

# Chinese MNEs Operating in Western Economies: Huawei in the US and the UK

## Abstract

Huawei serves as a vehicle for presenting the multiple barriers faced by MNEs that happen to be born in China, a non-democratic and non-Western country who now challenges the world's No.1 superpower, thus requires a multi-disciplinary analytical framework by taking much broader contexts into considerations. This comparative case study of its operations in the US and UK aims to develop the old model of examining Chinese MNEs that is heavily economic factor focused by including more variables, such as “bilateral relations”, “law”, “media influence” and “cultural proximity” under host country factors, and “governance structure” under home country factors. The new model will allow us to see the increasing complexity in the global competitive landscape and inspire more research to further advance our understanding of this new international business phenomenon.

## Introduction

As a multinational company operating in over 170 countries, Huawei's international operation is exposed to diverse, conflicting pressures that arise from different business and political environments in the host countries, and in Western economies in particular, its operations have been plagued by continued uncertainty and distrust. What happened to this Chinese telecommunication giant in 2018-2020 best showcased the statement made by Daniels et al that “the interplay of political ideologies, conceptions of political freedom, legacies of legality, presumption of fairness, and standards of accountability in each market makes for challenging business environments”, in which “state officials exercise authority, legislate policies, regulate enterprise and punish wrongdoers.”<sup>1</sup> The setbacks Huawei suffered in the US and UK markets made typical examples of how political risks can “change a country's business environment in ways that force investors to accept lower rates of return, cost them some or all of the value of their investment, or threaten the sustainability of their operation.”<sup>2</sup>

So far, most of the analysis assessing such political risks are about Western MNEs operating in non-democratic host countries like China, with fewer case studies the other way round. In 2016, China was transformed from being a net inward to a net outward investing economy,<sup>3</sup> which has stimulated more academic interests in assessing such risks for MNEs from China, such as Drahokoupil et al,<sup>4</sup> and Buckley et al.<sup>5</sup> The latter was a retrospective of

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<sup>1</sup> John Daniels, Lee Radebaugh, and Daniel Sullivan, *International Business, Environments & Operations*, 16th ed. (Pearson: Harlow, 2019), p.105.

<sup>2</sup> Ibid, p.118.

<sup>3</sup> UNCTAD, ‘World Investment Report 2017: Investment and the Digital Economy’, Geneva: UNCTAD, accessed August 8, 2019, [https://unctad.org/en/PublicationsLibrary/wir2017\\_en.pdf](https://unctad.org/en/PublicationsLibrary/wir2017_en.pdf).

<sup>4</sup> Jan Drahokoupil, Agnieszka McCaleb, Peter Pawlicki and Ágnes Szunomár, ‘Huawei in Europe: strategic integration of local capabilities in a global production network’, in *Chinese investment in Europe: corporate strategies and labour relations*, ed. Jan Drahokoupil, (Brussels: Etui, 2017), pp. 211-229.

<sup>5</sup> Peter Buckley, Jeremy Clegg, Hinrich Voss, Adam Cross, Xin Liu and Ping Zheng, ‘A Retrospective and Agenda for Future Research on Chinese Outward Foreign Direct Investment’, *Journal of International Business Studies* 49, (2018), pp. 4-23.

the empirical model for Chinese Outward Foreign Direct Investment (OFDI) they developed back in 2007 (see Figure 1). However, despite emphasising that the areas for future research “are best considered as contextual factors”, and “it is necessary to paint as full a picture of context as possible,”<sup>6</sup> no new contextual factors were added. Although the model was developed to specifically assess *Chinese* OFDI, most of the factors considered were generic ones that apply to *all* MNEs. Besides, their research mainly looked at state-owned enterprise (SOEs) from China, and the majority of determinants identified were economic variables.

Today however, as the world’s No. 1 telecom supplier and No. 2 smart phone manufacturer, thus representing a most influential Chinese MNE, Huawei is actually 100% employee-owned with no state funding. Its home country of China, as a non-Western and non-democratic state challenging the world’s No.1 superpower for the past century in various fronts now, also gives the company more “liability of foreignness” (LOF). It thus serves as a vehicle for presenting the multiple barriers in business, political, and legal interactions faced by a MNE that happens to be born in China. Yet so far, most of the Huawei case studies are analysed in the business framework of internationalisation, and even within this framework, no comparative case studies have been done to analyse the different challenges it faces in the different business environments it encounters globally, let alone within the “Western economies” that are often treated as a monolithic entity. For example, Mascitelli and Chung’s<sup>7</sup> recent PEST analysis involves “a narrative on the rise of China as a global power alongside the ongoing legacy of the Cold War” and “strategic mistrust” of China and Chinese firms in “Western economies”.<sup>8</sup> Plummer argued that Huawei’s setbacks in the US market has made “the company stand out as a case study in the 21<sup>st</sup> century globalisation, specifically in the overarching context of a US-China relationship that is largely defined by competition and distrust.”<sup>9</sup> While agreeing with these statements, the author sees Huawei stand out as a comparative case study as the US does not represent all “Western economies”. Huawei has clinched 91 5G contracts all over the world by February 2020,<sup>10</sup> and more than half are from Europe, where the US had explicitly lobbied at the 5G Prague meeting held in May 2019, attended by the US and more than 30 EU and NATO member states. The US National Security Agency was even quoted to say that “allowing Chinese companies in 5G networks is like handing the Chinese government a loaded gun.”<sup>11</sup> However, in a discussion about Germany’s 5G roll-out, its Chancellor Merkel said her government would not capitulate to pressure from the US and punish individual vendors “simply because it’s from a certain country.”<sup>12</sup> In January 2020, when the British government announced its long-delayed

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<sup>6</sup> Ibid, p.11.

<sup>7</sup> Bruno Mascitelli and Mona Chung, ‘Hue and cry over Huawei: Cold war tensions, security threats or anti-competitive behaviour?’, *Research in Globalisation*, Vol. 1, (2019), pp. 1-6.

<sup>8</sup> Kenneth Lieberthal and Jisi Wang, ‘Addressing US-China strategic distrust’. China Centre at Brookings, Washington DC, accessed August 1, 2019, [https://www.brookings.edu/wp-content/uploads/2016/06/0330\\_china\\_lieberthal.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/0330_china_lieberthal.pdf).

<sup>9</sup> William Plummer, *Huidu - Inside Huawei*. ISBN9781520362007. (Printed in Germany by Amazon Distribution GmbH: Leipzig, 2018), n.p.

<sup>10</sup> Reuters, ‘Factbox: Deals by major suppliers in the race for 5G’, accessed July 5, 2020, <https://www.reuters.com/article/us-telecoms-5g-orders-factbox/factbox-deals-by-major-suppliers-in-the-race-for-5g-idUSKBN23O2G4>.

<sup>11</sup> Kara Frederick, ‘The 5G Future Is Not Just About Huawei’, *Foreign Policy*, accessed June 5, 2019, <https://foreignpolicy.com/2019/05/03/the-5g-future-is-not-just-about-huawei/>.

<sup>12</sup> Stefan Nicola, ‘Merkel Takes a Stand Against U.S. Pressure to Bar Huawei From 5G’, *Bloomberg*, accessed March 19, 2019, <https://www.bloomberg.com/news/articles/2019-03-19/merkel-takes-a-stand-against-u-s-pressure-to-bar-huawei-from-5g>.

decision to allow Huawei a limited participation in its noncritical parts of the 5G network as no “smoking gun” was found, “defying Trump” was highlighted in the news headlines of mainstream media.<sup>13</sup> Then, when a dramatic U-Turn was made by Downing Street in July 2020, headlines such as “Britain may further limit Huawei in 5G, a win for Washington and blow to China”<sup>14</sup> again revealed the triangular nature of the game, while the BBC announcement of “Huawei decision: UK 'right to stand up to China'”<sup>15</sup> even literally equated Huawei as a symbol for its home country of China.

The factors that have brought Huawei to its contested status are rather complex: its own identity, its domestic and international legal contexts and political environment, the intertwined issue of cyber security and national security, China’s policy of technological superiority, the Sino-US trade war and the looming digital Cold War. Therefore, this article argues that the increasing complexity in the intricate global competitive landscape requires expanding the contextual factors identified in the old model. This comparative case study will fill this gap by looking at Huawei in the US and the UK, the two prominent Western markets, where the Chinese telecommunication giant is perceived and received in a similar yet different manner.

In the same year of 2001, Huawei established its European headquarter in Basingstoke, UK and founded a subsidiary company of FutureWei in Texas, US. By 2020 however, amid the intensifying trade war between the US and China, Huawei was first added to the US Department of Commerce’s Entity List in May 2019, banning American companies to *sell* components to Huawei, then a ban on US federal agencies *buying* equipment and services from Huawei was announced in August. This was further expanded a year later in May 2020 when companies around the world were banned from *using* American technology to design or produce chips for Huawei, a sanction “narrowly and strategically targets”<sup>16</sup> Huawei, as it is a known fact that both the major alternative 5G equipment suppliers, Nokia and Ericsson, actually have their components manufactured in Chinese factories.

