

# Can Huawei survive the US sanctions?

By Jean-Paul Michel Larçon

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"A deadly blow to the Chinese tech champion" is how [CNN described](#) the sanctions announced on August 17 by the US Commerce Department. They will restrict any foreign semiconductor company from selling chips developed or produced using US software or technology to Huawei.



Image source: [www.pixabay.com](http://www.pixabay.com)

Developing countries such as [India and Vietnam](#) have already followed suit. In Europe, Huawei may be excluded from the 5G market as well. On the services front, [Google licences are also now compromised](#) and other applications may not be renewed.

Cutting off major tech Chinese companies from the US market, including [TikTok and WeChat](#), comes at a time of rising diplomatic tensions between Washington and Beijing. But why Huawei and why now? And given the tough sanctions, can the company continue thrive?

## Trade wars

The 2017 "[National Security Strategy of the USA](#)" report cites China as a "strategic competitor" [threatening](#) the power, influence and security of the United States. The report also mentions Russia.

Since 2015, China has invested heavily in cutting-edge technologies under the "[Made in China 2025](#)" label. Among targeted sectors were IT, space and robotics. Washington characterised the push as an "[economic aggression](#)" and a potential threat regarding security and intellectual property. The [US-China trade war](#) began in March 2018, with significant increases in US tariffs on Chinese products such as steel.

The [US Congress Intelligence Committee](#) has had an eye on Huawei and its leaders since 2003. US authorities have long been concerned by allegations of [intellectual property theft](#) and other international violations.

**Huawei - US Ban Timeline (2017-2020)**

Date	authority	decision
2020.06.30	US Federal Communications Commission (FCC)	Huawei and ZTE as well as their parents, affiliates, and subsidiaries designated as "national security threats".
2020.05.14	US Commerce Department Bureau of Industry and Security (BIS)	Extension until May 2011 of the original trade ban.
2019.05.15	US Commerce Department Bureau of Industry and Security (BIS)	China's Huawei and 70 affiliates are placed on trade blacklist topping US companies from purchasing or using telecommunications equipment made by firms considered a national security risk
2018.06.18	White House Office of Trade and Manufacturing Policy (OTPC)	OTPC Report: "How China's Economic Aggression Threatens the Technologies and Intellectual Property of the United States and the World"
2017.12.12	White House	Publication of National Security Strategy (2017) of the United States.

Source: White House and U.S. Federal Agencies

Huawei-US ban timeline (2017-2020). J.-P. Larcon, Author provided

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On December 1, 2018, Ms. Meng Wanzhou, chief financial officer of Huawei and daughter of the company's founder, was arrested in Vancouver at the request of a US court.

The company was alleged to have violated [US sanctions against Iran](#) by selling it telecom equipment through its subsidiary Skycom. Wanzhou is currently [fighting extradition](#) to the United States while under house arrest in Vancouver.

## The EU safety net

Australia, Canada, New Zealand, the United Kingdom and the United States – the ["Five Eyes" intelligence alliance](#) – are also expected to impose restrictive economic measures on Huawei. The EU stated that rather than an absolute embargo, it would develop a set of a ["tool box"](#) of precise technical measures that will ensure a steady secure deployment of 5G networks.

The [consequences of the American sanctions](#) extend to foreign companies using US hardware or software. This means that they too have now lost access to the 5G market, not only in the United States but in other parts of the world as well.

## What can Huawei do?

In the aftermath of the May 2019 embargo decision, Huawei founder Ren Zhengfei said that to ensure its survival, the company needed to put itself in [battle mode](#).

Ms. He Tingbo, president of HiSilicon, the semiconductor subsidiary of Huawei, suggested another scenario – the beginning of a [“Long March”](#) to make the firm independent of US technology.



Largest semiconductor companies in the world by revenue in 2020. JP Larcon, Author provided

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Huawei first negotiated with its US and international suppliers to secure as many short-term transactions as possible not yet covered by the embargo. It also turned to suppliers such as Samsung, its Korean competitor in smartphones, and Semiconductor Manufacturing International Corporation (SMIC). SMIC, based in Shanghai, is thus driven to rapidly increase its investments in the high-end market.

