

Weekly Commentary 21 – May 2023

The State of Sino American Economic Competition

After the hot air balloon incident in the US a couple of months ago, the US cancelled a scheduled Blinken diplomatic trip to China. Shortly after that, the Americans wanted to resume that trip, with other US officials also clamouring to visit Beijing to meet with their Chinese counterparts to resolve what they thought were pressing issues of contention between the two countries.

Repeated requests were made by the US to set up these meetings. They expected the Chinese to respond positively to these requests.

Much to their surprise and chagrin, the Chinese did not even bother to respond or answer phone calls. Evidently, the officials on the Chinese side have no interest to meet. Washington DC was given the cold shoulder treatment. This was actually an excellent way to respond. It was a way to tell the Americans, there is no point to meet if it only results in a revelation of what the red lines on the Chinese side are, and provides the Americans with subsequent opportunity to step all over them and then declare internationally that China is being aggressive on the event of bickering over these issues. So the Chinese attitude became, why bother to meet?

That is not good for the world. If the two largest economies in the world cannot find opportunities to carry out conversations to resolve differences, it cannot be good for the global economy.

The American officials who wanted to meet their Chinese counterparts included Antony Blinken, Janet Yellen, Lloyd Austin, Gina Raimondo, and Catherine Tai. The standoff has lasted since the hot air balloon incident. And by the way, after Qin Gang was promoted to Foreign Minister, the US ambassador position vacated by him has not been filled, and while this is not unusual, one can expect that absence of communications channels is another manifestation of an ongoing cold war between the US and China.

Well, as it turns out, there has been a change. Chinese Minister of Commerce Wang Wentao was in the US this week, meeting with US Commerce Secretary Gina Raimondo and US Trade Representative Katherine Tai. The meetings took place days after President Joe Biden signalled a thaw in bilateral relations strained by trade and security issues and the takedown

by a US fighter jet of a Chinese “espionage” balloon over American territory in February. The Financial Times had the following report on the first meeting:

US and China address trade tensions in rare high-level Washington meeting

Gina Raimondo and Wang Wentao signal efforts to maintain dialogue despite clashes over chips

By Joe Leahy in Beijing and James Politi in Washington, May 26, 2023

China’s commerce minister and his US counterpart have raised concerns about their countries’ trade and investment policies at a meeting in Washington but pledged to keep channels of communication open in the first visit by a senior Chinese official to the US capital since 2020.

The talks between Chinese commerce minister Wang Wentao and US commerce secretary Gina Raimondo on Thursday came with Washington and Beijing showing tentative signs of efforts to stabilise relations, which have hit their lowest point in 50 years.

Wang raised concerns about US export controls in areas such as semiconductors, as well as a proposal to review outbound investments for security purposes, according to a statement from Beijing’s ministry of commerce.

The US commerce department said the officials had “candid and substantive” discussions, including on the “overall environment in both countries for trade and investment and areas for potential co-operation”.

“Secretary Raimondo also raised concerns about the recent spate of PRC actions taken against US companies operating in the PRC,” the department said, referring to the People’s Republic of China.

Tensions flared over the weekend when the G7 group of industrialised countries, meeting in Hiroshima, issued a statement criticising China over security issues, such as its militarisation of the South China Sea and its use of “economic coercion” in trade.

Beijing issued an angry response, accusing G7 countries of seeking to contain other nations. It also announced a ban on Chinese information infrastructure companies buying chips made by US memory chipmaker Micron Technology, in what was seen as retaliation against Washington’s curbs on the sale of advanced semiconductors to China.

Chinese authorities in major cities have raided foreign consultancies in recent weeks, including shutting down the Beijing office of US-based due diligence group Mintz and detaining five of its local employees.

But analysts said there were indications the countries might be trying to put a floor under tensions, with US president Joe Biden also forecasting a “thaw” in relations at the end of the G7 summit in Hiroshima. Chinese state media last week said Wang’s meetings in Washington indicated that both sides “recognised the importance of economic and trade relations”.

The US commerce department on Friday said the meeting was part of efforts to “maintain open lines of communication and responsibly manage the relationship”. It added that Raimondo had expressed her

commitment to building on the “engagement” between Biden and Chinese president Xi Jinping, who last met at a G20 summit in Bali in November.

