# Quiet China giant embodies technology aspirations

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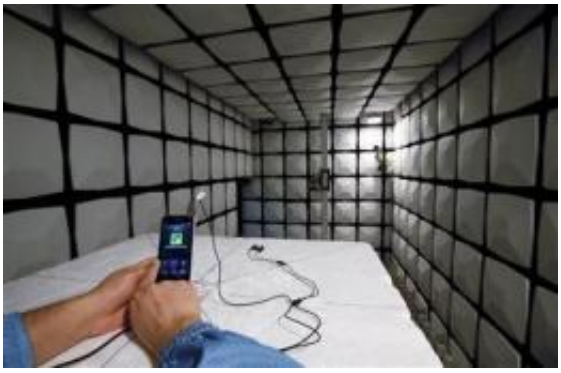

In this photo taken Friday, June 10, 2011, a technician examines a mobilephone inside the anechoic room for the Radio Spurious Emission test system at the Huawei Technologies Co. headquarters in Shenzhen, southern Chinese city bordering Hong Kong. As sales rose, Huawei Technologies Co. invested to develop its own products, a radical step for a private company in the first decade of China's reforms. But it paid off: Today, Huawei has grown into a major equipment supplier to phone carriers across Asia, Europe and Africa, with $28 billion in sales last year and 110,000 employees. (AP Photo/Kin Cheung)

(AP) -- China's quietest multibillion-dollar Chinese success story began when a former soldier founded a company in the 1980s to sell imported phone switches.

As sales rose, Huawei Technologies Co. invested to develop its own products, a radical step for a private company in the first decade of China's reforms to open its economy. But it paid off: Today, Huawei has

grown into a major equipment supplier to phone carriers across Asia, Europe and Africa, with $28 billion in sales last year and 110,000 employees.

Now, this giant the public has barely heard of wants to become a consumer and business brand, moving into markets dominated by Apple Inc. and Cisco Systems Inc. It is marketing its own mobile phones and tablet computer and is expanding in the United States, backed by a global network of 20 research and development labs from Moscow to Silicon Valley.

"The consumer market, and especially the mid-range, is something we certainly will get into with our own brand," said Song Liuping, a Huawei vice president, in an interview at its tree-lined research campus in this southern Chinese city bordering Hong Kong.

In a country known as a cheap, anonymous factory, Huawei is a leader of an emerging group of Chinese companies that are creating brand-name technology in fields from telecoms to clean energy to medical equipment and starting to compete with Western industry leaders.

The newcomers can draw on a low-cost Chinese talent pool of engineers and scientists and support from a communist leadership that is pushing to transform this nation of farmers and factory workers into a creator of profitable technologies.

Chinese companies are climbing the technology ladder faster than Japan and South Korea did in past decades, said Oded Shenkar, a professor at Ohio State University's Fisher College of Business who studies Chinese companies.

"In 10 to 15 years, China could be where South Korea is now, as far as having a number of global champions," Shenkar said.

Rising Chinese competition could hamper hopes by the United States and other Western governments to spur growth and create jobs by boosting high-tech exports.

Huawei has graduated from selling sturdy, low-cost gear to developing countries in Asia and Africa to supplying top global carriers. That is adding to pressure on Nokia Siemens Networks, Cisco, Sweden's Ericsson AB and France's Alcatel-Lucent SA.

"Many view Huawei as their main competitor over the next few years," said Mark Koh, an analyst for Frost & Sullivan, in an e-mail.

Huawei has grown at explosive speed but has to cope with complaints it copied rivals' products and suspicions it is controlled by the Communist Party or is a front for China's military. In February, a U.S. government security panel rejected its purchase of a California computer company, 3Leaf Systems.

Huawei denies it is a security threat and invited Washington to investigate it after the failure of the 3Leaf acquisition.

The company was founded in 1987 by Ren Zhengfei, a former military engineer and one of China's most enigmatic business figures.

In a society where founders of Internet, retail and other companies far smaller than Huawei are celebrities, Ren never appears in public or talks to reporters. Forbes magazine estimated his wealth last year at $1.1 billion.

Huawei says it is owned by its employees but has released few details about who controls it, fueling questions abroad.

"The place where they have the greatest trouble is the West, where they

face a lot of suspicion about their origins. It's clearly a handicap," said Tarun Khanna, a professor at Harvard Business School.

