

INTELLIGENCE REPORT

SERIAL: IR-19-14-001

COUNTRY: CN

REPORT DATE: 20190521

CHINA'S REACTION TO THE US BAN ON HUAWEI

SUMMARY

On 15 May 2019, US President Trump declared a national emergency over the dangers of importing technology from adversary countries, a move universally understood to be targeted at the Chinese corporation Huawei Technologies. The "ban" on Huawei is being enacted by the US Department of Commerce, charged by the White House with deciding on the mechanisms of blocking Huawei's connections to the US. The ban hurts Huawei in two ways: by closing the US market to Huawei equipment sales and by preventing Huawei from purchasing US-manufactured chips and other components it needs for building its network equipment.



Figure 1. Huawei CEO
Ren Zhengfei

Huawei is a giant corporation and the world's largest network equipment manufacturer, and its health is of great importance to the Chinese government. However, the official government response to the US ban has so far been relatively mild. Foreign Ministry spokespersons have criticized the ban but have used muted diplomatic language: "We urge the US to stop this practice and instead create better conditions for business co-operation." Neither the Foreign Minister nor President Xi Jinping have commented publicly on the Huawei ban.

Huawei itself has pushed back by claiming the ban will ultimately hurt the United States, that it "will cause great harm to US corporate partners" and "impact tens of thousands of US jobs." The company said it would "seek remedies immediately," but made no threats about retaliation or gave specifics as to what remedies it hoped to find.

Huawei has reportedly been stockpiling hardware purchased from the US for nearly a year, which could allow it to continue to produce equipment for some months while it searched for new supply chains. It has also claimed that it is developing its own chip sets, but there are no indications that development is far enough along to fill the gap created by the US ban. In sum, the US ban has created real problems for Huawei with no obvious solution for either Huawei or the Chinese government to attempt.

THE US BAN ON HUAWEI BUSINESS

The US has spent the last several months trying to convince allies to block Huawei out of 5G network development in their countries. The case being made by Secretary of State Pompeo and other officials included the point that choosing Huawei as its 5G developer could damage the security relationship between that country and the US.¹ However, little headway had been made in gaining agreement from allies.

On 15 May 2019, President Trump issued his "Executive Order on Securing the Information and Communications Technology and Services Supply Chain." The core statement of this order was that "unrestricted acquisition or use in the United States of information and communications technology designed, developed, manufactured, or subject to the jurisdiction or direction of foreign adversaries ... constitutes an unusual and extraordinary threat to the national security, foreign policy, and economy of the United States."



Figure 2. Executive Order as it appears on the White House website

This set up the block on importing foreign technology considered dangerous into the US for use in US systems. The order further empowered the Secretary of Commerce to "take such actions, including directing the timing and manner of the cessation of transactions prohibited pursuant to section 1 of this order, adopting appropriate rules and regulations, and employing all other powers granted to the President by the International Emergency Economic Powers Act, as may be necessary to implement this order."²

The Executive Order did not mention China or Huawei. However, within a few hours US Secretary of Commerce Ross announced that Huawei Technologies and 70 of its affiliated companies would be placed on the Entities List, a Commerce Department register of companies that the United States considers a threat. This move was intended to block the sale of US high-tech to Huawei and its affiliates, or, as the Commerce Department stated, to "prevent American technology from being used by foreign owned entities in ways that potentially undermine US national security or foreign policy interests."³

¹ www.scmp.com/news/china/article/3009444/mike-pompeo-takes-aim-china-during-london-visit-warning-britain-over-5g.

² www.whitehouse.gov/presidential-actions/executive-order-securing-information-communications-technology-services-supply-chain.

³ www.nytimes.com/2019/05/15/business/huawei-ban-trump.html.

The inclusion of Huawei on the Entities List cited the indictment unsealed in January 2019 that stated Huawei had violated US sanctions on Iran and engaged in “obstruction of justice in connection with the investigation of those alleged violations of U.S. sanctions.”⁴ Based on the indictment, the Commerce Department claimed that it had a reasonable basis to conclude that Huawei had “engaged in activities that are contrary to US national security or foreign policy interest.”⁵ This meant that any US company purchasing Huawei equipment in the future would need a license to export, re-export and/or transfer such equipment in-country.⁶ Thus the Executive Order and the Commerce Department’s own action generally prohibit US companies from doing business with Huawei, either buying Huawei equipment or selling them US-manufactured hardware.

Key US industries quickly signaled that they would comply. By 20 May 2019, chip makers Intel, Qualcomm, Xilinx, and Broadcom had all reportedly told their employees they will cease providing products to Huawei until further notice.⁷ Google has reportedly suspended business with Huawei and cancelled Huawei’s license for connection with Android devices, stating publicly only that “We are complying with the [US government] order and reviewing the implications.”⁸ Google’s compliance could mean that future Huawei devices will not be able to use Google apps such as Gmail and YouTube, which would make the Huawei phones less attractive to foreign buyers.