“The two sides agreed to establish channels of communication and maintain and strengthen exchanges on economic and trade concerns and other co-operation matters,” China’s commerce ministry said on Friday.

Analysts said the countries could be trying to create the conditions for Xi to visit the US in November for a meeting of the Asia-Pacific Economic Cooperation forum. Wang is also expected to meet US Trade Representative Katherine Tai on the sidelines of an APEC meeting in Detroit, which ends on Friday.

“Nobody is expecting structural change in the relationship, of course, the ‘cold war’ will still be there,” said Da Wei, director of the Center for International Security and Strategy at Tsinghua University in Beijing.

But there would be a “lower temperature, at least from now to the end of the year”, he said, adding: “I hope the two sides can reach agreement that no matter how bad the relationship, the dialogue should continue.”

The South China Morning Post reported on the second meeting between the two sides:

US-China relations continue to thaw at meeting between trade officials in Detroit

- *Chinese Commerce Minister Wang Wentao and US Trade Representative Katherine Tai hold talks on the margin of the Asia-Pacific Economic Cooperation gathering*
- *Discussion follows Wang’s session with US Commerce Secretary Gina Raimondo on Thursday in Washington*

Khushboo Razdan in Detroit, Michigan

Published: 3:18am, 27 May, 2023

Chinese Commerce Minister Wang Wentao sat down with US Trade Representative Katherine Tai in Detroit Michigan on Friday, continuing a resumption of high level face-to-face talks on trade tensions between the world’s two largest economies.

The talks followed Wang’s meeting with US Commerce Secretary Gina Raimondo on Thursday in Washington.

Wang’s meeting with Tai came on the sidelines of the Asia-Pacific Economic Cooperation (Apec) session in Detroit. A statement by the Commerce Ministry on Friday said the two sides had “candid, pragmatic and in-depth” exchanges on “economic and trade relations and regional and multilateral issues of common concern while agreeing to continue to communicate”.

“The Chinese side raised concerns on key issues such as the US economic and trade policy toward China, Taiwan-related issues in the economic and trade field, the Indo-Pacific economic framework, and Section 301 tariffs,” it read.

A read-out from Tai's office said the trade ambassador "highlighted the need to address the critical imbalances caused by China's state-led, non-market approach to the economy and trade policy", while raising concerns about China's actions against US firms operating there.

"The importance of the US-China trade ties in the global economy and the need for both sides to continue engaging" was also discussed, it noted, adding that Tai stressed the importance of maintaining open lines of communication and building on the engagement between US President Joe Biden and Chinese President Xi Jinping in Indonesia in November.

During the news conference at the end of the Apec trade ministers' session later on Friday, Tai reiterated the "benefit of sitting down and having a conversation" to "understand each other better and how we are experiencing the impacts that we have on each other's economies".

On Thursday, Wang told Raimondo of China's displeasure over the Biden administration's trade policies that restricted exports of certain semiconductors to China and its plans to bar some US investment there.

Like Tai, Raimondo raised the "recent spate of PRC actions taken against US companies operating in the PRC" and also discussed "the overall environment in both countries for trade and investment and areas for potential cooperation", according to the Commerce Department.

In 2018, then-US president Donald Trump, complaining that China was stealing American manufacturing jobs and dumping its cheap products in the US, imposed punitive tariffs on Chinese imports and started a trade war.

From both the above two accounts of two separate meetings, it all seems hunky dory. Perhaps the containment of China via trade sanctions has reached its limit when the Americans discovered it is not so easy to do so. For one thing, the trade sanctions launched by Trump during his presidency and then extended by Biden, have done nothing to bring industrial jobs back to the US, the main objective of these sanctions. Then instead of cutting US imports from China, they ended up fuelling inflation in the US leading to higher interest rates in the US economy. On the other side, China did not seem to have been under any economic pressure from these tariffs.

