Arrest of Huawei's Executive - US-China Tech Trade War

What is the issue?

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- Canadian authorities recently arrested Huawei's global chief financial officer Meng Wanzhou on allegations of fraud levelled by the US.
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- It comes as a signal for the emerging high-tech trade war between the United States and China.
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What is the charge against Meng?

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- Meng is alleged to have tricked financial institutions into making transactions that violated US sanctions against Iran.
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- Between 2009 and 2014, Huawei used a Hong Kong company, Skycom Tech, to do business with telecom companies in Iran.
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- Huawei had tried to import US-made computer equipment there.
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- Banks in the US cleared transactions for Huawei, inadvertently doing business with Skycom.
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- When financial institutions asked Huawei about the allegations, Meng reportedly met with an executive from one institution.
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- He had said Huawei operated in Iran in compliance with US sanctions, and that it had sold its shares in Skycom.
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- But Canada alleges that Huawei operated Skycom as an unofficial subsidiary, making efforts to keep the connection secret.
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- Also, Meng's presentation to the financial institution constituted fraud.
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- Meng faces possible extradition to the US, a process that can take time.
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- The arrest has led to China warning Canada and calling in the US Ambassador in Beijing to lodge its protest.
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Is this the first time?

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- Huawei is the second big Chinese tech company to be accused of breaching those sanctions.
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- The first was ZTE Corp. in 2017.
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- The US punished ZTE by forbidding it from buying American components, most importantly, telecom chips made by US-based Qualcomm Inc.
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- Those restrictions were lifted after ZTE agreed to pay a fine.
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Is it a trade war scenario?

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- These episodes highlight Chinese companies' dependence on critical US technology.
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- US moves against Huawei and ZTE may be intended to force China to remain a cheap supplier instead of a threatening competitor.
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- More systematic efforts to block Chinese access to US components are in the works.
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- E.g. the recently passed Export Control Reform Act
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- It increased regulatory oversight of US exports of emerging and foundational technologies deemed to have national-security importance.
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- A second weapon in the high-tech trade war is investment restrictions.

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- The Trump administration has greatly expanded its power to block Chinese investments in US technology companies.
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- This is done through the Committee on Foreign Investment in the US (CFIUS) which has already cancelled a bunch of Chinese deals.
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- The objective is to prevent Chinese companies from copying or stealing American ideas and technologies.
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- By blocking these investors, the Trump administration hopes to preserve US technological dominance.
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- The European Union is also moving to restrict Chinese investments, signalling the less-publicised high-tech trade war.
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How does the future look?

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- **Trade** - The high-tech trade war shows that for all the importance over manufacturing jobs, steel, autos and tariffs, the real competition is in the tech sector.
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- Losing the lead in the global technology race means lower profits and a disappearing military advantage.
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- So the US cannot afford to lose its dominance in the tech sector.
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- With the coming of the high-tech trade war, China's economic co-dependency with the U.S. would come to an end.
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- Investment restrictions may spur China to upgrade its own homegrown research and development capacity.
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- **Relations** - It is very recently that the US and Chinese Presidents declared a 90-day “truce” in their trade war. Click here to know more.
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- But the arrest in Canada of a Chinese telecom company executive signals a second US-China trade war.
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- China sees the moves as a political play to create leverage on trade or

cripple Chinese technology companies.
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- This could potentially pose a challenge to the already difficult relationship.
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Source: Indian Express, BusinessLine

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