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TECH

U.S. Trade Salvo at Huawei Threatens Its 5G Ambitions

Move to blacklist Chinese tech giant could hamper its efforts in wireless sector, impede some U.S. firms as well, analysts say

An exhibition stand for Huawei at the Viva Technology conference in Paris on May 16. The Trump administration moved to restrict the company's access to U.S. technology. PHOTO: MARLENE AWAAD/BLOOMBERG NEWS

By John D. McKinnon in Washington and Asa Fitch in San Francisco

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The Trump administration's decision to put Huawei Technologies Co. on a trade blacklist is likely to hinder the company's efforts to dominate the next-generation 5G wireless industry by denying it vital U.S. technology, analysts say.

A Commerce Department order aimed at Huawei and dozens of its affiliates will block the Shenzhen-based telecom giant from obtaining U.S.-made goods and software, such as chips from Intel Corp. and the Android mobile operating system produced by Alphabet Inc.'s Google unit.

The orders "are a missile salvo aimed at Huawei, and if they're implemented well, they will dramatically constrain Huawei's global ambitions," said Jeremy Bash, a former senior defense and intelligence official who is now at Beacon Global Strategies.

Late Thursday, the Commerce Department issued a rule promised a day earlier that puts Huawei and 68 affiliates around the world on a list banning the purchase of American parts and services without U.S. government approval.

Some analysts had thought the Commerce Department might provide exceptions for lower-risk business that U.S. companies do with Huawei and its affiliates. That could have included, for example, Google's sales of its Android mobile operating system to Huawei for use in consumer handsets. But the order takes a harder line by imposing a license requirement on all exports and a "presumption of denial" for all applications.

Huawei said it would seek immediate remedies to the order and warned the move would hurt more than Huawei. "It will do significant harm to the American companies with which Huawei does business," a spokesman said in a statement. Google didn't respond to a request for comment on the implications.

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A similar Trump administration action against China's ZTE Corp. nearly drove that firm out of business in 2018. Some analysts said they believe Huawei, which has had a year since then to prepare for the new restrictions, probably is in better position to withstand a cutoff of U.S. technology.

Commerce officials cited evidence that they said showed Huawei was engaged in activities that undermine U.S. national security interests, such as its alleged violations of U.S. trade sanctions against Iran.

Also this week, the White House issued a broader executive order on telecommunications security and is likely to soon prohibit U.S. tech and telecom firms from importing or using gear from "foreign adversaries" that pose national-security risks. That probable directive is expected to include Huawei as well as other Chinese manufacturers.

The order issued Thursday to blacklist Huawei and others must still must be implemented, and much depends on how officials interpret key provisions. The order's sweeping scope is expected to narrow as the Commerce Department draws up implementing rules.

"Potentially the authority is there" to shut down all sorts of technology trade between China and the U.S., said Kevin Wolf, an attorney with Akin Gump. But he predicted the Commerce Department would narrow the focus of the action to equipment that could be used to commit espionage on a large scale, or to shut down a large telecommunications network.

Even so, analysts believe firms such as Intel and Qualcomm Inc. could suffer from the combined new restrictions, losing existing business with Chinese companies. Worse, American firms soon could find themselves in the crosshairs of Chinese retaliatory measures, industry insiders worry.

“The worst thing we worry about is retaliation,” said one person close to the industry. “It’s a pretty daunting thing for U.S. companies that are intertwined” with the Chinese economy.

The Semiconductor Industry Association’s president, John Neuffer, said while the industry recognized the importance of cybersecurity, the administration should take the action against Huawei in a way that addresses national security concerns “without undermining this country’s global technology leadership and competitiveness.”

Many U.S. tech companies, including Qualcomm, a major supplier of chips for mobile phones, do a lot of their business in China. Qualcomm derived about two-thirds of its revenue from China last year, according to regulatory filings, although Huawei wasn’t among a small group of companies that accounted for more than 10% of Qualcomm’s sales.

Xilinx Inc., a San Jose, Calif.-based chip maker that also has significant commercial links to China, could likewise suffer because of the move. Xilinx likely derives around 8.5% of its revenue from Huawei, according to Christopher Rolland, an analyst at Susquehanna Financial Group, and could face a $300 million reduction in revenue this year. A Xilinx spokeswoman declined to comment.

Other chip makers, including Intel, Advanced Micro Devices Inc. and Nvidia Corp. , aren’t heavily exposed to Huawei, Bernstein Research analyst Stacy Rasgon said in a December report. Globally, however, Huawei is a big source of demand for semiconductors, ranking fifth globally as of 2017 behind Samsung Electronics Co. , Apple Inc., Dell Technologies Inc. and Lenovo Group , according to Bernstein.

Still, the new move represents a significant attack on Huawei’s global brand, and could undermine its ambitions of becoming the go-to source for next-generation 5G equipment, several analysts said. It could also nudge U.S. allies to take a tougher stance on Huawei equipment for their networks, said Derek Scissors, an American Enterprise Institute scholar.

Several analysts said the policy shift could encourage Huawei to settle a sanctions case earlier brought against it by the U.S. government, now pending in federal district court in New York. ZTE settled its case by agreeing to pay a fine of $1 billion and allow U.S. enforcement officers to monitor its actions internally.

Possible Chinese concessions in current U.S.-China trade talks—such as protection of intellectual-property rights and an end to forced technology transfers—also could lead the U.S. to relax some provisions, several analysts predicted.

The impact of the moves could begin to be felt by U.S. suppliers and customers of Huawei almost immediately. But people in the industry said the worst effects could be longer-term, as China aims its regulatory machinery at U.S. firms and imposes retaliatory measures, such as new antitrust investigations.

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