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# 11 | What the Huawei Case Can Teach Us about the U.S.-China Power Game

BY LU CHUANYING AND NICOLAS HUPPENBAUER

*“The broad Pacific Ocean is vast enough to embrace both China and the United States.”*

- President Xi Jinping after meeting with U.S. secretary of state John Kerry on May 17, 2015<sup>78</sup>

*“We’re more likely to achieve our objectives of prosperity and security of our people if we are working together cooperatively, rather than engaged in conflict.”*

- President Barack Obama after meeting with Xi Jinping on June 8, 2013<sup>79</sup>

The latest episode in the unfolding drama between the United States and China was dubbed the “end of global tech” and the beginning of the “next global recession,” with significant collateral damage expected on both sides.<sup>80</sup> What started with mutually increasing tariffs over the last year was followed by a U.S. ban of Chinese 5G providers and finally culminated in temporarily cutting Huawei off from its U.S. suppliers last May by putting it onto the so-called Entity List. This escalation is expected to significantly affect global supply chains and the complex global innovation ecosystem that has evolved over the past decades. Despite some cooling down after talks at the G20 summit in June, there is currently no permanent solution in sight. Since the Huawei dispute reflects the larger power game between the United States and China, the underlying strategic and contingent issues at its core may be difficult to resolve. Mitigating the collateral damage to our societies east and west of the Pacific, however, should be a common goal for any policymaker.

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78. David Brunnstrom, “Despite Tension, Xi Says U.S.-China Relations Are Stable,” Reuters, May 17, 2015, <https://www.reuters.com/article/us-usa-kerry-china/despite-tension-xi-says-u-s-china-relations-are-stable-idUSKBN0O203J20150517>.

79. “Remarks by President Obama and President Xi Jinping of the People’s Republic of China After Bilateral Meeting,” The White House, June 8, 2013, <https://obamawhitehouse.archives.gov/the-press-office/2013/06/08/remarks-president-obama-and-president-xi-jinping-peoples-republic-china->.

80. Charles Rollet, “Huawei Ban Means the End of Global Tech,” Foreign Policy, May 17, 2019, <https://foreignpolicy.com/2019/05/17/huawei-ban-means-the-end-of-global-tech/>; Chad Bray, “Will the Escalating US-China Trade War and Its Catastrophic Aftermath Push the Global Economy into Its Next Recession?” *South China Morning Post*, May 20, 2019, <https://www.scmp.com/business/companies/article/3010878/will-escalating-us-china-trade-war-and-its-catastrophic>.

What might sound like a potential competitive advantage for the United States at first turns out to bring disastrous consequences to the international order, which might eventually hurt the United States even more than China. The United States itself erected the rules-based international order with great effort after World War II, in particular the framework of global intellectual property protection, global supply chains, and the international innovation ecosystems. By means of the U.S. dollar's role as the key currency in the international financial system, the United States serves as the core of the international order and has benefited disproportionately from it. In the high-tech sector, the United States used to emphasize and respect market competition and protect intellectual property rights based on the notion that these are driving factors of economic growth. President Trump's actions to ban Huawei—even to the surprise of the domestic industry—put a hit to the rules-based order and, hence, were damned as short-sighted and potentially causing lasting damage to the national strategic framework of the United States.<sup>81</sup> Although the Trump administration's actions securitizing and politicizing the Huawei case might help to draw the battle lines with China and Huawei more clearly, they first harm the principles of global supply chains and internationally connected innovation ecosystems. The economic consequences of this harm will be borne together by all nations, but because of the United States' former role as the creator and protector of the rules, it is likely that the U.S. national interest will be hurt the most.

Maybe an even more adverse effect of the Huawei sanctions and President Trump's comments is that they undermine the U.S. reputation and attractiveness—or what could be summarized under the title “soft power.” Most obviously, the Huawei dispute significantly affected bilateral U.S.-China relations. Since President Trump took office, bilateral relations have continued to mostly deteriorate due to his aggressive rhetoric toward China. With the latest sanctions, relations have reached their lowest point since normalization in 1979, which they are unlikely to recover from, even if China and the United States manage to finally strike a trade deal and potentially reverse the measures against Huawei.<sup>82</sup> In the eyes of the Chinese public, the recent news emphasized China's need for economic development that is more independent from the West, and the Chinese government's decision to accelerate the development of certain core technologies is welcomed even more. But besides the worsening of the U.S.-China relations, the Huawei ban has also decreased U.S. attractiveness to European and even originally U.S. companies. Forced to “pick a lane,” enterprises might eventually regard the large Chinese market as more dynamic and more attractive than the U.S. market.<sup>83</sup> The real competition and growth follow where the money goes, and in this case, it seems to be China. That China is already developing more and more research capabilities in a number of high-tech fields, slowly catching up to the United States or even surpassing it, only adds to the attractiveness of the Chinese innovation ecosystem.<sup>84</sup> Another aspect is that China boasts

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81. Michael Jacobides, “Donald Trump's Huawei Ban Could Backfire Badly,” *Financial Times*, June 9, 2019, <https://www.ft.com/content/8fc63610-88fe-11e9-b861-54ee436f9768>.

