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## *He Warned Apple About the Risks in China. Then They Became Reality.*

Doug Guthrie, once one of America's leading China bulls, rang the alarm on doing business there. He spoke about his time at Apple.

“Do you guys understand who Xi Jinping is?” Doug Guthrie said he had told Apple leaders. Credit...Erin Kirkland for The New York Times



By Jack Nicas

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Doug Guthrie spent 1994 riding a single-speed bicycle between factories in Shanghai for a dissertation on Chinese industry. Within years, he was one of America's leading experts on China's turn toward capitalism and was helping companies venture East.

Two decades later, in 2014, Apple hired him to help navigate perhaps its most important market. By then, he was worried about China's new direction.

China's new leader, Xi Jinping, was leaning on Western companies to strengthen his grip on the country. Mr. Guthrie realized that few companies were bigger targets, or more vulnerable, than Apple. It assembled nearly every Apple device in China and had made the region its No. 2 sales market.

So Mr. Guthrie began touring the company with a slide show and lecture to ring the alarm. Apple, he said, had no Plan B.

"I was going around to business leaders, and I'm like: 'Do you guys understand who Xi Jinping is? Are you listening to what's going on here?'" Mr. Guthrie said in an interview. "That was my big calling card."

His warnings were prescient. China has taken a nationalist, authoritarian turn under Mr. Xi, and American companies like [Apple](#), [Nike](#) and [the National Basketball Association](#) are facing a dilemma. While doing business in China often remains lucrative, it also increasingly requires [uncomfortable compromises](#).



President Xi Jinping on screen during an event marking the 100th anniversary of the Communist Party of China this month. Credit...Aly Song/Reuters

That trend raises the question of whether, instead of empowering the Chinese people, American investment in the country has empowered the Chinese Communist Party.

“It was always difficult for Western companies to do business in China, but in many ways the challenges have shifted,” said Samm Sacks, a China specialist at the New America Foundation, a nonpartisan research center, who consults for U.S. companies. “The Communist Party is firmly in control, and both Western companies and Chinese companies in the private sector have been under attack.”

Mr. Guthrie’s career arc and evolving view of China tell the story of Western industry’s complicated dance with the country over the past three decades. Mr. Guthrie and many executives, politicians and academics had bet that Western investment in China would lead the country to liberalize. It is now clear that they miscalculated.

“We were wrong,” said Mr. Guthrie, who left Apple in 2019. “The wild card was Xi Jinping.”

In recent years, [China shut down Marriott’s website](#) after it listed Tibet and Taiwan as separate countries in a customer survey. It [suspended sign-ups to LinkedIn](#) after the site failed to censor enough political content. And the Communist Party [urged a boycott](#) of Western apparel companies that [criticized forced-labor practices](#) in Xinjiang, a Chinese region where the government is [repressing Uyghurs](#), the country’s Muslim ethnic minority.

Apple, more than any other company, has been vulnerable to the government’s harder line. As a result, over the past several years, Apple has made compromises in China that undercut the values its executives have put at the center of its brand. To placate the authorities and keep its global business running, Apple has put its Chinese customers’ data at risk and aided the Chinese government’s vast censorship operation, [The New York Times reported last month](#).

The company [has said](#) it is following the law in China and doing everything it can to secure its customers’ data. “We have never compromised the security of our users or their data in China or anywhere we operate,” an Apple spokesman said. He added that Mr. Guthrie had been a midlevel employee and hadn’t set policy at Apple.

Mr. Guthrie’s obsession with China began in 1989. He was a sophomore economics major studying Mandarin at the University of Chicago when Chinese soldiers killed hundreds of pro-democracy protesters occupying Tiananmen Square in Beijing. Immediately, he said, “I became captured by the idea of China.”