Meanwhile, in the UK, Huawei announced new investment in a 550-acre chip plant in Cambridge in March 2019 and completed the first 5G call in the world with Vodaphone in May. In the BBC reports about Trump’s UK visit in June, ‘Huawei’ was listed both among “the five potential diplomatic flashpoints” prior to his visit and “the five things we have learned from Trump’s state visit”, and the reason why Huawei matters is “because intelligence is a core element of the UK-US relationship, and any potential threat to that relationship would matter.”<sup>17</sup> The US has been openly using the ‘carrot and stick’ approach to this relationship:

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<sup>13</sup> ‘Britain Defies Trump Plea to Ban Huawei From 5G Network’, *New York Times*, accessed January 29, 2020, <https://www.nytimes.com/2020/01/28/technology/britain-huawei-5g.html>.

‘U.K. Allows Huawei to Build Parts of 5G Network, Defying Trump’, accessed April 9, 2020, <https://www.wsj.com/articles/u-k-allows-huawei-to-build-parts-of-5g-network-11580213316>.

<sup>14</sup> William Boots, ‘Britain may further limit Huawei in 5G, a win for Washington and blow to China’, *Washington Post*, accessed July 6, 2020, [https://www.washingtonpost.com/world/europe/huawei-5g-uk/2020/07/06/7477b862-bf8e-11ea-8908-68a2b9eae9e0\\_story.html](https://www.washingtonpost.com/world/europe/huawei-5g-uk/2020/07/06/7477b862-bf8e-11ea-8908-68a2b9eae9e0_story.html).

<sup>15</sup> BBC, ‘Huawei decision: UK 'right to stand up to China'', accessed July 14, 2020, <https://www.bbc.co.uk/news/uk-politics-53402694>

<sup>16</sup> ‘Commerce Addresses Huawei’s Efforts to Undermine Entity List, Restricts Products Designed and Produced with U.S. Technologies’, last modified May 15, 2020, <https://www.commerce.gov/news/press-releases/2020/05/commerce-addresses-huaweis-efforts-undermine-entity-list-restricts>.

<sup>17</sup> James Landale, ‘Five things we have learned from Trump’s state visit’, *BBC*, accessed July 3, 2019, <https://www.bbc.co.uk/news/uk-48531769>.

the carrot being the much-allured post-Brexit US-UK free-trade deal, while the stick being the threat of harming their intelligence sharing partnerships. Huawei seemed to have torn open a rift between these two leading Western economies that share ‘special relations’ as old allies, and also between the UK and Australia, the two allies that share a common language, ancestry and monarch, when a group of Australian MPs cancelled a trip to London in protest of Downing Street’s Huawei decision in February 2020.<sup>18</sup> As a matter of fact, in a speech at a London conference, the US Secretary of State Pompeo had openly blamed the division as something “just what China wants - to divide Western alliances through bits and bytes, not bullets and bombs.”<sup>19</sup>

Accusing the division as China’s intention is a subjective claim, while objectively, the division shows different business and political environments in the UK and US for Chinese MNEs, particularly in how open they are towards Chinese investment and competition. This article aims to make a comparative analysis of the multiple challenges faced by Huawei both between its host and home countries, as well as between different host countries in the West. After explaining why the old model needs to be reconfigured to assess the complex business environment faced by Chinese MNEs today, it will explore answers to what variables need to be brought into the new analytical framework.

### **Data and Method**

After contacting Huawei’s Shenzhen headquarters and its UK company at Reading, the author was directed to a valuable pool of information that are open documents but not readily available to the public without inside sources. For example, *Collection of Interview Transcripts of Huawei Top Management*, Volume 1 & 2, were compiled by Huawei as internal documents, recording 36 interviews carried out with nine members of top management from December 2018 to April 2019. Then updated English versions of exclusive interviews with Ren Zhengfei were published in two volumes, one from January to May 2019, and one from May to August 2019. More interviews taken place after this were further released on its official WeChat account of Blue Blood Lab. These sources offer a huge bank of transcripts of 76 interviews in total, with mainstream media from the US, UK, Canada, Germany, France, Italy, Spain, Japan, South Korea, Poland, Austria, Turkey, four Nordic countries, Arab countries in the Middle East, and China. The interview grid with detailed information can be found in the Appendix. The author also verified and confirmed some fact-based information with her contact person inside Huawei regarding some inconsistencies provided by difference sources. Other secondary data in this article mainly come from the existing literature in both Chinese and English, including books about Huawei, academic publications, media reports, government documents, annual reports and information released on its website and official WeChat account.

The case study starts with discussions of Huawei’s identity and the LOF it carries, followed by a comparative analysis of its operations in the US and UK, with a view to providing insight to the questions outlined above. If the sustainable and effective operation of Huawei is the dependent variable (DV), then its ability to navigate and manage risks in the host country is the independent variable (IV), and the interactions between Huawei and the host business environment suggest a number of other extraneous variables (EVs) at play in affecting the DV, including bilateral relations, law, media environment and cultural proximity

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<sup>18</sup> Scott Bade, ‘How Huawei is Dividing Western Nations’, accessed 3 May, 2020, <https://techcrunch.com/2020/03/28/how-huawei-is-dividing-western-nations/>.

<sup>19</sup> Ryan Daws. ‘Pompeo: China wants ‘to divide Western alliances through bits and bytes’, accessed June 2, 2019, <https://www.telecomstechnews.com/news/2019/may/09/pompeo-china-western-alliances-bits-bytes/>.

between the host and home countries. These will be mapped out in the enhanced model of Figure 2.

### **Huawei's Identity and Its "Liability of Foreignness"**

All MNEs carry a three-layer identity: as an enterprise of its own, an enterprise with a country of origin (COO) effect, and the overall image of its home country as a whole. On top of these, they all suffer from "liability of foreignness" (LOF)<sup>20</sup> when operating in a host country. LOF is a concept introduced by Hymer in his seminal thesis study to refer to the "stigma of being foreign" and the discrimination MNEs received. Gaur et al.<sup>21</sup> pointed that there are two sources of LOF: environmentally-derived and firm-based; both LOFs are at a higher level for emerging market firms moving to developed market than the other way round, and emerging market firms with state ownership will experience more LOFs than those without.

Now let us unveil Huawei's identity layer by layer. When it was first founded by Ren Zhengfei and six other partners in 1987, it was registered as a "collective ownership enterprise" and remained as such until 1997, when it was changed to the category of "private ownership enterprise" to comply with the government's business license regulation. It was a reluctant change due to the more restricted business scope set for private companies, which are also disadvantaged in receiving financial support and government backup. Till today, Huawei is still 100% owned by its employees and audited by KPMG, with zero capital provided by the Chinese government.

However, as a private company in a sea of state-owned peers and competitors, the fact that Huawei bootstrapped itself from a start-up to a \$120 billion international giant leading the global 5G market over merely three decades invites a lot of speculations on its relationship with the Chinese government, which is often rightfully projected as a source of financial support that gives Chinese MNEs unfair advantages - although those MNEs are mostly SOEs. Huawei did receive as much as \$75 billion in tax breaks, financing and cheap resources from the Chinese government, but "it is not justification for accusing Huawei of spying or hacking for the Chinese government."<sup>22</sup> The Western media often "obscure the boundaries between state-ownership and state influence, and even state control,"<sup>23</sup> and many scholars describe Huawei as operating under some degree of covert government influence. This gives Huawei a higher LOF associated with its obfuscated business-government relationship. The fact that Huawei has a Chinese Communist Party committee was often cited as such evidence.

As a matter of fact, Article 19 in Chapter One of the Company Law of the PRC states that "an organisation of the Chinese Communist Party shall, according to the Charter of the Chinese Communist Party, be established in the company to carry out activities of the

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<sup>20</sup> Stephen Hymer, *The international operations of national firms: A study of direct foreign investment* (MA: MIT Press, 1976), pp. 139-155.

<sup>21</sup> Ajai Gaur, Vikas Kumar, Ravi Sarathy, 'Liability of foreignness and internationalisation of emerging market firms', in *Advances in International Management, Volume 24*, ed. Devinney Timothy, Pedersen Torben and Tihanyi Laszlo (Bingley: Emerald Group Publishing Limited), pp. 211-233.

<sup>22</sup> Chuin-Wei Yap, 'State Support Helped Fuel Huawei's Global Rise', *Wall Street Journal*, accessed, March 20, 2020, <https://www.wsj.com/articles/state-support-helped-fuel-huaweis-global-rise-11577280736>.

<sup>23</sup> Peter Buckley, et al., 'A Retrospective and Agenda for Future Research on Chinese Outward Foreign Direct Investment', *Journal of International Business Studies* 49, (2018), p14.

