

# Executive's arrest, security worries stymie Huawei's reach

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Pedestrians walk past a Huawei retail shop in Beijing Thursday, Dec. 6, 2018. China on Thursday demanded Canada release a Huawei Technologies executive who was arrested in a case that adds to technology tensions with Washington and threatens to complicate trade talks. (AP Photo/Ng Han Guan)

While a Huawei executive faces possible U.S. charges over trade with Iran, the Chinese tech giant's ambition to be a leader in next-generation telecoms is colliding with security worries abroad.

Australia and New Zealand have barred Huawei Technologies Ltd. as a supplier for fifth-generation networks. They joined the United States and Taiwan, which limit use of technology from the biggest global supplier of network switching gear. Last week, Japan's cybersecurity agency said Huawei and other vendors deemed risky will be off-limits for government purchases.

None has released evidence of wrongdoing by Huawei, which denies it is a risk and has operated a laboratory with Britain's government since 2010 to conduct security examinations of its products. But the accusations, amid rising tension over Chinese technology ambitions and spying, threaten its ability to compete in a sensitive field as carriers prepare to invest billions of dollars.

"This is something that's definitely concerning Huawei at this stage, because there is a political angle to it and a business angle," said Nikhil Bhatra, a senior researcher for IDC.

Huawei is no ordinary electronics supplier. The company founded in 1987 by a former military engineer is China's first global tech brand and a national champion at the head of an industry Beijing is promoting as part of efforts to transform this country into a technology creator. It has China's biggest corporate research-and-development budget at 89.7 billion yuan (\$13 billion) in 2017—10 percent more than Apple Inc.'s—and foreign customers can draw on a multibillion-dollar line of credit from the official China Development Bank.

That puts Huawei at the heart of strains over the ruling Communist Party's technology aspirations, competition with Western economies and ties between companies and government, including possibly spying.

A European Union official, Andrus Ansip, expressed concern that Chinese rules requiring telecom equipment suppliers to cooperate with

intelligence services would involve possible "mandatory backdoors" in computer or telecom systems.

"Do we have to be worried about Huawei and other Chinese companies? Yes, I think we have to be worried," said Ansip, the trade bloc's vice president for a digital single market.

The company says it is employee-owned and operates independently. It denies it designs equipment to allow eavesdropping or that it is controlled by the Communist Party—a stance critics including some U.S. senators say is doubtful in China's state-dominated system. The company notes it uses the same global components suppliers as Western manufacturers.

"Not a single shred of evidence against the company has ever been presented," Huawei said in a written response to questions.

The company is the "most examined telecoms equipment vendor," the statement said. It said foreign officials visit regularly to see "the lengths we go to assure them of the integrity of our technology."

Huawei, headquartered on a leafy campus in Shenzhen, near Hong Kong, has been working on 5G since 2009 and is one of the major suppliers of the technology, along with Sweden's LM Ericsson and Finland's Nokia Corp.

The company whose technology winds up being adopted stands to reap billions of dollars from sales and license fees.

5G promises more than just faster mobile phone service. It is designed to support vastly expanded networks of devices from internet-linked cars and medical equipment to factory robots and nuclear power plants. Annual sales of 5G network gear are forecast to reach \$11 billion by

2022, according to IHS Markit.

That makes it more politically sensitive, raises the potential cost of security failures and requires more trust in suppliers.

Even a "really minuscule" risk could disqualify a provider, said Andrew Kitson, head of technology industry research for Fitch Solutions.

But Kitson sees commercial motives behind the accusations against Huawei. He said many come from U.S. and European suppliers that are losing market share to Chinese rivals.



In this Sept. 26, 2018, file photo, visitors look at a display for 5G wireless technology from Chinese technology firm Huawei at the PT Expo in Beijing. While a Huawei executive faces possible U.S. charges over trade with Iran, the Chinese tech giant's ambition to be a leader in next-generation telecoms is colliding with security worries abroad. (AP Photo/Mark Schiefelbein, File)

"There never has been any actual proof," said Kitson. "They've only got to make a few insinuations for other governments to sit up and think, hang on, even if there is no proof, it is too much of a risk."

Huawei took a new hit on Dec. 1 when its chief financial officer, Meng Wanzhou, was arrested in Vancouver on U.S. charges of lying to banks about transactions with Iran.

Huawei is more politically important than ZTE Corp., a Chinese rival that was nearly driven out of business after Washington blocked it from buying U.S. technology over exports to Iran and North Korea. President Donald Trump restored access after ZTE paid a \$1 billion fine, replaced its executives and hired U.S.-picked compliance officers.

That won't work with Huawei, which is the "key to Beijing's aspirations to lead globally" on 5G, said Eurasia Group in a report. It said Chinese leaders would see an attempt to impose ZTE-style controls as "tantamount to an open technology war."

Huawei's U.S. business evaporated after a 2012 congressional report labeled the company and ZTE security threats. The same year, Australia banned it from bidding on a national high-speed broadband network.

Taiwan, the self-ruled island Beijing claims as its territory and regularly threatens to attack, imposed curbs in 2013 on Huawei and other Chinese telecoms technology. Lawmakers are discussing expanding the controls.

Elsewhere, Huawei supplies phone carriers in Asia, Africa and Europe. The company says it serves 45 of the 50 biggest global telecom operators. Its 2017 global sales rose 16 percent to 604 billion yuan (\$92.5 billion) while profits increased 28 percent to 47.5 billion yuan (\$7.3 billion).

Huawei accounted for 28 percent of last year's \$32 billion global sales of mobile network gear, according to IHS Markit. Ericsson was second with 27 percent and Nokia had 23 percent. ZTE, South Korea's Samsung Electronics Corp. and other vendors made up the rest.

Asked about the impact of security concerns on its 5G business, Huawei said this year's total revenue—which also includes the No. 3 global smartphone brand and an enterprise unit—should exceed \$100 billion. That would be an 8 percent gain over 2017.

Washington is pressing allies to shun Huawei, but Germany, France and Ireland say they have no plans to ban any 5G network suppliers.

Huawei "has an important place in France" and "its investments are welcome," the country's economy minister, Bruno Le Maire, said Dec. 7, according to news reports.

The company has agreements to field test 5G equipment with Deutsche Telekom, Bell Canada, France's Bouygues, Telecom Italia, India's Bharti Airtel and carriers in Singapore, South Korea and Ireland.

China's foreign ministry complained critics were "hyping so-called threats" to hamper Huawei's business without evidence.

As for Ansip's concern about eavesdropping, "we have no such law that authorizes" backdoors, said a spokesman, Lu Kang.

IDC's Bhatra warned excluding Huawei would leave countries with only two major 5G suppliers, Ericsson and Nokia. He said that would limit competition, raise prices and might slow innovation.

Already, industry analysts say telecoms equipment costs more in the United States and other markets that lack lower-priced Chinese

competitors.

"There are quite widespread implications," said Bhatra.

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