China and the US remain locked in mutually assured co-operation

The two nations are compelled by their consumers to collaborate as well as compete

JOHN THORNHILL

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The writer is founder of Sifted, an FT-backed media company covering European start-ups

For the occasional visitor to Washington DC, the turnround in US attitudes towards China is stunning.

Earlier this century, US businesses piled into China, following the country's accession to the World Trade Organization, and ranked among Beijing's loudest lobbyists in Washington. But China's astonishing economic rise, its much-trumpeted ambitions to attain global technological supremacy and President Xi Jinping's lurch towards a more assertive nationalism have wrecked that Washington consensus. Today, the US security state has reasserted primacy over market forces.

For the moment, Washington is at pains to resist the idea that it has plunged into a cold war with China. But the talk around town last week was not far short of one. The US administration's move on October 7 to impose expansive export controls on advanced semiconductors to China certainly turns the dial towards confrontation. It highlights how serious the US has become in further slowing China's emergence as a technological superpower. But it also raises big and unpredictable questions over the US technology sector itself, which investors are scrambling to process.

Washington's hawks have been energised by their success in stunting China's ambitions to dominate the world's 5G telecoms infrastructure by blacklisting its national champion, Huawei. "We are not going to be 5G'd again," vows one former US government official.

The latest clampdown on China shows similar intent in the fields of supercomputing and artificial intelligence. "This is strangling with an intent to kill" China's AI ambitions, says Greg Allen, a senior fellow at the Center for Strategic and International Studies and a former Pentagon official.

China may be particularly vulnerable to a squeeze on leading edge semiconductors but some US strategists think the administration will go even further. "I am expecting further action like the October 7 move in other areas like quantum information science, biotech and even more on AI," says Martijn Rasser, senior fellow at the Center for a New American Security think-tank.

While Washington's hard-knuckled approach must surely be rattling Beijing, it is also unsettling some of the US's own companies that have bet big on China. Several US tech firms, including AMD, Nvidia and Intel, will lose valuable, if relatively small, export markets in China. And Washington's restrictions may have further knock-on effects: foreign manufacturers may strip US components from their products to skirt Washington's ban and keep selling to China.

The recent flood of government subsidies in the semiconductor sector as the US and EU seek to reshore chip production may also exacerbate the cyclical swings in the industry, eroding profitability. And US aggression is bound to accelerate China's ambitions to develop its own semiconductor industry by all means possible, helping to create a formidable future competitor in basic chips. It may even goad China into retaliation. Beijing has a stranglehold over rare earth supplies, vital for every electrical device. And for the foreseeable future the US will remain critically dependent on Taiwan for its supply of advanced chips, making the island vulnerable to intimidation or blockade from Beijing, even short of invasion.

But what remains striking about the relationship between the US and China is the extent of their economic interdependence. In 2021, the US still imported more goods from China than any other country and exported more goods to China than any other country, bar Canada and Mexico.

If the nuclear calculus of cold war 1.0 between the US and the Soviet Union was one of mutually assured destruction, the economic backdrop to any cold war 2.0 between the US and China remains one of mutually assured co-operation.

The company that most exemplifies the delicate tightrope walk between the two countries is Apple, says Richard Kramer, senior analyst at Arete Research. "Washington is not in a position to tell the most valuable company on the US stock market, with 18 per cent of its sales and a majority of its supply chain dependencies in China, to shut down its China operations," Kramer says. "Nor is Beijing going to see Apple's $74bn of China sales just stop, and tell the Chinese people their iPhones will be the last ones they ever buy."

Historically, nationalist impulses have had a nasty habit of scrambling economic rationale. But for the moment, at least, the US and China are condemned by their consumers to collaborate as much as compete. If that were to change dramatically, Apple would be among the first to know.

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