The Huawei arrest made the stock market tank. Trump may not even have known about it.

By Henry Farrell and Abraham Newman
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The arrest and possible extradition to the United States of Meng Wanzhou, the chief financial officer of Chinese communications giant Huawei, in Canada for possible sanctions violations made the stock market tank. However, it is not just a simple criminal case, or even a crude effort to exert economic pressure on China. Instead, as we explain below, it shows how the geostrategic relationship between the Washington and Beijing is changing.

The arrest may not have been part of Trump’s trade strategy

Unsurprisingly, Chinese commentators think that the arrest was intended by the United States to put trade pressure on China. This theory is supported by the apparent comments of unnamed administration officials that they can use the arrest for bargaining leverage.

However, there is reason to suspect that the arrest happened because one part of the Trump administration didn’t know what the other was doing. The United States and China interact on a whole host of issues, including trade, sanctions, innovation policy and supply chains. These issues are becoming increasingly interconnected — but the parts of the U.S. government that deal with them are not. U.S. negotiators may not have coordinated with the Justice Department officials who are demanding the extradition of Chinese business leaders, or even known that the arrests were planned.

The White House is supposed to use the National Security Council (NSC), which supports the national security adviser, to coordinate information from different parts of the Trump administration. However, this is not a normal White House. The hawkish national security adviser, John Bolton, is notorious for blocking political information flows in pursuit of his political agenda. He has said that he knew about the arrest in advance. However, the White House has claimed that President Trump himself did not know about the arrest before he had dinner with Chinese President Xi Jinping. If this claim is true, Bolton may not have briefed Trump or other officials involved in the trade negotiations, or he may have nominally informed Trump in a way that Trump ignored or failed to understand. Even if so, it will be hard to convince China that this was the product of poor coordination between different government agencies.
These difficulties are playing out in an increasingly tense relationship between the United States and China. For decades, international relations scholars have been interested in the growing interdependence of the U.S. and Chinese economies. The two are tied together by a dense network of supply chains, in which U.S. companies, such as Apple, rely on Chinese produced and assembled components for their products. Many have hoped that economic interdependence between the United States and China would bind them into a tight and cooperative relationship. Increasingly, however, this interdependence has been a source of tension rather than friendship.

Since the beginning of the Trump administration, the most publicly visible tensions involve trade. Trump and some of his advisers see trade in zero-sum terms. However, a second and quite different set of tensions started to emerge before Trump took office. Many in the United States see China as a strategic military competitor, and they fear that the close economic ties between the two are creating vulnerabilities. As Anthea Roberts, Henrique Choer Moraes and Victor Ferguson show, congressional investigations into Chinese takeovers in U.S. companies sharply increased in the Obama era. China skeptics see companies such as Huawei as providing communications systems that may be subtly compromised by the Chinese government, to make spying — or even sabotage — easier. Some skeptics have pressed allies and U.S. firms to block the distribution of Huawei components. They also fear that China is stealing U.S. technological secrets that can then be used not only to enhance China’s commercial prowess but its military might as well.

Notably, China has its own version of these strategic worries. The importance of the U.S. market and U.S. components in supply chains mean that decisions by U.S. regulators to limit market access to key elements of the U.S. economy or U.S. produced technology can cripple foreign firms, creating existential risk for the Chinese economy.

In the last major sanctions case — ZTE — the United States threatened to block ZTE’s access to semiconductors manufactured in the United States or by firms with exposure to U.S. markets. This would have driven ZTE out of business. The episode has led China to accelerate its efforts to create its own domestic semiconductor industry, out of fears that the United States will use trade in semiconductors as a weapon against it. Both the United States and China are trying to maneuver away from mutual dependency and entanglements, because each fears that the other will take advantage. Ultimately, the distinction between trade and national security is blurring, because private sector technologies from semiconductors to artificial intelligence have both economic and military implications.

How the U.S. uses international networks to enhance its power

As we argue in our recent paper on weaponized interdependence, the United States uses the
chokepoints in international networks to coerce foreign actors; Meng’s arrest is a perfect example. She was taken into custody at the Vancouver, B.C., airport because it is where two global networks intersect — the airline hub and spoke system and the network of states with which the United States has extradition treaties.

Air transport has developed centralized patterns of transportation to lower costs. Passengers fly through ‘hub’ airports, where they must make connections to get from one destination to another. Similarly, there is a complex network of 100 or so nations with which the United States has extradition treaties, allowing Washington to demand the extradition of individuals who are accused or convicted of a crime.

Meng was reportedly arrested while transferring between flights at the Vancouver airport, which has become a key hub for international flights to and from China, and which is located in Canada, a country that closely cooperates with the United States on criminal matters.

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