Then the other major trade restriction imposed by the Americans, which is organized under the Chips Act launched last August, ended up with American chip manufacturers taking a huge hit, when they lost the Chinese market for their products. The Chinese semiconductor industry was able to shift to domestic production for most of the sanctioned products and actually helped them to become more self sufficient and reduced their huge cost of importing these goods. Finally, the Chinese were able to reverse-sanctioned an American company, Micron, just last week, on a charge of security risks inherent in their products which led to the US Commerce Department complaining to China that they should not ban Micron, thereby reversing a policy to see less American exports of semiconductors to China. This final self-contradictory measure seems to signal to the policy makers in Washington that all the trade restrictions on China are not only useless but counterproductive leading to a situation of the Americans shooting themselves in the foot. It is not too surprising to see both Raimondo and Tai starting to lower tensions in the trade war, and calling for better cooperation.

Will this mean an end to the Chip War?

Signs are also emerging that whether the US government retracts the worst restrictions in the Chips Act, the American companies being restricted to sell to China are reeling from it. Some of these companies are therefore reportedly rebelling against US government instructions and are devising ways to sell chips to China, by either outright refusal to obey the restrictions imposed by the US government or creating new versions of banned chips to sell to Chinese companies. Basically to save themselves. In short, the chip war is not going as well as the Biden administration wants it to. Then a few days ago, China surprised everyone by disallowing an American company, Micron, to continue to sell their memory chips in China. It was a shocking reverse ban of sorts.

The US Dept of Commerce went ballistic. China imposing a chip ban on an American company? How absurd! They complained to the Chinese government and decried the ban.

Both sides are now obviously thinking that the war on chips is not good for either side. Well, ain't that true...

A geopolitical contest – a cold war - is not good for anybody. Not between the west and the Soviet Union a few decades ago, and not now, between China and the US. And here is what the grandmaster of geopolitical strategy, Henry Kissinger, has to say about the current cold war on his 100th birthday, as discussed in a NYT interview with him:

Henry Kissinger Surveys the World as He Turns 100

The great strategist sees a globe riven by U.S.-China competition and threatened by fearsome new weapons and explains why he now thinks Ukraine should be in NATO.

By Tunku Varadarajan

May 26, 2023 2:27 pm ET

New York

Eight years—that's all the time Henry Kissinger was in public office. From January 1969 to January 1977, Mr. Kissinger was first national security adviser and secretary of state under Presidents Richard Nixon and Gerald Ford, holding both titles concurrently for more than two years. He was 53 when he cleared his desk at Foggy Bottom to make way for Cyrus Vance. In the 4½ decades since, he has worked as a consultant on strategic relations to governments around the world and consolidated beyond dispute his reputation—first earned when he co-piloted the U.S. opening to China in 1972—as the pre-eminent philosopher of global order and the most original, erudite and hard-nosed statesman of his era.

Mr. Kissinger turns 100 on Saturday, and his appetite for the world he's spent a lifetime setting to rights is still zestful. We meet at his office four days before his birthday, and he offers swift proof not just of his charm but of his facility as a diplomat. "You never came to see me in my office," he scolds, reminding me of an invitation he'd made three years ago over dinner at the home of a common friend, my only previous meeting with Mr. Kissinger. I'd dismissed the invitation at the time as a grand old man's courtesy to a stranger.

The dinner was with Charles Hill, a onetime speechwriter for Mr. Kissinger and later a senior adviser to another secretary of state, George Shultz. The memory of Hill, who died in 2021, prompts Mr. Kissinger to offer an observation on Shultz, who lived to be 100 and also died in 2021. Shultz's approach to international affairs was "really not the same as mine," Mr. Kissinger says. "He looked at the economic motivations. I look at the historical and moral motivations of the people involved."

What Mr. Kissinger sees when he looks at the world today is "disorder." Almost all "major countries," he says, "are asking themselves about their basic orientation. Most of them have no internal orientation, and are in the process of changing or adapting to the new circumstances"—by which he means a world riven by competition between the U.S. and China. Big countries such as India, and also a lot of "subordinate" ones, "do not have a dominant view of what they want to achieve in the world." They wonder if they should "modify" the actions of the superpowers (a word Mr. Kissinger says he hates), or strive for "a degree of autonomy."

Some major nations have wrestled with these choices ever since the "debacle of the Suez intervention" in 1956. While Britain chose close cooperation with the U.S. thereafter, France opted for strategic autonomy, but of a kind "that was closely linked to the U.S. on matters that affected the global equilibrium."

