

## Huawei ban in the US: Projected consequences for international trade

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### Abstract

On May 19, 2019, the US President Donald Trump made an executive decision of blacklisting the Chinese tech giant Huawei in US market. The paper aims to discuss the tentative alternative consequences of banning Huawei in US market. As a very recent incident, there is no literature available on this topic. The paper has used the published sources and attempt to predict the consequences of this decision. The author expects that this paper will be helpful in conducting further study in the areas of international trade and political economy.

**Keywords:** huawei, us, china, ban, mobile set, consequences

### 1. Introduction

Amid tension of trade dispute between the US and China, the US President Donald Trump signed an executive order to blacklist Huawei in the US market. It means that the US suppliers, partners and buyers of Huawei products and technologies need to take permission from the US Trade Department in order to conduct business with Huawei. Furthermore, Google would no longer allow Huawei's smart phones to use popular smart phone applications like Gmail and Google Maps. Google was not the only company that had cut ties with Huawei. American chipmakers such as Intel, Qualcomm and Broadcom told their employees that they would stop supplying Huawei (Bloomberg, 2019) <sup>[2]</sup>. In addition, German chipmaker Infineon had also stopped shipments to Huawei (Nikkei Asian Review, 2019) <sup>[11]</sup>. The Trump administration last week announced restrictions that seemed aimed at Huawei. An executive order signed by the president declared a "national emergency" and blocked US companies from doing business with foreign tech companies that pose "an unacceptable risk to the national security of the United States." The Commerce Department said it would add Huawei and its subsidiaries to a list of companies generally prohibited from buying US technology. Trump's crack down on Huawei, which has the support of the Chinese government, comes amid escalating trade tensions with the country and growing concerns that the Chinese government could potentially use Huawei devices to spy on the US and its allies. According to the Commerce officials in the US, Huawei was added to the blacklist after concluding that the company was engaged in activities "contrary to the US national security or foreign policy interests." Huawei officials have denied those claims.

After the Trump administration last week barred American companies from doing business with Huawei, the world's second-largest supplier of smart phones, shares of Google and other technology companies dropped on Wall Street.

However, just a day after blacklisting Chinese technology firm Huawei from buying American-made products, the Trump

administration is now easing up. On Monday, 20 May, 2019, the US Commerce Department restored the Shenzhen-based tech giant's ability to maintain its network, which means the company can buy equipment and complete software updates to support those who use Huawei smart phones, according to a 90-day temporary general license issued by federal officials (www.cnet.com).

### 2. Response from Huawei

Huawei made an immediate response after the ban. The founder Ren Zhengfei told Chinese state media that a clash with the US was inevitable, and that it was only a matter of time before Huawei threatened US interests. He said that the individuals and families sacrificed a lot for the sake of an ideal, to stand at the world and the conflict with the US was inevitable sooner or later (South China Morning Post, 2019) <sup>[13]</sup>. Ren said the 90-day reprieve from the US government meant little, because the company was prepared for the possibility that it might lose access to American companies. He further stated that the current practice of US politicians underestimates their (Huawei) strength (BBC, 2019) <sup>[1]</sup>.

In March 2019, Richard Yu, CEO of Huawei's consumer products division, told a German newspaper that Huawei had prepared its own operating system in case it lost access to Android. He branded it as "Plan B". However, he told that the company still prefers to work with the ecosystems of Google and Microsoft. The company has stockpiled enough chips to keep its phone business running for months (Bloomberg, 2019) <sup>[2]</sup>.

Although, Huawei is a private company enlisted in Shenzhen, China, it has close interaction with the Chinese central government. Moreover, it is the largest mobile manufacturer in China employing thousands of staffs not only in China itself, but also around the globe where it is being operated. Therefore, it can be logically believed that the Chinese government will also take some counter measures against this ban that will be discussed at the following sections of the paper.

### 3. The story behind Huawei ban

#### 3.1 Huawei, 5G and the security debate in the west

The acceleration of the national security dispute around Huawei has caught a number of 5G enthusiasts off guard. The United States, Australia, New Zealand, Japan, Germany and the Czech Republic, among the nations that have imposed restrictions on the use of Huawei 5G solutions over national security concerns and the many European countries are thinking whether to follow such decision. To Sum up, such worries are rooted in the ties between Chinese communications technology companies and its intelligence services, reinforced by China's political and legal environment requiring cooperation with intelligence agencies. Perceived or real, fears persist that adopting Huawei, 5G technology will introduce a significant dependence on equipment that can potentially be controlled by the Chinese intelligence services and the military in peacetime and in crisis.

Chinese technology companies have become significant players in the global market because of their clinch of innovation and the notable improvement in quality and affordable cost of their products. However, the legal and political influence of the Chinese state over its technology industry and ties between the government and the companies leave the Western countries uneasy. China has made no secret of its adversarial perception of the west and has been actively seeking a stronger global influence. As already noted on the precious section, the US administration and officials always doubted Huawei for spying through the electronic devices that it deals in.

#### 3.2 Is it just Huawei

While Huawei stands in the limelight due to its advanced 5G capacity, the issue is not just about Huawei. Many states are likewise concerned about other Chinese communications and video surveillance technology manufacturers, primarily ZTE, but also Hytera Communications Corporation, Hangzhou Hikvision, and Dahua Technology, all of whose technology has been banned from use in government networks under US law (Kaska *et al.*, 2019) <sup>[8]</sup>.

