same time, for all of its talk about serving stakeholders, the business community has not seen national security as a vital stakeholder in their business. Change is needed not just in tone, but in policy, budgets, regulations, and laws.

China’s form of state capitalism and the twenty-first century have shaped the battlefield. It lies in the economic arena and more specifically in the success of our private sector in driving economic growth. We need to see this as a new and different dynamic. We also need to see this as one that, from China’s perspective, gives it a competitive advantage due to its scale, integrated command economy, and mercantile system. Let’s briefly review some data points to illustrate China’s strategy.

Internationally their strategy is to have major leverage in industries that can be choke points in key upstream areas, such as infrastructure, finance, trade, and selected key technologies. If we use maritime infrastructure as just one example, Chinese state-owned enterprises (SOEs) have interests in more than forty ports outside of China across six continents. If, as a result of the events in Hong Kong, you add Hutchison Ports to the data, that number doubles. Next, the Chinese (primarily SOEs) hold about a 40 percent share of global shipbuilding. In addition, their reach in global ship finance is nearly uncontested. Next, look at the risk they took in the militarization of the South China Sea, which sits astride the richest maritime trade lanes in the world. All of this points to a well-financed and well-executed plan that identifies maritime trade as a key upstream driver for the global ecosystem and the global order that China envisions.

On the domestic side, the Chinese strategy is captured by Made in China 2025. Their strategy is to quickly become dominant in specific identified sectors of technology that they view as crucial to driving national wealth and power. These include, for example, technologies to dominate in the fields of advanced communications, AI, advanced robotics, blockchain, and other industries that they have prioritized as the keys to economic success over the next twenty years. Again, these are natural aspirations that we too should have. The threat comes with the fact that some of these technologies and platforms may have a “winner take all” dynamic.

Now let’s look at the fields that China has selected. Here, we might look to what scientists have identified as keystone species. These are the animals that have a disproportionately large effect on the health of their ecosystem. It is worth understanding the concept as applied to business or to the traditional communist concept of taking the commanding heights of the global economy. In the Belt and Road Initiative (BRI) and Made in China, we see both the Xi strategy and China’s selection of keystone businesses.
Are their national champions profitable? Like Amazon, that is not the most immediate objective. The priority is scale and a fast path to dominance. In old-world industrials, there is typically room for three good competitors. If you were a late entry, you could catch up with focus and ingenuity. In the tech world, we see a lot of examples of "winner take all" with little or no market share for number two. With this dynamic the competition is going to be, perforce, cutthroat. Yes, innovation will continue to disrupt some incumbents, but Schumpeter’s theory of creative destruction may also have different dynamics in the world of technology. We need to understand this new dynamic as we design a blueprint in which economic strength will determine the rules of world order.

China’s state capitalism may not be efficient in allocating resources, but it may be effective. With its strategy, state capitalism will enable China to seriously compete and perhaps dominate in certain keystone sectors and, once that is accomplished, present us with formidable challenges. Under the Chinese system, these companies are not just economic actors, they also have certain responsibilities for the execution of national policy. We are in a race in a number of arenas, and Huawei is just the beginning.

Now let’s go to U.S. strategy. It’s hiding in plain sight. It’s not about them; it’s about us. In the twentieth century, strategies were often about “them.” In the twenty-first century, our strategy needs to be about us. A strategy to build our economic leadership is not only a China strategy, but in the multipolar world that I have described, it is also a strategy for continued U.S. leadership into the twenty-first century. This is clear. Less clear is whether we have the agility to make the necessary changes that will reposition us to play in this new landscape.

A core fault line in our system has occurred in the twenty-first century: we have rarely needed to align and coordinate the private and public sectors in the area of national security. That world has changed, so how do we adjust?

We need alliances to gain scale and coalesce allies who buy into our vision of a rules-based world order. We know how to do that and will need to make some course corrections in order to establish solid foundations in our necessary network of alliances. The military needs modernization. We know how to do that too. Neither is trivial, but we have experience in each. Where we have little knowledge or experience is how to align and integrate the private sector into our national security framework and, equally, into our national security community. The latter is needed to improve the learning curve of both communities. To be sure, there are political complexities to this that will require political leadership. How to accomplish all of this should be the subject of a major assessment by the next administration. It should start with a common understanding between the private and public sectors of our national purpose. It has organizational aspects for the executive branch and political aspects between the legislative and executive branches. It also requires a major recalibration of the relationships, exchange of ideas, and tone between the policy community and the private sector. There are challenges with all of this, but developing a plan can provide the organizing principles for execution.

