In another escalation of trade war against China

Trump issues executive order directed at Huawei

By Nick Beams
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In a further escalation of the economic confrontation with China, US president Trump yesterday signed an executive order that gives the Commerce Department the power to ban American firms from using equipment manufactured by the Chinese telecommunications company Huawei.

The executive order was carried out under the International Emergency Powers Act, giving the president the authority to regulate commerce in response to a "national emergency" that threatens the United States.

The executive order does not specifically name Huawei, but there is no doubt where it is directed. A bellicose White House statement said the administration would "do what it takes" to "protect America from foreign adversaries who are actively and increasingly creating and exploiting vulnerabilities in information and communications technology infrastructure and services in the United States."

The executive order, which referred to adversaries seeking to carry out "economic and industrial espionage," gives the US Commerce Secretary the power to prohibit deals that pose an "unacceptable risk to the national security of the United States."

Anti-China hawks within the Trump administration had been pushing the president for months to sign the order, but he held back lest it jeopardise the trade talks. However, the decision by the US to lift tariffs on $200 billion worth of Chinese goods from 10 percent to 25 percent and the threat of a 25 percent tariff against a further $300 billion means that constraint no longer applies.

The latest US action is an escalation in what could well be described as a drive to "weaponise" all arms of the state apparatus in the economic confrontation against China.

In a move that has wider ramifications than the executive order, the Commerce Department has placed Huawei on the so-called Entity List, which means that US companies will now have to apply for a licence to sell technology to it. The company is highly dependent on US firms to supply computer chips as China lags well behind in this area.

Paul Triolo, a technology expert with the Eurasia Group, told the *Financial Times* putting Huawei on the "dreaded Entity List" was a "huge development" and had global ramifications "as Huawei supplies dozens of leading carriers around the world. He said the US had basically declared that it was prepared to engage in a "full-fledged technology war with China."

Significantly, on Tuesday, Trump also called on the US Federal Reserve to loosen its monetary policy, and even to return to the policy of quantitative easing under which the central bank makes purchases of financial assets.

Trump has previously issued such calls to boost the stock market, but on this occasion it was directed to the trade war.

"China will be pumping money into their system and probably reducing interest rates, as always, in order to make up for the business they are, and will be, losing," he said in a tweet. "If the Federal Reserve ever did a 'match', it would be game over, we win!"

Later in the day he said that, "with a little quantitative easing," US growth would hit 5 percent.

Any move by the Fed in the direction demanded by Trump would bring about a fall in the dollar. It would amount to an escalation of the trade war into a currency war, in which countries undertake devaluations in order to improve their position in global markets.

The US has long accused China of being a "currency manipulator" and the fall in the value of the Chinese

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currency, the yuan, this week to its lowest point since last December, is no doubt being closely watched.

The decline in the yuan, however, is not primarily due to action by the Chinese government, but is a consequence of the trade war and renewed signs of slower growth in the Chinese economy.

A cheaper yuan lessens the price of Chinese exports, and so helps alleviate the impact of the US tariffs. However, at this stage, while the People's Central Bank has lowered the official value of the yuan by small amounts, Chinese financial authorities are fearful that any sharp fall could bring about capital flight from China.

In response to Trump's trade war escalation, the Chinese regime is pursuing a two-track policy. While it has imposed levies on an additional $60 billion worth of American goods in response to the latest US tariff measures, the official rhetoric has been relatively mild. Foreign Minister Wang Yi said this week that "important and material progress" had been made, and held out the prospect that the two sides would reach a mutually beneficial deal.

Commerce Ministry spokesman Geng Shuang said it was "only natural" that there would be disagreements. This "is why we need to continue negotiations," he said, expressing the hope that "the US will work with us to meet each other halfway."

China's chief trade negotiator and vice premier Liu He has rejected claims by the US that China backtracked on agreements. He said it was the US that had increased the amount of goods to be purchased by China, contrary to the deal reached by the US and Chinese presidents when they met in Argentina last December. This was a "very serious issue" and could not be changed easily, he said.

While the official response remains relatively measured, there is intense opposition to the US within sections of the regime and among broader layers of the population. After a previous clamp-down on references to "trade war," the media gates have been opened, leading to an outpouring of nationalism.

The nationalist *Global Times* denounced the arrogance and duplicity of the US, saying "the whole nation and its entire people are simultaneously threatened." The Chinese language editorial, which was republished by major state media outlets, declared: "To us, this is truly a 'people's war'."

A fiery nationalist editorial statement, delivered last Monday by newsreader Kang Hui on the state broadcaster CCTV's evening news program, went viral on Weibo, China's largest social media platform, and was viewed more than three billion times.

"After 5,000 years of trials and tribulations, what kind of battle have the Chinese people not been through?" Kang said. "The US-started trade war is not more than an important unifying juncture in China's development. There's nothing to worry about. China must stand firm, be confident and rise through the hardships."

Opposition to the government's conduct in the trade talks has also surfaced, with Liu He being compared on social media to an official in the Qing dynasty who signed an agreement in 1894 ceding the island of Taiwan to Japan.

The US is also pursuing something of a two-track policy. Even as it moves aggressively against China, the official position holds out the possibility of a deal, so as to try and calm financial markets.

In a move to assuage market concerns, Trump has also decided to put a decision to impose a 25 percent tariff on autos and auto parts, directed against Europe and Japan, on hold for 180 days. He is clearly anxious not be embroiled in a trade war on additional fronts.

Another, and possibly even more compelling reason for the delay, was the recognition that, had he decided to go ahead, there would have been a major sell-off on Wall Street.

In a comment this week, *Financial Times* foreign affairs columnist Gideon Rachman repeated the view, still widely held in the US, that Trump is on the side of making a deal, pointing to the "great store" he places on his friendship with Xi and the "beautiful letter" he had recently received.

"Yet a close relationship between leaders is no guarantee that conflict can be avoided," Rachman concluded. "In the July crisis that preceded the outbreak of the First World War in 1914, Kaiser Wilhelm of Germany and Tsar Nicholas of Russia exchanged numerous friendly notes and telegrams. But that did not prevent their two countries sliding into conflict. In a similar way, the US-China trade war now risks escalating to the point where it escapes the control of the two countries' leaders."

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