82. Neal Kimberley, “After the Trade War, US-China Relations Will Not Be the Same Again,” *South China Morning Post*, October 2, 2018, <https://www.scmp.com/comment/insight-opinion/united-states/article/2166570/after-trade-war-us-china-relations-will-not-be>.

83. Matthew P. Goodman, “Picking A Lane,” CSIS, *Global Economics Monthly* 7, no. 10 (October 2018), <https://www.csis.org/analysis/picking-lane>.

84. China Power Team, “Is China A Global Leader in Research and Development?” CSIS, *China Power*, January 31, 2018, <https://chinapower.csis.org/china-research-and-development-rnd/>.

the world's largest single market, which not only sufficiently supports the development of the Chinese domestic industry but at the same time also draws global enterprises to China. In the end, the outcome of the U.S.-China dispute depends to a large extent on which country will be more competitive and sustainable on the world stage.

Given the adverse collateral damage of the recent escalations, which might damage the United States even more than China, there are a number of steps that policymakers on both sides should take to de-escalate. The first step should be to listen to those who recognize and appreciate the peaceful competition and cooperation between the two economies that has been thriving over the past forty years. The Chinese and U.S. economies have gradually formed a deeply intertwined and interdependent structure, which, in the transition from the industrial to the information to the artificial intelligence age, could actually continue. Those within the Trump administration who hope to oust China from the global high-tech sector and want to cut ties between the two economies put the globalization of markets and technologies that has developed over the past decades to a serious test. If these systems are stable enough to withstand President Trump's policies, a potentially painful backlash to the U.S. economy might force him to initiate a change of strategy. If, however, the globalized markets and technological systems are torn up in the midst of a U.S.-China trade war, a direct confrontation between the two competing supply chain systems may be inevitable and incite even more insecurity in the current international sphere. As a matter of fact, both the United States and China benefit from the existing world order. But in both countries, a number of people disregard the benefits of these increasingly globalized supply chains and innovation systems while exaggerating the risk of potential conflicts between the two powers.

Secondly, hawkish voices should not substitute rational risk assessments, such as those that European countries are completing to evaluate the risk of allowing Huawei to provide 5G network equipment. We need to realize that the current escalations might have their roots in the growing complexities of emerging technology. As illustrated with 5G technologies, their immersion in our societies today, combined with the inherent insecurity associated with them because they cannot be designed to prevent all potential loopholes, creates anxiety that can lead to mistrust and perceptions of potential threats in the international sphere. In order to deal with this growing complexity and insecurity, it is important that policymakers increase their knowledge of emerging technologies and comprehensively compare the technologies' potential political risks with the economic benefits they might bring.

Thirdly, trust-building mechanisms and platforms for international dialogue in the cyber sphere can help nations mutually understand each other's strategies and policies and work together to create a safer international governance system for new technologies. Although the need for international governance obviously grows more urgent with the proliferation of cyberweapons, there have been surprisingly few tangible results to hedge against the worst attacks. There is a lot of unfulfilled potential for U.S.-China cooperation in international cyber governance, which can be tapped by initiating more cooperative formats and by setting the table for serious negotiations to find more common ground and resolve differences.

The Huawei dispute is one case in point against the backdrop of the larger power game between the United States and China, and it reflects an unfortunate trend toward securitization and economic competition in the bilateral relationship. To avoid further escalation and its potentially disastrous effects on both societies, policymakers need to take a number of steps. In short, we need to realize the complexities that new technologies bring to our global landscape and address them not through escalation but through rational assessments and cool-headed negotiations. Most important of all, policymakers on both sides need to consider the larger threats and misunderstandings that are latent within the Huawei dispute. On the surface, it might appear to be only a technological or economic conflict, but at play are also the peace, development, and stability of the current world order. Realizing how interdependent the two economies are in the high-tech sector, they might be able to recover and then reclaim the gains of the current international system, as proven over again in the past decades. Both sides should now make wise decisions and solve the current crisis.