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Opinion

By blacklisting Huawei, the US may have triggered a new era of protectionism for China – and the rest of the world

Every country is protectionist to some degree, but the US' determination under Trump to punish China may discourage Beijing from further opening up, and instead encourage an inward turn – and this may well be repeated around the globe

Topic | US-China trade war**Junhui Qian**

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The US has placed Huawei on a so-called [entity list](#) [1], making it almost impossible for the tech company and its affiliates to source components and services from the US. This is a major escalation in the US-China trade war and a huge win for protectionists in China, as well as the rest of the world.

Huawei purchases a substantial amount of components and services from the US, many of which have no alternative suppliers in other countries.

Although Huawei claims to have a backup plan for some important chips, it is generally believed that not all chips and software can be rapidly developed in-house, especially if the company wishes to remain competitive. The immediate impact on Huawei will be devastating, for sure.

Tremendous damage has also been done to the image of US companies as reliable suppliers for basic technologies, including chips and software.

The ban on Huawei (and, earlier, [ZTE](#) [2]) shows that the executive branch of the US has too much discretionary power over the operations of American companies, in the name of national security. And President Donald Trump is not reluctant to abuse that power.

The blacklisting of Huawei will be a wake-up call for other countries to seek some degree of self-reliance in basic technologies. This may well, unfortunately, usher in a new age of protectionism.

In China, mainstream economists have argued for many years, with substantial success, that Chinese businesses can rely on international trade for crucial technologies such as computer chips and operating systems.

With Huawei blacklisted, however, the minority of economists who believe in “self-reliance” have suddenly and conclusively won the argument: international trade cannot be relied on and China needs its own central processing units, operating systems and so on.

[Huawei ban: why China shouldn't retaliate against US firms](#)

[3]

Even those who support the idea of “internet sovereignty” may feel vindicated. Without the protection offered by cyber regulation, US tech giants would surely monopolise basic services, as happens elsewhere. In this case, the US blacklist could be a death sentence for Huawei, at least internationally.

Given China's relatively insular cyberspace, however, Huawei will at least be able to survive in the domestic market, despite a potentially devastating blow to its global revenue.

For example, the Android app store in China – which is not run by Google – will still provide full services for Huawei smartphones. Thus, Huawei's market share in China will probably not be affected after Google's revocation of Huawei's Android licence.

The debate over protectionist policies, and industrial policy in general, is no longer about “whether”, but “how”; that is, how best to conduct such a policy. In my opinion, China will not be alone in its rethinking of industrial policy, especially in this age of “deglobalisation”.

The strengthening of industrial policy to achieve some degree of technological self-reliance [4] will be costly for China. The greatest price will be paid by the Chinese economy, which will become less open in order for Beijing to make its indigenous technologies economically viable. China might have to impose additional taxes on US chips and software, for example.

The one thing China needs more than the US' agricultural products [5]

And don't forget that China has already increased tariffs on US agricultural products. Such protection of domestic farmers [6] could be difficult to roll back in the future, since those who support "food self-sufficiency" also effectively won their argument after Huawei was blacklisted, even though agricultural products are something the US is very keen to export for now.

A more protectionist China would almost certainly add fuel to the trade war with the US. The US started the trade war because China allegedly pursued protectionist policies. The truth, however, is that every country practises some protectionist policies and a trade war only serves to reinforce protectionism.

If China becomes more protectionist in the future, which is highly likely, the biggest accelerant will be the current trade war. And the blacklisting of Huawei will be seen as the major turning point. In fact, there is a much more effective mechanism to rein in protectionist practices – the World Trade Organisation's dispute settlement system – but, this has been paralysed by the United States [7].

Of course, China will not go back to the kind of total "self-reliance" it practised in the 1960s and 70s, when it made almost everything domestically. The result was stagnant growth and extreme poverty. Given this dismal history, opening up has been – and still remains – the consensus among the leadership, as well as the general public.

However, it is challenging to keep opening up, while at the same time pursuing self-reliance to some degree. Chinese policymakers should be very careful and avoid sleepwalking back to the age of total self-reliance.

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