CHINESE GOVERNMENT RESPONSE

Based on reports that President Trump was about to sign a ban of Huawei equipment, on 14 May the Chinese Ministry of Foreign Affairs preemptively stated that the US was “abusing its power to maliciously smear and beat down on certain Chinese companies. We urge the US to stop using the pretense of national security to carry out its unreasonable suppression of Chinese companies, and to provide a fair and just environment for Chinese companies investing and operating normally in the US that is free of prejudice.”⁹

Once the ban was announced on 15 May 2019, the Chinese Foreign Ministry again said Beijing opposed countries imposing unilateral sanctions on Chinese companies. They accused President Trump of using state security “as a pretext

⁴ www.scmp.com/news/china/politics/article/3010396/donald-trump-signs-executive-order-laying-ground-us-ban-chinas.

⁵ www.reuters.com/article/us-usa-china-huaweitech/chinas-huawei-70-affiliates-placed-on-us-trade-blacklist-idUSKCN1SL2W4.

⁶ www.scmp.com/news/china/politics/article/3010396/donald-trump-signs-executive-order-laying-ground-us-ban-chinas.

⁷ www.scmp.com/tech/big-tech/article/3010928/top-us-tech-companies-begin-cut-vital-huawei-supplies-after-company.

⁸ www.theverge.com/2019/5/19/18631558/google-huawei-android-suspension.

⁹ www.scmp.com/news/china/politics/article/3010396/donald-trump-signs-executive-order-laying-ground-us-ban-chinas.

for suppressing foreign business. We urge the US to stop this practice and instead create better conditions for business co-operation." The Foreign Ministry spokesman said that China would take action, but he did not say specifically how they planned to respond.^{10 11}



Figure 3. Chinese Foreign Ministry spokesman Geng Shuang

On 16 May 2019, the spokesman for the China Ministry of Commerce chimed in, saying "We are firmly against any unilateral sanction against Chinese entities by any country based on its own domestic laws, and to the generalization of the 'national security' concept as well as abuse of export control measures." He went on to say that "China will take all necessary measures to resolutely safeguard Chinese enterprises' legitimate rights," but again gave no hint of concrete plans to fight back.¹² It should also be noted that there has been no statement on the Huawei issue by the Foreign Minister himself or any comment attributed to President Xi Jinping.

China immediately began using its official media to critique the US moves against Huawei. A China Daily editorial on 16 May was typical, saying that US "use of state power to throttle the development of a foreign company not only jeopardizes fairness and justice in world trade, it also poses a tangible threat to the security of 5G networks."¹³ Sina online news was reacting on 19 May 2019 with stories about how the global supply chain was going to be disrupted by the moves against Huawei.¹⁴

The Chinese people also began expressing support for Huawei online. Hong Kong's South China Morning Post, a news organization independent of Beijing control, highlighted on 17 May 2019 how the ban was being portrayed in Chinese social media. Online comments reportedly included "Huawei is visionary and worthy of our respect" and such remarks as "I cried when reading this" and "Go Huawei! Go China!" However, other postings raised doubts about Huawei's ability to operate without a US connection. One posting read: "You cannot make a thing without the software from the US, who gave you the courage?"¹⁵ The news that Google, Qualcomm, and Intel had all suspended business with Huawei was also being broadly reported in Chinese online media by 20 May 2019.^{16 17}

¹⁰ www.globaltimes.cn/content/1150114.shtml.

¹¹ www.bbc.com/news/world-us-canada-48299522.

¹² en.people.cn/n3/2019/0517/c90000-9578945.html.

¹³ www.chinadaily.com.cn/a/201905/16/WS5cdd5a27a3104842260bc1b7.html.

¹⁴ t.cj.sina.com.cn/articles/view/1644114654/61ff32de02000lyoy.

¹⁵ www.scmp.com/tech/big-tech/article/3010635/huaweis-chip-unit-says-it-prepared-years-ago-doomsday-scenario-us.

¹⁶ new.qq.com/omn/20190520/20190520A02SKS.html.

¹⁷ new.qq.com/omn/20190520/20190520A0AN1O.html.

HUAWEI'S REACTION

Huawei had already been fighting for months against the US attempt to convince allies to drop Huawei from their 5G plans. A Huawei representative in the UK stated in an early May interview that Ren Zhengfei would never provide customer data to the Chinese government. "He made it very clear ... if he was asked, that he would refuse and if it was attempted to be forced, he would shut the company down." Just prior to the ban's announcement, the company took the unusual step of announcing: "We are willing to sign no-spy agreements with governments, including the UK government, to commit ourselves to making our equipment meet the no-spy, no-back-doors standard."¹⁸

In terms of concrete action, the Huawei response to the ban itself was actually preemptive. The international market research firms Haitong and Canalys separately reported that they believe that Huawei has been stockpiling equipment purchased from the US for nearly a year against the day that their supplies were cut off.¹⁹ This stockpile could allow Huawei to continue production despite the ban for some months while they try to develop alternative equipment sources.

