

Trump versus Huawei: right target, disastrous strategy

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The United States has valid complaints about Huawei, but US President Donald Trump is botching the negotiation. The principal issue with Huawei is the lack of reciprocal market access. As long as Huawei has access to all three major markets — the United States, European Union and China — and foreign tech companies are prevented from having full access to the Chinese market, it will soon dominate the global 5G market. With access to all markets, Huawei can sustain research and development budgets larger than its major competitors — Ericsson and Nokia — combined; they cannot compete with Huawei's superior technological advance. Their imminent unfair destruction is unacceptable.



This happens in many areas. Take credit cards — China UnionPay's global market share dwarfs that of Mastercard or Visa, not because it's a better company but because UnionPay has fuller access to all three major markets.

This also happened earlier with pork. US food processing company Hormel Foods was an outstanding company when Chinese companies were smaller and less efficient, but in China it was prominent only in Shanghai. It agreed to buy one of the biggest Chinese pork producers, with the consent of the Chinese company. But the local Chinese Communist Party secretary blocked the deal. Despite being less competitive, over time some Chinese companies grew huge because they had largely exclusive access to the biggest and fastest growing market, China, as well as Western markets. For example, the Chinese food processing company WH Group grew so big that it was able to buy US meat processing company Smithfield Foods. It is now the biggest force in the US market, towering over Hormel Foods. If this trend continues, it will be fatal for many major Western companies. Major US and EU businesses therefore support a decisive challenge to China's misbehaviour.

The right strategy to counter this is to restrict or deny market access to Chinese companies in sectors where China formally or informally restricts foreign companies' access. And Western governments should help domestic companies develop technology superior to Huawei's. They should make it clear that Huawei — and other Chinese companies — will get access when Chinese policy offers commensurate market access and meets their security concerns. Denying Huawei market access now is appropriate, but the door must be open for a future solution. Since Huawei's major foreign competitors are European, this is the perfect opportunity to build US–EU cooperation.

The United States and European Union are wide open in the sectors where China has a comparative advantage, namely manufacturing, while China remains largely closed in the sectors where the West has a comparative advantage, mainly services. So in addition to restricting China's access in services, Western countries need targeted restrictions in manufacturing too.

Similar market reciprocity issues existed between the United States and Japan when the latter became a major global economy. This included security issues, with Toshiba selling the Soviet Union technology that impaired US security. Then US president Richard Nixon responded by imposing a 10 per cent tariff on all Japanese exports while making it clear that the United States wanted to solve the problems, not bring Japan down. The United States was largely successful against a competitor that was more sophisticated than today's China. Past US negotiations with China have been easier than with Japan but this changed when Chinese President Xi Jinping and Trump took power.

Trump focusses on security concerns — which many key international allies do not buy into — and attacks EU allies rather than emphasizing cooperation. He proposes to deny vital exports to Huawei in order to threaten its existence. He deliberately creates a cold war atmosphere designed to mobilize his domestic voter base rather than to solve international problems. He has convinced China's leaders that his goal is to bring China down. In so doing, he alienates much of the US and EU business community, who want the problems solved, not rendered impossible. Unsurprisingly, China responds with threats to cripple or kill US companies like Boeing.

When Xi came to power, Chinese and foreign elites expected, based on the book *China 2030* and other extensive planning efforts, that China was about to move decisively ahead to liberalise its obsolete infant industry protectionism. Instead, Xi has moved backward, with more policies to secure a protected China market for domestic companies and consolidate champions designed to dominate global markets.

Trump's reaction typifies his larger China strategy. The United States has major issues with China about market access, intellectual property theft and security. But Trump has focussed more attention on phony issues, for instance, targeting China on currency manipulation. There was a time when China's undervalued currency gave their exports an unfair advantage, but for years now China's currency has been overvalued and Trump's response is to lie about it.

Trump's lead issue has been the trade balance. But any economics student knows that the US

trade balance is determined by the domestic gap between what the country saves and what it spends; Trump's enormous budget deficits have made both that gap, and the US trade deficit, huge.

Trump's approach maximises the conflicts that mobilise his voter base and deflects attention from his domestic failures. But it minimises the chance of solving the United States' problems with China.

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