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USA-China

Where can the conflict between the United States and China lead?

- IV Online magazine - 2020 - IV541 - February 2020 -

Publication date: Sunday 9 February 2020

The United States and China are today the only two “global” powers to confront each other on the world stage. The more this conflict deepens, the more a trend emerges: the separation into two systems with competing hegemonic ambitions.

First certainty: the rivalry between the United States, the established power, and China, the challenger, constitutes the main (but not the only) factor structuring the world geopolitical situation with, in the background, the social and ecological chaos engendered by the neoliberal order. This rivalry operates in all fields: military, space, economic, technological, strategic alliance, political or cultural model.

Second certainty: despite the economic and financial interdependence between these two powers, inherited from the previous phase of integration of the new capitalist China in the international division of labour and in neoliberal globalization, the conflict cannot anymore be contained *within* the prior framework. The latter is now questioned - and here we enter into uncertainty.

The dynamic of separation that has started is fraught with danger. It goes against the interests of the big globalized companies. Any sanction imposed by one of the rival powers on the other can have boomerang effects, including with regard to employment. The trade war can add to other factors of instability to initiate the next global recession (due, for example, to Trump's measures to stifle Chinese development) and open a major financial crisis, sharpened by the debt burden. The situation is not irreversible, however, for the time being, this dynamic is definitely underway.

On the one hand, the neoliberal order continues its progress with notably the signing of new trade agreements, on the other, Donald Trump has dynamited intergovernmental consultative frameworks like the World Trade Organization and is trying to exclude Beijing from a “camp” under American leadership to be reconstituted. This is while China is (despite certain shortcomings) an important player in the world of new technologies and is now massively present in all regions of the planet (except the Arctic, where it nevertheless commits considerable resources to position itself, and Antarctica). Such a rupture an only be chaotic. The new fact is that Xi Jinping now seems to be preparing for it, after having underestimated his counterpart for a long time and having boasted that we have entered the “Chinese century”.

The trade war

China and the United States have just signed, on 15 January 2020, a “preliminary agreement” supposed to put an end to the “trade cold war” which has opposed them for 18 months. However, it is really only a temporary ceasefire. As the elections approach, Trump has an interest in freezing the situation. Xi, for his part, faces a host of internal difficulties, including the slowdown in Chinese growth, as well as the effects of the measures already taken by Washington. He must play for time and gauge the result of the next American presidential election, on 3 November 2020.

“Phase 1”,"according to US terminology, of the process supposed to lead to a normalization of trade relations does not do much. China has agreed to plan with Washington to purchase additional US products for $200 billion over two years but has not bent on the basics: subsidies to state-owned enterprises and the opening of its markets. The US undertakes not to make any further tariff increases in the coming months and to suspend the charges against Beijing for currency manipulation. In short, the preliminary agreement is an adjustment to the status quo. “Phase 2” is

postponed until after November, therefore beyond the presidential election in the United States.

However, the existing tariff sanctions, levied on 360 billion dollars of Chinese products for more than a year, remain. These “sanctions” are already having an effect on capital and trade flows, leading to initial changes in industrial organizations and value chains. “Intra-firm” transfers, between China and Taiwan for example, are no longer enough to get around them. US multinationals are relocating to Southeast Asia (Vietnam and so on), particularly in electronics and IT. The repatriation of production to the mother country is more limited. Despite the rise in Chinese wages, Beijing nevertheless retains important assets in hand: skilled labour, overall level of education of the population, development of infrastructure, importance of the domestic market, production of components, wealth in rare earths and so on.

Can Beijing escape its dependencies?

Economic interdependence means that in some areas China is vulnerable, even if in others (including Artificial Intelligence) it is in a good position. Let us mention two of them: microprocessors and the international place of the US dollar.

The Chinese economy lags behind (two or three generations) in terms of microprocessors. It depends, in particular, on supplies from Taiwan or South Korea. However, microprocessors are used everywhere. It is a real Achilles heel, as Washington opened hostilities on the high-tech front, threatening to deny China access to US components.

The move upmarket on microprocessors is not easy. According to Professor Zhou Zhiping (University of Beijing), it will take five to ten years to close this gap. [1] The more so as the country lacks in this field qualified engineers, an adequate supply chain and an industrial ecosystem.

The paradox is that China has followed its rivals in the field of integrated circuits. In 1965, it was able to produce them, while Taiwan and South Korea did not. The Cultural Revolution, the repression of students, then the reign of the Gang of Four, reduced this potential to ashes. A “lost generation” in the training of engineers when many “brains” fled to the United States. For the future, a question would arise: could the use of artificial intelligence allow Beijing to bypass the lock of conventional microprocessors? [2]

In addition, recently and very gradually, China is selling US treasury bonds (it has 1,000 billion dollars in them!) in order to finance itself in times of economic slowdown, but also for security reasons. Although weak, these divestments signal Beijing’s desire to break its dependence on the US currency. At the same time, the Bank of China is diversifying its reserves and buying a lot of gold.

As incredible as it is, the United States has unilaterally granted itself the right to prosecute any entity in the world using US dollars in transactions deemed contrary to Washington's policy. It is the weapon currently used to strengthen the blockade of Iran. The Chinese yuan could eventually serve as a currency of resort (as well as the Japanese yen or the euro?) provided that Beijing gives guarantees that it will not manipulate its exchange rate.

