

Intelligence MEMOS



From: Lawrence Herman

To: Prime Minister Justin Trudeau

Date: July 14, 2021

Re: **THE PRIVATE SECTOR ROLE IN CONFRONTING CHINA**

Much attention at last month's G7 summit was focused on promoting free and fair trade in the post-pandemic world. While the word China never appeared in the final communiqué, G7 leaders clearly had it in mind.

There's a reference to getting countries to play by World Trade Organization rules, about greater regulations on state-owned enterprises, about controlling trade-distorting subsidies, about forced labour in supply chains – all of which have a clear China focus.

Governmental action – treaties and trade agreements of one sort or another, whether at the WTO or at the regional level – is the usual focus of public discussion on world trade.

Often overlooked is the role of the private sector in setting standards and making rules, a huge range of activities outside international agreements and national laws or regulations, yet having a profound impact on international business and trade relations generally. This phenomenon has sometimes been described as “private global business regulation.”

Take the internet. It isn't widely appreciated that almost all of the protocols and technical standards involving cybertechnology have been developed privately, outside any kind of intergovernmental regulation. The Internet Engineering Task Force, a private-sector [standards organization](#), develops most [internet standards](#), yet it has no formal membership and its participants and managers are volunteers. This is a prime case of private-sector rule-making that has had one of the greatest global impacts.

Another example in a different area is the advent of privately driven environmental, social and governance (ESG) risk assessments in investment decision-making. ESG standards have been developed independent of trade agreements or national legal requirements. Today, sustainable business practices under ESG norms are widely applied, for example, in mining as well as in a range of other sectors of global dimension.

Private guidelines and standards for responsible business conduct (RBC) are another example. Look at the fashion industry's application of RBC guidelines related to human rights. While Western governments have taken measures in various ways to sanction the human-rights abuses in Xinjiang, China, companies have responded by applying voluntary norms and standards in their sourcing activities, illustrative of one type of privately co-ordinated non-governmental global action.

Product endorsements and certifications in the environmental sustainability, human rights and fair trade domain are another illustration of non-legislated, private-sector standards affecting international trade. Think of all the green endorsements on all kinds of products on supermarket shelves or in other retail establishments, from pharmacies to hardware stores to clothing shops.

But as private bodies extend their role in this domain of global governance, there is a growing concern. China is hovering in the room, increasingly exercising its *avoids* in these private rule-making organizations to influence rules and guidelines, including standards for 21st-century technologies, to its own global strategic benefit.

In 2019, a John Hopkins School of Advanced International Studies (SAIS) [report](#) on the geopolitical strategies behind China's involvement in these private-sector activities documented expanding Chinese involvement in a number of key standard-setting bodies. One far-reaching implication is that China is developing a network of standards designed to eventually supplant widely used international standards. It notes how China also uses its Belt and Road Initiative to compel beneficiary countries to adopt Chinese standards as part of the deal.

A recent opinion piece in the periodical *The Hill* said the West can't let China set the standards for 21st-century technologies: “For two decades, [China] has been working to take over international standardization rule making bodies to serve the goals advanced in “[Made in China 2025](#)” that is, to dominate world manufacturing and then transition to become the centre of the world's technological innovation.”

Indeed, a report last March by the Institute of Electrical and Electronics Engineers (IEEE) noted that a crossroads was reached in 2016, when the Chinese government moved from a passive to a proactive policy in the IEEE, pressuring Chinese computer giant Lenovo to follow other Chinese firms and back Huawei's preference for a key part of [3GPP's](#) 5G standard.

This is pretty worrying stuff, showing the extent of China's growing influence in these rule-making and standard-setting bodies below the governmental domain. With China's geopolitical strategy very much in play in this private sphere, particularly in critical technology sectors, Western industrialized countries have to respond.

While they can't – or shouldn't – interfere or attempt to direct activities in the myriad independent standard-setting bodies, there's a need for more active public-private collaboration, a partnership between governments and the business sector to ensure full stakeholder participation to counter growing Chinese influence in this under-reported stratum of private global governance. There is much at stake here.

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