

US President Donald Trump's addition of Huawei Technologies Co and its non-US affiliates to a trade blacklist is likely to force dozens of US companies to stop business dealings with the Chinese tech giant. The ban could also extend to non-US suppliers that use US technology in their products, depending on how those companies are affected by the US Bureau of Industry and Security's Entity List and other applicable trade laws.

Moreover, as some US allies have either joined the Huawei ban or are delaying the release of new Huawei smartphones, the effect of Washington's action on the Shenzhen-based telecoms equipment maker and smartphone brand is likely to be far more significant than trade sanctions on Chinese telecom equipment maker ZTE Corp.

Huawei was the world's second-largest smartphone brand in the first quarter of this year, ahead of Apple Inc, but behind Samsung Electronics Co, according to International Data Corp data released earlier this month. Based on statistics compiled by IHS Markit, Huawei telecom equipment held a global market share of 26 percent last year, second only to Ericsson AB's 29 percent.

While Huawei said that it has prepared higher-than-normal inventories in its supply chain to avoid a worst-case scenario, which could last for several months, the company still needs to figure out how to deal with the supply chain issue to get through this year at least. Nonetheless, Google's decision to suspend services to Huawei after a 90-day reprieve could harm its products outside China in the long run.

As Huawei has a large share of the smartphone and telecom equipment markets, it is feared that protracted US trade sanctions on the Chinese company could affect Taiwanese firms in Huawei's supply chain, chipping away between 5 and 10 percent of sales in the next few months. For instance, Huawei accounts for 5 to 10 percent of Taiwan Semiconductor Manufacturing Co's (TSMC) total revenue and is among the chipmaker's top three clients. There were concerns that TSMC might see revenue fall by 5 percent in the second half if it loses Huawei orders. That is why TSMC's announcement on Thursday that it would continue shipments to Huawei after a preliminary review — which showed that its products contain less than 25 percent US-origin software and technology — bought some relief to the market the next day.

Protecting Taiwan's tech edge

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Taiwan has issued guidelines to restrict government agencies' use of telecom equipment that might endanger national security, targeting Huawei specifically, but has not banned local companies from doing business with the Chinese firm. As Taiwanese suppliers generally have flexible strategies and know how to position themselves well in a new global trade environment, they might benefit from the US ban in the long term — despite potential short-term market volatility — as orders lost from Huawei could be offset by orders gained from other telecom equipment brands or smartphone vendors.

However, if Washington intends more restrictions on Huawei, for example by lowering the minimum amount of controlled US-origin content for items made by the Chinese company's suppliers outside of the US, that would weigh on TSMC and put Taiwan in a complicated situation.

While the US is Taiwan's most important informal ally and a major supplier of arms, China is the nation's biggest export market.

The trade dispute between the US and China is likely to linger and might evolve into a long-term competition over global tech supremacy, but no matter the outcome, the government and local companies must be prepared, and the nation needs to work harder to maintain its competitive edge in the global tech sector.

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