## **Huawei needs to expand its network**

Huawei has so far tried to retain its competitiveness. But its recently launched Huawei AppGallery – which works with its [P40 smartphones](#) – does not include popular applications such as Facebook, Instagram, Twitter or WhatsApp.

In August 2020, Huawei lost its [“Android temporary licence”](#). To mitigate the loss, the company is counting on application developers who are attracted by [Huawei’s 700 million](#) smartphone customers. Adidas, Booking, Deliveroo, Deezer JD Sports, Ryanair, Trainline, Opera, Viber, and of course TikTok have become regular Huawei clients.

But more developers could come. To attract them, Huawei – which is the fifth-largest investor in terms of R&D – will have to develop its own innovation capacities.

## Building on its people

Huawei also relies on its employees' motivation. The company has been a private firm since its inception and is completely owned by its employees through a shareholding system called the [employee stock ownership plan](#) (ESOP) similar to those in the United States and the UK.

Of the more than [194,000 people working for Huawei](#), approximately 100,000 receive [virtual stock options](#) based on their performance. The value of the shares is calculated on the net asset value of the firm and can represent substantial amounts compared to the base salary.

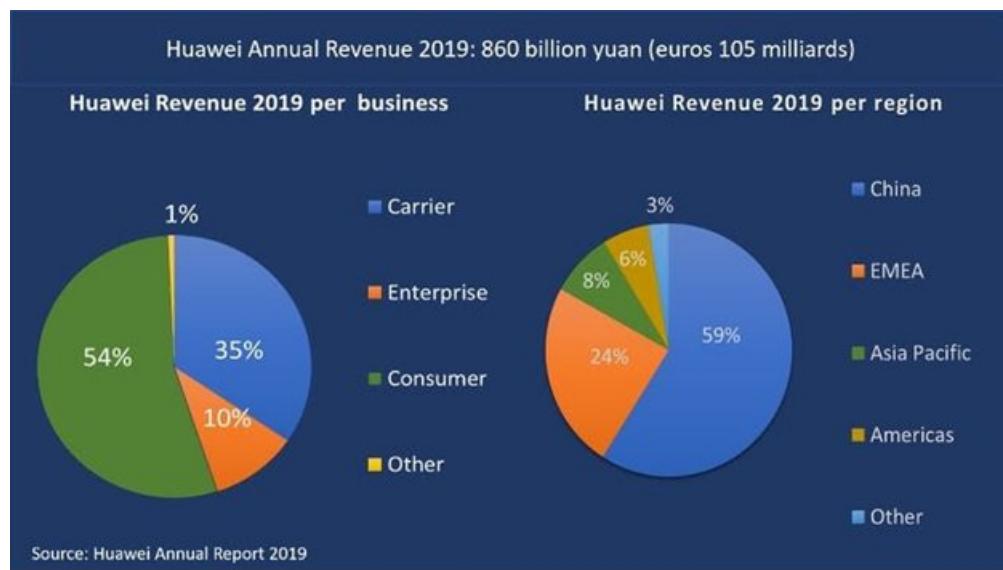
Good customer services and warm B2B relationships with phone providers throughout the world could also help the firm navigate this sensitive geopolitical context.

## Opportunities and uncertainties

[Huawei's global strategy](#) in 2018 and 2019 has enabled the company to grow steadily in the 5G market in China and countries such as Russia, Turkey, South Africa, Saudi Arabia and Indonesia.

The company has developed new products to remain competitive against Samsung or Apple and has also diversified its business. In 2019 it launched a new generation of chips for its own computer servers and those of its customers. The [Ascend 910 chip](#) is dedicated to the calculations of artificial intelligence algorithms in data centres.

The firm also expanded in connected cars. Huawei works with major Chinese manufacturers including FAW, SAIC and Dongfeng Motors.



Huawei turnover according regions and sectors. J.-P. Larcon, Author provided

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However, the French group PSA, which has also worked with Huawei since 2017, said in March 2020 that it could [reconsider its position](#) if the United States made it a prerequisite for the merger with Fiat Chrysler.

In coming weeks, the escalation between the US and China may lead to strategic negotiations and eventually a [radical economical breakup](#), in which companies such as Huawei may become either leverage or bait.

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