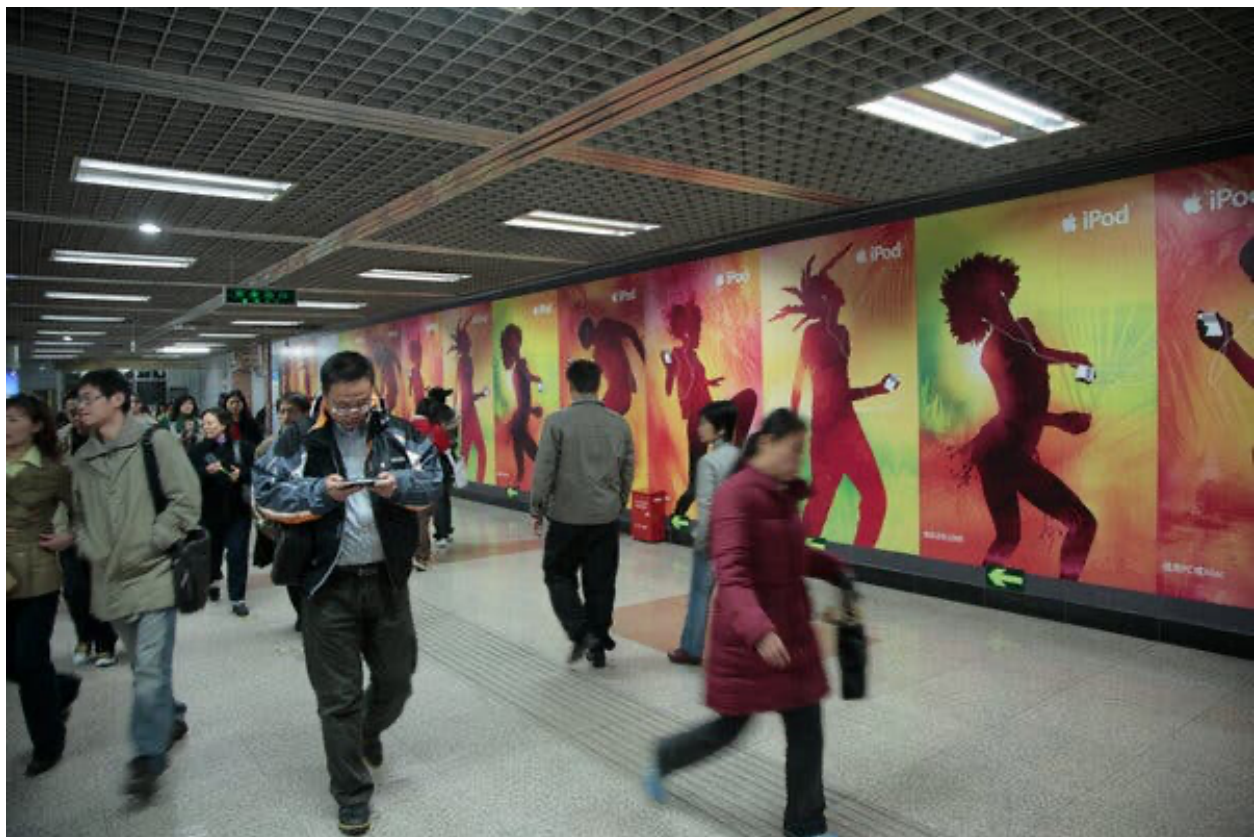


He paused school, borrowed money from his grandparents and spent his next year in Taiwan. An avid cyclist, he trained with the national cycling team in the mornings, and studied Mandarin and taught English in the afternoons.

After completing a Ph.D. at the University of California, Berkeley, and a book about the emergence of capitalism of China — [“Dragon in a Three-Piece Suit”](#) — he began teaching at New York University in 1997. He lectured on China’s economic potential and companies sought him out for advice.

By then, China was transitioning from making toys and tennis shoes to cars and computers. The government often required foreign companies to share their technology with state-owned firms in exchange for access to Chinese labor and consumers. To stop that, Mr. Guthrie and others pushed for the country’s inclusion in the World Trade Organization, which banned such quid pro quos. In 2001, the group admitted China.

That same year, Apple began manufacturing there. The operation began small, but Apple executives quickly realized the potential.



