

Huawei's Investment In the United States

Lu Hua

School of Nanjing University of Science and Technology, Nanjing 210094, China;

759121403@qq.com

Keywords: Huawei, Investment, Enlightenment.

Abstract: With the continuous growth of local Chinese companies, the domestic market has been unable to meet the company's development needs. At the same time, the trend of internationalization has forced companies to go abroad and invest overseas. In overseas markets, due to its huge market size, advanced technology and good brand effect, the United States has become the main target and strategic market for Chinese investors. However, in recent years, Chinese companies have invested in the United States, especially in the "sensitive industries" such as the US telecommunications industry and the energy industry. Cases of failure due to the influence of the US government and other stakeholders have gradually increased. As a typical case, Huawei's investment in the United States has experienced several failures. This article is a comprehensive review and analysis of Huawei's history of investment in the United States, we will analyze in detail the stakeholders involved in the US investment process and their status, interests and impact. We look forward to discussing the reasons for Huawei's failure to invest in the US and future Chinese companies. The impact on US investment.

1. Huawei and Its Investment Strategy

In 1987, Ren Zhengfei and four other partners founded Huawei in Shenzhen. From the initial investment of \$3,000 in telecommunications equipment sales agents to the world's top 500 companies with a turnover of \$3.5 billion, Huawei spent less than 30 years. Today, Huawei has employees from 156 countries on 6 continents. Its products and services cover 170 countries and regions. It has set up R&D centers in India, Sweden, Russia, the United States and China, and has truly embarked on an international road.

Chinese enterprises' overseas investment can basically be divided into two types. One is that it is easy to make it easy, first enter the low-end market of developing countries, and then gradually enter the markets of western developed countries. The other type is difficult and easy to enter directly into the developed markets. Like most Chinese companies, Huawei has taken the lead in the process of overseas investment and first entered the market strategy of developing countries. In 1999, the first overseas R&D center was established in Bangalore, India. Unlike other Chinese companies, Huawei quickly took measures to enter the markets of Western developed countries. In 2000, Huawei established a research and development center in Stockholm, Sweden.

The main forms of Huawei investment in the United States include R&D investment and M&A investment. The purpose of R&D investment is to enhance Huawei's independent innovation capability, and M&A investment is conducive to enhancing Huawei's recognition in the US and obtaining market, manpower, technology and supplier resources for M&A targets.

In recent years, Huawei has accelerated its expansion business by means of mergers and acquisitions and achieved certain success. In view of the profitability of developed markets and its own competitive advantages, Huawei chose the United States and Australia to become its main target markets. However, the United States and Australia have repeatedly rejected Huawei's M&A projects on the grounds that they endangered national security. Huawei's failure to acquire 3com and 3leaf has been caused by various reasons. Huawei's other businesses in the US have also been adversely affected by the two merger failures.

2. The Causes of Huawei's Investment in the United States

Huawei's investment in the US market is earlier than investment in other countries, and its operating results are less prominent than other overseas markets. Huawei's investment in the United States is necessary for both market and R&D considerations.

2.1 Market Driven

In 2013, the U.S. telecommunications market was approximately US\$1.2 trillion, accounting for 24% of the global telecommunications market. In terms of telecommunications equipment, the annual consumption in the U.S. market is 30 billion U.S. dollars. Huawei's revenue in North America in 2011 was only 1.34 billion U.S. dollars, so the U.S. market has great potential for Huawei. Under the background of the slowdown in income growth in other overseas markets, the importance of the US market has become more prominent. Commentator Kevin Fraser pointed out that although Huawei's investment in the US market has encountered obstacles, no communication equipment manufacturer is willing to give up this world's largest communications market.

On the other hand, the composition of customers in the US market also coincides with Huawei's strategic transformation. Huawei's positioning is not just equipment manufacturers, but a provider of a complete solution for the information and communications technology industry. Specifically, in terms of operator services, products and services are taken into account. The market potential for operation and maintenance services after network upgrade is huge. For enterprise services, Huawei focuses on providing data management solutions for enterprises, covering hardware and software, and so on. Huawei smartphones also shift from the low-end market to the high-end market. The consumer demand structure in the U.S. market can carry Huawei's business transformation and maintain the steady growth of Huawei's business revenue in the future.

2.2 Technology Driven

Huawei emphasized the ability of independent research and development since its inception. Huawei's technological leadership is an important reason for Huawei's success in establishing a foothold in China and moving toward the world. Huawei invests huge amounts of R&D funds each year to maintain its leading position in the industry. For example, in 2011-2013, Huawei's annual R&D investment accounted for more than 10% of sales revenue. At present, Huawei is the world leader in the 4G communications standard LTE technology, and has started to work on R&D of communications technologies.

The importance of the US market for Huawei R&D is reflected in two aspects. First, consumers in the U.S. market who use Huawei's high-end products and services, whether they are operators or individual users, feedback their usage information to help Huawei improve and develop the corresponding technology and maintain its leading position in the industry. Second, Huawei can cooperate with major research institutes and ICT industry companies (such as IBM and Hewlett-Packard) in the United States to jointly develop and improve research efficiency. As of 2013, Huawei has established seven R&D centers in the United States, which is an important part of Huawei's global R&D strategy. On the basis of the R&D center, if Huawei completes the acquisition of a manufacturing unit or invests in green space, it can more efficiently complete the process of information collection and cooperative R&D and promote the conversion of technology to product service.

