

US Report Highlights Unease About Chinese Firms

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BEIJING — Eager to expand in the United States, China's biggest technology companies face an America anxious about threats to jobs and national security.

The latest blow: A U.S. report that says telecom equipment makers Huawei Technologies Inc. and ZTE Corp. are potential security threats that Americans should avoid doing business with.

The report, coming amid an American presidential race in which trade tensions with Beijing are a prominent issue, highlights conflicting U.S. sentiments toward China, an important trading partner but a potential strategic rival. U.S. companies see China as both a crucial growth market and a source of competition and industrial spying.

"A lot of people in America are worried about a diminishing role in the world and China being the prime beneficiary and potentially one day moving into that top slot," said Charles Maynard, senior managing director of Business Development Asia, which advises companies on acquisitions.

Legislators are "playing to a lot of voters at home who are very concerned about that issue," he said.

The report Monday by the House Intelligence Committee said U.S. companies should avoid doing business with Huawei and ZTE and recommended regulators block them from buying U.S. companies. It said government computer systems should not include components from them because they might pose an espionage risk.

China's government rejected the report as false and an effort to block Chinese companies from the U.S. market.

"The Chinese side expresses its serious concerns and strong opposition," Commerce Ministry spokesman Shen Danyang said in a statement Tuesday. He called on the United States to "abandon the practice of discrimination against Chinese companies."

The report has no official force but could discourage American telephone carriers from dealing with Huawei and ZTE, especially when it comes to the big-ticket network technology the Chinese companies are eager to sell.

Huawei and ZTE, both based in Shenzhen in southern China, near Hong Kong, rejected the accusation and complained the committee failed to provide evidence to

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back it up.

The report "employs many rumors and speculations to prove non-existent accusations," said a Huawei spokesman, Scott Sykes, in an e-mail.

"We have to suspect that the only purpose of such a report is to impede competition and obstruct Chinese ICT companies from entering the U.S. market," Sykes said.

ZTE said the investigation should be extended to Western suppliers because their equipment is manufactured in or uses components from China.

[The United States and other governments welcome the small but growing flow of Chinese investment. Most deals abroad go through with little trouble. But companies from China's government-dominated economy carry unusual political baggage that has stymied transactions in sensitive areas such as energy and telecommunications.

Last year, Huawei was forced to rescind its purchase of a small California computer company, 3Leaf Systems, after a U.S. government security panel rejected the deal.

Huawei, founded in 1987 by a former Chinese military engineer, has grown into the world's biggest supplier of network gear, competing with Nokia Siemens Networks and Sweden's Ericsson AB.

"They are the first Chinese company to present a viable, sustainable competitive threat to what has long been perceived as America's core competitive advantage, which is innovation and high technology," said David Wolf, a technology marketing consultant in Beijing. "No matter what firm stepped into that, it would be caught in the barbed wire."

Huawei, with 140,000 employees, says it made two-thirds of its 204 billion yuan (\$32 billion) in sales last year outside China. The smaller state-owned ZTE says it made just over half its revenues abroad. Huawei says it is employee-owned and has denied suggestions it is controlled by the ruling Communist Party or is a front for the military.

Both companies are well-established suppliers to other developing countries and want to expand in lucrative U.S. and European markets. Huawei sells smartphones in the United States under its own brand.

Other governments also have questioned Huawei's suitability. Australia's government disclosed in March that Huawei was banned from bidding to help build a nationwide high-speed Internet network due to concern about cyber-attacks traced to China.

Huawei has been hurt by its reluctance to release details of who controls the company. Such secretiveness is common among major Chinese companies but unusual in Western markets. In contrast to American CEOs who are expected to act

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as their companies' public face, Huawei founder Ren Zhengfei never talks to reporters and rarely appears in public.

Huawei has tried to ease U.S. concerns by hiring American executives and spokespeople. It has taken reporters on tours of its sprawling, leafy campus in Shenzhen. In the congressional investigation, it handed over information about members of its board of directors and names of employee shareholders.

In Britain, Huawei has set up a testing center where government technicians can examine its equipment.

"They are going to have to move more quickly," said Wolf. "They need to put their most senior executives in front of the American public."

In other industries, Chinese executives are reluctant to pursue deals in the United States if they think they might be subjected to the unfamiliar and uncomfortable scrutiny of a government security review, Maynard said. He said those might apply even to such acquisitions as an auto parts producer that makes a small portion of its sales to the U.S. military.

Last month, President Barack Obama blocked Chinese-owned Ralls Corp. from owning four wind farm projects in Oregon near a Navy base where the U.S. military flies unmanned drones. Obama acted after the same government review panel that rejected Huawei's acquisition of 3Leaf said there was no way to address possible security risks.

"This has the potential to cut both ways," said Maynard. "If you want American companies to be welcome in China, you need to be making them welcome in the U.S."

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