Ads for the iPod decorated a Beijing subway station in 2007. Apple expanded in China with a factory making the iPod, which became a hit. Credit...Robert Wallis/Corbis, via Getty Images

In 2004, Apple decided to expand in China with a factory making the iPod, which was becoming a hit product. On a trip to scope out the location for the factory, the head of Apple’s manufacturing partner pointed to a small mountain and told two Apple

executives present that the factory would be built there, according to one of the executives. The executives were confused; the factory needed to be up and running in about six months.

Less than a year later, the executives returned to China. The mountain was gone and the factory was operating, the executive said. The Chinese government had moved the mountain for Apple.

Over the next two decades, the Chinese government would spend billions of dollars to help create Apple's supply chain, paving roads, recruiting workers and building factories, power plants and employee housing. Apple now assembles nearly every iPhone, iPad and Mac in China.

In 2014, shortly after Mr. Guthrie left his job as dean of the George Washington University business school, Apple hired him to teach its managers and advise executives about China. He also conducted research, and his first project was the company's supply chain. Mr. Guthrie, now 52, is a professor at the Thunderbird School of Global Management at Arizona State University.

When he started at Apple, Mr. Guthrie said, its executives knew they relied too much on China and wanted to diversify. India and Vietnam were the top candidates, but Mr. Guthrie concluded that neither was a viable replacement.

Vietnam's government was cooperative, but the country simply did not have enough workers, he said. India had the people, but its bureaucracy made it complicated to build infrastructure and factories. Beyond those issues, most of the smaller suppliers that made Apple's screws, circuit boards and other components were already concentrated in China.

Apple has still pushed into India and Vietnam in recent years, including by building a smaller iPhone assembly plant in India, but Tim Cook, the chief executive, has said publicly that its supply chain will remain centered in China.

To Mr. Guthrie, that stance left Apple vulnerable, especially as China's new leader was looking for ways to use his influence over American companies in the country. In 2014, China's so-called dispatch labor law went into effect, limiting the share of temporary workers in a company's work force to 10 percent. From Day 1, Apple and its suppliers were in violation.

At a Foxconn plant in Zhengzhou, China, the world's biggest iPhone factory, temporary workers made up as much as half of the work force, according to a report by China Labor Watch, an advocacy group. After the report, Apple confirmed that the factory broke the law.



Workers at a Foxconn plant dedicated to the production of iPhones in Zhengzhou, China. Credit...Gilles Sabrie for The New York Times

Apple executives were concerned and confused, Mr. Guthrie said. They knew the company couldn't comply because it needed the extra workers to meet periods of intense demand, such as the holidays.

"This is the point. You are supposed to be out of compliance," he said he had told them. "Not so they can shut you down, but so you'll figure out what they want you to do and figure out how to do it."

Mr. Guthrie, who is often tucking his long, graying hair behind his ears, began giving his lecture on Apple's risk in China around that time. Its extreme reliance on the country left it with little leverage to resist.

Apple continued to grapple with demands from the government. Sometimes it was able to successfully resist them. At one point, the Chinese government asked for the computer code underpinning the security of iPhones, according to a former Apple executive familiar with the request.

To comply, Apple would have had to create a so-called back door for the Chinese authorities to bypass an iPhone's security, similar to what the Federal Bureau of Investigation had asked for in 2016 — and Apple rebuffed the request. In China, Apple also pushed back and persuaded the government that it didn't need the data, according to the executive.

To measure the success of their lobbying, Apple executives looked to the government's annual corporate social responsibility scores, a proxy for the Communist Party's view of a company. Apple had struggled for years in the rankings.

Ahead of the scores in 2017, Apple published a report that promoted the company's contributions to China. The report was a collaboration among several departments at Apple, and the government's praise of the report was celebrated inside the company, according to Apple documents viewed by The Times.

Apple's score steadily improved. From 2016 to 2020, its ranking among all companies in China rose from No. 141 to No. 30.

Apple didn't always successfully resist the government's demands. Over that period, Mr. Cook had agreed to store his Chinese customers' private data — and the digital keys to unlock that data — on computer servers owned and run by the Chinese government.

### *The man who warned Apple about the risks in China*



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