#### 3.3 Is really a security concern or a political economic decision

The rise of Huawei is an example of the Chinese national policy of technological superiority: the past few years have seen the company grow into the largest telecoms equipment manufacturer in the world. In 2018, it passed Apple as the second largest producer of smart phones after Samsung (The Guardian, 2018) <sup>[15]</sup>. It is currently the only company that can produce at scale and cost of all the elements of a 5G network, whereas its nearby competitors Nokia and Ericsson not yet able to offer a viable alternative (CKGSB, 2019) <sup>[4]</sup>. Huawei's ambition is to dominate the market for 5G wireless communications (Frank & Sharon, 2018) <sup>[6]</sup> and has established cooperation with telecommunications companies in a number of countries in Europe and worldwide.

Huawei and other Chinese telecommunications companies have obtained a visible and active role in the development of global 5G standards and have acquired a significant proportion of core patents for 5G. China currently holds an

estimated 10% of the '5G-essential' industrial property rights in radio access solutions where Huawei has the most patents, followed by ZTE. Chinese influence in the global standards organizations (ITU, 3G Partnership Project) has also grown in terms of the key positions held by Chinese representatives (Sharma, 2018) <sup>[12]</sup>.

The growth of the global market power of Chinese technology companies is largely a product of focused government industrial policy and accompanying funding instruments (Lee, 2018) <sup>[9]</sup>. Similar to its technological advantage, Huawei's affordable pricing is more likely an outcome of China's domestic policy than its fundamental technological superiority over competitors (MOFCOM, 2018) <sup>[10]</sup>. Preferential treatment of domestic providers means that the latter control 75 percent of the Chinese market, giving them unbeatable economies of scale (MOFCOM, 2018) <sup>[10]</sup>.

However, there is a debate on the both sides (the US and Chinese) whether the decision is related to the US national security or more like to prevent the Chinese domination in world technology market. The logics behind such debate particularly from the Chinese counterpart are twofold. For instance, the decision was made amid the trade tension between the two countries when two countries are blaming each other for not concluding a unified trade agreement. In fact, there was no unified agreement has reached between the two giant economies. The last meeting the delegates sat was on May 10, 2019 without reaching a decision. President Trump accused China to overrule the agreement and immediately after two weeks he made this ban decision. Secondly, according to Huawei and the Chinese counterpart, this decision has been made to keep the Chinese tech giant out of the US market which is rapidly growing even in the US because of its competitive price advantage.

Therefore, it is difficult to comment on the motive of such decision but it would obviously have some counter effects which will be discussed on later sections.

### 4. The tentative consequences

The paper proposes that there will be alternative consequences if this ban on Huawei persists for long. The after effects will not be very enjoyable both for the US firms and the general mobile phone set users all over the world. The tentative after affects with the alternative have been discussed below:

#### 4.1 Alternative-1: The ban will be relaxed or lifted

If the Huawei ban decision has been made not genuinely on security issue but as a trade game to push China, there is an obvious chance to lift such ban or at least to relax it. The logic for such argument is that as a result of this ban, The Chinese government will be encouraged to ban all the western technological companies in China such as iPhone, Lenovo, Dell, HP etc. (Already Google is forbidden in China). This will severely affect the sales and revenues of those firms as China is one of the biggest consumer markets for tech products. In fact, the response is already becoming to be expressed in Chinese media (Techthelead, 2019) <sup>[14]</sup>. As it is very logical, there are counter actions for all the actions taken which is particularly true in bilateral trade. The result will be the pressure on the Trump administration to ease or completely lift the ban on Huawei.

#### 4.2 Alternative-2: The ban will continue

If however, the ban on Huawei will continue for a long time, there would be different consequences. Huawei will be encouraged to develop its own operating system and use it on their mobile phone sets. The company has price advantage and already a large consumer base. In the beginning, the company will face some challenges as the consumers prefer the Google operating systems to be installed on the phone set. This will slow down their sales a bit for the time being. But slowly the consumers will be used to with the new operating system and the company can regain its market. Another effect will be retaliative actions taken by the Chinese government as a response to Huawei ban making the US firms suffer a lot in the long term. Furthermore, such ban will reignite the present trade conflict between the US and China (Hosain & Hossain, 2019) <sup>[7]</sup>.

#### 5. The effects on consumers

As already noted, Huawei has a large customer base in Asia, Africa and some European countries. Those who cannot use expensive mobile sets like iPhone or Samsung are the main customers of the cheap mobile sets like Huawei. Those customers, at least initially will not prefer to use Huawei sets without Google operating systems add on. But there are a lot of Chinese customers in Asia Pacific region who would continue to use the set as they know Mandarin. But Huawei can slowly develop their own operating software and may translate it into English that would attract the normal, lower end customers. Huawei CEO Fen has already declared that they are ready to challenge and they want to be the supreme in technology market which is now mostly dominated by the US (South China Morning Post, 2019) <sup>[13]</sup>. The net effect will be a serious collision with the US market share in Asia and Africa where most of the consumers live particularly in South and East Asia.

#### 6. Implications of the study

The paper is the first one to be published regarding this incident. It is expected to pour some technical and theoretical lights on the bottom lines of such decision. It is expected further to open new avenues for conducting some in depth research in this fairly new phenomenon.

#### 7. Limitations and further scope

The study is limited to theoretical phase on the basis of published news and a few articles published. The author expects that further studies will be conducted on this based on data and some more facts.

#### 8. Conclusion

As the first paper on this very recent incident, the author has tried to discuss the alternative consequences of this sudden decision. One thing for sure is that Huawei ban in the US will not bring any positive impact for both parties and for the general consumers of mobile sets although it will certainly take some time to see the real impact and further results. But it will not bring any blessings if the two counterparts and world's largest and second largest economies (US and China) engage in trade wars and nasty blaming to each other. Therefore, it would be wise to solve the problem by not

blaming each other, rather discussing it in a cooperative and sacrificing manner.

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