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ASIA

# U.S. Takes Aim at Huawei

Arrest of telecom giant's CFO escalates U.S.-China tech battle



Huawei founder Ren Zhengfei, second from left, with Chinese President Xi Jinping at the company's London offices in 2015.

PHOTO: MATTHEW LLOYD/AGENCE FRANCE-PRESSE/GETTY IMAGES

*By Kate O'Keeffe and Bob Davis*

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The Trump administration's efforts to extradite the chief financial officer of China's Huawei Technologies Co. over criminal charges mark the start of an even more aggressive phase in the technology rivalry between the U.S. and China and will increase pressure on Washington's allies to shun the telecommunications company.

Armed with a U.S. extradition request, Canadian authorities arrested Meng Wanzhou on Dec. 1, the same day as President Trump was holding a summit with Chinese counterpart President Xi Jinping. But White House officials said Mr. Trump had no advance knowledge of the arrest, indicating the action was on a separate track from trade talks currently under way between Washington and Beijing.

Ms. Meng's detention underscores a sense of urgency, at the Justice Department and other U.S. agencies, to address what they see as a growing threat to national security posed by China's ambitions to gain an edge in the tech sector. For years, Washington has alleged the Chinese government could compel Huawei, which supplies much of the world with critical cellular network equipment, to spy or to disrupt communications.

and has never used its equipment to spy on or sabotage other countries. The Chinese government, speaking through its embassy in Canada, strenuously objected to the arrest, and demanded Ms. Meng's immediate release.

U.S. prosecutors made the extradition request based on a sealed indictment for alleged violations of Iran sanctions that had been prepared for some time, people familiar with the matter said. A federally appointed U.S. overseer, formerly charged with evaluating HSBC Holdings PLC's anti-money-laundering and sanctions controls, relayed information about suspicious Huawei transactions to federal prosecutors in the Eastern District of New York, some of the people said.

Ms. Meng, the daughter of Huawei's founder, Ren Zhengfei, is now in custody in Vancouver, and a bail hearing has been scheduled for Friday, according to a spokesman for Canada's justice department.

Some worried a lack of coordination on the various strands of the Trump administration's China initiatives could be counterproductive, especially if Mr. Trump decides to use the detention of Ms. Meng as leverage to extract concessions in the trade talks. The two sides agreed on a 90-day window from the Dec. 1 summit to settle a trade dispute that has seen the two sides exchange tit-for-tat tariffs on each other's goods.

"I'm very concerned that that's just going to ratchet this trade war and make negotiations much more difficult," said Gary Locke, former U.S. ambassador to China. "This is I think a really hot-button, almost a grenade with respect to the 90-day negotiations."

China has a long history of reading darker motives into U.S. actions. "The risk is conspiracy theories in Beijing," said China scholar Michael Pillsbury at Hudson Institute, who consults regularly with the Trump trade team. He compares the events to when China rejected U.S. explanations that the U.S. had made a mistake when it bombed the Chinese Embassy in Belgrade in 1999 during the Kosovo war.

The arrest indicated the Justice Department had significant evidence against Ms. Meng, and that additional charges were likely, said Brian Fleming, a trade and national security lawyer at Miller & Chevalier. "This is just the tip of the iceberg," he said.

The arrest could also add ammunition to an extraordinary U.S. government campaign to persuade wireless and internet providers in allied countries to stop using telecommunications equipment from Huawei, said national security experts.

U.S. officials say they are intensifying efforts to curb Huawei because wireless carriers worldwide are about to upgrade to 5G, a new wireless technology that will connect many more items—factory parts, self-driving cars and everyday objects like wearable health monitors—to the internet. U.S. officials say they don't want to give Beijing the potential to interfere with an ever-growing universe of connected devices.

networks, and New Zealand last week blocking one of its major wireless carriers from using Huawei. In Britain, BT Group PLC said Wednesday that it was removing Huawei equipment from its network, two days after a British intelligence chief questioned whether the country should be using the Chinese gear.

Still, not all countries are on board. Major telecommunications carriers say Huawei offers the most products and often customizes them to fit their needs. They also cite lower costs and high quality.

The indictment could give U.S. officials more talking points in discussions with counterparts in Germany, where some officials have signaled a new wariness toward Huawei but haven't committed to cutting ties yet, according to people familiar with the matter. U.S. officials have so far been unwilling to share all the detailed specifics about why they believe Huawei products present such security risks, but the indictment could offer a new argument to use with skeptics, according to one of the people.

Canadian officials have yet to decide their stance on Huawei, but their cooperation with the extradition was likely to further increase pressure on them, one of the people said. On Tuesday, the day before news of Ms. Meng's arrest broke, the head of Canada's spy agency said state-sponsored economic espionage and cyber threats now pose a potentially greater challenge to the country than terrorism, warning that foreign actors are already targeting the domestic technology and telecommunications sectors.

—William Mauldin, Peter Nicholas, Rachel Louise Ensign, Stu Woo and Paul Vieira contributed to this article.

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