

US Trade War Claims China's Telecom Firm ZTE as First Victim

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Global Research, May 11, 2018

[World Socialist Web Site](#)

Region: [Asia](#), [USA](#)

Theme: [Global Economy](#)

The US trade war against China has claimed its first major victim with the telecom firm ZTE announcing that the “major operating activities of the company have ceased.”

The announcement, which came in a statement issued to the Hong Kong stock exchange late on Wednesday, is the result of a seven-year ban imposed by the Trump administration on sales of US components to the company last month, claiming it had breached the terms of a settlement of a deal over the company's sales to Iran and North Korea.

The company operates on a global scale, doing business in more than 160 countries with over 74,000 employees. It generated revenues of \$17 billion last year and recorded a profit of more than \$700 million. It is the fourth largest smartphone vendor in the US and also supplies equipment for phone and telecommunications networks.

It is one of the largest suppliers of telecommunications equipment supporting networks across Africa and in the Middle East, a business which could now be wiped out. The wireless carrier MTN, which provides networks to 220 million people in 22 countries across Africa, said it was assessing contingency plans given its exposure to ZTE in its networks.

Telstra, the biggest Australian telecom firm, said it would no longer carry its own-branded smartphones made by ZTE because it could not guarantee supply. ATT, the major distributor of ZTE phones in the US has said it is assessing the impact of the ban.

Production at the company's manufacturing plant in Shenzhen ceased in April but employees are continuing to report for work and collect their wages. In its statement ZTE said that “as of now” it still maintained sufficient cash to comply with its commercial obligations.

ZTE said that together with “related parties” it was “actively communicating with relevant US government departments” in order to facilitate the removal or modification of the order banning sales of components to it by US firms.

The Chinese government is directly involved in those discussions. At the meeting at the end of last week in Beijing with a high-level US economic and trade delegation, the Chinese government raised the ZTE case in its list of demands. It pointed to “high concern” over the case and called on the US to “listen to ZTE's complaints seriously,” and consider the company's progress in complying with US demands.

How much weight that will carry is another question under conditions where the central axis of US trade policy towards China is aimed at blocking its development in high-tech

industries, not least in telecommunications, which it regards as an existential threat to US economic and ultimately military dominance.

Far from pulling back, the Trump administration is reported to be considering imposing further bans on Chinese companies selling telecom equipment in the US on “national security” grounds.

The ban by the Commerce Department has struck a severe blow because it targets one of the key weaknesses of the Chinese telecoms sector. China does not have a highly developed chip-making capacity and ZTE has been forced to rely on the US firms Qualcomm and Intel for the chips used in its devices.

In the longer term, the Chinese government is expected to respond by pouring resources in to the development of chip-making capacity. In its report on the ZTE shutdown the *New York Times* cited a recent speech by Chinese President Xi Jinping pointing in this direction.

“By tightening our belts and gritting our teeth, we built ‘two bombs and one satellite,’” Xi said. “The next step is to do the same with science and technology. We must cast away false hopes and rely on ourselves.”

In the immediate situation, the US action has brought warnings that it will bring about major disruption in global supply chains.

Christopher Thomas, a partner at McKinsey’s in Beijing, told the *Financial Times*:

“The complexity of this issue is mind-boggling because the electronics value chains are much more complex and globally integrated than they were in the past.”

A technology lawyer cited by the newspaper said the ruling over ZTE would “lead to increased Balkanisation of the tech world, and speed up the tech ‘arms race’ between China and the US.”

The issue of the ZTE ban will likely be raised at talks in Washington next week when a Chinese delegation, headed by chief economic negotiator Liu He, will hold talks with senior economic officials of the Trump administration over US demands that the trade deficit between the two countries be reduced by \$200 million within two years. The US has threatened to impose tariffs on up to \$150 billion worth of Chinese goods by the end of this month unless progress is made.

The *Wall Street Journal* reported that China was likely to offer to import more US goods as the main way of reducing the trade gap.

However it noted it was “far from clear whether even a good-faith effort by China to reduce the deficit would be enough to satisfy the Trump negotiating team” because although Treasury Secretary Steven Mnuchin is focused on deficit reduction, the US Trade Representative Robert Lighthizer “has been leading negotiations on more fundamental issues.”

Those issues centre on Beijing’s “Made in China 2025” program which aims at boosting the

country to a leading role in high-tech development. Lighthizer and fellow anti-China hawk White House economic adviser Peter Navarro regard the program as a direct challenge to US economic supremacy and the US “negotiating” platform issued in Beijing last week included the demand that it be virtually scrapped.

The ever-more aggressive “America First” program, which is directed not just against China but at all the major US trading partners, is starting to produce shifts in economic relations. This was in evidence at a trilateral summit in Tokyo earlier this week attended by Chinese Premier Li Keqiang, Japanese Prime Minister Shinzo Abe and South Korean President Moon Jae-in.

Standing beside his Japanese and South Korean counterparts, Li delivered a speech calling for closer economic integration between the three countries and for the completion of the Chinese-backed Regional Comprehensive Economic Partnership.

Without directly citing the Trump administration he declared:

“In the current circumstances, China, Japan and South Korea should stand even more firmly, uphold the rules-based multilateral trading system and proudly oppose protectionism and unilateral actions.”

Moon and Abe also made similar remarks endorsing free trade and closer economic alignment of the three countries.

In the face of the most significant moves towards global trade war since the 1930s, one of the other characteristics of that disastrous decade—the formation of trade blocs—is also starting to take shape.

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