

Chinese telecom giant calls off US deal

February 21 2011, By JOE McDONALD , AP Business Writer

(AP) -- A major Chinese telecoms equipment maker is scrapping its effort to acquire a U.S. computer company after a security panel refused to approve the deal.

Huawei Technologies Ltd.'s bid to acquire 3Leaf Systems came amid concern in some countries about China's growing economic might and political assertiveness. American critics said the deal might allow sensitive technology to be transferred to China's military.

Huawei had said it hoped to win White House approval despite the recommendation by the Committee on Foreign Investment in the United States to cancel the deal. But in a weekend announcement, Huawei reversed course and said it would withdraw its application.

"This was a difficult decision, however we have decided to accept the recommendation of CFIUS to withdraw our application to acquire specific assets of 3Leaf," the company said in a brief statement. "The significant impact and attention that this transaction has caused were not what we intended. Rather, our intention was to go through all the procedures to reveal the truth about Huawei."

Huawei said it "will remain committed to long-term investment in the United States."

Huawei is one of the biggest makers of network switching gear and reported sales of \$28 billion last year. It has struggled to gain a foothold in the United States against rivals such as [Cisco Systems](#) Inc.

Huawei was founded by a former Chinese military officer, which has fueled speculation about its links to the People's Liberation Army. The company says it is owned by its employees and has no military connection.

Companies that fail to receive CFIUS approval usually withdraw proposed deals.

In 2008, Huawei and an American partner, Bain Capital, withdrew a request for U.S. [government approval](#) of a bid to buy 3Com. The companies said they failed to satisfy national security concerns.

Huawei says it failed to apply for approval of the \$2 million 3Leaf deal in advance because it bought the company's technology and hired some employees, rather than acquiring the whole company. The Pentagon took the unusual step of demanding that Huawei retroactively apply for a CFIUS review.

At a congressional hearing in Washington last week, National Intelligence Director James Clapper said the case highlighted the importance of ensuring that U.S. industry was aware of potential security threats "when we depend on foreign concerns for key components in any of our telecommunications network."

More information: Huawei Technologies Ltd.:
<http://www.huawei.com>

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