

US-China geopolitical rivalry in 2020 and beyond

A growing tech war between the two countries will involve greater decoupling of global value chains and entry into a new era of “techno-nationalism”. **BY ALEX CAPRI**

IN JUST three decades, the world has seen the single largest transfer of wealth from one nation state to another ever recorded in history.

China’s meteoric rise as an economic and geopolitical superpower was made possible by two simultaneous factors – the first was the unhindered access to US and Western markets for its exports, and the second was a flood of mostly American foreign direct investment and technology transfer to China’s companies, much of which flowed to state-owned or state-controlled enterprises.

Conversely, from the automotive sector to the industrial robotics industry, multinational companies have reaped huge rewards from participating in China’s market – despite Beijing’s state-capitalism oriented policies.

China has become woven into the global value chains of these same multinational firms and, consequently, the US and China, despite vast differences in political and economic systems, have become unwitting strategic partners in global commerce.

But these heady days of globalisation have now come to an end.

The ongoing trade war is a smaller element within a much larger, overarching China-US rivalry which is on an increasingly hostile trajectory. In short, trust between Beijing and Washington has broken down almost entirely.

US-China technology race

How will this systemic rivalry impact the relationship between these two nations, going forward? Recently, a “Phase 1” trade deal was announced. This was welcomed as it would avert the further imposition of US tariffs on about US\$150 billion of targeted Chinese goods.

China, for its part, said it would reduce tariffs on hundreds of American goods and agreed to buy billions of dollars more of agricultural products from the US, including soybeans and pork.

But these developments do not begin to address the fundamental issues at the heart of tensions between Washington and Beijing. These tensions include China’s subsidies to state-owned enterprises, technology transfer practices, and protectionist practices – entire sectors of the domestic market remain off-limits to foreign companies, including the digital economy and telecoms.

It is unlikely that Beijing will give ground on these matters and change its systemic practices of the past three-plus decades. These practices have served the Communist Party well and have produced historic economic growth and progress.

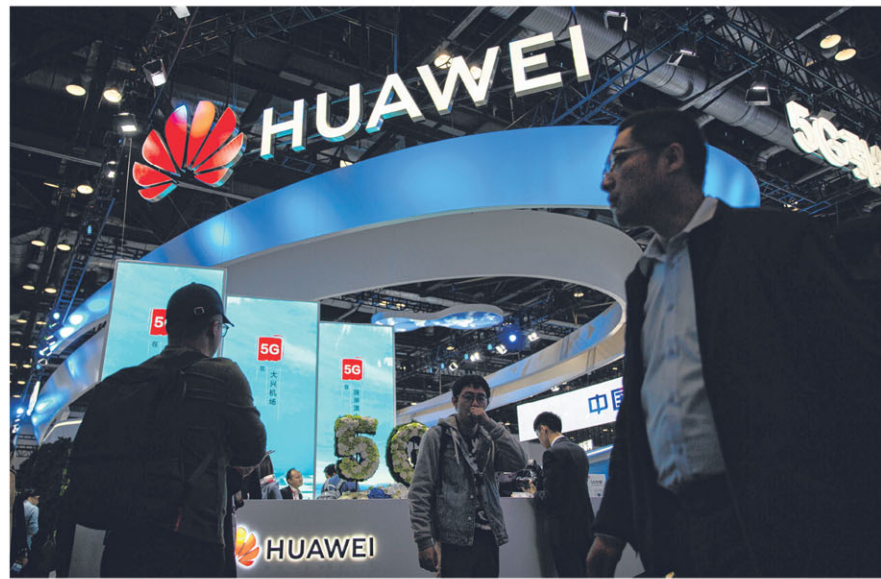
Thus, while the financial markets reacted favourably to conciliatory talk about future phases of negotiations, these will not address the deeper issues confronting Sino-US relations, which are set to fracture the international landscape.

Bracing for a technology race

Washington’s global campaign to block the adoption of 5G wireless technology made by Chinese telecom giant Huawei is a perfect microcosm of what comes next, which is a world that is bracing for a US-China technology race.

This tech rivalry will disrupt trade and global value chains in two fundamental ways.

First, American and Chinese firms will decouple, meaning that Chinese firms will double down on efforts to “de-Americanise” their supply chains by eliminating reliance on US-controlled technologies such as semiconductors and other so-called “dual-use” technologies that have military or national security implications.



Huawei and other major Chinese tech firms have been placed on restricted entity lists by the US, accelerating the decoupling of American and Chinese firms. PHOTO: AP

This decoupling process has been accelerated by a series of US export restrictions that involve the placement of Huawei and other major Chinese tech firms such as HikVision, SenseTime and Fujian Jinhua on restricted entity lists – which, tangentially, has revealed that Chinese firms are highly reliant on critical US technology and vulnerable to export restrictions.

Blocking China’s firms from US technology, however, will break up long-established global value chains and result in collateral damage to many American companies and their extended ecosystems. But these disruptions are now inevitable.

To counter the ill-effects of US export controls and maintain their business with Chinese partners, US companies will look to (legitimately and legally) move their fabrication and sourcing operations out of the US, but these days are numbered.

Chinese firms will continue to double down on efforts to create their own self-sufficient value chains, thus, the global trade landscape is destined to continue to fragment, regionalise and localise.

Industrial policies

An escalating tech war will produce a wave of new industrial policies by the US and its allies to counter China’s ongoing state-centric economic approach.

For example, the EU has called for the creation of a US-EU transatlantic economic model that can compete directly with Beijing. Brussels has stressed the need to join forces and block China’s attempts to influence global standards in 5G and other next-generation technologies.

In another example, Washington is looking for ways to fund Huawei’s competitors in 5G networks, specifically, Nokia and Ericsson, as well as trying to create new strategic alliances in the radio frequency space, specifically with American companies Oracle and Cisco.

I call this new strain of thinking “techno-nationalism” or the tendency to link technological innovation and capabilities directly to a nation’s national security, economic prosperity and social stability. Although it has been baked into China’s economic policies for decades, the US and the West are only now learning as they go.

Washington clearly has come to the conclusion that China’s industrial policies are successful. Given the scale of Beijing’s funding commitments to, for example, the Made in China 2025 plan – with committed funding of US\$300 billion over 10 years, earmarked for semiconductors, AI, robotics and other key in-

dustries of the future – there is strong incentive to resort to countermeasures.

Those who claim that state-driven initiatives and techno-nationalist policy cannot compete with the laissez faire model should study China’s success in acquiring, developing and successfully deploying the world’s largest high-speed rail network, the BeiDou satellite navigation system, and, of course, the creation of Huawei, the world’s largest telecom company.

All of these achievements occurred in less than 15 years, and, because of the immense scale of the Chinese market and the depth of its resources – Huawei has 10,000 engineers, for example – Beijing’s policies pose a serious challenge to US supremacy in technology.

Decoupling of key US-China value chains and a new wave of techno-nationalist policies, therefore, will alter global trade and commerce in ways not seen since the Cold War between the US and the former Soviet Union.

These disruptions, however, will create new opportunities around the restructuring of supply chains and the adoption of new strategies around innovation, production and trade. Furthermore, as countries in South-east Asia and beyond look to avoid exposure to the ill-effects of a binary US-China world, they will push ahead with the development of alternative, and increasingly open-sourced ecosystems and networks around 5G and beyond.

Going forward, tariffs will have a negligible effect on the GDP of the US and China. Non-tariff measures, however, such as export controls and techno-nationalist policies will fundamentally change the US-China relationship and the global trade landscape.

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■ This was first published on ThinkChina.sg