Chinese Communist Party.”<sup>24</sup> Therefore, not only Huawei as a local company has a CEO and party leader in tandem, other MNEs operating in China such as Motorola, Coca Cola and Boeing, all host such similar organisations within their companies. This has never caused any questioning, partly because it is not always known, nor is seen as an issue as the committee has no say in the operations or management of the company. Its role was only “to encourage staff to obey professional ethics and the company’s code of conduct” as explained by Ren in his interviews and by Huawei Senior Vice President Ding to the US Congress hearing held in September 2012.<sup>25</sup> In other words, it is part of the governance structure prescribed by Chinese Law that applies to all companies operating in China. However, despite Huawei’s repeated explanations, the lack of inside knowledge, or rather, the willingness to understand what exactly is going on inside Huawei, means that the existence of a CCP committee itself is taken for granted as a ‘red hue’ for Huawei’s identity. The author believes that it may be fairer to describe it as a typical ‘shade of grey’ overshadowed by the ‘governance structure’ of the home country, where the state role is highly pertinent in its policy environment.

This shade of grey in the identity of Chinese MNEs not only often courts mistrust and perceived unfairness, which in turn leads to ill-informed assumptions and decisions, it could also have legal implications. For example, the “Holding Foreign Companies Accountable Act” (the HFCAA) that the US Senate passed in May 2020 applied the wording of companies “owned or controlled by a governmental entity”, which means if enacted, it will potentially result in de-listing of many Chinese enterprises, not just SOEs, as all Chinese enterprises are perceived to be “controlled by the government” in one way or the other. Meanwhile, the amended Securities Law of China (SLA) prohibits local auditing firms from turning over accounting documents to foreign regulators. In other words, no Chinese enterprise will be able to both comply with the Chinese law which prohibits them from disclosing certain information, and satisfy the requirements of the U.S. law mandating disclosure of the same information, creating a legal deadlock for Chinese companies to be listed in the US stock market.

True, in a centralised governance structure of China, Huawei as a private company has to respond to state strategies to gain government support and assistance. For example, its selection of Russia to establish its first overseas representative office was not entirely a market-driven decision but a result of the signing of the ‘partnership of strategic cooperation oriented towards the 21st century’ between the two governments in 1998. Huawei’s global footprint then expanded into India in 1999, Middle East and Africa in 2000, Southeast Asia, and finally Europe (including UK) and the US in 2001. This trail seems to show that most of the key factors listed in Buckley’s 2007 model, such as “market size” and “foreign exchange rate”, were not the primary considerations for Huawei, instead, its decision making was more driven by the need to overcome the LOFs posed by its next two layers of identity of being a technological firm from China - a developing country with the reputation of ‘made in China’ as “a representative of cheap price and inferior quality.”<sup>26</sup> This image is behind the dominant model of Chinese enterprises as ‘original equipment manufacturing’ (OEM) firms, while Huawei represents the new generation of ‘original brand manufacturing’ (OBM) firms. Although Huawei has been successful in making the metamorphosis and became a global leader of 5G network by 2018, the extra barrier it faces in securing and expanding Western markets is still related with its heritage in China, the most outer layer of its identity. Despite

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<sup>24</sup> Company Law of the People’s Republic of China (Revised in 2013), last modified December 28, 2013, [http://www.fdi.gov.cn/1800000121\\_39\\_4814\\_0\\_7.html](http://www.fdi.gov.cn/1800000121_39_4814_0_7.html).

<sup>25</sup> See No. 3, 4, Appendix.

<sup>26</sup> Guanjing Zhang, ed., *Providing Global IT Solutions from China: The Huawei Story* (Guangdong: Paths International Ltd., 2013), p. 166.

the transformation from being a developing country that can only make cheap products with backward technology into a strong contender of the world's No. 1 economy, what remains unchanged is China's image as an authoritarian state with one-party rule, representing 'the other' ideology. How much does this layer of identity matter for a high-tech company? The answer turns out to be the critical hue to determine whether Huawei is depicted as a red threat or a blue-chip opportunity.

At the inner layer, Ren Zhengfei himself uses the colour grey to describe Huawei's identity and culture. 'Grey Balance' is the colour between black and white in a layman's term, but technically, it is produced when the equal amounts of the three light primary colours, namely red, green and blue, are mixed. Ren used it to describe his approach of blending the Chinese culture with both American and British ways to create the unique Huawei's way: the British way for managing the 'stems' of the company with clearly defined rules and standards, and the American way of opening to more initiatives and innovations at the 'tips of branches'.<sup>27</sup> This mentality of making differences compatible is deeply rooted in the traditional Chinese philosophy of Yin and Yang, which is never purely black and white but contains each other in a dynamic interaction, representing a fundamentally different view of the world from Western culture. For example, Western people often have trouble understanding China's ambivalent economic position as being both capitalist and socialist, and Huawei's status as neither being state-owned nor free from government influence. In multiple interviews, Ren has mentioned that "outside China, we were labelled communism; inside China, we were labelled capitalism as we gave capital to our employees, they own this company. We don't know what "ism" we are, nor do we want to keep on explaining to the outside world who we are. Instead, we focus our attention on developing our products and improving our management to make Huawei a better company."<sup>28</sup>

In a way, Huawei's 'grey balance' is an epitome for China as well. When Deng Xiaoping embarked China on the new development road of 'socialism with Chinese characteristics', he applied his famous cat theory: "No matter if it is a white cat or a black cat, it is a good cat if it catches the mice". Though still not recognised as a market economy by the European Union, China's economic reform has proved to be a 'good cat' by delivering unrivalled growth and a new development model. Huawei is also such a 'good cat'. True, it is a Chinese company, but it is also a private company with cutting-edge technology, and a fast-growing international company that operates in over 170 countries in the world. It is 'coloured red' by those who do not see other colours that actually blend with red to create the 'grey': it is 'blue' as a top-rated blue-chip company, it is also 'green' for its strong growth, vitality and commitment to sustainable development. But on the other hand, grey makes things opaque, and needs discerning eyes and inside knowledge to see the mixing hues. Huawei's lack of engagement with media does not help: As admitted by Ren, he has been paying "more attention to internal management than external communication,"<sup>29</sup> until there were too much misinformation and misunderstanding that created and spread the misperception of Huawei. Plummer has clearly elaborated the process of "mutual feed" between government or government-sponsored reports and media reports:

The government concerns are mostly based on often-cited, never-substantiated disinformation about Huawei, including purported ties to the Chinese government. The politically-biased government perpetuation of myth was further driven by the immediacy imperative of today's media and the related phenomenon of copy-paste

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<sup>27</sup> See No.7, Appendix.

<sup>28</sup> See No. 9, Appendix.

<sup>29</sup> Ibid.

journalism, with few if any bothering to check facts or to question contradictions. In not challenging mis- or dis-information for the better part of a decade, the company had unknowingly allowed fear, uncertainty and doubt (FUD) to become fact.<sup>30</sup>

In February 2019, Huawei published an open letter to the US media on its website: “Don’t believe everything you hear. Come and see us.”<sup>31</sup> It has since then proactively communicated detailed facts about the company, but it takes time to dispel the myth and deeply embedded misperceptions. After 76 interviews with literally all the mainstream media outlets worldwide, Huawei as the ‘Trojan Horse’ still appeared as headlines in various news stories,<sup>32</sup> but Ren acknowledged the effect that “at first, Huawei was painted all black in most media reports, after repeatedly opening ourselves to media scrutinise, it’s gradually changing colour to dark grey, now to light grey.”<sup>33</sup>

The above shows the necessity of including “governance structure”, “cultural proximity” and “media influence” as variables in the model as they reveal a more hidden knowledge gap existing in the business environment than what is captured by the International Business-focused model. The following section will discuss other critical variables, including bilateral relations and law.

### **Huawei in the US**

Although Huawei established a joint venture with 3Com in the US in 2003, what has made its name known in the industry was ironically its lawsuit with Cisco, who sued Huawei for infringing upon its intellectual property rights by using stolen technologies. As pointed by Bruce Claflin, former CEO of 3Com, “most Americans firmly believed that Cisco was right while Huawei was wrong, because a deep root bias towards foreign competitors had misled them,”<sup>34</sup> a ready example of the actual effect of LOF. When the two parties eventually reached reconciliation after 20 months, the settlement became an effective advertisement to make Huawei known as an emergent strong competitor, even on a par with big names like Cisco. Today, Huawei holds 11,152 core patents registered in the US and in June 2019, it asked Verizon to pay more than \$1 billion for over 230 patents.<sup>35</sup>

When the Sino-US trade war broke out in 2018, Huawei became the eye of the storm even when it literally had no presence in the US market, that is because the American “war

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<sup>30</sup>William Plummer, *Huidu - Inside Huawei*. ISBN9781520362007 (Printed in Germany by Amazon Distribution GmbH: Leipzig, 2018), n.p.

<sup>31</sup> ‘An open letter to the US media’, last modified February 2019, <https://www.huawei.com/en/facts/open-letter-to-us-media>

<sup>32</sup>Jessica Bursztynsky, ‘Huawei expansion in Western nations may be ‘a Trojan horse,’ warns a top GOP senator’, accessed July 4, 2019, <https://www.cnbc.com/2019/06/28/huawei-expansion-in-western-nations-may-be-a-trojan-horse-warns-a-top-gop-senate-leader.html>. Stephen Chen, ‘Could Huawei be using Trojan circuits to help Beijing spy on US?’ accessed August 2, 2019, <https://www.scmp.com/news/china/science/article/3018057/could-huawei-be-using-trojan-circuits-help-beijing-spy-us>.

