



China starts 'surgical' retaliation against foreign companies after US-led tech blockade

Description

Spectre of hostage diplomacy returns following raids on offices of western companies

China is starting to target western interests in the country after five years of snowballing trade and technology restrictions spearheaded by the US under presidents Donald Trump and Joe Biden. Over the past two months, Chinese officials have slapped new sanctions on US weapons companies Lockheed Martin and Raytheon, launched an investigation into US chipmaker Micron, raided US due diligence firm Mintz and apprehended local staff, detained a senior executive from Japan's Astellas Pharma group and hit London-headquartered Deloitte with a record fine. President Xi Jinping's administration is now considering curbing western access to materials and technologies critical to the global car industry, according to a commerce ministry review. The response to what Beijing has described as a US-led "technology blockade" reveals Xi's strategy of narrowly targeting industries and companies with little risk of damage to China's interests. "China has not abandoned its strategy of restraint to shift to a new position of wide-ranging retaliation, but they're going to surgically select companies to demonstrate their frustration," said Paul Haenle, a former China adviser to US presidents George W Bush and Barack Obama. However, the decision to conduct raids and detain staff from foreign companies has raised the spectre that Beijing will escalate hostage diplomacy if relations with the west deteriorate. The Mintz and Astellas cases have sparked an urgent review of employee safety and the immediate suspension of some travel plans to China, said two people from foreign risk consultancy groups. "This has been a wake-up call for the industry," one of the people said. "It is hard for the due diligence players — the levels of paranoia in China are so high — but it also affects 'blue-chip' service firms and outfits like Bain, McKinsey and Boston Consulting Group." Experts said Japan was particularly vulnerable to Beijing's hostage diplomacy because it lacks a sophisticated intelligence agency of its own and lacks tools to negotiate the return of its citizens. Since China passed a counter-espionage law in 2014, 17 Japanese nationals have been arrested. Five of them, including the Astellas employee, remain in detention, according to Japan's foreign ministry. In February, Beijing imposed new sanctions on Lockheed and Raytheon, two of the biggest US defence companies. The move reflected Chinese opposition to weapons sales to Taiwan but had little commercial impact as the groups were not allowed to sell military equipment to China. Beijing's investigation into Micron, launched last month

on national security grounds, is viewed as the clearest signal of Xi's retaliation gathering momentum. Dexter Roberts, a senior fellow at the Atlantic Council, a Washington think-tank, said he was surprised by Beijing's restraint given the US-led campaign to cut off China from core chipmaking technologies had "struck right at the heart of China's global advanced technological ambitions". Despite Beijing's anger, Xi's economic planners are wary of undermining efforts to use foreign investors to help restart the Chinese economy after the pandemic. This means Beijing is expected to refrain from acting against companies and industries seen as critical to economic recovery. "It all goes back to the fact that China is facing a lot of challenges this year, particularly on the economic side," Roberts said. "The last thing they need to do is be distracted by an even more hostile relationship with the US." Following the finance ministry's record \$31mn fine on Deloitte over audit deficiencies, experts said they expected pressure to increase on the Big Four accounting firms. Cheng Lin, an accounting professor at China Europe International Business School in Shanghai, said while audit quality had long been problematic at foreign and local firms, the "main drivers" were Beijing's worries about data and national security. The carmaking sector is also braced for the outcome of a 2022 commerce ministry review of technology export restrictions, including possible controls on some rare earth materials and lidar technology used in mapping for driverless cars.

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Tu Le, founder of Sino Auto Insights, a Beijing consultancy, said any decision by China to "weaponise their dominance in mining and refining" of materials used by the electric vehicle industry would create "immediate anxiety for the US, European, Japanese and Korean governments". The restrictions could also be used as leverage to bargain for a loosening of semiconductor controls, said Arthur Kroeber, head of research at Gavekal Dragonomics, a Beijing consultancy. Soo Kim, a former CIA analyst and Asia expert, expects Beijing's retaliatory moves to expand because there appears to be no near-term fix to US-China relations. "With so many pieces in the US-China competition, Beijing has many levers it can pull," she said, "including exerting pressure on US allies and partners whose economies are dependent on trade with China."

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Date Created

04/18/2023