5G, a political showdown

Trump accuses Beijing of industrial or political espionage. Who does not do this? It was the United States that

hacked the phones of Angela Merkel and Emmanuel Macron! In doing so, Washington has acquired a definite advantage, notably in trade negotiations, knowing in advance the tactics of its European “allies”. Macron was upset that the Belgian government decided to buy US combat aircraft; and for good reason: all flight information is sent directly to the manufacturer, across the Atlantic. As for “good practices”, is it so common to have Canada arrest and prosecute a director of a competing group, in this case Huawei, forcing your neighbour to keep Meng Wanzhou in detention - and to pay the price?

China is capable of offering the best product for 5G (capable of transferring masses of data at an incomparable speed) at the lowest cost, while the implementation of this equipment is beginning today. European companies are well placed (Nokia, Ericsson), but Huawei is leading the race and carving out the lion's share on the world level.

Washington enjoins its allies to side with its camp by excluding the Chinese from the deployment in their countries of 5G. It is above all a political test. The response of Europeans is not homogeneous, as usual, but rather negative or mixed. Only Canada (?), Australia or New Zealand seem to respond. The test is not very encouraging for Trump.

The ban on technological exchanges

Another, more important measure is the ban on US companies selling technology to Chinese firms, particularly in the telecoms sector (including upgrades to existing systems, such as Google). This should weigh on the reorganization of the world market. Not only will GAFA lose markets, but it would mean the worldwide deployment of incompatible technologies, as was the case in the 1970s for VHS and Betamax (video and cassette recording). DVD made this war between two Japanese firms (Victor Company and Sony) obsolete.

The development of global standards considerably facilitates the mobility of capital. However, the incompatibility of technologies is today part of a global conflict. An as yet unknown number of economic sectors would be affected with political, commercial and military pressure for a country to choose its “camp”. Washington operates this logic of exclusion. Beijing says its partners are also free to deal with whoever they want, but is building up client states thanks, in particular, to the debt weapon which allows it to take control of ports, becoming Chinese “concessions” for up to 99 years (which was the colonial status of Hong Kong!).

We come back to one of the unanswered questions posed in the introduction to this article: what forms can more or less exclusive zones of influence take in the world today?

Unstable geopolitics

The particular psychology of Donald Trump, his electoral priorities and the influence of the religious far right are not without consequences. Historic allies of the United States have learned the hard way that the President of the United States did not care for their interests. To the point that Abe’s Japan was able to play the card of Putin's Russia to counter Trump's abandonment.

However, Trump's erratic policy also expresses major tension in American politics. Although dominant, this imperialism is not powerful enough to control the world - hence the temptation to retreat, but its interests are at stake everywhere - hence the impossibility of simple withdrawal. The Middle East provides a striking illustration of this situation.

Washington would need allies who can co-police the planet. Trump's unilateralism does not help those who could play this role. But do they exist? The only “success” of the European Union is to have promoted the shaken WTO order today. Japan's possibilities for intervention are limited by the pacifist attachment of the population (which Abe has not yet managed to break) and by the memory of the abuses committed in Asia during the Second World War. A lasting agreement with Russia against China seems impracticable; moreover, Moscow’s effective area of action is mainly confined to its “periphery” (including Syria) and its military capabilities.

Washington is looking for allies among regional powers, starting with Saudi Arabia (a hotbed of “radical” Islamist terrorism!). However, these so called regional powers abound and China is the best able to benefit from them. This is true in the Middle East (where it does business with both Iran and Saudi Arabia, playing on its status as the world's leading importer of oil) and in North Africa or in Sub-Saharan Africa, or even to some degree in Latin America.

The Indo-Pacific theatre of operations is a special and significant case. This region is at the heart of the conflict between the United States and China. After a long delay, Washington has stabilized an alliance including India, Japan (despite the Tokyo-Washington tensions), Australia and New Zealand. Beijing has deployed one of its aircraft carriers and its fleet to the area and is negotiating support points with various island states. It is well placed in the new arms race, including hypersonic weapons, capable of threatening aeronaval and enemy territories from afar. The rules of war are changing.

To China’s land deployment, outer space must be added. A good illustration of the dynamics underway. In 2011, a US law excluded China from the International Space Station (ISS). Suddenly, it intends to build its own by 2025. In 2019, Beijing fired more rockets than any other country: 34 launchers, including 32 successfully (27 for the United States) and also, remember, placed a module on the far side of the moon. This implies many technological advances; as well as colossal investments (we will not deal hear with the contractions or weaknesses of the Xi Jinping regime and their possible consequences).

Nothing is yet irreversible, but we have entered a very new situation with very uncertain consequences. Finally, you don't have to be a soothsayer to understand that the China/US conflict can lead to an acceleration of the climate crisis. Who is worrying about that in Washington or Beijing?

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[1] 3 September 2019 “China needs â€˜five to 10 years’ to catch up in semiconductors, Peking University professor Zhou Zhiping says”.

[2] 28 August 2019 “How China is still paying the price for squandering its chance to build a home-grown semiconductor industry”.