Richard Heydarian, ‘Telecom: China's Trojan Horse? Inquirer columnist’, accessed July 3, 2019, <https://www.straitstimes.com/asia/telecom-chinas-trojan-horse-inquirer-columnist>.

<sup>33</sup> See No. 20, Appendix.

<sup>34</sup>Guanjing Zhang, eds., *Providing Global IT Solutions from China: The Huawei Story* (Guangdong: Paths International Ltd., 2013), p.191.

<sup>35</sup>Omar Marques, ‘Huawei asks Verizon to pay more than \$1 billion for over 230 patents: Source’, *Reuters*, accessed July 2, 2019, <https://www.cnbc.com/2019/06/13/huawei-asks-verizon-to-pay-more-than-1-billion-for-over-230-patents-source.html>.



with Huawei” broke out much earlier than the trade war. In 2008, the US barred Huawei from acquiring 3Com and parts of the wireless division of Motorola. In 2010, it was excluded from the telecommunication contracts for security concerns. Plummer called this “the model of modern day techno-nationalism”, pioneered by the US “in the context of multiple and opaque market access barriers to China-based telecommunications equipment multinationals, and always based on nebulous, never-substantiated and always-prospective national security concerns.”<sup>36</sup> In 2011, the US House of Representatives Permanent Select Committee on Intelligence (HPSCI) launched an investigation into “national security threat posed by Chinese telecom companies working in the US”. Huawei was charged of being a security risk to the US interests, threatening the sanctity of US intellectual property, and abusing consumers’ privacy. Then the 2015 FBI “SPIN” (Strategic Partnership Intelligence Note) document became very clearly a government initiative to distort markets and restrict open competition on the so-called ‘national security’ grounds. When the American stance became even more vociferous towards Huawei amidst the Sino-US trade war, Plummer named it “21<sup>st</sup> century politico-mercantilism”,<sup>37</sup> while Mascitelli and Chung’s analysis also pinpointed that it “raises the question of whether there are implications for free trade and whether the alleged security concerns are but an ideological way of circumventing market access.”<sup>38</sup> This was elaborated by Sachs’s pungent point that “the Trump administration’s conflict with China has little to do with US external imbalances, closed Chinese markets, or even China’s alleged theft of intellectual property. It has everything to do with containing China by limiting its access to foreign markets, advanced technologies, global banking services, and perhaps even US universities.”<sup>39</sup>

There are obviously multiple and complex reasons for the rising tensions between the world’s two biggest economies. China was referred to as a “competitor”, “challenger”, “rival power” and “revisionist power” in the 2017 *National Security Strategy of the USA*,<sup>40</sup> the first national security report issued by the Trump Administration. Reflected in bilateral relations, we see the long-standing strategic mistrust exacerbates as both sides have increased interactions involving vital national interests and legitimate national security concerns. For example, the US reaffirmed the Taiwan Relations Act amid trade tensions in 2019, and then following the new battlefield over Covid-19 in 2020 were the removal of Hong Kong’s special status in response to Beijing’s enforcement of the National Security Law there, and the exercising of two US aircraft carriers in the disputed South China Sea, showing the entangled nature of all fronts in the bilateral relations in trade, military, politics and foreign policy. It was thus not surprising that the NATO Cooperative Cyber Defence Centre of Excellence (CCDCOE) report on *Huawei, 5G and China as a Security Threat* stated the following:

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<sup>36</sup> William Plummer, *Huidu - Inside Huawei*. ISBN9781520362007 (Printed in Germany by Amazon Distribution GmbH: Leipzig, 2018), n.p.

<sup>37</sup> Ibid, n.p.

<sup>38</sup> Bruno Mascitelli and Mona Chung, ‘Hue and cry over Huawei: Cold war tensions, security threats or anti-competitive behaviour?’, *Research in Globalisation*, Vol.1, (2019), p.1.

<sup>39</sup> Jeffrey Sachs, ‘The War on Huawei’, *Project Syndicate*, accessed July 5, 2019, <https://www.project-syndicate.org/commentary/trump-war-on-huawei-meng-wanzhou-arrest-by-jeffrey-d-sachs-2018-12?barrier=accesspaylog>.

<sup>40</sup> ‘National Security Strategy of the United States of America’. December 2017, accessed July 3, 2019, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>.

Whether the risk of such collaboration is real or perceived, the fear remains that adopting 5G technology from Huawei would introduce a reliance on equipment which can be controlled by the Chinese intelligence services and the military in both peacetime and crisis.....Eliminating the risk of control over such systems by an adversary state may include the elimination of Chinese products from the supply chain”.<sup>41</sup>

This made it clear that since China is defined as an “adversary state”, or a “malicious actor”,<sup>42</sup> even if the risk of collaboration is only “perceived and not real” - as stated in the report itself: “to date, there has been no evidence, at least publicly, of significant vulnerabilities in Huawei technology”; and even if Huawei is “the most audited technology company in the world” and “the only company that can produce ‘at scale and cost’ all the elements of a 5G network,”<sup>43</sup> its products should be banned, leaving Huawei with no chance to disprove the perceived risks or reduce them through collaboration. The report also admitted that “the fundamental question is one of trust: states need assurances that their critical systems and data – and those of their partners and allies – are safe from foreign meddling, both now and in the foreseeable future, thus cost and speed cannot be the sole or decisive factors in the rollout of innovative infrastructure.”<sup>44</sup> This explains why Huawei’s reaction to challenge this move as restricting fair competition and harming the American consumers is useless because national security interests are standard grounds for limiting open competition and this is not about the merit of the product, but its unchangeable identity as being a Chinese company.

The US ban on Huawei can best be understood through the prism of the rapid rise of China, not only economically, but also technologically. As Kang explained, “it was long thought that we were the number-one economy and China just supplied cheap labour... 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.”<sup>45</sup> This was fully recognised in the 2019 Ministry of Defence report on the *5G Ecosystem* that “in 2009, all of the top 10 internet companies by revenue were American. Today, four of the top 10 are Chinese,”<sup>46</sup> and Trump’s reaction is “the race to 5G is on and America must win.”<sup>47</sup> However, the US ban also turned out to have an advertising effect for Huawei as claimed by Ren Zhengfei in his multiple interviews: “The

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<sup>41</sup> Kadri Kaska, Henrik Beckvard and Tomas Minarik, ‘Huawei, 5G and China as a Security Threat, NATO Cooperative Cyber Defence Centre of Excellence’. CCDCOE, accessed August 1, 2019, <https://ccdcoe.org/uploads/2019/03/CCDCOE-Huawei-2019-03-28-FINAL.pdf>. p. 4.

<sup>42</sup> Ibid, p.5.

<sup>43</sup> Ibid, p.7.

<sup>44</sup> Ibid, p.5.

<sup>45</sup> Cecilia Kang, ‘Huawei's US competitors among those pushing for scrutiny of Chinese tech firm’, *Washington Post*, accessed July 3, 2019, [http://www.washingtonpost.com/business/technology/huaweis-us-competitors-among-those-pushing-for-scrutiny-of-chinese-tech-firm/2012/10/10/b84d8d16-1256-11e2-a16b-2c110031514a\\_story.html](http://www.washingtonpost.com/business/technology/huaweis-us-competitors-among-those-pushing-for-scrutiny-of-chinese-tech-firm/2012/10/10/b84d8d16-1256-11e2-a16b-2c110031514a_story.html).

<sup>46</sup> Milo Medin and Gilman Louie, ‘The 5G Ecosystem: Risks & Opportunities for DoD Defense Innovation Board, 3 April 2019’, accessed October 10, 2019, [https://media.defense.gov/2019/Apr/03/2002109302/-1/-1/0/DIB\\_5G\\_STUDY\\_04.03.19.PDF](https://media.defense.gov/2019/Apr/03/2002109302/-1/-1/0/DIB_5G_STUDY_04.03.19.PDF).

<sup>47</sup> Todd Haselton, ‘President Trump announces new 5G initiatives: It’s a race America must win’, accessed October 10, 2019, <https://www.cnn.com/2019/04/12/trump-on-5g-initiatives-a-race-america-must-win.html>.

