

# Blocked Broadcom-Qualcomm tie-up highlights 5G security fears

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Trump barred a proposed multibillion dollar takeover of Qualcomm by Singapore-based rival Broadcom, which would have been the largest in the tech sector

The unusual move by President Donald Trump to block a proposed takeover of Qualcomm by a Singapore-based chip rival highlights growing concerns about the rise of Chinese competitors.

Trump issued an order Monday barring the proposed \$117 billion acquisition, citing credible evidence such a deal "threatens to impair the national security of the United States."

It would have been the biggest-ever deal in the tech sector.

Trump's order made no mention of China, but an earlier letter from the US Treasury Department warned that a takeover might hurt US leadership in 5G, super-fast fifth-generation wireless networks now being deployed, and consequently pose a threat to US security.

"It's a real threat," said James Lewis, a former US national security official who is vice president at the Center for Strategic and International Studies in Washington.

"Every administration since 2002 has figured out we are vulnerable to Chinese espionage if they control the infrastructure. Qualcomm and to some degree Cisco are the last two that keep the US in the game when it comes to telecom, and we don't want to lose them," he said.

The takeover was under investigation by the normally secretive Committee on Foreign Investment in the United States (CFIUS).

Last week's Treasury letter said a takeover of Qualcomm could lead to a loss of US influence in 5G standards, opening the door for Chinese firms like Huawei to dominate.

"Huawei is maybe the only company that offers a full range of 5G products," Lewis said. "It is positioning itself to be the number one provider of 5G equipment."



US officials expressed concern that a Broadcom takeover of Qualcomm could open the door to dominance of 5G telecom networks by Chinese firms such as Huawei

Broadcom said it "strongly disagrees" a tie-up could raise national security concerns, and had pledged to invest to ensure US leadership in 5G, the networks crucial to robotics, connected cars and other smart devices.

Lewis said it was possible US intelligence found something to warrant concern over the deal even as Broadcom was taking steps to redomicile in the United States by April 3, which would negate a CFIUS investigation.

"Maybe it's money, maybe it's control, maybe it's something we don't

know that would justify this kind of extreme action," Lewis said.

## **Fear of Huawei**

Paul Rosenzweig, a former Department of Homeland Security official who now has a consulting firm, had also voiced caution.

"Nobody knows for sure, but there is a suspicion going around that Broadcom's ultimate goal is to help Huawei and that this play is an attempt to squelch American 5G development," Rosenzweig wrote recently on the Lawfare national security blog.

Rosenzweig added Broadcom could fire Qualcomm management, cut research spending on 5G or stop Qualcomm from participating in the 5G standards-setting process.

"Perhaps more to the point, Qualcomm is an essential contracting partner of the US government, holding a top secret facility security clearance. If purchased by a foreign company that status might be in jeopardy," Rosenzweig added.

The Trump move underscores growing concerns over Huawei, the third-largest smartphone maker but also a leading telecom infrastructure producer.



Steve Mollenkopf, CEO of Qualcomm, had opposed the Broadcom deal to merge two of the world's biggest computer chipmakers

Huawei earlier this year lost a bid for broader entry into the US smartphone market, when AT&T and Verizon canceled deals after US lawmakers expressed concern over the company's Chinese government ties.

## **'The 5G problem'**

Lewis said a controversial proposal floated earlier this year that would have nationalized the United States' 5G network shows how worried the administration is about espionage using telecom networks.

"This administration has woken up to the 5G problem," Lewis said.

Technalysis Research president Bob O'Donnell said Broadcom has gained a reputation as a cost-cutter while Qualcomm—which makes most of the world's microprocessors for smartphones—has been focused on innovating.

"Without the kinds of advancements the culture of Qualcomm has created, the telecom industry would not be as advanced as it is today," O'Donnell wrote in a blog post.

"Were Broadcom to purchase Qualcomm and apply the same principles it has to other acquisitions, the likely effect would be to dramatically slow those advances down, both through the company's tactics as well as the likely departures of key employees who would be averse to working for Broadcom."

Patrick Moorhead, an analyst with Moor Insights & Strategy, said an independent Qualcomm will keep innovating in 5G and that "the industry is breathing a collective sigh of relief" with the deal blocked.

Halting the deal "should be viewed as a very positive event not only for Qualcomm but also for the market as a whole," said Stuart Carlaw of ABI Research.

"The combined entity would have had dangerously dominant positions in some core markets such as location technologies, Wi-Fi, Bluetooth, RF hardware and automotive semiconductors," Carlaw said.

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