A major escalation in the US economic war against China

Nick Beams
1 November 2018

The US economic war against China is escalating virtually on a daily basis with three major developments coming in just two days this week: the threatened extension of tariffs, the banning of dealings with a high-tech Chinese firm and the issuing of indictments against ten Chinese individuals for alleged theft of aircraft technology.

On Tuesday, President Trump in effect confirmed a Bloomberg report that he would impose tariffs on an additional $267 billion worth of goods if he did not receive a satisfactory offer when he meets with Chinese President Xi Jinping on the sidelines of the G20 summit in Buenos Aires, Argentina, at the end this month.

Interviewed on Fox News, Trump said he believed that he would make a "great deal" with China and "I have $267 billion waiting to go if we can't make a deal." The measures would be on top of the tariffs of 25 percent on $50 billion worth of industrial goods and the 10 percent impost on $200 billion worth of exports, which is set to rise to 25 percent from the start of next year.

Trump's warnings of an escalation of the tariff war came in the wake of a highly significant decision the previous day by the US Commerce Department to impose severe restrictions on US companies dealing with the Chinese semiconductor firm Fujian Jinhua citing "national security" considerations as the reasons for the ban.

In a statement announcing the decision, the Commerce Department said it had taken action to restrict exports to Fujian Jinhua because it "poses a significant risk of becoming involved in activities that are contrary to the national security interests of the United States."

The company was "nearing the completion of substantial production capacity for random access memory (DRAM) circuits" and the additional production, which "likely" derived from "US-origin technology," threatened the "long-term economic viability of US suppliers of these essential components of US military systems."

Commerce Secretary Wilbur Ross said: "When a foreign company engages in activity contrary to our national security interests, we will take strong action to protect our national security."

The Commerce Department has placed Fujian Jinhua on an "entity" list, which means that a license would be required "for all exports, re-exports, and transfers of commodities, software and technology." Applications will be reviewed "with a presumption of denial."

The ban on Fujian Jinhua has been likened to one imposed earlier this year, and then lifted by Trump, on the Chinese telecommunications company ZTE. In fact it is very different. The action against ZTE arose from the assertion by the US that it had not taken sufficient punitive action against executives involved in breaching US bans on dealings with Iran and North Korea.

The move against Fujian Jinhua is directed against the push by Beijing to develop hi-tech firms as part of its Made in China 2025 program—one of the central planks of economic policies of Beijing.

As Alicia Garcia Herrero, an economist focused on China with the French investment bank Natxis told the *Wall Street Journal*: "What the US is doing now could spread to anything that is considered high-end technology that the US doesn't want China to have any more. This case is very different from ZTE."

Fujian Jinhua is one of three companies, heavily supported by state funding, that the Chinese government is promoting as part of a plan to increase sophisticated chip production. It was founded in 2016 with backing from the Fujian provincial government, and has built a factory employing more than 1,000 people with the aim of mass producing memory chips. However, it is dependent on a number of American companies for the design and engineering of the components. The ban means effectively that these operations have been stalled.

On its website, the company says that it was inducted into a blueprint for the development of the semiconductor industry under China's latest Five-Year Plan that began in 2016 promoted directly by Xi Jinping. It has been locked in a legal dispute with the US firm Micron, which has accused it of stealing its technology.

The Chinese government is estimated to be investing some $150 billion over the decade from 2017, in order to expand the country's chip-making capacities. One immediate aim is to halve China's imports of semiconductors by 2020.

The circumstances surrounding the action against Fujian Jinhua encapsulate the agenda driving the Trump administration. The company's factory, estimated to cost $5.7 billion, is being built in Jinjiang, a city in the east of Fujian province, previously known for its shoe manufacturers.

So far as the Trump administration is concerned China can continue to play a role in the world economy so long as it is confined to the production of low-cost consumer products, such as shoes, clothing and furniture, and remains economically subservient to the US as a kind of semi-colony.

However, the central policy of the Xi regime is to move China out of such dependence and shift it into hi-tech areas such as telecommunications, robotics and artificial intelligence, lifting it up the value chain. This is regarded by the US as an existential threat to both its economic and military supremacy and so it has sought to strike at what it regards as one of the weak points of the Chinese economy and the regime's long-term plans.

While China accounts for 50 percent of global exports of smartphones, it is reliant on imports for 90 percent of its semiconductor needs and last year spent $260 billion on chip imports. The US is determined it must not be allowed to break free of that dependence.

At the same time as the Commerce Department announced its ban on Fujian Jinhua, the US Justice Department deepened the offensive on another front. It indicted 10 Chinese intelligence officers and alleged co-conspirators for hacking operations that targeted American and European aircraft engine technology. This followed the extradition of an alleged Chinese spy from Belgium last month on charges of attempting to steal trade secrets related to aircraft engines.

Speaking on the latest indictments, John Demer, the head of the Justice Department's national security division, said: "This is just the beginning. Together with our federal partners, we will redouble our efforts to safeguard America's ingenuity and investment."

The fact that threats of further tariffs, major action against a high-tech company, and the indictment of alleged technology spies have taken place over just two days is not accidental. It points to a decision within the administration to escalate the economic war against what it considers to be its major rival.

This escalation was signalled in the speech by US Vice President Mike Pence on October 4. In a column published yesterday, *Financial Times* economics commentator Martin Wolf wrote that the speech was arguably "the most important event of 2018 so far."

He said it set out America's intention to confront China "across the board" from interference in American politics, alleged theft of intellectual property, trade and investment policies, cyber attacks, debt diplomacy, security and censorship, with the aim being to "reset America economic and strategic relationship with China" and to "finally put America first."

Harking back to the outbreak of the First World War—the result of great power politics—Wolf cited a number of writers who have maintained that the outcome of the present US-China conflict is war and noted that such prophecies may be "realistic."

He then offered a series of prescriptions through which global rivalry might be "managed." However, all of them involved concessions by the US to the economic growth and expansion of China. As events themselves are revealing, this is the most unrealistic scenario of all.

Behaviour which led to the outbreak of war, Wolf wrote, would be "insane." But the source of the insanity is not the mindset of Donald Trump and others in his administration that could be overcome by wiser policies. It is the outcome of objective processes, rooted in the insanity of the global capitalist system. The contradiction between the global development of the productive forces and the division of the world into rival nation-states and great powers, striving for profits, markets and resources, is assuming ever more explosive and threatening forms.