US Secretary of State has made banning Huawei one of his diplomatic priorities and has been helping us promote our products all over the world.”<sup>48</sup> He also thanked Trump for giving Huawei the widest-reaching advertisement for free. If Huawei blows its own trumpets, clients may hold reservations; and if the Chinese government endorses it, that may even be counterproductive, but the American ban shows the world that putting aside the speculations and fears, Huawei’s technology is world-leading. This has also pushed sales domestically and bred “patriots” in China,<sup>49</sup> about which Ren has commented that “the media tends to be flag-waving sometimes”, leading to some Chinese social media users switching from Apple, but “Huawei is firmly against the narrow-minded nationalism sentiments of boycotting US products as counter measures.”<sup>50</sup>

This shows internationally, Huawei has to manage a whole host of factors posing political risks from the host country, while back at home, it has to guard against media influence in flaming Chinese nationalism. Despite his repeated remarks that “Huawei product is just a commercial product, use it if you like it, not if you don’t, but do not politicise it,”<sup>51</sup> Huawei couldn’t escape from its fate of being politicalised. Perhaps already ingrained in its name - Huawei literally means ‘China striving’ in Chinese - nationalism has been a force at play in both its host and home countries. Of course, nationalism is a factor affecting all MNEs, including those from advanced economies entering the Chinese market, such as the boycotting of Japanese cars and Korean Supermarket when bilateral relations turned sour a few years ago. Microsoft also encountered a three-decade protracted war with domestic companies like Kingsoft that bears the flag of “China’s national software”. It is thus necessary to recognise nationalism as a factor that falls under both “political risk” and “bilateral relations”.

The other two consistent messages that recurred in Ren’s multiple interviews include: No. 1, “5G is only a conduit for information transmission, it has nothing to do with the content that goes through it. Just like a microphone, probably the person who speaks something through it is dangerous, but how can a tool itself be dangerous?”; No. 2, “If the lights go out in the West, the East will still shine. And if the North goes dark, there is still the South. The US does not represent the world.”<sup>52</sup> The fact that Huawei still reported a 13.1% year-over-year revenue growth in the first half of 2020 despite the pandemic and global campaign waged by the US to blacklist it seems to prove Mahbubani’s words: “even if the US and its allies in the Five Eyes intelligence network completely opt out of dealing with Huawei, most countries in the world will adopt 5G networks based on Chinese technology.”<sup>53</sup> In the open letter titled “China is not an enemy” written by members of the American scholarly, foreign policy, military and business communities to Donald Trump, it stated that “if the United States presses its allies to treat China as an economic and political enemy, it will weaken its relations with those allies and could end up isolating itself rather than Beijing.”<sup>54</sup> True, if a

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<sup>48</sup> See No. 3, 4, 33, Appendix.

<sup>49</sup> Yasheng Huang, ‘Trump’s Trade War Is Breeding Patriots in China. America goes after Huawei, and Chinese consumers rally to buy from the company’, *Financial Times*, accessed August 23, 2019, <https://www.nytimes.com/2019/08/09/opinion/china-trade-huawei.html>.

<sup>50</sup> See No. 6, Appendix.

<sup>51</sup> See No. 11, Appendix.

<sup>52</sup> See No. 3, Appendix.

<sup>53</sup> Kishore Mahbubani, ‘The US strategy is not the best way to deal with Huawei’, *Financial Times*, accessed March 13, 2019, <https://www.ft.com/content/3d489be2-3e73-11e9-9499-290979c9807a>.

<sup>54</sup> ‘China is not an enemy’, *Washington Post*, accessed July 20, 2019, <https://www.openletteronuschina.info/>.

new Cold War *is* in the making, we can see not only the difference between today's China and yesterday's Soviet Union, but also the division within the Western camp, even among The Five Eyes, only Australia government has chosen to follow the US ban. In the case of New Zealand and Canada, when Huawei lost the deal to Ericsson, Nokia and Samsung as 5G supplier of their major telecoms companies in March and June 2020, it is important to note the equivocal stance of the government, which tried to keep it separate from the American pressure and the ruling of Meng Wanzhou's case, although it is clear that "the political tides can be partly credited"<sup>55</sup> for the business decisions.

An important reason for Australia to take side with the US is because both countries have laws allowing their own companies to install "backdoors": the CLOUD Act (Clarifying Lawful Overseas Use of Data Act), enacted in 2018 by the US to allow federal law enforcement to compel US-based technology companies via warrant or subpoena to provide requested data stored on servers regardless of whether the data are stored in the US or on foreign soil; and the Australia's Assistance and Access (AA) Bill, a "controversial law designed to compel technology companies to grant police and security agencies access to encrypted messages."<sup>56</sup> Actually, Edward Snowden's leaks demonstrated that the Five Eyes alliance allowed a member nation to neatly circumvent its own domestic regulations by allowing another alliance nation to spy on its citizens, and then share that information with the member nation's surveillance organisations. This may explain their manner of 'measuring everybody's corn by their bushel' when they scrutinised and interpreted China's 2017 National Intelligence Law as the Chinese equivalent, ignoring the fact that the American practice of long-arm jurisdiction that allows a court to exercise extraterritorial adjudicative jurisdiction over foreign defendants does not exist in China. It is clearly reflected in the Preamble to all the Chinese laws that no legislation in China is applied to foreign soil. Besides, "the Chinese government did not even know that networks could have 'backdoors' at first. It was the US accusations against Huawei that raised the Chinese government's level of awareness of cyber security" as disclosed by Ren in his interviews in 2019,<sup>57</sup> he repeatedly said Huawei was ready and happy to sign 'no backdoor' agreements with any country and any company.

This mirrors the example of the none-heard-of Chinese law for companies to have an embedded cell of CPC committee, and the afore-mentioned legal deadlock created by the HFCAA in the US and SLA in China, all point to the necessity of including "law" as another critical contextual factor in the model.

### **Huawei in the UK**

As the very first established European partner of Huawei, UK's business environment offers a stark contrast to that of the US, even though Huawei's presence in these two countries started from the same year of 2001. 2005 became a year of milestones in the UK: Huawei was selected as a preferred telecoms equipment supplier by both Vodafone and British Telecom (BT). This brought Huawei to the breakthrough point where its international contract orders exceeded domestic sales for the first time. By 2010, Huawei became a significant provider of network gear to a number of UK service providers.

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<sup>55</sup> Jamie Davies, 'Samsung is the final beneficiary of Canada's Huawei snub', accessed June 20, 2020, <https://telecoms.com/505082/samsung-is-the-final-beneficiary-of-canadas-huawei-snub/>.

<sup>56</sup> 'Australia data encryption laws explained', *BBC*, accessed July 3, 2019, <https://www.bbc.com/news/world-australia-46463029>.

<sup>57</sup> See No. 25, 27, Appendix.

The UK has long taken a different path to the US regarding Huawei. Huawei's hardware has been used in UK telecoms networks for years, long before 5G technology was available. BT, the UK government and Huawei worked together in setting up the Huawei Cyber Security Evaluation Centre (HCSEC) in 2011 to deal with the perceived risks of Huawei's involvement in UK critical infrastructure. "HCSEC has found vulnerabilities that Huawei has subsequently remediated and is improving Huawei's basic engineering and security process and code quality. These efforts have resulted in a more secure Huawei product."<sup>58</sup> This reveals the biggest difference between the US and UK stance: while the UK is willing to work with Huawei to mitigate the risk, the US sees no point and shows no intention at all to give Huawei a chance to prove and improve, or any real interest in actually "solving" the Huawei problem, it has decided to take pre-emptive measures by simply blocking it. William Plummer, who worked as the External Affairs Vice President of Huawei for eight years from 2010-2018 has shared his insight to this difference:

A variation on the theme was that the CSEC would be Huawei-funded and staffed, but by UK nationals with UK government security clearances. The delta between the way the US and the UK addressed Huawei epitomises the delta between their approaches to attracting (or discouraging) ever-growing Chinese outbound investment capital, which in turn explains the seeming disproportionality: the UK took a coordinated and comprehensive commercially pragmatic approach to a perceived security concern by employing appropriate technological tools and related disciplines to safeguard the integrity of UK telecom networks while simultaneously adhering to its commitment to free and fair trade and competition and ensuring that UK operators could avail themselves of world-class rationally-priced technology. Huawei and other China-based investment are warmly welcomed. The economy benefits.<sup>59</sup>

Another example to show this difference was the British encouragement of "China's involvement in the construction of the £56 billion rail line".<sup>60</sup> In the context of Brexit looming overhead, attraction for overseas investment is staked higher by the UK government, and there was a sincere intent in pursuing solutions among the industry. In multiple interviews, Ren Zhengfei has frankly talked about the "questioning from the UK", which "is pushing us to improve our products, we do not regard this as a negative thing, but a chance to improve. We appreciate their pointing of the flaws so that we can work on a solution."<sup>61</sup> Following the UK announcement that Huawei was deemed "a manageable risk to 5G"<sup>62</sup> in February 2019, Ren reiterated that "one of the reasons why we are doing so well in the UK is its true spirit of

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<sup>58</sup> Michael Shoebridge, 'Chinese Cyber Espionage and the National Security Risks Huawei Poses to 5G Networks', *Commentary*. A Macdonald-Laurier Institute Publication, accessed July 5, 2019,

[http://macdonaldlaurier.ca/files/pdf/MLICommentary\\_Nov2018\\_Shoebridge\\_Fweb.pdf](http://macdonaldlaurier.ca/files/pdf/MLICommentary_Nov2018_Shoebridge_Fweb.pdf), p.5.

