

Breakingviews - China's Big Brother drafted into trade war

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HONG KONG (Reuters Breakingviews) - China's Big Brother is getting dragged into the trade war by Donald Trump. Export controls and sanctions are under consideration for companies whose technology helps Beijing monitor Muslim minorities. Despite the surprise of this U.S. administration weighing in on Chinese human rights issues at last, the policy could hit U.S. suppliers and further curb enthusiasm for related Chinese stocks.

Chinese soldiers participate in an anti-terror drill in Hami, Xinjiang Uighur Autonomous Region, China, July 8, 2017. Picture taken July 8, 2017. REUTERS/Stringer ATTENTION EDITORS - THIS IMAGE WAS PROVIDED BY A THIRD PARTY. CHINA OUT. NO COMMERCIAL OR EDITORIAL SALES IN CHINA.

Efforts by the People's Republic to protect itself from internal threats have surged in recent years. Net domestic security spending reached nearly \$200 billion in 2017, more than twice as much as a decade ago, according to an estimate by academic Adrian Zenz. It has concentrated on restive regions such as Xinjiang, where there have been violent incidents between the Muslim Uighur minority and immigrants from the ethnic Han majority. The United Nations has criticized policies including the detention of an estimated 1 million Uighur civilians. The Chinese government says it is fighting Islamist radicals and separatists.

Massive purchase orders for monitoring equipment and software used for such purposes represent a big business opportunity for manufacturers and developers, domestic and foreign. State-owned Hangzhou Hikvision Digital Technology, for example, has developed camera technology specifically for identifying ethnic minorities, according to trade publication IPVM.

Its shares were the most actively traded in September over the Hong Kong-Shenzhen cross-border stock trading mechanism. Venture capitalists are eagerly shopping for security startups. Alphabet-owned Google is considering rolling out a censored Chinese version of its search engine, which would almost certainly be forced to block overseas content about activity in Xinjiang.

Under the restrictions being contemplated by the U.S. Commerce Department, the likes of Intel may be forced to stop selling to \$39 billion Hikvision. Nvidia, another American chipmaker and Hikvision partner, generated \$1.5 billion of revenue in China in the first half of the year. Thermo Fisher Scientific supplied Xinjiang police with DNA sequencing equipment, according to Human Rights Watch. After monster rallies last year, shares of Hikvision and peers including Dahua Security have been sliding since March. These latest developments could keep the pressure on them.

Breakingviews

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