

Huawei's U.S. competitors among those pushing for scrutiny of Chinese tech firm

By **Cecilia Kang** October 10, 2012

Companies in the cutthroat field of telecommunications received a remarkable marketing document recently, one aimed at causing suspicion about one of their biggest competitors, the Chinese firm Huawei.

“Fear of Huawei spreads globally,” the report reads. “Despite denials, Huawei has struggled to de-link itself from China’s People’s Liberation Army and the Chinese government.”

The paper’s author was Huawei’s main U.S. rival, the California-based company Cisco Systems.

The marketing campaign got a boost this week when a report from Congress said much the same thing, raising national security concerns about Huawei’s alleged use of its technology to help the Chinese government expand its overseas spying operations. U.S. suspicions surrounding Huawei have presented a business opportunity for Cisco and other firms in the hyper-competitive world of telecom. Senior Hill staffers at three separate congressional offices say an array of American tech firms have lobbied them to increase scrutiny of Huawei, using language similar to Cisco’s campaign.

Some analysts say the efforts to discredit Huawei illustrate a wariness among U.S. firms of highly successful, low-priced competitors from China that are roiling telecommunications — once a distinctly American industry.

China has complained that the hurdles faced by Huawei in particular have amounted to the kind of arbitrary trade barrier that the United States has complained about on behalf of its companies around the world.

No charges have been formally brought. And any evidence of whether Huawei is a threat to national security has been locked in a classified report that can be viewed only by a select few in government.

That has created an ideal environment for U.S. businesses to gain an upper hand. U.S. lawmakers have warned companies to stop doing business with Huawei and ZTE, another Chinese telecom equipment provider. In recent years, U.S. officials have thwarted two attempts by Huawei to buy U.S. firms.

In April 2011, lawmakers sent a letter to President Obama, criticizing the Agriculture Department’s contract with Huawei. In November 2010, Sprint Nextel chief executive Dan Hesse was asked by then-Commerce Secretary Gary Locke to reject bids

from Huawei.

“Huawei has been extremely successful and disruptive around the world, but the one market it hasn’t been able to penetrate is the U.S.,” said Mark Fabbi, a vice president of research at Gartner. “And that’s mainly because of politics and lobbyists pushing really, really hard to put up barriers.”

The seven-page September 2011 presentation distributed by Cisco was obtained by The Washington Post from a person familiar with Cisco’s sales strategy who was not authorized to comment publicly and spoke on the condition of anonymity. Titled “Huawei’s & National Security,” the document was used to lure clients away from Huawei, the person said.

Cisco did not respond to requests for comment about its lobbying activity or the sales document. Spokesman John Earnhardt said, “In the last couple years, 18 months or so, we’ve taken a more competitive stance against competitors including HP, Huawei and Juniper.”

Publicly, the company, which makes equipment that manages the flow of data on the Internet, has not been shy about going after Huawei. Huawei is our biggest “long-term threat,” Cisco chief executive John Chambers said in media interviews earlier this year. He added that the firm does not always “play by the rules.”

By offering equipment sometimes at half the price of rival products, Huawei grew quickly after it entered the U.S. market in 2001, planting its U.S. headquarters in Plano, Tex. It has four research plants and employs about 1,700 workers in the United States. Huawei counts Leap Wireless and Clearwire as customers, as well as several small rural companies. It sold \$1.3 billion in gear and devices to U.S. firms last year, about 4 percent of its overall sales.

The House intelligence committee outlined its concerns in a report this week that could tilt the network equipment industry in favor of Cisco, Juniper and Hewlett-Packard in the United States, analysts say. The firms are all big suppliers of gear to U.S. wireless carriers that are racing to build out lightening-speed networks that will service smartphones and tablets around the country.

“China is cyberattacking us every day, and we had real concerns about the role of Huawei and its connection to the Chinese government,” Rep. C.A. Dutch Ruppersberger (D-Md.) said in an interview. He said Cisco representatives have not met with him personally.

“That coupled with the fact that Huawei wanted to expand their market share in the U.S. and grow” caught my attention, he said.

For business rivals, the worrisome ascent of Huawei has fortuitously coincided with growing fears of China’s economic clout, some analysts say.

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“What happens is you get competitors who are able to gin up lawmakers who are already wound up about China,” said one Hill staffer who was not authorized to speak publicly about the matter. “What they do is pull the string and see where the

top spins.”

But some experts say these concerns are exaggerated. These experts note that much of Cisco’s own technology is manufactured in China.

Doug Guthrie, dean of the George Washington University Business School, said the reaction to Huawei harks back to the fear in the 1980s of Japanese companies that were overtaking the U.S. auto industry and buying up iconic pieces of real estate, such as the Rockefeller building in New York.

The decline of U.S. automakers and the rise of foreign competition hit a nerve for Americans.

“It was long thought that we were the number-one economy and China just supplied cheap labor,” Guthrie said. “Now it is clear that China has a lot to offer in terms of innovation and industrial policy and state investment, and now people are scared.”

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	2	3.14	=ROUND(SA\$1,2)
	3	3.142	=ROUND(SA\$1,3)
	4	3.1416	=ROUND(SA\$1,4)
	5	3.14159	=ROUND(SA\$1,5)
	6	3.141593	=ROUND(SA\$1,6)
	7	3.1415927	=ROUND(SA\$1,7)
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