<sup>59</sup> William Plummer, *Huidu - Inside Huawei*. ISBN9781520362007 (Printed in Germany by Amazon Distribution GmbH: Leipzig, 2018), n.p.

<sup>60</sup> Edward Malnick, 'After Huawei, Government turns to China for HS2 line', *Telegraph*, accessed July 2, 2019. <https://www.telegraph.co.uk/politics/2019/05/04/huawei-government-turns-china-hs2-line/>.

<sup>61</sup> See No. 7, Appendix.

<sup>62</sup> Demetri Sevastopulo and David Bond, 'UK says Huawei is manageable risk to 5G. Blow to US efforts to ban Chinese company from allies' telecoms network', *Financial Times*, accessed June 2, 2019, <https://www.ft.com/content/619f9df4-32c2-11e9-bd3a-8b2a211d90d5>.

an open and free trade. The British sticks to principles of using rule-based supervision to address issues, rather than adopting a simplified Yes or No approach.” He further explained that the British government has made a very clear 5G strategy to keep itself ahead of the field. In order to do so, genuine and open competition are encouraged: as some of the British companies such as EE, Vodafone and Three chose Huawei, others may choose Ericsson and Nokia, “then we will compete with each other to see who provides better products, better services and better values.”<sup>63</sup> Then, a more authoritative claim was made by the 2019 NATO Cooperative Cyber Defence Centre of Excellence (CCDCOE) report that “there is, to date, no public evidence of serious technological vulnerabilities in specific Huawei or ZTE equipment”. Its final section of Recommendations suggested

Instead of a blanket ban, the model of inclusive, competent, and transparent oversight embodied in the UK Huawei supervisory board is a good example..... There are as of yet no equivalent alternatives to Huawei 5G technology; the West is neither able nor willing to afford a technological stagnation, and with the expected socioeconomic benefits in the promise of 5G, states will likely remain pragmatic in their approaches.<sup>64</sup>

The CCDCOE report further explained that “due to different security cultures, degrees of digital dependency, existing capabilities and different priorities, even Western democracies vary in how they perceive the increasing foothold of Chinese technology.”<sup>65</sup> When the UK government reversed its decision in July 2020, it tried to stick to the technical ground, stating that “Decision follows a technical review by the National Cyber Security Centre in response to US sanctions,”<sup>66</sup> which means Huawei would have to start sourcing chips from elsewhere, thus no longer can assure the security and reliability of Huawei's products. However, a political interpretation is that the decision is as much in response to pressures from both Washington and domestic politics, as the timeframe of phasing Huawei out by 2024 or 2030 became the hotspot of debate before the final decision of 2027 was reached. Although seven years may be the best balance Downing Street can strike between the US and China, a more telling move is that the UK turned to pursuing “an alliance of ten democracies” in order to create an alternative pool of 5G equipment and technologies.<sup>67</sup> After standing up to the politically-motivated decision adopted by the US, the UK backed off from its commercially-pragmatic approach as well: while keeping the focus on technology merit and encouraging collaboration, this alliance is also ideology-inspired when all the members clearly shared the identity of being ‘democracies’. Huawei was excluded due to the outer layer of its identity discussed earlier, the overall image of its home country China, which is a particularly fragile one as shown in May 2020, China’s own think tank found that its global image was the worst

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<sup>63</sup> See No.1, 3, Appendix.

<sup>64</sup> Kadri Kaska, et al., ‘Huawei, 5G and China as a Security Threat, NATO Cooperative Cyber Defence Centre of Excellence’. CCDCOE, accessed August 1, 2019, <https://ccdcoe.org/library/publications/huawei-5g-and-china-as-a-security-threat/>, p. 21.

<sup>65</sup> Ibid, p.15.

<sup>66</sup> ‘Huawei to be removed from UK 5G networks by 2027’, accessed July 14, 2020, <https://www.gov.uk/government/news/huawei-to-be-removed-from-uk-5g-networks-by-2027>

<sup>67</sup> Srijan Shukla, ‘UK wants 5G alliance of 10 countries, including India, to avoid reliance on Chinese Huawei’, accessed June 1, 2020, <https://theprint.in/world/uk-wants-5g-alliance-of-10-countries-including-india-to-avoid-reliance-on-chinese-huawei/431735/>.

it had been in 31 years due to Covid-19.<sup>68</sup> This outer layer casts a long shadow on all Chinese MNEs, even those not perceived to pose any direct national security risks, such as Tik-Tok, the social media app that is popular among teenagers, was also targeted in the US albeit it is led by an American CEO there. Of course, on the flip side, the blocking of US tech companies such as Facebook, Google and Twitter, has been etched into the Chinese image as being one of the most restrictive economies in the world.

### **Comparative Discussions: New Variables Needed in a Multidisciplinary Framework**

When asked “why Huawei managed to establish an effective and feasible communication with the UK, but not able to achieve the same with the US?”, Hu Houkun, who has worked as the chair of the Huawei US company, admitted that “this is what puzzles me as well. In the past decade, our business in the US has shrunk dramatically to almost none, but the questioning and doubts we heard are getting louder and louder. I find it hard to understand, it doesn’t make sense for one to blame a product that they never used.”<sup>69</sup> This was echoed by Ding Yun, Huawei’s Executive Director and President of the Global Marketing Department: “there are two kinds of media voices about Huawei: one is from the over 400 clients of Huawei all over the world, the other is from the US. The former has business relations with us for 10 to 20 years, such as BT and Vodafone, who have always trusted and supported Huawei, while the doubts are from the US who has never used Huawei products, I find it ridiculous.”<sup>70</sup>

One after another, from the Confucius Institute to the Belt and Road Initiative, from Huawei to high-speed rail, all flagship projects from China, be it cultural and academic institutions, private or state-owned enterprises, or state-sponsored infrastructure investments, have all triggered similar debates but received different receptions all over the world. China’s impact on and engagement with the rest of the world, across the East and West, North and South, along with Trump Administration’s “America First” foreign policy that has alienated some of its traditional allies, have all prevented a formation of an unified ‘camp’ against China. However, a common feature is to politicise MNEs and projects from China. Just like Huawei was made a pawn on the chessboard of Sino-US trade war even when it was not directly involved in the bilateral trade, both Chinese government’s handling of the Covid-19 and the passing of National Security Law for Hong Kong were mentioned as pressures behind UK’s reassessment decision under the “escalating geo-political tension with China.”<sup>71</sup> Obviously, Huawei product has nothing to do with the spreading of coronavirus or status of Hong Kong, but in a way, it has become a barometer of bilateral relations, pointing to the importance of including “bilateral relations” as a crucial variable in the model.

This comparative case study has shown the limitations of the old model that fails to capture the variables unique and critical to Chinese MNEs, particularly those entering Western markets. While generic economic factors that apply to *all* MNEs were listed

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<sup>68</sup> James Parsley, ‘An influential Chinese think tank warned China its global image is the worst it’s been in 31 years and that a worst-case scenario could mean armed conflict with the US’, accessed June 1, 2020, <https://www.businessinsider.com/chinese-report-global-image-worst-in-three-decades-2020-5?r=US&IR=T>.

<sup>69</sup> See No. 1, Appendix.

<sup>70</sup> Ibid.

<sup>71</sup> Dan Sabbagh, ‘Boris Johnson forced to reduce Huawei’s role in UK’s 5G networks’, *Guardian*, accessed May 22, 2020, <https://www.theguardian.com/technology/2020/may/22/boris-johnson-forced-to-reduce-huaweis-role-in-uks-5g-networks>.

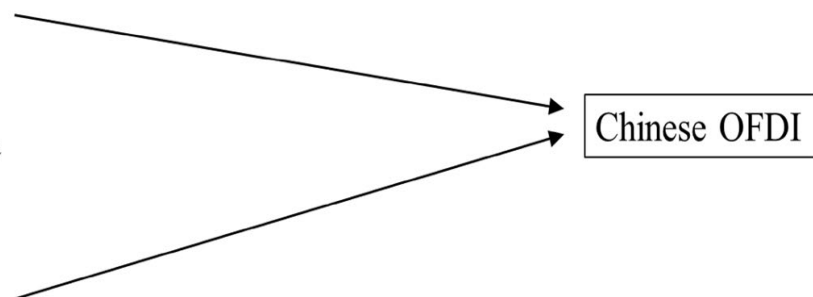
separately, such as “market size”, “foreign exchange rate”, “inflation rate” “exports” and “imports”, other key factors such as “law” and “media influence” that have significant influence on Chinese MNEs are missing. The huge impact of “bilateral relations” is also worthy of being listed as a separate factor, particularly when the bilateral relations between different host countries would also have significant bearing on the market entry of a Chinese MNE as showcased by Huawei. The factor of “openness to FDI” in general could well be at a different level from the host country’s “openness to *Chinese* FDI” due to the politicisation of any investment from China. Previous researches have already found that “Chinese investors appeared to be attracted towards risky environments when and where strong bilateral political relations existed between China and the host country, since political ties may reduce potential risk.”<sup>72</sup> Such risks exercised a profound effect on the amount, direction and operation of Chinese MNEs. Huawei’s global footprint also shows that “ethnic Chinese population” and “geographic distance” do not matter as much as “cultural distance”, or “cultural proximity”<sup>73</sup> that was mentioned in Buckley et al’s 2018 retrospective but not added to the model. Meanwhile, more importance should be given to “home country factors” such as “governance structure” that were under-recognised before in the IB research but exert strong influence on Chinese MNEs. Therefore, amendments to the 2007 model (see Figure 1 below) are suggested as Figure 2 to incorporate unique features that are highly pertinent to Chinese MNEs. While shedding light on previously overlooked gaps, the juxtaposition of contextual factors included in the reconfigured model generates new insights, offers meaningful theoretical nuance from an interdisciplinary perspective, thus helps develop a multidimensional understanding of the very complex environment Chinese MNEs face.