*The French desire to determine its own global policy gave rise to awkwardness with President Emmanuel Macron's recent visit to Beijing. While critics say he pandered to the Chinese, Mr. Kissinger sees an example of French strategic autonomy at work: "In principle, if you have to conduct Western policy, you would like allies that only ask you about what contribution they can make to your direction. But that is not how nations have been formed, and **so I'm sympathetic to the Macron approach.**"*

It doesn't bother him that Mr. Macron, on his return from Beijing, called on his fellow Europeans to be more than "just America's followers." Mr. Kissinger doesn't "take it literally." Besides, "I'm not here as a defender of French policy," and he appears to attribute Mr. Macron's words to cultural factors. "The French approach to discussion is to convince their adversary or their opposite number of his stupidity." The British "try to draw you into their intellectual framework and to persuade you. The French try to convince you of the inadequacy of your thinking."

And what is the American way? "The American view of itself is righteousness," says the man famed for his realpolitik. "We believe we are unselfish, that we have no purely national objectives, and also that our national objectives are achieved in foreign policy with such difficulty that when we expose them to modification through discussion, we get resentful of opponents." And so "we expect that our views will carry the day, not because we think we are intellectually superior, but because we think the views in themselves should be dominant. It's an expression of strong moral feelings coupled with great power. But it's usually not put forward as a power position."

Asked whether this American assertion of inherent unselfishness strikes a chord with other countries, Mr. Kissinger is quick to say: "No, of course not." Does Xi Jinping buy it? "No, absolutely not. That is the inherent difference between us." Mr. Xi is stronger globally than any previous Chinese leader, and he has "confronted, in the last two U.S. presidents," men who "want to exact concessions from China and announce them as concessions." This is quite the wrong approach, in Mr. Kissinger's view: "I think the art is to present relations with China as a mutual concern in which agreements are

made because both parties think it is best for themselves. That's the technique of diplomacy that I favor."

In his reckoning, Joe Biden's China policy is no better than Donald Trump's: "It's been very much the same. The policy is to declare China as an adversary, and then to exact from the adversary concessions that we think will prevent it from carrying out its domineering desires."

Doesn't Mr. Kissinger see China as an adversary? He chooses his words carefully. "I see China, in the power it represents, as a dangerous potential adversary." He puts notable stress on the qualifier. "I think it may come to conflict. Here we have two societies with a global historic view, though different culture, confronting each other."

Mr. Kissinger contrasts his view from that of "others" who "start with a presumption of a permanent hostility, and therefore believe it must be confronted everywhere simultaneously on every issue that arises." Mr. Kissinger believes that "the two world wars should have taught that the price one pays even with conventional technology is out of proportion to most objectives that are achievable." But with today's weapons, and with "the growth within each society through cyber and biology to intrude into the territory of the other, this kind of war will destroy civilization."

To prevent war with China, then, the U.S. needs to refrain from being heedlessly adversarial and pursue dialogue instead. "The most important conversation that can take place now is between the two leaders, in which they agree that they have the most dangerous capabilities in the world and that they will conduct their policy in such a way that the military conflict with them is reduced."

It sounds much like détente, the Cold War policy Mr. Kissinger pioneered. "On the American side," he says, "the danger is that in such discussions the belief will arise that China has changed fundamentally and that we are in permanent peace and can disarm—and therefore become weak."

The peril of an "opposite course" is that "aberrations lead to total war. I'm supposed to be a realist. This is my realistic belief." Mr. Kissinger says that Charles Hill, who helped him write "World Order" (2014), would say that the Chinese position is "irremediable. But I say, even if that is true, we are best off getting into the position of conflict from having attempted every conceivable alternative other than appeasement. So this is not an appeasement doctrine."

Mr. Kissinger demurs when asked what concessions the U.S. might expect from China. "I'm not saying now which of their positions they should alter. I frankly don't look at it this way." We have, he concedes, "a problem" in the South China Sea. "I would see whether we can find some way of solving that within the 'freedom of the seas' formula. If we can't, then there will be confrontations."

