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Huawei case is a clash of economic ideologies



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Foreign Pulse

The arrest in Canada of Meng Wanzhou, chief financial officer of Chinese telecommunications behemoth Huawei, and the legal proceedings to extradite her to the United States on charges of violating American sanctions against Iran, constitute the perfect storm.

Although the purported goal of the United States in pushing for Ms Meng's detention is strict enforcement of the Donald Trump administration's campaign to isolate Iran, the real backstory to this drama is much bigger — the mounting international anxiety amid China's push for supremacy in decisive cutting-edge technologies. This case illustrates how hi-tech is part and parcel of China's relentless march to superpower status and of attempts to contain it.

Ms Meng hails from China's corporate aristocracy and is the dynamic face of one of its most storied companies. Literally, the word "Huawei" translates as "China's achievement". It is the world's largest supplier of telecom network equipment, ahead of Sweden's Ericsson, Finland's Nokia and South Korea's Samsung. In consumer electronics, Huawei has overtaken America's Apple and become the second biggest player in smartphones, with only Samsung to beat. The year-on-year growth trajectory of Huawei has been spectacular, thanks to massive investments in research and development and creative partnerships with foreign communications service providers. Besides Alibaba, if there is one symbol of China's rapid ascent, it is Huawei. The close identification of Huawei with China's overall rise is not incidental. Its founder, Ms Meng's father Ren Zhengfei, has a background in China's People's Liberation Army (PLA) and the company has benefited

immensely from the Chinese state's largesse. A front-runner in Artificial Intelligence (AI) and 5G wireless patents, Huawei is the poster child of President Xi Jinping's "China Dream" of an "innovation society" and a technological superpower.

The Chinese state has assiduously promoted "national champions" like Huawei, Lenovo and ZTE to break free from dependence on the West for critical technologies and to spread Chinese influence internationally. If Huawei is today a multinational giant operating in over 170 countries, its expansion owes no small debt to the Chinese government's facilitation and steering. In theory, Huawei is a privately owned corporation. But in practice, China's state-guided capitalist environment is such that no company can rise to global heights without the strategic hand of the state behind it. Hence, it is hardly surprising that the likes of Mr Ren and Alibaba chief Jack Ma are formal members of the Chinese Communist Party.

The nature of China's "red capitalism" is such that no clear distinction is made between private and public sector entities. And therein lies the rub. Even though the Canadian government has said that Ms Meng's arrest is a purely legal action with "no political involvement", a strike against China's telecom colossus has enormous political implications that transcend Iran.

American allegations that Ms Meng defrauded US banks and set up shell companies using the US financial system to bust sanctions against Iran are aimed at tarnishing Huawei's ethical reputation and sully its image in the international telecom market.

Huawei's moral standing has been under a cloud for a while. In August 2018, President Donald Trump banned Huawei and the other

prominent Chinese telecom infrastructure company, ZTE, from supplying network components to the US government and any institution that works with it. The American decision was based on national security threat perceptions dating back several years that Chinese telecom companies carry backdoor switches, codes and cables to enable the Chinese government to spy on vital communications of countries of strategic interest.

Australia and New Zealand, two US allies which are members of the "Five Eyes" intelligence coalition, have followed in the American footsteps and barred Huawei from building their respective 5G mobile networks. Already, these two countries have been facing a domestic blowback owing to increasing Chinese interference in their internal politics, news media and academia. Banning Huawei came to be seen in Canberra and Wellington as a necessary safeguard against the Chinese juggernaut which is spreading militarily, economically and via cyberspace in the entire Indo-Pacific region. Shortly after Ms Meng's detention in Canada on December 1, Japan too signalled it would ban Huawei and ZTE gear over fears of intelligence leaks and cyberattacks that would give China's government an upper hand. Canada itself is debating a ban on Chinese 5G equipment and Ms Meng's high-profile case has emboldened nationalistic voices there to shut Huawei and ZTE out of its market.

Britain too has banned ZTE and the British company BT has omitted Huawei from its 5G plans. Even India has excluded Huawei and ZTE from partnering with local firms in 5G trials citing security concerns.

The issue of Meng Wanzhou's fate goes beyond the Iran sanctions or corporate malfeasance. It is the incompatibility between 'Chinese capitalism' and liberal capitalism.

Wherever Huawei has become persona non grata, the Chinese government cries foul that the bans are politically motivated and counterproductive for local consumers. For example, China's state-run *Global Times* claims India blocked Chinese firms "using the excuse of safeguarding national security to please the US", and that such bans "will make 5G services too expensive for low-income Indian populations".

Yet, however much Beijing strives to allay doubts regarding Huawei and convey that business should not be politicised, opposition to Chinese corporate take-over of sensitive sectors persists because of the statist character of China's business majors. Suspicion of the motives and effects of China's extending corporate footprint will endure, especially in democracies, as long as China is not a market economy and there is a commanding one-party state which drives economic policymaking with a strategic vision.

Beijing has criticised Canada's detention of Ms Meng as "extremely nasty" and criticised the US as a "despicable rogue" for initiating proceedings against her. It has also defensively reiterated that Huawei is an innocent victim of politicised harassment. But the more vigorously the Chinese government fights on behalf of its companies abroad, the further it exacerbates the core problem of economics and politics being deeply intertwined in Beijing's mission of priming its corporations to dominate world markets.

The fundamental issue highlighted by Meng Wanzhou's fate goes beyond the Iran sanctions or corporate malfeasance. It is the incompatibility between "capitalism with Chinese characteristics" and liberal capitalism. The economic war is an ideological one and Huawei is entangled in the broader clash about how state and market should be relatively positioned in the 21st century.

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