China steps up retaliation against US economic warfare

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Even before Trump is inaugurated as US president and moves to hike tariffs against China—he has threatened to impose a 60 percent impost—Beijing is demonstrating it is prepared to retaliate far more powerfully than it has so far to the economic war being waged against it by the US.

China moved very quickly in response to the decision of the outgoing Biden administration earlier this month to impose a new series of export controls on high-tech components. Those US measures are aimed at shackling China's high-tech development, which President Xi Jinping has placed front and centre of the drive to develop new "high quality" productive forces.

Beijing imposed restrictions on the export of critical minerals last week and this week announced an antitrust investigation into the leading US chip maker Nvidia in a move that the *Wall Street Journal* (WSJ) characterised as "sending a message that China won't stand by quietly when targeted by trade and technology sanctions."

The export bans cover gallium, germanium, antimony and various compounds known as superhard materials, as well as graphite, which play a key role in the production of semi-conductors.

Not only has China banned the direct export of the minerals to the US, it has also extended the ban to third countries which export to the US after acquiring the minerals from China.

This is in line with measures employed by the US which has sought to prevent countries that use components containing American technology that are embodied in products from then exporting them to China. It is the first time China has banned such trans-shipment of strategic exports.

In another move following the latest US bans, four major Chinese industry associations cautioned companies against buying American chips. The WSJ cited an executive from a European chip design company who said he had been receiving nervous calls from Chinese clients seeking assurances they were not American.

"This is the first time private companies have been directed to cut out US chips. It is not a direct order but will have a chilling effect," the WSJ commented.

China has banned the export of so-called rare earths and critical minerals in the past. Such bans were imposed on Japan in 2010 after its coast guards arrested a Chinese fishing boat captain in waters surrounding the disputed Senkaku/Diaoyu islands in the East China Sea following a collision with its vessels.

The immediate dispute was resolved when the fishing boat captain was released but the incident underscored the significance of the bans.

Reviewing these events in an article published in October last year, the World Economic Forum said: "The embargo sent Japanese industry into panic, especially the automobile sector for which rare earths for the production of magnets were indispensable" with Japan dependent on China for 90 percent of the supply of the minerals.

In response to the bans, it continued, "the prices of rare earths soared 10 times in a year following the incident."

Japan then instituted measures to lessen its dependence on China, which cost the equivalent of $1.2 billion. As the article noted: "The speed and the scale were unprecedented, reflecting the strong sense of urgency."

Clearly anticipating an escalating response by China to the increasing list of US bans, the WEF said the lesson to be drawn was the development of "concerted international efforts" to lessen dependence on China.

If the experience of Japan is anything to go by that will be a difficult and costly task. Even with its major efforts following the 2010 incident, Japan is still highly dependent on China for rare earths to the tune of 60 percent.

A report by the US Geological Survey last October concluded that as China is the main supplier of gallium and germanium, a complete ban on their export could deliver a $3.4 billion hit to the US economy.

The antitrust probe into Nvidia was announced via state media, indicating the decision was taken at the top levels of the Chinese government rather than simply by the State Administration for Market Regulation which has carriage of the investigation.

Few details were released but the investigation relates to the $6.9 billion takeover of the Israeli networking firm Mellanox Technologies in 2020. This was a major advance for Nvidia and helped propel it to its leading position in the production and marketing of the advanced chips used in artificial intelligence (AI).

As part of Chinese approval of the deal, necessary for Nvidia to continue to operate in the Chinese market which contributes about 12 percent of its total global revenue, Nvidia and Mellanox agreed to the uninterrupted supply of graphics-processing units, crucial for the development of AI and networking equipment to China.

The Chinese regulator did not provide details of how the terms of its approval had been possibly violated. Nvidia is also under scrutiny in other jurisdictions, including the US and France, on antitrust grounds.

While the probe may be formally grounded on these considerations, that is not the underlying reason for the decision.

It is hardly coincidental that it came within days of a significant escalation by the US of export bans and other restrictions on China, including the placing of 140 Chinese companies on an "entity list," meaning they must obtain approval from the commerce department, seldom granted, to engage in trade.

The effect of the announcement on Nvidia was immediate with its shares falling by around 2.6 percent on Wall Street, wiping off $8.9 billion from its market capitalisation.

Commenting on the Nvidia action, Angela Lang a professor of law at the University of Southern California, with expertise in Chinese antitrust law, told the WSJ that by taking aim at one of the most valuable US companies, "China is now flexing its regulatory muscles to demonstrate its capacity to retaliate and to deter potential further aggressive actions."

How far that retaliation will go remains to be seen and for China there is the danger that its actions will bring about a major escalation in the US economic war against it under conditions where the government is having to contend with lower growth rates.

So far, its actions have been carefully targeted. As *Sydney Morning Herald* columnist Stephen Bartholomeusz commented: "By targeting critical minerals and America's second-most valuable company … China is highlighting its capacity to respond to US trade sanctions that cost it little but cost America a lot."

The most recent round of measures and countermeasures will not be the last.

If Trump goes ahead with his 60 percent tariff against Chinese goods—and he said he would in an NBC News interview last Sunday—there will be a further escalation. It will impact not just China and the US but the whole world as economic conditions come to increasingly resemble, at a much higher level, the dog-eat-dog fight of the 1930s, which helped create the conditions for World War 2.