

US Sanctions on Huawei - No Winners from Trade War, the US Stands to Lose Technology Dominance

<https://marketpublishers.com/r/UF643494C17AEN.html>

Date: June 2020

Pages: 18

Price: US\$ 995.00 (Single User License)

ID: UF643494C17AEN

Abstracts

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SUMMARY

On May 14th 2020, the US administration extended its executive order which bars US firms from buying or supplying equipment from foreign telecommunication firms that pose a national security risk, for another year.

The extension of this new order is once again aimed at Huawei, which along with a list of nearly 140 subsidiaries and affiliates, was included in the blacklist of companies deemed as threats for the US national security. But this time, sanctions were extended from the sales of US-based components - imposed one year ago - to the sale of all hardware and software products for which US-based intellectual property or components for their production, makes up for at least 25% of their value. This closed a loophole that had previously allowed the use of US-made components and technology by Huawei, by acquiring them from third party-sellers. Under the new rules, foreign semi-conductors and any other supplier of hardware or software must obtain a license from the US Department of Commerce - although essentially not granted - for selling equipment or technology based on de minimis US-based intellectual property to Huawei and its affiliates.

This new trade regime imposed by the US will have of course a massive impact on the global supply chain of IT hardware and the global smartphone market, with repercussions extending to macroeconomic level given an anticipated escalation in trade wars. What is of great interest at present is to identify the magnitude of these

repercussions as well as the winners and losers of this trade war emerging from chipsets.

KEY HIGHLIGHTS

The complex and interdependent global supply chain of the semiconductor industry, and extensively of the IT hardware and software means that the gains or losses of trade partners can only be shared.

Huawei managed to overcome challenges of overhauling its supply chain, but still many challenges lie ahead as its switch to the Chinese semiconductor industry entails the loss of edge in advanced chipsets at present. What is more, the loss of license of Googles' Android operating system could further disrupt the company's smartphone business. However, Huawei could potentially exploit these challenges as opportunities, eventually becoming stronger by reducing its dependence on US technologies.

As the ban looks unlikely to be able to kill Huawei, the US can only lose from this sanction campaign, seeing the revenues, as well as the market shares of US semiconductors shrinking. The long-term implication of these sanctions could be onerous, doing more harm than good over the US technological industry which needs further investment on R&D expenditure instead of a protectionism burden. Moreover, the isolation of Huawei which looks inevitably set to proliferate its 5G development might ultimately cost the US the loss of technological dominance.

The cost of sanctions inevitably spreads to the whole semiconductor industry, and especially to foundries, which will have to face reduced revenues and a fragments supply chain. This situation is very likely to continue and even intensify, as long as the US economic and foreign policy remains focused on attacking economic rivals rather than focusing on the advancement of its own economy.

SCOPE

See why the US is deploying restrictions on China and Huawei

Understand how the US will struggle to achieve it's goals

Learn how both sides will be hard hit

See how Huawei is adapting to the US trade sanctions

REASONS TO BUY

Why is the US sanctioning Huawei and China?

What can be gained from this situation?

Who is likely to be hurt the most from this situation?

How can Huawei avoid these sanctions?

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