**Host country factors**

- Market size
- Natural resource endowment
- Strategic asset endowment
- Political risk
- Ethnic Chinese population
- Foreign exchange rate
- Inflation rate
- Export to China
- Imports from China
- Geographic distance from China
- Openness to FDI

**Home country factors**

- Policy liberalisation



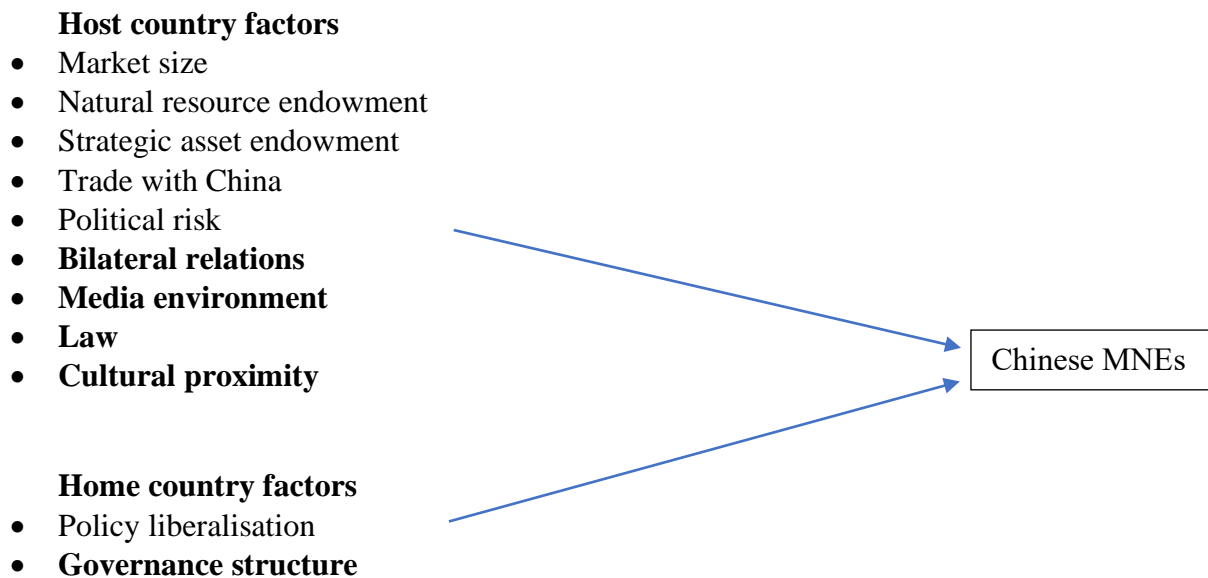
**Figure 1. Empirical model, Buckley et al (2007)**

<sup>72</sup>Alisa Amighini, Roberta Rabellotti and Marco Sanfilippo, ‘Do Chinese SOEs and private companies differ in their foreign location strategies?’, *China Economic Review*, 27, (2013), pp. 312-325.

Jing Li, Klaus Meyer, Hua Zhang and Yuan Ding, ‘Diplomatic and Corporate Networks: Bridges to Foreign Locations’, *Journal of International Business Studies* Vol. 49, Issue 6, (2017), pp. 659-683.

<sup>73</sup>Peter Buckley, et al., ‘A Retrospective and Agenda for Future Research on Chinese Outward Foreign Direct Investment’, *Journal of International Business Studies* 49, (2018), p 6.





**Figure 2. Expanded model for assessing Chinese MNEs**

### Conclusion

Huawei stands out as a multifaceted case study that calls for an interdisciplinary framework of analysis to address the much broader contexts that is outside the International Business field. The success of a Chinese MNE is determined by a combination of exogenous (host country) and endogenous (home country) factors and the inherent interactions of the two, which was inadequately captured by the old model.

The comparative analysis of Huawei’s story in the UK and US shows an overall different business environment in these two host countries due to the combination of the variables, especially those five new factors added to the revised model. In Ren’s own words, the contrast is that “the US is too closed and tends to politicalise everything. The UK is a lot more open than the US”.<sup>74</sup> The British environment is generally more open because the government approach is more balanced between principles and pragmatism, however, its on-and-off decisions regarding Huawei also show how precarious and fragile such balance is, and suggests the dynamic and volatile nature of the environment.

On a broader context, this comparative case study of Huawei represents how China as a rising power is perceived: as an ideological entity of ‘red’ China, or even a red threat to hegemony in the eyes of the US, which leads to hostility and wariness ingrained with fear and deep mistrust; or a complexity produced by the mixing of multi-colours that requires a much more measured reaction. Just as the Belt and Road Initiative represents such a division on the geo-political front and the Confucius Institute on the cultural front, Huawei represents the divided views of China on the technological front, but “being politicised” is a common challenge faced by Chinese organisations, red or grey, they are always perceived with more hues than simply being black and white, making the interdisciplinary analytical framework all the more necessary and important. However, since this new framework is mainly derived from case studies, its contribution is less with pronouncing definitive conclusions of a universally applicable framework than illustrating the importance of developing a more

<sup>74</sup> Tao Tian and Chunbo Wu, 下一个倒下的是不是华为? [*Huawei: Leadership, Culture and Connectivity*] (China CITIC Press: Beijing, 2012), p.116.

complex model for Chinese MNEs, and generating new directions of enquiry to inspire more research in this field.

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### Appendix: Interview Grid\*

No.	Interviewee	Interviewer	Date	Available at:
1	Seven members of top management of Huawei	A collection of 18 interviews with domestic and international media groups	Dec. 2018-Feb. 2019	Transcripts of Huawei Top Management with Media (Huawei gaoguan meiti fasheng shilu), Volume 1, <a href="https://www-file.huawei.com/-/media/corp/facts/pdf/on_the_record_huawei_executives_speak_to_the_public_volume_i_cn.pdf?la=en">https://www-file.huawei.com/-/media/corp/facts/pdf/on_the_record_huawei_executives_speak_to_the_public_volume_i_cn.pdf?la=en</a> .
2	Nine members of top management of Huawei	A collection of 18 interviews with domestic and international media groups	Mar. 2019-Apr. 2019	Transcripts of Huawei Top Management with Media (Huawei gaoguan meiti fasheng shilu), Volume 2, <a href="https://www-file.huawei.com/-/media/corp/facts/pdf/on_the_record_huawei_executives_speak_to_the_public_volume_2_cn.pdf?la=en">https://www-file.huawei.com/-/media/corp/facts/pdf/on_the_record_huawei_executives_speak_to_the_public_volume_2_cn.pdf?la=en</a> .
3	Ren Zhengfei	A collection of 13 interviews with domestic and international media groups	Jan. 2019-May. 2019	In His Own Words, Dialogues with Ren. <a href="https://www-file.huawei.com/-/media/corp/facts/pdf/in_his_own_words_dialogues_with_ren_en.pdf?la=en">https://www-file.huawei.com/-/media/corp/facts/pdf/in_his_own_words_dialogues_with_ren_en.pdf?la=en</a> .
4	Ren Zhengfei	A collection of 11 interviews with domestic and international media groups	May. 2019-Aug. 2019	In His Own Words, Dialogues with Ren. <a href="https://www-file.huawei.com/-/media/corp/facts/pdf/in-his-own-words-dialogues-with-ren-volume-ii.pdf?la=en">https://www-file.huawei.com/-/media/corp/facts/pdf/in-his-own-words-dialogues-with-ren-volume-ii.pdf?la=en</a> .
5	Ren Zhengfei	Mobile World Live, Financial Times, Associated Press, The Wall street Journal, Bloomberg News, CNBC, Fortune	15 Jan. 2019	<a href="https://www.scmp.com/tech/big-tech/article/2182367/transcript-huawei-founder-ren-zhengfeis-responses-media-questions">https://www.scmp.com/tech/big-tech/article/2182367/transcript-huawei-founder-ren-zhengfeis-responses-media-questions</a> .
6	Ren Zhengfei	CCTV, Face to Face	15 Jan. 2019	<a href="https://www.jqknews.com/news/129290-CCTV_interview_full_text_%7C_Ren_Zhengfei_Learning_from_the_United_States_to_absorb_scientists_into_China.html">https://www.jqknews.com/news/129290-CCTV_interview_full_text_%7C_Ren_Zhengfei_Learning_from_the_United_States_to_absorb_scientists_into_China.html</a> .
7	Ren Zhengfei	BBC, UK	18 Feb. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfei-interview-with-bbc">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfei-interview-with-bbc</a> .

