US-China new Cold War

Part of: GS-II- USA-CHINA Cold war (PT-MAINS-PERSONALITY TEST)

The prospects of a trade war between China and the western economies ratcheted as Beijing accused the US of pushing relations towards a “new cold war”.

Trade war

- Even before the coronavirus outbreak became a pandemic, the trade ceasefire between the United States and China was fragile at best.
- A "phase one" deal reached in January only reduced some of the tariffs each side had placed on the other, while allowing Beijing to avoid additional taxes on almost $160 billion worth of goods. China also committed to buying an additional $200 billion of US goods and services this year and next.
- Earlier this month, Trump, who has claimed without providing evidence that the virus originated in a laboratory in Wuhan, hinted that the United States could enact more tariffs on China as punishment for the pandemic.
- The US Commerce Department prevented the Chinese tech firm Huawei from manufacturing and obtaining semiconductor chips using American-made software and technology — a move that inhibits the company’s ability to work with its suppliers.
- In response, China hinted that Beijing could soon retaliate against Washington and its decision to restrict Huawei’s ability to manufacture and obtain semiconductor chips by unveiling a long-rumored blacklist of foreign companies. American firms including Apple (AAPL), Qualcomm (QCOM), Cisco (CSCO) and Boeing (BA) could face restrictions on doing business in China.
- Even before the pandemic, economists and experts warned that a worsening relationship between the two countries could stifle the development of artificial intelligence and super-fast 5G mobile networks.
- Further, there'll be currency wars and devaluation, stagflation leading to job losses and higher unemployment and more importantly, the possibility of a contagion effect, or what we call a reactionary effect, leading to a cascade of other trade distortionary measures may be adopted by others.

Issue on Hong Kong

Over the past few months, Hong Kong, a former British colony and now a special administrative region under Chinese sovereignty, has emerged on the radar of the United States. USA Is cautioned about the sustainability of Hong Kong’s autonomy under the “one country, two systems” (OCTS) model. Hong Kong, the region’s autonomy has been “diminished” in consequence of China’s interventions, though it the proposed Extradition Bill, which, when passed, will authorize the Hong Kong government to extradite people to China and put an end to Hong Kong’s 178 year-long separate legal jurisdiction and the recent National Security bill.

U.S. Interests in Hong Kong
The U.S. presence in Hong Kong could be traced back to 1843, when it set up its first consulate. U.S. interests in Hong Kong only became prominent during the Cold War period, when the United States replaced Britain as the dominant geopolitical power in Asia.

The United States made use of the status of British Hong Kong as a separate jurisdiction located in proximity to the People’s Republic of China to pursue its strategic aims, such as establishing the United States’ largest overseas intelligence apparatus in the U.S. consulate-general in Hong Kong (which housed a large-scale CIA station and FBI attaché) and conducting anti-communist propaganda via the U.S. Information Service (appealing to mainland Chinese, Hong Kongers, overseas Chinese, and Asian readers).

Hong Kong’s value to the United States had become economic — Hong Kong is now the United States’ 19th largest trade partner (and the single-largest contributor to the U.S. trade surplus) and a major business operation base for U.S. companies in Asia (U.S. companies ranked first among non-local companies, having 290 regional headquarters and 434 regional offices in Hong Kong in 2018). Nevertheless, a close examination will reveal that Hong Kong is still playing a considerable role in promoting U.S. strategic interests in Asia.

The U.S. Navy still regularly makes port calls to Hong Kong because it is the “closest to deployment tracks” of U.S. vessels; U.S. C-17 military aircraft regularly operate in Hong Kong’s airport to deliver supplies to the U.S. consulate general.

The United States’ extensive geopolitical interests in Hong Kong were institutionalized by the 1992 U.S.-Hong Kong Policy Act (USHKPA). The USHKPA recognizes Hong Kong as a no sovereign entity distinct from China under U.S. laws (in terms of trade, investment, immigration, transport, international agreements and membership, etc.) and indicates U.S. support for its democratization.

Chinese Interests in Hong Kong

- Hong Kong has always been seen by Beijing as crucial to the survival of the Chinese Communist Party (CCP) regime.
- By keeping Hong Kong as a separate jurisdiction in the name of British Hong Kong, China successfully circumvented the blockade imposed by the United States since 1949.
- Hong Kong functioned as the single-largest contributor of foreign exchange to China (estimated at over 173 million pounds in 1966, about a third of the total); the only entrepôt for “smuggling” sanctioned Western technology, equipment, and medicines to China and exporting Chinese food products; a business operation base for Chinese enterprises; and an intelligence center for Chinese agents.
- In recent years, China has aggressively expanded its influence, Beijing leaders are trying to transform Hong Kong into a “Red China outpost” because its internationally-recognized status as a separate jurisdiction provides the best vehicle for offshore Chinese influence operations.
- For example, many Chinese companies have transformed themselves into “Hong Kong companies” for the purpose of exporting China’s outward direct investment (in 2017 HK$179 billion flowed from China to Hong Kong).
- Hong Kong’s status as a separate customs territory and an independent shipping registry
also serves China’s interests well by allowing it to circumvent U.S. export controls (e.g. China purchased U.S.-made satellites via a Hong Kong-registered company called Asia Satellite Telecommunications)

- Hong Kong’s separate membership in international organizations have been found to be useful for China to expand its influence.
- Hong Kong’s separate status also effectively gives China a second vote in international organizations, as shown in the vote to revoke Taichung’s hosting rights for the East Asian Youth Games in July 2018 (China and its two SARs, Hong Kong and Macau, all voted in favor of calling off the games)
- The Trump administration, since taking office in January 2017, has altered the direction of U.S. policy toward China by abandoning the traditional engagement approach and exploring a competitive approach, confronting Beijing on various fronts from trade and technology to intelligence and military affairs.

Tension related to Taiwan

- Tensions between the United States and China are already at its peak after Washington vowed to support Taiwan’s effort in the World Health Assembly late last month.
- The U.S. also announced a potential deal to sell torpedoes to the island, whose disputed political status has long been a fraught subject of U.S.-China relations.
- The U.S. and Taiwan do not have formal diplomatic relations, and officially the U.S. has a One China policy that recognizes the regime in Beijing as the government of China.
- But the U.S. and Taiwan maintain strong unofficial relations, as well as robust economic ties, and it is U.S. policy to help Taiwan defend itself against Beijing.
- The Trump administration greenlit a controversial F-16 fighter jet sale and a $2.2 billion package of M1A2T Abrams tanks and portable Stinger anti-aircraft missiles and also approved a possible sale of 18 submarine-launched torpedoes for $180 million to Taiwan that infuriated Beijing.
- As China aggressively builds up its military capability, even signaling an increased willingness to attack Taiwan, U.S. officials are now pushing to normalize weapons sales, sell more advanced equipment and even potentially begin conducting joint naval exercises with the island — all moves sure to further enrage Beijing.

Implication

The consequences of the breakdown in US-China relations is going to be very devastating for the world and for the global economy because the ability of the US and China to work together was the keystone of the whole arch of globalization and global trade.

The global economy is already expected to contract 3% this year, its deepest slump since the Great Depression, according to the International Monetary Fund.

If tensions continue to escalate, the dispute could morph into a damaging conflict that not only weakens the world’s recovery from Covid-19, but also risks slowing important technological innovations.