In November 2018, Huawei had released a list of its key suppliers. South China Morning Post reporting on this, said that Huawei counted 92 companies as "core" suppliers. Of these, 33 are US companies, 25 are in China itself, 11 are in Japan, and 10 are in Taiwan. This suggests perhaps that Huawei could cultivate new supply chains in these or other countries.²⁰

Huawei's public response once the ban was announced was a relatively mild statement arguing why the ban was a bad idea for the United States:



Figure 4. Huawei Headquarters in Shenzhen, China

¹⁸ www.scmp.com/news/world/europe/article/3010230/huawei-will-commit-no-spy-agreements-win-government-contracts.

¹⁹ www.scmp.com/tech/big-tech/article/3010507/huaweis-day-reckoning-arrives-it-has-been-preparing-almost-year.

²⁰ www.scmp.com/tech/big-tech/article/3010507/huaweis-day-reckoning-arrives-it-has-been-preparing-almost-year.

"Restricting Huawei from doing business in the US will not make the US more secure or stronger. Instead, this will only serve to limit the US to inferior yet more expensive alternatives, leaving the US lagging behind in 5G deployment, and eventually harming the interests of US companies and consumers."²¹

A company statement, issued on 17 May 2019, said that "Huawei will seek remedies immediately and find a resolution to this matter. We will also proactively endeavor to mitigate the impacts of this incident."²² By 19 May 2019, Huawei CEO Ren Zhengfei was being quoted in online media pushing back against the ban with claims that the ban "will cause great harm to US corporate partners" and "impact tens of thousands of US jobs."²³

Beyond that, Huawei announced that it planned to go ahead with the 21 May 2019 launch of its budget-model Honor smartphone in the UK and follow that with a launch of the same model in China.²⁴ The company said it "will continue to provide security updates and after-sales services to all existing Huawei and Honor smartphone and tablet products," and has made claims about development of its own chip set and mobile operating system as its "Plan B" for dealing with the ban.²⁵

EUROPE'S POSITION

Despite the ban, European nations have not yet fallen in behind the US by cutting off their long-standing connections with Huawei. Prior to the US ban, leaks to the press indicated that UK Prime Minister Theresa May and the National Security Council had decided to let Huawei participate in development of "non-core" parts of 5G networks.²⁶ Following a visit by Secretary of State Pompeo to the UK on 8 May 2019, Britain's Foreign Office backtracked a bit by saying that no decision had yet been made on Huawei's future role in the UK.²⁷ No further announcement has been made on UK plans.

Germany is sticking to a separate approach based in tough security requirements for telecoms equipment vendors rather than a Huawei ban. Following the US ban on Huawei, the Federation of German Industries Association, in coordination with Chancellor Angela Merkel, stated that "Europe needs to maintain its own course," and that "Europe must not be dragged into

²¹ www.bbc.com/news/world-us-canada-48299522.

²² www.scmp.com/news/china/article/3010579/chinas-huawei-vows-challenge-blacklisting-us-warning-decision-will-do.

²³ chinanews.sina.com/gb/chnoverseamedia/phoenixtv/2019-05-19/doc-ifzikfzn1693375.shtml.

²⁴ www.scmp.com/tech/big-tech/article/3010937/honors-new-smartphone-launch-london-become-immediate-test-reported.

²⁵ www.scmp.com/tech/big-tech/article/3010937/honors-new-smartphone-launch-london-become-immediate-test-reported.

²⁶ www.ft.com/content/fca902a4-6657-11e9-a79d-04f350474d62.

²⁷ www.scmp.com/news/china/article/3009444/mike-pompeo-takes-aim-china-during-london-visit-warning-britain-over-5g.

the trade dispute between China and the United States.”²⁸ On 17 May 2019, People’s Daily quoted French President Macron as saying that “You can’t block Huawei and its 5G business” from the European market.²⁹

CONCLUSIONS

In the week since the ban was announced, the Chinese response has been toothless. Given the seriousness of losing access to the US market because of the ban, the official Chinese response has actually been muted. Government spokespersons have criticized the ban but in guarded diplomatic language. “We urge the US to stop this practice and instead create better conditions for business co-operation” is far short of a declaration of war or even of business war. There has been no official government demarche of the United States, no direct remarks by the Foreign Minister, and no comment at all by President Xi Jinping. At present there is already considerable friction in the US-China trade dispute without a Huawei issue, and that may constrain the Chinese government in how aggressively they can support Huawei.

Huawei itself has complained about how they are being treated, but there have been no threats of retaliation against the US. Huawei may have successfully stockpiled enough US purchases to keep its production going for several months despite the ban, but long-term solutions are not obvious.

It is one thing for Huawei to say they are developing their own chip set, but quite another to accomplish that in time to fill the gap left by the ban. Nothing that Huawei has said so far indicates that they can strike back at the United States in any meaningful way or negate the effects of the ban. Huawei is a huge company with tremendous influence in the telecom marketplace, but it is not at all clear that they can brush off the US ban and maintain business as usual.

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²⁸ www.scmp.com/news/china/article/3010581/europe-must-maintain-own-course-germany-distances-itself-us-blacklisting.

²⁹ v.people.cn/n1/2019/0517/c25060-31091271.html.