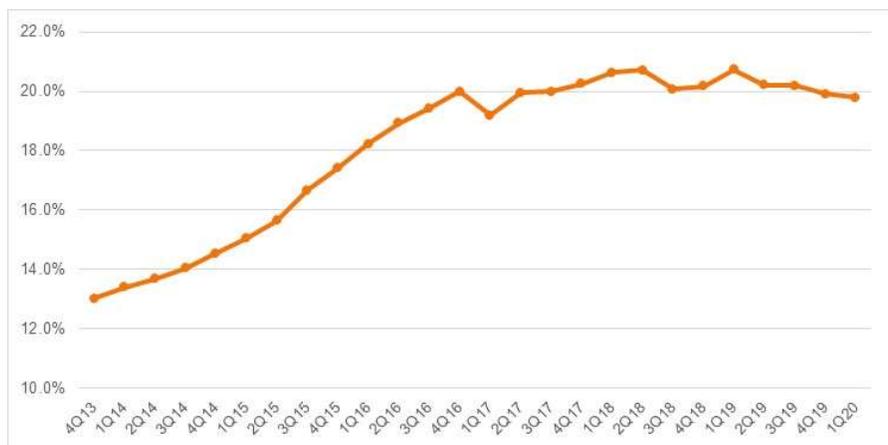


Market Commentary

Summary

Huawei held its global industry analyst summit (GAS 2020) in late May, just days after the U.S. Commerce Department expanded its Entity List restrictions on the company. The new rules [don't take effect](#) formally until Sept. 14, and there is a public comment period in the interim, but the restrictions will upend Huawei's near-term goal to dominate global 5G markets. Much of the vendor's network infrastructure product line relies upon chips manufactured by foundries like TSMC, based upon Huawei's specifications but using [U.S.-origin capital equipment](#) for production and testing. Once [the new rules](#) take effect, if unchanged, the company could no longer rely upon these foundries for production. Huawei is exploring various workarounds, including the possible use of Samsung, but a seamless solution is unlikely to be found quickly. Current inventory is rumored to last through [March 2021](#). Chinese chip foundry SMIC is [not ready for prime time](#).¹ And the U.S. government will almost certainly have a response planned, as there is a [bipartisan consensus](#) across the U.S. government that Huawei is not to be trusted in networks.

Figure 1: Huawei's annualized market share in Telco NI since 2013



Source: MTN Consulting

To be clear, that doesn't mean individual employees of Huawei are untrustworthy. It means that the U.S. government, and many key allies (including [most of the "Five Eyes" intelligence alliance](#)), recognize that Huawei's growth has relied heavily on Chinese government support, and it will always be a Chinese company and, hence, [subject to manipulation and influence](#) by the ruling Chinese Communist Party (CCP). Tone-deaf statements from CCP officials over the last two years have seemed designed to confirm this suspicion.² Huawei continues to have an impressive technology portfolio, loads of talented engineers, and vast reach around the world, but it won't get out of its current mess by just finding another source for chips. The Entity List rules and earlier arrest of Huawei CFO in Canada have coaxed CCP officials to [show their hand](#) too blatantly. Huawei's prospects for the next few years have noticeably dimmed, and we will see a much different competitive landscape in the telecom network infrastructure

¹ "SMIC has just moved its most-advanced 14nm FinFET process to commercial production. The node accounted for only 1.3% of SMIC's total wafer sales in the first quarter of 2020. TSMC, on the other hand, has already kicked off volume production of chips using 7nm and 5nm EUV process technology for HiSilicon, the observers noted."

² For instance, Liu Xiaoming, China's ambassador to the United Kingdom, recently addressed the U.K.'s possible decision to ban Huawei from U.K. 5G rollouts, warning ominously that "if you want to make China a hostile country, you will have to bear the consequences."