He calls Taiwan "an insoluble problem" to which "there is no solution, other than time." He would therefore "welcome a formula that maintains the present status for a period of years in which, for example, the two sides will not issue threats against each other, or will limit their deployments against each other." This would have to be "carefully phrased, so that we don't say we are treating Taiwan as a country. But those are conceivable—I'm not saying achievable—objectives." Mr. Kissinger thinks Mr. Xi would be open to such discussions—but "not if we come to him and say, 'You have to show us progress in the following 10 fields, after which we will reward you.' That will not work."

Asked to size up China's ambitions, he deadpans: "I don't think they desire to spread Chinese culture around the world." They seek "security," not world domination, but they do expect to be the dominant power in Asia. Would India and Japan be expected to accept that? "The ideal position," Mr. Kissinger says, "is a China so visibly strong that that will occur through the logic of events." He foresees that Japan, in response, "will develop its own weapons of mass destruction." He offers a time frame of "three, or five, or seven years" for that to happen. "I'm not urging it," he stresses, "and if you can, you should make that clear in your article. I'm trying to give you an analysis."

The free world depends on U.S. leadership—as it has since the end of World War II. But Mr. Kissinger is worried. “We have no grand strategic view,” he says of the U.S. “So every strategic decision has to be wrested out of a body politic that does not organically think in these categories.” When the U.S. does adopt a strategy, it has a tendency to “go into it on the basis of overreaching moral principles, which we then apply to every country in the world with equal validity.”

America has its strengths. When challenged, “the mobilization of resources to resist the challenge is comparatively easy.” But threats are “interpreted in terms of physical conflict. So until such conflict approaches, it’s harder to mobilize. And so to act on the basis of assessment and conjecture is harder in America than in comparable countries.”

Mr. Kissinger does believe, however, that the Biden administration has done “many things” right. “I support them on Ukraine,” he says. “From my perspective, the Ukraine war is won, in terms of precluding a Russian attack on allied nations in Europe. It is highly unlikely to occur again.” But there are “other dangers that can rise out of Russia. As we are ending the war, we should keep in mind that Russia was a major influence on the region for hundreds of years, caught in its own ambivalence between admiration and feelings of inferiority or of danger coming from Europe.” That ambivalence, he suggests, was behind this war: “I think the offer to put Ukraine into NATO was a grave mistake and led to this war. But its scale, and its nature, is a Russian peculiarity, and we were absolutely right to resist it.”

He now believes that Ukraine—“now the best-armed country in Europe”—belongs in the North Atlantic Treaty Organization. “I’m in the ironical position that I was alone when I opposed membership, and I’m nearly alone when I advocate NATO membership.” He would like the terms of the war’s end to include the return to Ukraine of all territory with the controversial exception of Crimea. “For Russia, the loss of Sevastopol, which was always not Ukrainian in history, would be such a comedown that the cohesion of the state would be in danger. And I think that’s not desirable for the world after Ukraine.”

Mr. Kissinger leaves no doubt that he believes in a Pax Americana and in the need “to defend the areas of the world essential for American and democratic survival.” But the ability to “execute it politically,” he says, “has declined sharply, and that is our overriding problem now.” He ascribes this political weakness to a decline in belief in the U.S. in its own historical ambitions and institutions. “There’s no element of pride and direction and purpose left,” he laments, as American leaders grapple with angst generated by events of “300 years ago.”

Alongside that, there isn’t enough common purpose and principle across partisan divides. That weakens democratic resolve and the ability to act in the shared national interest. “Even in my day, it used to be possible to talk to groups of senators and not guarantee acceptance, but guarantee some willingness” to find common ground. A cross-partisan team like Harry S. Truman and Arthur Vandenberg—a Democratic president and a Republican Senate Foreign Relations Committee chairman, working together to rebuild Europe and win the Cold War—would be all but improbable today.

Mr. Kissinger believes “that’s what’s needed,” and that we have to find a way to re-create the older forms of patriotic collaboration. “There has to be something, some level, in which the society comes together on the needs of its existence.”

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I have marked the key points in the above interview in red. Those are conclusions by Mr Kissinger that most people would understand to be the weakness of Pax America – that an

internal “civil war” prevents a unity of purpose that can deliver an effective foreign policy that once made it a great nation that all others admired. Now that is no longer the case, and all it seems to be able to do these days is a self-serving pursuit of hegemony that gets millions killed in pointless wars initiated by a neo-con minority holding positions of power in the State Department. And that is why 85% of the planet does not support the foreign policies of the US as we have seen in the war over Ukraine.

