ARGUMENT

Huawei Ban Means the End of Global Tech

As the United States and China square off, firms will be forced to decouple.

BY CHARLES ROLLET | MAY 17, 2019, 3:13 PM

The news this week that the U.S. government blacklisted China's telecommunications giant Huawei from its suppliers was received rather viscerally. It's "the most insane decision," the CEO of Huawei's chipmaking subsidiary HiSilicon said in a memo that went viral on Chinese social media. In its own response, Huawei couldn't help but scornfully add the words "so-called," a familiar tic of Chinese state media, before mentioning the dreaded Entity List, the U.S. government blacklist where it now finds itself lumped in with international arms traffickers and Russian oligarchs.

With the stroke of a pen, U.S. Commerce Secretary Wilbur Ross made it nearly impossible for U.S. companies to sell critical tech to Huawei by requiring them to obtain government licenses that operate under an explicit "presumption of denial" policy, meaning licenses will be automatically denied without a compelling reason otherwise. Hours earlier, President Donald Trump signed an expansive executive order giving the United States the right to prohibit a wide swath of technology deals with a "foreign adversary" for national security reasons. Taken together, the moves have been widely interpreted as an unprecedented attack on Huawei's global ambitions, particularly as it races to be a primary builder of the high-speed 5G networks that will power global communications for years to come.

Focusing on Huawei alone, however, misses a critical point. The United States' dramatic escalation massively disrupts the globalized order. Huawei is the world's top telecom manufacturer and second-largest smartphone maker—by far the largest firm ever placed on the Entity List. And it's just one of thousands of Chinese firms intricately bound up with U.S. manufacturing. If it stands, the Trump administration's decision to declare what one analyst has deemed a technological "act of war" will spark an era of tech decoupling that's unprecedented in recent history.

The list of changes Huawei will have to make is long, likely delaying China's 5G rollout. The firm's supplier relationships go deep: Last year, Huawei released a list of 92 core suppliers, with the highest number—33—coming from the United States. Intel, Xilinx, and Texas Instruments all supply cell tower components or antennas used in the high-speed network. For its hugely popular smartphones, Huawei relies on Google's Android operating system and buys Qualcomm and Broadcom chips.

The sanctions may not be the immediate death knell that the rival Chinese telecom player ZTE experienced when it was (briefly) added to the Entity List in 2017. Huawei has stockpiled U.S. components for almost a year. It's also is a much larger company than ZTE and has a chipmaking subsidiary, HiSilicon, which is expected to pick up at least some of the slack, particularly for the smartphone division. "Now is the time for all the sons and daughters of HiSilicon to be heroes and heroines of the time!" read HiSilicon's rallying cry in the wake of this week's announcements.

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That runs true especially in places like Europe, where big markets such as Germany and the United Kingdom have hemmed and hawed at the United States' anti-Huawei offensive, despite the reputation of the company's equipment for cheapness and reliability.

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The knock-on effects extend far beyond the United States. Most of the non-U.S. suppliers Huawei will need are in US allies like Japan, South Korea, and Taiwan. They will also need to apply for licenses if their exports to Huawei include U.S. components above a specified threshold. The Commerce Department describes any transactions with Entity List firms as a "red flag," and the executive order signed by Trump lays the groundwork for even harsher sanctions.

The full scope of that executive order has been largely overlooked. Even if it was widely reported in the media as targeting Huawei and its telecom ambitions, the order paints a much broader brush, giving the United States the right to prohibit all transactions between Americans and any "information and communications technology or services" made by a "foreign adversary." The order's definition of this technology is so expansive ("any hardware, software, or other product or service primarily intended to fulfill … the function of information or data processing, storage, retrieval, or communication by electronic means") that it could encompass almost any technology being produced today.

The executive order effectively gives the United States wide-ranging powers over global technology supply chains, similar to the power over global financial flows it has used against its enemies such as Iran. This upends not only Huawei's immediate sustainability but also a broader, cozy global consensus wherein manufacturers gave little weight to geopolitical or cybersecurity questions about their China-based supply chains and were even happy to help build up the foundations of China's surveillance state.

Those companies are now waking up to a harsh reality. China's pursuit of the commanding heights of tech, its intermingling of the party-state with the private sector, and blocking of U.S. tech firms at home give American politicians on both sides of the aisle little reason to hit the brakes. Just a day after the Huawei decisions were released, the U.S. House of Representatives' Intelligence Committee announced a "deep dive" into China's tech and surveillance industries, with prominent Trump critic Rep. Adam Schiff (D) and his political opposite Republican Rep. Devin Nunes hitting similar hawkish notes on China.

As the political scientist Henry Farrell noted on Twitter, "a world of networks built around the pursuit of economic efficiencies is becoming a world where these networks are being exploited (or at risk of being exploited) for strategic advantage." More bluntly: Tech's globalized model is falling apart. Firms on both sides of the Pacific better get used to it.

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