In summary, although Huawei's investment in the United States has encountered certain obstacles at this stage, Huawei's investment in the United States is still necessary for both market and R&D considerations.

3. Huawei Investment Failure Cases

3.1 Huawei and 3com

3com is a US telecommunications network equipment manufacturer that provides infrastructure for a number of US network operators, with market capitalization peaking in 2000. After 2000, wireless networks have developed rapidly. In this new industry trend, in order to open up new markets in the field of traditional telecommunications equipment, 3com established a joint venture with Huawei in 2003 to establish H3C.

In 2006, in order to reverse the long-term loss situation, 3com decided to acquire H3C wholly-owned, and Huawei sold 49% of its shares. In 2007, Bain invested in the acquisition of 3COM for \$2.2 billion. The \$2.2 billion fund includes 16.5% equity financing of Huawei's wholly-owned subsidiary, Huawei Technologies Investment Co., Ltd., valued at \$363 million.

The acquisition encountered obstacles in the subsequent government approval process. The US Foreign Investment Review Board (CFIUS) pointed out that after the completion of the acquisition, Huawei may install backdoors in the US wireless network infrastructure in the future, monitor or disrupt US wireless network communications, posing a major threat to national security. Suspend the transaction.

On February 20, 2008, Bain Investment and Huawei Technologies Investment Co., Ltd. announced that they would abandon the acquisition of 3COM because they could not reach an improvement agreement with CFIUS.

3.2 Huawei and 3Leaf System

3Leaf System is a high-tech company founded in 2004, specializing in virtual network technology. 3Leaf System did not perform well in the following years. In May 2010, Huawei acquired a set of patents for cloud computing technology from 3Leaf System for US\$2 million. In the process, Huawei did not submit the transaction information to CFIUS.

In December 2010, after the transaction-related assets had been transferred for 7 months, Huawei found that CFIUS was investigating the transaction. In February 2011, CFIUS recommended that Huawei completely divest the relevant assets of the transaction. Huawei executives later said that Huawei had consulted the US Department of Commerce beforehand and the transaction did not require any review. Huawei considered appealing to the US president and vetoing CFIUS's resolution. In the end, Huawei chose to accept the proposal and divest assets.

The failure of the above two M&A transactions has adversely affected Huawei's normal business activities in the United States. It mainly includes: M&A targets in M&A transactions are worried that Huawei cannot pass the review and directly exclude Huawei from the list of candidates for the transaction; in the equipment service transaction, the operator abandoned the cooperation with Huawei due to government supervision.

4. Enlightenment

The internationalization of Chinese local companies has become the trend of the times. In the country selection of Chinese enterprises "going out", the United States has strong appeal because of its huge market size, advanced technology, and good brand effect. However, the United States is not only a huge product market, but also a system market with the most complex and most developed regulations. With the strengthening of China's national strength, the "China factor" is inevitably given more "strategic" and "competition" connotations by American politicians in Sino-US economic and trade activities. In particular, Chinese companies may face more institutional obstacles to M&A investment in sensitive industries in the United States. As a typical case, Huawei's investment experience in the United States provides a reference for Chinese companies to invest in the United States in the future, especially in dealing with stakeholder relations.

First, the most influential stakeholder in Chinese companies' M&A investment is the US federal government. Chinese companies need to be familiar with the US government's review procedures for overseas investment before M&A transactions to prevent investment failures caused by non-compliance with the review process.

Second, in addition to the federal government, other stakeholders represented by US domestic competitors may also hinder Chinese companies from investing in the US. Such American companies generally have a strong influence in the US Congress. Chinese enterprises should start public diplomacy as soon as possible, try to work together with partners to study countermeasures and lay a good foundation for economic and trade cooperation negotiations.

Third, there are also stakeholders in the United States that support Chinese companies investing in the United States, such as local governments and local suppliers. Chinese companies should actively communicate with local governments, exert their influence, and reduce institutional and political barriers to investment in the United States

Finally, the construction of Chinese companies themselves is also very important. Improve corporate governance, increase corporate transparency, abide by international practices, abide by corporate social responsibility, establish a good corporate image, and truly complete the transition from local to multinational.

References

- [1] Changhong Bai, Chunhua Liu. A Comparative Study on the Similarity of Haier and Huawei's Internationalization Strategy Cases Based on Grounded Theory [J]. *Research Management*, 2014(3).
- [2] Qiuxia Yan, Leyan Wang. Analysis of Huawei's Failure in US Investment [J]. *Economic Forum*, 2017
- [3] Jinsong Zhu. The Effect of Foreign Direct Investment on China's Capital Formation [J]. *Asia-Pacific Economy*, 2001.
- [4] Liuyong Yang, Guoliang Shen. Analysis of the squeeze-in effect of foreign direct investment on domestic investment [J]. *Statistical Research*, 2002.
- [5] Feng Hu. Analysis of the employment effect of multinational corporations in China's mergers and acquisitions [J]. *Journal of Central University of Finance and Economics*, 2002.