In the context of Kissinger’s opinions, the talks between Raimondo/Tai and Wen are unlikely to be the end of the tech/trade wars between the US and China. It is also highly unlikely that the entire Biden administration have come to some conclusion that they need to stop pursuing a policy of containment. It is more likely that the US side is surprised by the resilience of the Chinese, and are just buying time before the next move. This cold war is not going to end anytime soon.

But China is not sitting on its hands. The chip industry in China is growing very fast, and has become the largest chip manufacturing country in the world, producing 57% of the world’s chips last year. Taiwan makes 21 percent and S Korea is responsible for 19 percent. Ironically, the US, the inventor of the technology, is not even in the top three chip producing countries these days. Taiwan and S Korea produces higher end chips than China but the mass market belongs to the Chinese. And Chinese companies are catching up on the more sophisticated chips.

What are the factors which enabled China to grow its chip industry so quickly? First of all, China has the entire supply chain to make chips. It has deliberately set out its own supply chain due to a diligent preparation to prevent the US from interfering with its production processes. Secondly, it also has superlative manufacturing infrastructure and knows how to organize this well for chip making. And finally, it has a few top chip-making companies which has leveraged off the first two advantages above that were deliberately set up to offset US interference with its chip production. One of these is SMIC, which has received substantial government support. This company is targeted by Beijing to become a champion of the Chinese semiconductor industry and SMIC has had the government’s support in solving supply chain problems and in joining alliances in which it can develop a global market for its products. SMIC is now the third largest chip manufacturer in the world, after TSMC and Samsung. And as such, in the current chip wars, SMIC can hold its own against the American sanctions. In short, a US victory in the chip wars over China is not a given.

And one cannot assume that the Chinese will sit passively to be whacked by the Americans. Just as it has already retaliated via the Micron embargo, there is always a possibility that the Chinese will take things to a different field of competition. It does not mean that a tech war can only be waged on chips. The Chinese can always choose to fight in another technological field.

As a matter of fact, there may also be further Chinese retaliation in a broadening technology war. Even as the Chinese become more technologically competitive, and can survive the American sanctions in semiconductors, they may choose to fight back in areas in which they are more advanced than the US. Years ago, such a scenario would not have been possible, but now China leads in a number of global industries. One of them is lithium batteries within the broader field called electric vehicles.

The electric vehicle market is growing fast – and this trend will continue to accelerate in the days ahead. It looks to be one of the biggest shifts we've seen in more than a century – since cars replaced the horse and buggy.

And as millions of EVs roll off assembly lines, the demand for lithium – an essential component in EV batteries – will surge. Even Elon Musk has joined in the conversation, tweeting that lithium prices had gone to "insane levels," and they're likely to continue climbing.

Analysts forecast demand will reach 3.2 million tons by 2030 (with a majority going into EV batteries), a massive **889% increase**. Skyrocketing demand will likely cause the price of lithium to skyrocket even more. In addition, lithium production is already falling significantly behind demand. This combination of factors could push select lithium stocks to record high prices.

Right now, investors are looking for opportunities to profit from this new trend. For example, one leading lithium stock more than doubled in 2022, gaining **+131%** while the S&P fell deeper into bear market territory.

The electric vehicle revolution cannot be stopped. The EV battery market is projected to grow to \$155 billion by 2028 in the US alone. That's 7 TIMES bigger than it was in 2020.

This practically guarantees that lithium will remain one of the most valuable and in-demand commodities on the planet.

Guess who controls the global lithium market? Yes, China. Can there be a lithium war? You bet! The Americans are exactly afraid of that, and when it was discovered that their top-of-the-line F35 fighters had lithium parts, the whole force of such jets was suspended. Now, the US is keeping an eye on the lithium supply chain from China.

If one day in the near future, there is an announcement of a tech war on lithium batteries, then we would conclude that China is striking back and likely to have an edge in a widening tech war.

Ask Kissinger how that would end.

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Un-Influencer in a World full of Hubris