By an alliance-based industrial policy I do not mean central planning on a large scale. But I also don’t mean a toolbox dominated primarily by punitive tariffs or sanctions. Nor do I mean an uncoordinated increase in our R&D spending. What I do mean is the purposeful use of all our aggregate economic tools—our private sector, tax policy, regulatory frameworks, budget allocations, and the like—to achieve our purpose. What I do mean is prioritizing which intellectual and physical infrastructure we will need in order to support the private sector’s ability to develop our future keystone industries. What I do mean is a strategy, including the review of laws and regulations, with the objective of bridging the “valley of death” and facilitating the flow of ideas and intellectual property from government-supported institutions (e.g., universities and national labs) to the private sector.

Let’s start by looking at some past government actions that unleashed the private sector to drive enormous growth. Our list might start with the first transcontinental railroad where three private sector companies were allowed to build across public lands and, yes, in the nineteenth century, they were financed by government-subsidized bonds. We could then move to a myriad of more recent examples, including the Apollo space program, the sale of publicly owned radio spectrum to enable the private sector’s development of cellular networks, or government expenditures on research into the human genome in order to unleash a flood of products in the world of biology. Most recently, we can look at the National Quantum Initiative from the Department of Energy as a role model for the strategic programming of our R&D spend. Clearly, a prioritized government approach to intellectual and physical infrastructure can change both our economic trajectory and our national security.
If we now look to the future, we need to identify our keystone industries for the twenty-first century. We then need to inventory, refine, and expand the tools by which we can lay the groundwork for the private sector to take risks in these keystone industries. This is not picking winners and losers at a company level, but it is searching for where we can develop economic leverage at a sector level. We are already doing some of this, but not around any organizing principles or plan. China has given us our organizing principles. Not coincidentally, these are the same principles that we will need in order to continue to thrive and lead in the global economy of the twenty-first century.

Once we establish a plan that embeds our priorities, in addition to intellectual and physical infrastructure, we will need to examine tax structures, regulatory and legal frameworks, and so forth to align them with our priorities. Similarly, our education and immigration systems should align around achieving those priorities.

If we turn to foreign alliances, we can reshape and modernize alliances around a rules-based order that is inclusive and works to the benefit of those who would join such partnerships and alliances. When I use the term modern, alliance-based industrial policy, it is the sum and coordination of all these tools that constitute that policy.

Our success in the nineteenth and twentieth centuries does not assure success in the twenty-first century. In the nineteenth century, national wealth was created by agricultural output. We were blessed with both an advantaged geography and a culture of hard work. In the twentieth century, national wealth was largely created by industrial output. Our free market system was fit for the purpose of executing on that opportunity. In both cases, there was little need to align and integrate the private sector into our national security. The twenty-first century presents a different landscape. In the twenty-first century, national wealth and power will be created through strength in upstream sectors like trade, intellectual and physical infrastructure, and technology at scale. A policy that focuses our energies around those challenges will provide us with the tools to be the more attractive partner for both our natural allies and those countries who will need to develop a balanced set of relationships with both China and the United States.

One final thought: we are already in an unprecedented geo-economic rivalry. We are a number of years into this rivalry and the societal stakes are enormous. This is a competition between two systems where we seek to avoid having this rivalry lead to military confrontation. To do this, clear focus and measured tone will be critical. It is crucial that we understand that geo-economic competition will have different dynamics than geopolitical competition. We need to understand those dynamics and be open to the possibility that they are even more vexatious than the geopolitical dynamics of the last century. For example, the original U.S. concept of “manifest destiny” had a number of attributes. It was geopolitical and regional; it was also cultural in terms of a U.S. vision, and, finally, it was volitional. It is possible that China’s vision of its “manifest destiny” is both cultural and geo-economic, rather than geopolitical. Importantly, if it is geo-economic, it may be neither regional nor volitional in that a global economic rivalry may not have any natural geographic or scale boundaries. It is vital that we understand the nature and potential dimensions of this rivalry and design our strategy accordingly. We should then be agile enough in our thinking to accept that there may be aspects of a geo-economic rivalry that may be lamentable, but also unavoidable. The policy community needs to deeply and realistically understand this dynamic because it will shape the context of our challenge.

Given the dynamics of the early twenty-first century, the key to both an effective national security strategy and to a China strategy lies in understanding the centrality of geo-economics. In that world, adjusting some of the alignments between the public and private sector around what I have called a modern version of an alliance-based industrial policy would be an important starting point. It is the government’s job to understand the new landscape and its dynamics and to then devise the principles and organizational structures that will enable us to use all the levers of the federal government to assure our success. Beginning to develop ideas about how we do this is where the journey begins.

Tom Pritzker is Chairman and CEO of The Pritzker Organization, a family merchant bank. He holds an honorary doctorate at Tsinghua University, he is an honorary professor of Sichuan University and has served as an Adjunct Professor of History at Sichuan University. He is Chairman of the Center for Strategic and International Studies in Washington, DC.