

U.S. restriction on chipmakers deals critical blow to Huawei

May 18 2020, by Zen Soo and Joe McDonald



A delivery man hands over drinks near a Huawei retail store in Beijing on Monday, May 18, 2020. China's commerce ministry says it will take "all necessary measures" in response to new U.S. restrictions on Chinese tech giant Huawei's ability to use American technology, calling the measures an abuse of state power and a violation of market principles. (AP Photo/Ng Han Guan)

The latest U.S. sanctions on Huawei threaten to devastate China's first global tech competitor, escalating a feud with Beijing that could disrupt technology industries worldwide.

Huawei Technologies Ltd. is one of the biggest makers of smartphones and network equipment, but that \$123 billion-a-year business is in jeopardy after Washington announced further restrictions on use of American technology by foreign companies that make its processor chips.

Huawei spent the past year scrambling to preserve its business after an earlier round of U.S. restrictions imposed last May cut off access to American components and software.

"Our business will inevitably be impacted," Huawei's chairman, Guo Ping, said at a conference Monday with industry analysts.

"In spite of that, the challenges over the past year have helped us develop a thicker skin, and we are confident about finding solutions soon," Guo said.

The company said Monday that it would need some time to "understand the impact" of the latest restrictions.

The conflict is politically explosive because Huawei is more than just China's most successful private company. It is a national champion among industries the ruling Communist Party is promoting in hopes of transforming China into a global competitor in profitable technologies.



A man wearing a face mask to protect against the coronavirus walks past a Huawei retail store in Beijing on Monday, May 18, 2020. China's commerce ministry says it will take "all necessary measures" in response to new U.S. restrictions on Chinese tech giant Huawei's ability to use American technology, calling the measures an abuse of state power and a violation of market principles. (AP Photo/Ng Han Guan)

On Monday, China's Ministry of Commerce warned it will protect "the legitimate rights and interests of Chinese enterprises," but gave no details of potential retaliation. Beijing has threatened in the past to issue an "unreliable entities list" that might restrict operations of American companies in China.

Friction over Huawei adds to a broader deterioration of U.S.-Chinese

relations.

The two sides have declared a truce in a trade war, but arguments over the origin of the coronavirus pandemic that is roiling the global economy have raised worries that agreement might fall apart.

Huawei is at the center of the U.S.-Chinese conflict over Beijing's technology ambitions, which Washington worries might erode American industrial leadership.

Huawei has few alternatives if Washington refuses to allow its suppliers to use U.S. technology. The company has developed some of its own chips but even the biggest non-U.S. manufacturers such as Taiwanese giant TSMC need American components or production equipment.



Residents wearing face masks to protect against the coronavirus walk past a Huawei retail store in Beijing on Monday, May 18, 2020. China's commerce ministry says it will take "all necessary measures" in response to new U.S. restrictions on Chinese tech giant Huawei's ability to use American technology, calling the measures an abuse of state power and a violation of market principles. (AP Photo/Ng Han Guan)

"Every electronics system that Huawei produces could be negatively impacted," Jim Handy, semiconductor analyst for Objective Analysis, said in an email. "Most China-based alternatives haven't yet been established."

New curbs announced Friday are the third round of sanctions aimed at cutting off Huawei's access to U.S. technology and markets.

In a statement, Huawei criticized the U.S. decision as "arbitrary and pernicious" and warned it will affect operation and maintenance of networks installed by the company in more than 170 countries.

"The U.S. government has intentionally turned its back on the interests of Huawei's customers and consumers," it said.

The statement said the decision "will damage the trust and collaboration within the global semiconductor industry," harming other industries that depend on it.



Chinese Commerce Minister Zhong Shan, center, speaks to reporters as he prepares to leave after a press conference at the State Council Information Office in Beijing, Monday, May 18, 2020. China's commerce ministry says it will take "all necessary measures" in response to new U.S. restrictions on Chinese tech giant Huawei's ability to use American technology, calling the measures an abuse of state power and a violation of market principles. (AP Photo/Andy Wong)

The Trump administration says Huawei is a security risk, which the company denies, and is trying to persuade European and other allies to shun its technology for next-generation telecom networks.

Chinese officials accuse Washington of raising phony security concerns to hurt a rising competitor to American tech companies.

The potential impact extends far beyond Huawei. The company spends tens of billions of dollars a year on components and technology from U.S. and other suppliers, purchases that might be disrupted if output of smartphones and other products is blocked.

U.S. suppliers already have complained to Washington that restrictions imposed last May on Huawei's access to American components and other technology will cost them billions of dollars in lost potential sales.

The company's telecoms market in the U.S. evaporated after a congressional panel in 2012 labeled Huawei and its Chinese competitor ZTE Corp. security risks and told phone carriers to avoid them.



A reporter uses a Huawei smartphone to take picture during a press conference by Chinese Commerce Minister Zhong Shan at the State Council Information

Office in Beijing, Monday, May 18, 2020. China's commerce ministry says it will take "all necessary measures" in response to new U.S. restrictions on Chinese tech giant Huawei's ability to use American technology, calling the measures an abuse of state power and a violation of market principles. (AP Photo/Andy Wong)

Last year's sanctions require U.S. companies to obtain government permission to sell chips and other technology to Huawei. The company can keep using Google's Android operating system on its smartphones but lost the ability to pre-install music, maps and other Google services customers expect on phones.

Huawei has launched its own smartphone operating system and is paying developers to create apps to run on it. But the company says sales have suffered.

Despite that, Huawei reported a 2019 profit of 62.7 billion yuan (\$8.8 billion) and said total sales rose 19% over a year earlier.

The sanctions highlight Huawei's reliance on technology suppliers despite having one of the world's biggest corporate research and development budgets.

Huawei has its own semiconductor unit, HiSilicon, but needs manufacturers including TSMC to make the most advanced chips.



Chinese Commerce Minister Zhong Shan waves as he arrives for a press conference at the State Council Information Office in Beijing, Monday, May 18, 2020. China's commerce ministry says it will take "all necessary measures" in response to new U.S. restrictions on Chinese tech giant Huawei's ability to use American technology, calling the measures an abuse of state power and a violation of market principles. (AP Photo/Andy Wong)



In this photo taken Sunday, March 8, 2020, residents wearing masks against the coronavirus walk past an Huawei advertisement in Beijing. China's commerce ministry says on Sunday, May 17, 2020 it will take "all necessary measures" in response to new U.S. restrictions on Chinese tech giant Huawei's ability to use American technology, calling the measures an abuse of state power and a violation of market principles. (AP Photo/Ng Han Guan)

Beijing has spent the past two decades and billions of dollars to create a Chinese semiconductor industry. But its biggest producer, SMIC, can only make chips that are two generations behind TSMC.

"Huawei had already begun to shift some production from TSMC to SMIC, although SMIC cannot yet produce Huawei's latest Kirin 980 chipset," said Neil Thomas, a research associate at U.S. think tank

Paulson Institute. "But SMIC can probably manufacture earlier-generation Huawei chipsets."

Then-chairman Eric Xu warned in March that more U.S. pressure on Huawei might provoke Chinese retaliation that could disrupt its global industry.

Beijing will not "just stand by and watch Huawei be slaughtered," Xu said. "The impact on the global industry would be astonishing."

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