

Shadow Protectionism: The US Government vs. Chinese Phone Makers

In February, US intelligence community leaders told the US Senate's Intelligence Committee that Chinese phone manufacturers Huawei and ZTE represent a national security threat. FBI director Christopher Wray warned of the Chinese government finding ways to "maliciously modify or steal information" and "conduct undetected espionage" through these inexpensive consumer products.

In March, Federal Communications Commission chair Ajit Pai proposed a new rule forbidding use of the two companies' equipment in phone and Internet access projects financed through the commission's Universal Service Fund, pointing to similar national security concerns.

On April 16, the US Department of Commerce banned American firms from selling vital components to ZTE for seven years, citing the company's violations of trade sanctions on Iran and North Korea. Or, to put it a different way, citing national security.

Are cheap Chinese phones and Internet routers really a significant threat to national security? Probably not. The more likely motive behind these moves is the inclination of US president Donald Trump, and his administration, toward "economic nationalism" in the form of protectionist trade policies directed with particular venom toward China.

Simply put, the Trump administration would rather see Americans buying phones made by American companies (e.g. Apple and BLU) or at least by companies in countries more closely tied to the US (e.g. Samsung and LG in South Korea, Sony in Japan, and HTC in Taiwan) than phones made by Chinese companies.

In other areas, Trump's protectionism has been more overt, as with his tariffs on steel and aluminum. Why this different, under-handed approach with phones? Because it's hard to put an "America First" spin on phone protectionism.

For one thing, he knows Americans are going to buy foreign phones. Apple's price point is a bit high for most, and BLU has recent consumer confidence problems over Chinese malware (sort of inconvenient to the "national security" story, huh?) Americans on a budget buy cheap foreign Android phones; more well-heeled buyers who prefer Android to iOS choose Samsung.

Secondly, he'd rather not have his base see as him throwing a bone to foreign phone makers (although you can bet he'll bring it up in trade negotiations), while at the same time hitting the bottom lines of American companies like Qualcomm, Intel and Microsoft.

This dog and pony show is less about “America First” than it is about “Get China.” It’s sure to put American firms in other market sectors on edge. Who will the next victims be and how bad the damage? The administration’s anti-China scheming is the trade equivalent of Russian roulette.

In a globalized economy, it’s impossible to hurt one country or firm without also hurting several enterprises in your own country — and your own country’s general economy. More domestic companies will be harmed than helped, and the harm will exceed the benefits.

Hiding protectionist schemes behind appeals to “national security” doesn’t reduce the damage. It merely shifts blame and conceals motives. Every time Trump indulges his urge to “Get China,” American companies and American consumers will feel the pain.