

Chinese whispers

Recent rumours of a spat brewing between China and the EU over trade subsidies for telecoms companies are just the latest in an increasingly long line of disputes.

The past year has seen proposed deals between a variety of Western and Chinese telcos falling foul of bureaucratic unease in the EU and America. High profile cases have involved US carrier Sprint's 2010 decision to exit a deal with Huawei following government pressure, and revelations via Wikileaks earlier this year that US government officials had applied similar pressure to Dutch tech firm Phillips and the UK's Spirent Communications, again over dealings with Huawei.

On the other side of the fence, China's Ministry of Commerce has denied allegations that it was about to take action against the EU over subsidies to Ericsson and Nokia, among others. Meanwhile, NSN's planned \$1.2bn acquisition of Motorola's wireless network is moving at a glacial pace, thanks to what appears to be strategic foot-dragging by the Chinese Anti-Monopoly Bureau. In February this year, Huawei won an injunction in the US relating to the proposed sale, asking for proof that intellectual property it had licensed to Motorola would not be transferred under the deal. All of this is taking place against a backdrop of Huawei being forced to withdraw from its acquisition of 3Leaf by the US Committee on Foreign Investment (CFIUS) on grounds of national security—prompting the firm's chairman to write an open letter to the US authorities challenging them to present proof that Huawei has links to the Chinese military and intelligence services, accusations that have dogged the vendor as it seeks to expand its business in the West.

The bulk of American objections to Chinese firms focused on national security issues but it's fair to say that that's only half the story. In common with the EU, politicians and senior industry figures regularly point to what they say is a deliberately vague Chinese regulatory environment. Cheap loans to telecoms companies from the China Development Bank, a policy of "indigenous innovation" that effectively excludes Western firms from public procurement contracts and a requirement that firms provide technology secrets and know-how in return for market access are all regularly cited as evidence of Chinese anti-free-market behaviour.

At last year's WTO Geneva Week, the EU's John Clarke said that: "Even though China reiterates its firm commitment to continued opening up and reform, we believe this does not duly characterise the current situation there... The level of state interference in the economy is still noticeable and less and less compatible with China's level of economic development."

For the Americans' part, reports from the US-China Economic Security Review Commission are liberally sprinkled with references to the Communist Party, censorship and rumours of shady dealings. It's not clear whether the CFIUS appreciates the irony of complaining about Chinese internet censorship as "a barrier to trade... undermining US business' ability to operate in China" before

revealing that state-sponsored/censored search engine Baidu, which it says is a "useful study of this dynamic", was started with US funding and "its American investors stand to reap greater profits."

If it all sounds a bit Cold War MkII, it's worth bearing in mind US analyst David Rothkopf's point that the threat posed by China to the West differs dramatically from that of the old Soviet Union. This is no old-style territory grab, nor is it the kind of zero-sum game the Americans and Soviets once played; this time, the protagonists are locked in an uneasy co-dependency. China owns trillions of dollars of American debt but exports to the US were worth \$229.2bn in the first eight months of 2010—handy foreign currency for a country that buys its resources in dollars.

From the European perspective, the EU is China's main export market, while China is the EU's fastest-growing market. However, the US is still the EU's biggest customer. Many European manufacturers and their unions are arguing that it's time the EU took a leaf out of America's book and started blocking Chinese investment.

It's not so much paranoia about security as it is about declining market share. Analysts the world over have cited stiff competition from the likes of Huawei and ZTE as key factors in declining sales in Europe and globally. Last year, analysts were quick to point out that significant profits for Ericsson were based largely on strong performance in the US; sales in other regions had actually dropped off. With Chinese kit makers restrained by security regulations, the US market is, for the time being, a large pond with relatively few fish in it. A deal between Huawei and local group Amerilink Telecom was supposed to help lobby for greater market access for Huawei, but reports are that the relationship has "weakened," possibly in the face of increased political intransigence.

Europe, for its part, seems unwilling to get its hands too dirty; its proposal to drop an unfair advantage case against Huawei because "it would be disproportionate to continue the investigation and impose measures following the withdrawal of the complaint," suggests a reluctance to seize any opportunity to tackle the issue head-on. The Chinese government is taking a similar approach, denying any suggestions that it will take the EU to task over subsidies and rejecting suggestions that it has ever even investigated them. To date, only India has taken the somewhat extreme measure of a complete ban on Chinese telecoms kit, and even that only lasted eight months. One can only assume that the construction of a massive \$500m Huawei plant in Chennai, first mooted at the height of Huawei's lobbying for a lifting of the ban, helped to grease the wheels.

And so the shadow boxing, moving and shaping continues. Maybe the real question the security-conscious need to ask themselves is whether they're just providing an elegant distraction from possibly-harder-to-resolve trade issues. After all, even if it turned out that Huawei was closely linked to the military, how significantly different from some Western telecoms providers would that make it? ■