

China is preparing to retaliate harshly on the trade and technology war

The Chinese government has issued its trade white paper. China is going to build its own "unreliable entity list", and investigate why mail is being diverted to the US. The Defense Department also has warned the rest of the world not to cross the line on Taiwan to avoid war. These series of actions are the start of Xi's "long march".



Source: Shutterstock

China is taking a harsh stance on the trade and technology war.

From last Friday to Sunday, China has taken a series of actions to protect its trade and technology companies:

1. China is going to build its own "unreliable entity list", which we expect will be similar to the US "entity list" in the way that it blocks out foreign companies from doing business with domestic firms.
2. China has issued its trade white paper, summarising the points of China's reaction to the US' "unrespectful" terms in the draft trade agreement. This means China will only go back to negotiation if the US removes those "unrespectful" terms.
3. China's Defence department has warned of military actions with respect to Taiwan if any foreign countries cross the line.

"The series of actions over the weekend means that China's "long march" has begun. We take this seriously. It means that the trade war has not only become a technology war but also a broadbased business war. "

The harsh stance means that President Xi's "long march" has begun

The series of actions over the weekend means that China's "long march" has begun. We take this seriously. It means that the trade war has not only become a technology war but also a broad-based business war. There will be more retaliation actions from China, especially for the technology sector.

On military war with respect to Taiwan, we believe that this is a bit distant. But we are not dismissing the warnings of war out of hand.

Bad news for the asset market in the short term, but positive for negotiation in the longer term

We can imagine that asset markets will react quite negatively to China's actions over the weekend. This is especially so for the creation of the "unreliable entity list" which will hurt corporate earnings directly if a US company is included in the list.

But these actions could be viewed as putting China back onto a level playing field. The US should now know that suppressing China will result in bounce-back retaliation from China. Whether this will encourage the US to go back to the negotiation table is hard to gauge.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com