

The Big Read **Technology sector**

Huawei v the US: Trump risks a tech cold war

Curbs on the Chinese company play into the trade war rhetoric. But American industry fears it has a lot to lose from the dispute

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President Donald Trump's latest confrontation with China's most important tech company may just have plunged the world into a technology cold war.

Efforts to limit the ability of Huawei to buy from suppliers reliant on American technology threaten to tie the hands of a company that aimed to become a key global supplier in the era of [5G mobile communications](#).

China's control of information within its borders, through restrictions on access to the global internet, had already put it in a separate digital universe to much of the rest of the world. Now, by cutting off Huawei, the US has taken a retaliatory step that points towards a near-total tech split.

But if this turns out to be a defining moment in Washington's efforts to [isolate an economic and political adversary](#), it has touched off an uncomfortable reaction in the [global tech industry](#), which now finds itself on the frontline of a conflict that looks profoundly bad for business.



Peter Navarro, US trade adviser, wants to force a more profound decoupling of American tech from China © Reuters

In a barely veiled attack on the White House, the US Semiconductor Industry Association this week called on its government to act on national security “in a manner that does not undermine the ability of the US semiconductor industry to compete globally”, adding that it needed to

protect the country's "leadership in key areas such as artificial intelligence, quantum computing and next-generation telecommunications".

There are also worries that limiting China's access to global tech markets will usher in more perilous economic times. "If the US resorts to how it dealt with Russia in the cold war, this is the wrong playbook," says one China tech executive. Trying to shut out a country with a \$13tn economy and 1.3bn people "creates more risks for the global economy and security system".

At the same time, the White House is facing a profound lack of confidence in its own ability to prosecute a successful economic war. Many executives support the idea of challenging China over its tech strategy, says one veteran US policymaker. But he adds: "A lot of us don't have the confidence that this administration has the vision, the sophistication or the judgment to do so effectively."

The Trump administration has been bent on taking its fight against Huawei to a new level. And the fallout over the telecommunications equipment company has been quick to ripple through the supply chain far beyond US and Chinese borders, accentuating a schism already opened up by the trade war between the two countries.



Hobbling Huawei has been a key step in what China hawks see as a long-term race for technological supremacy © Reuters

Non-US companies that sell products with at least 25 per cent American content are also caught by the new restrictions. Panasonic, the Japanese electronics group, has already stopped shipping some components to Huawei, and UK-based chip company Arm [has halted licensing its designs](#).

The realignment in the global tech industry is already apparent in key hubs such as Taiwan. The island's companies manufacture and assemble the lion's share of the components that go into everything from notebook computers to data centres to smartphones. Over decades, they have built networks linking US patents and designs with Chinese labour to serve global markets.

That is now changing. Large Taiwanese server producers like Quanta and Wistron have moved production lines out of mainland China in recent months in response to concerns from

customers, such as Google and Facebook, that servers produced in China could be compromised. The US-China clash is “a big opportunity, and we are well placed to benefit from it in the long term,” says a senior official in Taipei. “But there will be a lot of short-term pain.”

When it comes to confronting Beijing, Mr Trump has shown himself to be more concerned with issues of trade and economic rivalry, than national security. But for the China hawks in his administration, hobbling Huawei has been a key step in what Washington sees as a long-term race for technological supremacy. It also represents an alliance of convenience with White House aides such as Peter Navarro, the adviser on manufacturing, who want to force a more profound decoupling of US technology from China for trade reasons.



'If we do not continue to strengthen our efforts in fundamental research . . . our digital economy would become a tall building built on sand,' said Tencent founder Pony Ma

Two sources familiar with the situation say the president decided to sign the order against Huawei after his negotiators [accused China of renegeing](#) on a trade deal. At a hastily-called meeting in the White House, he said he wanted to hit Huawei hard to create leverage for the trade talks. And he ordered the commerce department to add it to the [so-called entity list](#), which makes it harder for US companies to provide hardware and software to the Chinese group.

The decision has brought the president into line with both the trade and security hawks in his administration. But it remains unclear whether he will continue to maintain a tough stance on Huawei, and [other Chinese companies](#) that could be hit by the executive order, once he strikes a trade deal.

