“Made in China 2025” at centre of US-China economic war

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The current negotiations between the US and China over a deal to end the Trump administration’s escalating trade war measures confront a major stumbling block—Beijing’s “Made in China 2025” program, which aims to elevate Chinese competitiveness in key hi-tech industries. The US regards the initiative as a major threat to its own global economic and strategic domination.

China’s meteoric rise has been based on the gross exploitation of hundreds of millions of workers. Shenzhen, the prized miracle of China’s economic “reform,” is the greatest sweatshop in history. The larger Pearl River Delta area, which includes Hong Kong, contains 120 million people. Many of them rural migrants, these workers have been stuffed into factories, assembling and producing goods in some of the world’s most difficult and demeaning conditions.

The Chinese Communist Party bureaucrats, and the oligarchs for whom the CCP speaks, have grown enormously wealthy by providing cheap labour to major global corporations. The Chinese state banks sit on an estimated $3 trillion of foreign reserves. Chinese capitalism, however, has reached a crucial juncture. Either the country remains stuck assembling and producing the world’s goods, in what economists call the “middle income trap,” or it can try to become an *owner* and *designer* of leading global commodities.

For the Chinese ruling class this is a life or death question. Amid mounting economic problems, it has no alternative but to take part in the highly profitable but cutthroat global competition to develop and sell high end goods. It is not surprising therefore that the US is determined to prevent such a challenge through all available means.

The “Made in China 2025” program, which was announced in 2015, provides state subsidies and support to encourage the domestic production of at least 70 percent of the components of 10 key high-tech industries. The program targets next generation information and telecommunications technology, particularly 5G, as well as advanced industrial and medical robotics, artificial intelligence, and electric cars—for which China, as the world’s largest oil importer, is desperate.

For all the hype in both the Chinese and US media, however, China has a long way to go. Though Chinese manufacturing has grown enormously, going from less than 10 percent of global value added in 2005 to 25 percent in 2015, it remains dependent on foreign companies for the most cutting-edge, high-tech products. For example, China consumes 60 percent of the world’s semiconductors, but it only produces 13 percent of the supply. The United States dwarfs Chinese chip makers, with China importing more than $200 billion worth of chips. The top US suppliers of chips—Intel, Broadcom and Qualcomm—are each at least 10 times the market capitalization of China’s biggest chip maker Shenzhen Huiding Technology.

Another example is robotics. China has the largest market for industrial robots in the world—with over 430,000 in operation. However, as Qu Daokui, deputy director of China’s State Engineering Research Center for Robotics notes, “Only a quarter of the robots in the Chinese market are domestically made and the three core parts and components of domestic robots have long relied on imports.”

In the past 10 years, China’s GDP and GDP per capita have trebled, but Chinese corporations lag behind on the world stage. Quantitatively, China’s companies are some of the biggest in the world, as a list of the largest corporations by revenue shows. However, these companies are frequently oriented towards

China's own domestic market in contradistinction to other top companies that sell their goods globally. For example, of the top 50 corporations in the world, 11 are Chinese. However, their focus is overwhelmingly domestic: construction, electricity, railway, insurance, SAIC, China's domestically focused car company, and oil.

The US and its allies are determined to restrict the ability of Chinese corporations to break into global markets. Using the pretext of national security, the United States, Australia and New Zealand have blocked China's cell phone giants, Huawei and ZTE, from developing 5G networks, including in collaboration with major companies like AT&T. Legislation was signed into law last year making it illegal for US government employees to use Huawei or ZTE phones.

In a further move against Huawei, Washington instigated the detention of its chief financial officer Meng Wanzhou by Canadian authorities and is pushing for her extradition to face charges of breaching unilateral US sanctions on Iran. The extraordinary step based on sanctions that have no international standing is another indication that the US will stop at nothing to undermine China.

While facing huge hurdles overcoming US-led opposition to it "climbing the technology ladder," China has invested enormous sums trying to do so. Last year the National Science Board of the United States stated that China was poised to overpass the US in R&D spending by the end of the year. China has increased its spending an average of 18 percent per year between 2005 and 2015.

China is training large numbers of scientists and engineers. A National Science Board report found, "Between 2000 and 2014, the number of S&E bachelor's degrees awarded in China rose more than 360 percent to 1.7 million. The US had more moderate growth (54 percent) over the same period." Likewise, it showed that peer-reviewed science and engineering articles rose 8 percent every year between 2006 and 2016, while the US had an annual increase of just 1 percent.

The relationship between these quantitative indicators of technical growth and actual achievement is complex. China, for example, has surged in the number of patents that it files—surpassing the United States several years ago. However, US patents were about two times more likely to be accepted than Chinese patents, according to a report from the St. Louis Federal Reserve. Other measures, such as the Nature Index, which measures country-by-country contribution to the leading science journals, shows an unmistakable trend: a substantial development of the scientific output of Chinese universities.

In this context, the Trump administration has sought to restrict Chinese students entering the United States. Since last June the State Department has restricted visas for Chinese graduate students in sensitive areas of research—changing them from five-year to one-year visas, with increased scrutiny for acceptance.

The Trump administration's focus on "Made in China 2025" is also bound up with US preparations for war. Beginning with the Obama administration's "pivot to Asia," and accelerated under Trump, the US has been engaged in a huge military build-up and strengthening of alliances and basing arrangements throughout the Indo-Pacific against China.

The US is determined to maintain its technical edge in military hardware and warfare systems by undermining China's own technological development including through its "Made in China 2025," a crackdown on China's alleged intellectual property theft, and restrictions on Chinese citizens, including students, in the United States.

FBI director Christopher Wray bluntly told the US Senate last year, "One of the things we're trying to do is view the China threat as not just a whole-of-government threat, but a whole-of-society threat on their end. And I think it's going to take a whole-of-society response by us."

As in the 1930s, trade war and other forms of economic rivalry and conflict are intimately bound up with the drive to war—in this case between nuclear armed powers. The intense hostility in Washington to "Made in China 2025" is another indication of the advanced character of the war preparations currently underway.