8	Ren Zhengfei	CBS, US	19 Feb. 2019	<a href="https://www.cbsnews.com/news/huawei-president-ren-zhengfei-says-he-would-defy-chinese-law-on-intelligence-gathering/">https://www.cbsnews.com/news/huawei-president-ren-zhengfei-says-he-would-defy-chinese-law-on-intelligence-gathering/</a> .
9	Ren Zhengfei	CNN, US	13 Mar. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfei-interview-with-cnn">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfei-interview-with-cnn</a>
10	Ren Zhengfei	CNBC	14 Apr. 2019	<a href="https://www.cnbc.com/2019/04/15/cnbc-transcript-ren-zhengfei-huawei-founder-and-ceo.html">https://www.cnbc.com/2019/04/15/cnbc-transcript-ren-zhengfei-huawei-founder-and-ceo.html</a> .
11	Ren Zhengfei	Dong Qian, CGTV, China	21 May. 2019	<a href="https://www.jqknews.com/news/129290-CCTV_interview_full_text_%7C_Ren_Zhengfei_Learning_from_the_United_States_to_absorb_scientists_into_China.html">https://www.jqknews.com/news/129290-CCTV_interview_full_text_%7C_Ren_Zhengfei_Learning_from_the_United_States_to_absorb_scientists_into_China.html</a> .
12	Ren Zhengfei	Bloomberg News	24 May, 2019	<a href="https://www.bloomberg.com/news/articles/2019-06-01/huawei-s-ren-zhengfei-interviewed-by-bloomberg-news-excerpts">https://www.bloomberg.com/news/articles/2019-06-01/huawei-s-ren-zhengfei-interviewed-by-bloomberg-news-excerpts</a> .
13	Ren Zhengfei	George Gilder, Forbes, & Nicholas Negroponte, Wired, the US	17 Jun. 2019	Coffee with Ren, <a href="https://www.huawei.com/en/facts/voices-of-huawei/a-coffee-with-ren">https://www.huawei.com/en/facts/voices-of-huawei/a-coffee-with-ren</a> .
14	Ren Zhengfei	CNBC, US.	19 Jun. 2019	<a href="https://www.cnbc.com/video/2019/06/21/watch-cnbc-full-interview-with-huawei-founder-and-ceo-ren-zhengfei.html">https://www.cnbc.com/video/2019/06/21/watch-cnbc-full-interview-with-huawei-founder-and-ceo-ren-zhengfei.html</a> .
15	Ren Zhengfei	James Kynge, Financial Times, UK	24 Jun. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-financial-times">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-financial-times</a> .
16	Ren Zhengfei	The Globe and Mail, Canada	27 Jun. 2019	<a href="https://www.huawei.com/ca/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-globe-and-mail">https://www.huawei.com/ca/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-globe-and-mail</a> .
17	Ren Zhengfei	Akiko Fujita, Yahoo Finance, US	17 Jul. 2019	<a href="https://uk.finance.yahoo.com/news/exclusive-interview-with-huawei-ceo-tech-204320046.html">https://uk.finance.yahoo.com/news/exclusive-interview-with-huawei-ceo-tech-204320046.html</a> .
18	Ren Zhengfei	BBC Story Workshop Documentary Film	23 Jul. 2019	<a href="https://www.firstxw.com/view/238049.html">https://www.firstxw.com/view/238049.html</a> .
19	Ren Zhengfei	SKY	15 Aug. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren_zhengfeis_interview_with_sky_news">https://www.huawei.com/en/facts/voices-of-huawei/ren_zhengfeis_interview_with_sky_news</a> .
20	Ren Zhengfei	The Associated	20	<a href="https://www.huawei.com/uk/facts/voices-of-huawei/ren_zhengfeis_interview_with_the_associated">https://www.huawei.com/uk/facts/voices-of-huawei/ren_zhengfeis_interview_with_the_associated</a> .

		Press	Aug. 2019	es-of-huawei/ren-zhengfeis-interview-with-the-associated-press.
21	Ren Zhengfei	Los Angeles Times	8 Sep. 2019	<a href="https://video.sina.cn/finance/2019-09-10/detail-iicezueu4747421.d.html?cre=wappage&amp;mod=r&amp;loc=2&amp;r=9&amp;rfunc=73&amp;tj=none&amp;cref=cj&amp;wm=3236">https://video.sina.cn/finance/2019-09-10/detail-iicezueu4747421.d.html?cre=wappage&amp;mod=r&amp;loc=2&amp;r=9&amp;rfunc=73&amp;tj=none&amp;cref=cj&amp;wm=3236</a> .
22	Ren Zhengfei	New York Times	9 Sep. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-new-york-times-op-ed-columnist-thomas-l-friedman">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-new-york-times-op-ed-columnist-thomas-l-friedman</a> .
23	Ren Zhengfei	Economist	10 Sep. 2019	<a href="https://www.economist.com/business/2019/09/12/a-transcript-of-ren-zhengfeis-interview">https://www.economist.com/business/2019/09/12/a-transcript-of-ren-zhengfeis-interview</a> .
24	Ren Zhengfei	Fortune	19 Sep. 2019	<a href="https://www.huawei.com/my/facts/voices-of-huawei/Ren-Zhengfeis-Interview-with-Fortune">https://www.huawei.com/my/facts/voices-of-huawei/Ren-Zhengfeis-Interview-with-Fortune</a> .
25	Ren Zhengfei	Jerry Kaplan and Peter Cochrane	26 Sep. 2019	<a href="https://www.mobileworldlive.com/featured-content/top-three/a-coffee-with-ren-zhengfei-huawei-founder/">https://www.mobileworldlive.com/featured-content/top-three/a-coffee-with-ren-zhengfei-huawei-founder/</a> <a href="https://www.youtube.com/watch?v=UcFEicRisgM">https://www.youtube.com/watch?v=UcFEicRisgM</a> .
26	Ren Zhengfei	CNBC	4 Oct. 2019	<a href="https://www.cnbc.com/2019/10/04/cnbc-transcript-ren-zhengfei-founder-ceo-huawei.html">https://www.cnbc.com/2019/10/04/cnbc-transcript-ren-zhengfei-founder-ceo-huawei.html</a> .
27	Ren Zhengfei	Northern European Media Roundtable	15 Oct. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/Ren-Zhengfeis-Northern-European-Media-Roundtable">https://www.huawei.com/en/facts/voices-of-huawei/Ren-Zhengfeis-Northern-European-Media-Roundtable</a> .
28	Ren Zhengfei	Kyodo News	16 Oct. 2019	<a href="http://www.guancha.cn/economy/2019_10_21_522109.shtml">http://www.guancha.cn/economy/2019_10_21_522109.shtml</a> .
29	Ren Zhengfei	Arabic media from the Middle East countries	20 Oct. 2019	<a href="https://www.guancha.cn/ChanJing/2019_11_04_523846.shtml">https://www.guancha.cn/ChanJing/2019_11_04_523846.shtml</a> .
30	Ren Zhengfei	Euronews	22 Oct. 2019	<a href="https://www.huawei.eu/index.php/press-release/transcript-mr-rens-euronews-interview">https://www.huawei.eu/index.php/press-release/transcript-mr-rens-euronews-interview</a> .
31	Ren Zhengfei	Wall Street Journal	5 Nov. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-wall-street-journal">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-wall-street-journal</a> .
32	Ren Zhengfei	German media roundtable	6 Nov. 2019	<a href="https://www.huawei.com/ke/facts/voices-of-huawei/ren-zhengfeis-german-media-roundtable">https://www.huawei.com/ke/facts/voices-of-huawei/ren-zhengfeis-german-media-roundtable</a> .
33	Ren Zhengfei	Los Angeles Times	18 Nov. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-los-angeles-times">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-los-angeles-times</a> .

34	Ren Zhengfei	CNN	26 Nov. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-cnn">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-cnn.</a>
35	Ren Zhengfei	Globe and Mail	2 Dec. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-globe-and-mail">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-interview-with-the-globe-and-mail.</a>
36	Ren Zhengfei	Roundtable with media from Latin America and Spain	11 Dec. 2019	<a href="https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-roundtable-with-media-from-latin-america-and-spain">https://www.huawei.com/en/facts/voices-of-huawei/ren-zhengfeis-roundtable-with-media-from-latin-america-and-spain.</a>

\*Note: the first two volumes of interview transcripts from Dec. 2018- Apr. 2019 published by Huawei are only available in Chinese, however, two more compilations in English were published, covering interview transcripts from Jan. 2019 - Aug. 2019. The author has added the individual web links available for further interviews taken place from Sep. - Dec. 2019. This grid provides access to a complete collection of 76 interviews in total, taken place from Dec. 2018 – Dec. 2019. Individual web links are provided for some key interviews included in collections No. 3 and No. 4 for easy access.