Ren started the company after his engineering unit was disbanded and he left the army, according to Huawei's February statement. He started with 21,000 yuan ($5,500 at the time) from his savings and a deal to sell phone switches supplied by a Hong Kong company. Demand boomed as Chinese carriers upgraded decrepit equipment at the start of reforms that would ignite China's economic boom.

Song said Huawei got into developing its own products almost by accident, launching a research arm only after its Hong Kong supplier was acquired by a state-owned company in 1990.

Early gear targeted rural Chinese phone companies and included a switching unit in 1994 marketed as "mouse-proof" for carriers that suffered from gnawed cables.

"Our main goal was survival," Song said.

Huawei spent a decade selling in China's countryside and developing countries in Asia and Africa, then moving into Chinese cities. It made its first sale in Europe in 2004 to a Dutch mobile phone carrier.

Today, Huawei works with 45 of the 50 biggest phone carriers.

On the consumer front, Huawei's latest gadget is the "MiFi" - a portable wireless modem the size of a deck of cards that creates a local area network for a half-dozen laptop computers. As it expands in the U.S., Huawei is also looking at opportunities in fields from finance and government to health, transportation and "smart grid" management of power networks.

The company's research-and-development staff has grown to 50,000 people and research spending is set at about 10 percent of sales, or $2.5 billion last year. It operates 12 joint development centers with partners including Vodafone Group, Deutsche Telekom, Japan's NTT Docomo and Egypt's Etisalat and has research ventures with Microsoft Corp., IBM Corp. and others.

Its corporate campus is a cluster of sleek, glass-and-steel buildings on a 325-acre (130-hectare) campus with an artificial lake. A training center where new employees spend six months was designed by star architect Norman Foster.

"They're generally a pretty impressive story," said Duncan Clark, managing director of BDA China Ltd., a Beijing research firm, who has followed the company for a decade.

"Some people in the United States see them as a creature of the government. But that's unfair, because if you look at how they've grown, it's almost despite the government, not because of them," he said. "They get export credits and other things, but it's wrong to dismiss them as a knockoff shop or a product of the army."

In contrast to major Chinese state-owned companies, which do most of their business in China and benefit from monopolies and other official favors, Huawei says it made 70 percent of its sales abroad last year.

In another break with tradition, Huawei also looks abroad for senior managers. Its chief technology officer was recruited from BT in 2009. The former CTO of Canada's Nortel Networks Corp. was hired last year to run research and development in North America.

"You have Chinese people based in Sweden and Western people based in Shenzhen. It's become a very globalized process," said Richard Brennan,

a Californian who has worked for Huawei since 2007 and is deputy director of industrial standards.

Other Chinese companies also are starting to make a name for themselves as technology creators.

Mindray Medical International Ltd., also based in Shenzhen, competes with General Electric Co. and Germany's Siemens AG to sell X-ray machines and other medical devices in the United States and Europe.

ZTE Corp., a Huawei rival also based in Shenzhen, sells switching equipment, mobile phone base stations and handsets.

Shenzhen's success as a center for technology and finance has propelled its growth from a fishing village of about 30,000 people in 1980 before it was declared China's first "special economic zone" into a skyscraper-filled metropolis of more than 14 million.

Beijing urgently wants to nurture more such innovators to reduce reliance on foreign technology and create higher-paid jobs. It has promised grants, tax breaks and other support to promote "strategic industries" including clean energy, environmental and information technology, biotech and high-end manufacturing.

Some of its tactics have irritated its trading partners. The government is pressing global companies to hand over wind power, computer encryption and other technologies as the price of market access. Business groups complain Beijing's efforts to nurture local suppliers by favoring them in government purchases of computers and other technology violates the spirit of its free-trade commitments.

Chinese officials respond to some of the criticism by pointing out that U.S., European and Japanese companies also receive tax breaks, export

subsidies and other help from their governments.

Song, the Huawei vice president, rejected suggestions its success is based on government support. He said it comes instead from market-driven decisions and a corporate culture that motivates employees with stock and quick promotions.

Huawei's February statement said some customers receive financing from China's state-owned banks. But Song said that while it gets some government grants, Huawei pays for most of its research out of its own sales.

"In the 1980s, there were hundreds of state-owned companies in the telecoms industry with Huawei, but they did not survive," he said. "If the state or military connection were the key to success, they should have developed very well, but they no longer exist."