President Trump’s Dec. 29 phone call with Chinese President Xi Jinping set a somewhat more encouraging tone for upcoming trade talks in January. December was a rocky month, with the arrest in Canada on a U.S. warrant of Meng Wanzhou, the chief financial officer of Huawei, a Chinese telecom company, and China’s subsequent arrest of two Canadians, complicating the 90-day tariffs cease-fire the two leaders declared on Dec. 1 in Buenos Aires.

Regardless of what happens next on tariffs, the ongoing trade war has exposed three things that are unlikely to change anytime soon. Here’s what you need to know:

1. China’s “regulatory state” is part and parcel of Beijing’s globalization strategy.

A strict regulatory regime underscores the unique challenge of China’s trade advantage. China began to liberalize foreign direct investment (FDI) in the 1990s, even before the country joined the World Trade Organization in 2001. But almost immediately, as my research shows, the Chinese government systematically re-regulated sector by sector, deliberately employing economic and state interventionist tools to expand the national technology base, promote domestic industry and enhance national security.

Nowhere is this more evident than in telecommunications. The introduction of competition in telecom services has modernized
China’s communications infrastructure — but the Chinese government retains state ownership in basic services and tight control over information dissemination. Beijing does not permit direct market entry of foreign Internet service providers, despite its WTO commitments.

As equipment manufacturers, foreign companies like Ericsson and Nokia were able to invest in China. But the reality of investing in China’s telecom sector requires foreign companies to form joint ventures with domestic competitors and transfer their technology to local suppliers. Foreign investors must also manufacture products with domestic contents — and follow China-specific technical standards.

From the mid-1990s through the late 2000s, the research and development and rollout of TD-SCDMA, China’s indigenous 3G telecommunications standard, involved initial technology from German equipment maker Siemens, working closely with state-owned Datang, managed by the Chinese Academy of Telecommunications Technology.

The Ministry of Industry and Information Technology (MIIT) delayed licensing global 3G technologies, instead waiting on the technical maturity of TD-SCDMA. Then MIIT compelled foreign equipment makers like Motorola and Samsung, and state-owned ZTE and quasi-private Huawei, among others, to invest in products deploying TD-SCDMA for the China market.

To roll out TD-SCDMA, the government restructured the state-owned carriers to maximize nationwide network resources and service operation capabilities. It then assigned TD-SCDMA to the newly strengthened China Mobile. In the mid-2010s, MIIT again
delayed licensing the next 4G technologies until after the state-owned carriers successfully rolled out TD-LTE, China’s homegrown 4G standard.

2. In 2019, look for 5G wireless standards to complicate the trade war.

This “strategic re-regulation” of FDI to enhance indigenous innovation and modernize infrastructure is unfolding right now with the development of 5G networks. This next-generation technology is expected to significantly boost data transfer and wireless speeds, and lower lag times between network and device.

Despite Beijing’s regulatory efforts, TD-SCDMA and TD-LTE are not widely adopted outside of China. This time around, Chinese companies (from Datang to Huawei and ZTE) own in total about 10 percent of 5G-essential intellectual property rights (IPR). The 2017 adoption of Huawei’s Polar coding methodology by 3GPP, the global wireless standards-setting body, will likely raise that number as telecom companies around the world, including in Canada and India, deploy Huawei technology for 5G networks.

So will China’s regulatory state. Made in China 2025, the industrial policy plan Beijing released in 2015, identifies strategic emerging sectors like autonomous vehicles, green technology and semiconductors — and also emphasizes breakthroughs in 5G development.

Here’s an example of how Chinese regulators and courts exert influence over global markets, with so many multinational corporations doing significant business in China. The State Administration for Market Regulation showed China’s tight regulatory fist by delaying the merger between two rival
Three things that the trade war with China won’t change - The Washington Post

chipmakers: Qualcomm, a U.S. company whose China business accounted for nearly two-thirds of its revenue in 2017, and NXP of the Netherlands. The deal would have increased Qualcomm’s competitiveness in the Internet of Things, including connected cars.

Just recently, an IPR tribunal of the Fuzhou Intermediate Court banned the sale of older iPhone models after ruling earlier that Apple infringed on Qualcomm patents covering wireless networks and devices. Chinese handset makers like Xiaomi, Vivo and OPPO compete with Apple, and license Qualcomm’s 4G and 5G technologies.

China’s state-owned telecom operators won’t just rely on Qualcomm to maximize China’s first-mover advantage in 5G technology. U.S. chipmaker Intel, which operates two assembly and testing factories in Chengdu, has partnered with Huawei and China Mobile to conduct interoperability trials and will work with China Unicom to roll out 5G at the 2022 Winter Olympics in Beijing. And there were reports in September that the Chinese government is considering restructuring the national carriers for 5G rollout.

3. China’s regulatory state locks the United States and China into a complex interdependence.

Whether China’s 5G maneuvers suggest a telecommunications race or an all-out tech war, many analysts expect China to fully commercialize 5G by 2020, five years ahead of Australia, the European Union, Japan, South Korea and the United States.

With chips, networking equipment and smartphones assembled and sold in China, and many related inputs produced there, U.S. high-tech companies, including Qualcomm, Intel, and Apple, are
worried about their bottom line as the trade war continues. These companies joined a multi-sector alliance to lobby against the trade war — and argue that trade disputes would slow down the development of 5G in the United States.

According to the White House, Xi made a promise in Buenos Aires to enforce IPR and approve the Qualcomm/NXP merger. These concessions, however, don’t change Beijing’s dominant patterns of market governance in strategic sectors. Higher fines for IPR infringement were already in the works, and the merger is conditioned on whether the companies actually revive their deal.

The current slowdown notwithstanding, 40 years into China’s “reform and opening,” China’s regulatory state matters not least because Chinese regulators and courts increasingly have influence over global value chains, global markets and the direction of technological innovation.

Yet precisely because of the complex interdependence its globalization strategy has created, China can’t race ahead without the world in lockstep. China requires global technologies and global markets to propel ahead just as U.S. companies across sectors are eager for the trade dispute to end.

Roselyn Hsueh is an associate professor of political science at Temple University and a Global Order Visiting Scholar at the University of Pennsylvania. The author of “China’s Regulatory State: A New Strategy for Globalization,” she is completing her next book, which compares the micro-institutional foundations of capitalism in China, India and Russia, under contract with Cambridge University Press. Follow her on Twitter @RoselynHsueh.