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US Blacklist on Huawei: Leverage for the US-China Trade Talks?

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SYNOPSIS

The United States added Huawei Technologies Co. Ltd. to the US Entity List of threats to the US telecommunications industry. Google and other US companies suspended some businesses with Huawei after the blacklisting. Trump seems to use the blacklisting as leverage in the US-China trade negotiations, which does not bode well for a successful deal.

COMMENTARY

PRESIDENT DONALD Trump on 15 May 2019 issued an executive order on “securing the information and communications technology and services supply chain”, which declared a “national emergency” regarding “critical national security threat” to information and telecommunications of the US. Following the order, the US Commerce Department listed Huawei, the Chinese telecom giant, and its 68 affiliates on the Entity List, which prohibits the company from buying components and services from US companies without approval by the US government. Google, Intel, Qualcomm, ARM and other companies were reported to follow the order.

The move of the Trump administration is believed to be a direct blow at Huawei. In an apparent tit-for-tat, Beijing asserted its support for the legal rights of Chinese companies and urged Washington to avoid miscalculations that further strain US-China trade relations. China also reportedly drafted a new cybersecurity law that will result in blocking US telecom companies from entering its market—the largest in the world.

Entity List and ZTE Ban

The US Entity List consists of foreign “businesses, research institutions, public and private organisations, individuals and other types of legal persons” which are believed to impose national security threats to the US. The list specifies license requirements for every listed entity. The Bureau of Industry and Security, a division of the US Commerce Department, must provide licenses if restricted items are exported, re-exported and transferred to listed entities.

Huawei is not the first Chinese telecom company banned by the US, as ZTE, another smaller Chinese telecommunications company, was listed in 2018. The Huawei ban and the ZTE ban are different in the sense that the latter was an outright ban. ZTE was placed on the Denied Persons List in April 2018 and was denied export and re-export privileges. This means the company was prohibited from doing business with US companies or individuals completely for seven years.

The ban was lifted after ZTE paid \$1.4 billion in penalties and opened its site for US inspections. Huawei was added to the Entity List, and the US government retains the right to issue licenses for exporting, re-exporting and transferring specified items.

The blacklisting action of the US government exerts complicated impact on the global smartphone market, with both users and phone-makers affected. On 20 May 2019, the US delayed some restrictions imposed on Huawei for 90 days, an action believed to be aimed at mitigating unintended consequences on third parties.

The global impact of the blacklisting could also be far-reaching. President Trump has persuaded his allies about Huawei’s potential security issues. The list of companies that conform to restrictive measures of American Entity List is believed to expand, which would spread fire widely.

Huawei’s restrictions ring a bell for all smartphone makers, reminding them of the technology dependency issue. The chances are that future phone market may become fragmented, with each maker maintaining its own version of Android or operating system, and even independent component suppliers.

Tactics for Trade Negotiation?

Meanwhile, trade disputes between the US and China remain unsettled. The US-China trade tension has escalated as China retaliated after the US government announced the imposition of 25% tariffs on some imported goods from China earlier last month. The war began last year, and Washington and Beijing have negotiated several rounds with no deals actually coming out since then. The last negotiation during Chinese vice-premier Liu He’s visit to Washington on 9 May 2019 was again fruitless.

Against this backdrop, the Huawei ban makes the trade battle spill into the technology field and adds difficulty to reach an agreement. The executive order, being reported to be discussed internally for years, was just issued days after these two countries failed to reach an agreement. Suspicion on whether restrictive measures against Huawei are used as a bargaining chip in the US-China trade negotiation rose because of the timing of the executive order.

President Trump, on 23 May 2019, said that the Huawei case could be “included in some kind of a trade deal” between the US and China, and there is “a good possibility” for both to reach a deal. But it remains unclear whether President Trump would lift the ban in exchange for some concessions from Beijing.

Prelude for Technology Confrontation

Some deem the move to be a prelude for technology confrontation between the world’s two biggest economies. When Huawei claims its competitive edge in the incoming 5G competition and seeks for global expansion, Washington is believed to act proactively to ensure American competitiveness in 5G, the fifth generation of mobile networks, and remain its position in leading the technology trend.

In an interview with Fox News, released on 19 May 2019, Trump said he believes China’s intention is to “replace the US as the superpower” but this will not happen under his watch.

Whatever the ending is, the US-China trade war signifies a new age of superpower competition. The Trump administration demands more domestic reforms in China, the world’s largest beneficiary of free trade in the past two decades. Reforms on issues such as further liberalisation of its market and improving intellectual property rights protection, however, can hardly be carried out in China in a short time.

For now, it looks like both sides have no intention to back down. Instead, the blacklisting suggests that the scope of the US-China trade war has expanded.

It is expected that the US President Trump and Chinese President Xi Jinping will meet on the sidelines of the upcoming G20 meeting in Osaka, Japan in late June. But whether the summit will eventually take place or whether there will be any concrete outcomes remains a question. On a more optimistic note, the best scenario is that both sides are willing to return to the negotiation table and reach a deal that does the least harm to the global economy.

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