“Longstanding concerns about Huawei, though well deserved, have definitely hitched a ride on the larger platform of the [US-China trade talks](#),” says Michael Allen, managing partner at Beacon Global Strategies, a national security consultancy. “A debate previously confined to crowded national security circles — about whether China could tap into US communications — is now a part of the Trump ‘economic security is national security’ narrative.”



Google's decision to stop selling Android operating systems could affect 100m of Huawei's international smartphone sales © Reuters

If the White House's march towards a tech cold war has moved by fits and starts, and Mr Trump's own objectives are not entirely clear, the US is at least starting from a position of considerable strength. Chinese rivals are still a long way from reaching a position of self-reliance, despite the country's recent successes in advanced technology research.

Sebastian Hou, an investment analyst at CLSA, estimates that Huawei, which accounts for 8-9 per cent of global semiconductor consumption, produces only around 30-35 per cent of its chips, excluding memory, in-house. The company believes it can accelerate this to reach 90 per cent self-reliance. Mr Hou estimates this will apply to 100 per cent of smartphones and around 80 per cent of telecoms infrastructure equipment.

But without access to the widely used US software, Huawei would find it hard to find buyers for its equipment.

Google's decision this week to [stop selling its Android operating system](#) to Huawei for new handsets makes little difference in China, where Huawei should be able to convince buyers to switch to its operating system, now under development. But customers are more wedded to Android in international markets. Independent analyst Richard Windsor estimates it will lose all those sales, roughly half of the 200m smartphones it shipped last year.

Chinese companies are well aware of their vulnerabilities. Speaking at Tencent's Global Digital Ecosystem Summit on Tuesday, founder and chief executive [Pony Ma](#), said: "If we do not continue to strengthen our efforts in fundamental research and core technologies, our digital economy would become a tall building built on sand and could not stand intact, let alone facilitate digital transformation into the new economy."

Although the US looks to be in a strong position, a tech cold war could still rebound on it. Beijing's push for technological self-reliance has been given new urgency by the heightened tensions.



Blocking access to the Chinese market could reduce Apple's earnings per share by nearly 30 per cent © Reuters

For many US policymakers, that is a price worth paying. “If the technology industry in the US and China decouples to a certain extent, we are going to be OK,” says one US official.

Beijing has scope for retaliation. Levers at its disposal include blocking access to its market — a move that Goldman Sachs analysts estimate could reduce Apple's earnings per share by nearly 30 per cent — delaying M&A deals or [dumping US Treasury bonds](#).

The importance of Chinese manufacturers in the electronics supply chain also puts the country in a powerful position to disrupt economic activity beyond its borders. Gao Feng, a Chinese commerce ministry official, warned on Thursday that the US actions might pose “a great threat to the security of the global industrial and supply chain”.



In response to customer concern some Taiwanese server producers have moved production lines out of mainland China recently © Bloomberg

This adds to the US tech sector's feeling of exasperation with its own government. “[Trump] has underestimated how deeply intertwined we are now,” says one US industry figure.

Already unhappy about the higher tariffs on imports from China, US tech companies that sell to Huawei are also being forced to abandon a significant global customer. The reverberations are being felt most strongly in the semiconductor sector. Hopes for a second-half bounce in demand

had driven the main index of chip stock prices up by 50 per cent in the first four months of 2019. Over the past four weeks, it has fallen back by nearly 20 per cent.

Mr Trump made efforts on Thursday to sound more conciliatory, by suggesting that there might still be a way to [bring Huawei back into the fold](#) as part of a wider trade deal. Though at the same time, and with no apparent awareness of any contradiction, he insisted the company was “very dangerous, from a security standpoint”.



From left: White House chief of staff Reince Priebus, Mr Navarro and senior adviser Jared Kushner. US President Donald Trump in the foreground © AP

Even if Mr Trump can secure the elusive end to the trade war he started, it may do little to resolve deeper issues. Most US tech executives sound resigned to a continuation of the status quo, rather than any serious concessions by Beijing to open its markets or end its internet blockade. For China, the episode has reinforced an important lesson: tech security can only come from self-reliance. The White House may just have taken a fateful step towards a tech cold war that lasts for years.

Additional reporting by Demetri Sevastopulo and James Politi in Washington

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