

US sanctions on Huawei bite, but who gets hurt?

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A woman uses a smartphone outside a Huawei store in Beijing Monday, May 20, 2019. Google is assuring users of Huawei smartphones the American company's services still will work on them following U.S. government restrictions on doing business with the Chinese tech giant. (AP Photo/Ng Han Guan)

Trump administration sanctions against Huawei have begun to bite even

though their dimensions remain unclear. U.S. companies that supply the Chinese tech powerhouse with computer chips face a drop in sales, and Huawei's smartphone sales could get decimated with the anticipated loss of Google's popular software and services.

The U.S. move escalates trade-war tensions with Beijing, but also risks making China more self-sufficient over time.

Here's a look at what's behind the dispute and what it means.

WHAT'S THIS ABOUT?

Last week, the U.S. Commerce Department placed Huawei on its so-called Entity List, effectively barring U.S. firms from selling it technology without [government approval](#).

Google said it would continue to support existing Huawei smartphones but future devices won't have its flagship apps and services, including maps, Gmail and search. Only basic services would be available, making Huawei phones less desirable. Separately, Huawei is the world's leading provider of networking equipment, but it relies on U.S. components including computer chips. About a third of Huawei's suppliers are American.

WHY PUNISH HUAWEI?

The U.S. defense and intelligence communities have long accused Huawei of being an untrustworthy agent of Beijing's repressive rulers—though without providing evidence. The U.S. government's

sanctions are widely seen as a means of pressuring reluctant allies in Europe to exclude Huawei equipment from their next-generation wireless networks. Washington says it's a question of national security and punishment of Huawei for skirting sanctions against Iran, but the backdrop is a struggle for economic and technological dominance.



A Huawei Mate20P smartphone model showing its own Kirin chip processor is displayed at an electronic store in Beijing, Monday, May 20, 2019. Google assured users of Huawei smartphones on Monday the American company's basic services will work on them following U.S. government cubs on doing business with the Chinese tech giant. The announcement highlighted the potential impact on global consumers and technology industries of the Trump administration's decision to tighten controls on Huawei Technologies Ltd., which Washington says is a security threat. (AP Photo/Andy Wong)

The politics of President Donald Trump's escalating tit-for-tat trade war have co-opted a longstanding policy goal of stemming state-backed Chinese cyber theft of trade and military secrets. Commerce Secretary Wilbur Ross said last week that the sanctions on Huawei have nothing to do with the trade war and could be revoked if Huawei's behavior were to change.

THE SANCTIONS' BITE

Analysts predict consumers will abandon Huawei for other smartphone makers if Huawei can only use a stripped-down version of Android. Huawei, now the No. 2 smartphone supplier, could fall behind Apple to third place. Google could seek exemptions, but would not comment on whether it planned to do so.

WHO USES HUAWEI ANYWAY?

While most consumers in the U.S. don't even know how to pronounce Huawei (it's "HWA-way"), its brand is well known in most of the rest of the world, where people have been buying its smartphones in droves.

Huawei stealthily became an industry star by plowing into new markets, developing a lineup of phones that offer affordable options for low-income households and luxury models that are siphoning upper-crust sales from Apple and Samsung in China and Europe. About 13% of its phones are now sold in Europe, Gartner analyst Annette Zimmermann estimates.

That formula helped Huawei establish itself as the world's second-largest

seller of smartphones during the first three months of this year, according to the research firm IDC. Huawei shipped 59 million smartphones in the January-March period, nearly 23 million more than Apple.



A man uses two smartphones at once outside a Huawei store in Beijing Monday, May 20, 2019. Google is assuring users of Huawei smartphones the American company's services still will work on them following U.S. government restrictions on doing business with the Chinese tech giant. (AP Photo/Ng Han Guan)

RIPPLE EFFECTS

The U.S. sanctions could have unwelcome ripple effects in the U.S., given how much technology Huawei buys from U.S. companies, especially from makers of the microprocessors that go into smartphones, computers, internet networking gear and other gadgetry.

The list of chip companies expected to be hit hardest includes Micron Technologies, Qualcomm, Qorvo and Skyworks Solutions, which all have listed Huawei as a major customer. Others likely to suffer are Xilinx, Broadcom and Texas Instruments, according to industry analysts.

Being cut off from Huawei will also compound the pain the chip sector is already experiencing from the Trump administration's rising China tariffs.

As expected, the Commerce Department on Monday announced a grace period of 90 days that applies to existing Huawei smartphones and networking equipment. The grace period allows U.S. providers to alert Huawei to security vulnerabilities and engage the Chinese company in research on standards for next-generation 5G wireless networks. It also gives operators of U.S. rural broadband networks that use Huawei routers time to switch them out.

The Commerce Department could extend the temporary license to continue to ease the blow on smartphone owners and network operators with installed Huawei gear. Whether that happens could depend on whether countries including France, Germany, the U.K. and the Netherlands continue to refuse to completely exclude Huawei equipment from their wireless networks.

Still in place are requirements that government licenses be obtained for any U.S. sales to Huawei unrelated to existing equipment.

COULD THIS BACKFIRE?

Huawei is already the biggest global supplier of networking equipment and is now likely to move toward making all components domestically. China already has a policy seeking technological independence by 2025.



A man checks smartphones near a section promoting Huawei new P30 smartphone at an electronic store in Beijing, Monday, May 20, 2019. Google assured users of Huawei smartphones on Monday the American company's basic services will work on them following U.S. government cubs on doing business with the Chinese tech giant. The announcement highlighted the potential impact on global consumers and technology industries of the Trump administration's decision to tighten controls on Huawei Technologies Ltd., which Washington

says is a security threat. (AP Photo/Andy Wong)

U.S. tech companies, facing a drop in sales, could respond with layoffs. More than 52,000 technology jobs in the U.S. are directly tied to China exports, according to the Computing Technology Industry Association, a trade group also known as CompTIA.

WHAT ABOUT HARM TO GOOGLE?

Google may lose some licensing fees and opportunities to show ads on Huawei phones, but it still will probably be a financial hiccup for Google and its corporate parent, Alphabet Inc., which is expected to generate \$160 billion in revenue this year.

THE APPLE EFFECT

In theory, Huawei's losses could translate into gains for both Samsung and Apple at a time both of those companies are trying to reverse a sharp decline in smartphone sales.

But Apple also stands to be hurt if China decides to target it in retaliation. Apple is particularly vulnerable because most iPhones are assembled in China. The Chinese government, for example could block crucial shipments to the factories assembling iPhones or take other measures that disrupt the supply chain.

Any retaliatory move from China could come on top of a looming

increase on tariffs by the U.S. that would hit the iPhone, forcing Apple to raise prices or reduce profits.

What's more, the escalating trade war may trigger a backlash among Chinese consumers against U.S. products, including the iPhone.

"Beijing could stoke nationalist sentiment over the treatment of Huawei, which could result in protests against major U.S. technology brands," CompTIA warned.

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