

QUARTERLY ECONOMY SLOWS AGAIN P.30 | NOBEL WINNER SPEAKS OUT P.40

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## GROWING MISTRUST

U.S. blocks Huawei and ZTE over groundless national security fears

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## THE DESK

2 Dangers of Trade Protectionism

## THIS WEEK

## COVER STORY

## WORLD



**16 A Power on the Rise**  
Indonesia's new diplomatic might

## NATION



**22 On a Green Road**  
Building an eco-friendly environment

**24 Faded Memory**  
Families coping with Alzheimer's disease

**26 Bartering for Benevolence**  
A college student's quest to build a rural school



**10 Cover Story**

Inaccessible U.S. market

## FEATURES

### 10 Political Attack on Chinese Firms

Trade protectionism afoot in the U.S.

### 14 Desperate Measures

Japan looks abroad for island support

### 20 Progressive Justice

China's judiciary makeover

### 30 Slower, Yet Promising

Economic slowdown with a silver lining

### 40 Another First for China

China's literary heavyweight wins Nobel Prize

## BUSINESS



**34 The Chery on Top**  
Seeking a niche in China's auto market

**38 Market Watch**

## CULTURE



**42 Saving Minds, Saving Lives**  
A female scientist's commitment

## FORUM

**46 China's Communist Party Takes on Corruption**

## EXPAT'S EYE

**48 A Tough Transition**  
Finding a home away from home

## Dangers of Trade Protectionism

In the name of "national security," U.S. politicians have tried to block Huawei and ZTE, two of China's major private telecom firms, from entering the U.S. market. This triggered concerns that trade protectionism could affect the development of the free market economy around the world.

The Chinese economy is now an integral part of the global economy. Companies from around the world are competing and developing freely in the Chinese market, including U.S. telecom equipment manufacturers.

The United States has long considered itself a driver of the free economy. But when Chinese companies want to enter the U.S. market, U.S. politicians change their tune. Resistance from U.S. politicians will halt the pace of economic globalization and will decelerate the global economic recovery.

Surely, American economists are very familiar with the economic crisis that occurred in the 1920s and 1930s. Following that crisis, Western countries adopted trade protectionism. As a result, they drove the global economy into a long period of depression, ending the golden era of economic globalization. Even today, some economists are blaming Western countries' trade protectionism for worsening the economic depression.

It's a shame that American politicians are refusing to learn from the past.

Do these two Chinese firms really pose a threat to the national security of the United States? This is not the case. The so-called "security threat" is a mere allegation by those in U.S. Congress, not by technical experts. Compared with China, America has much more developed networking and telecom technologies. If any security threat exists, it's highly unlikely for them to go undetected by American technical personnel. If Chinese telecom products were found to pose a threat to U.S. national security, those politicians would have already pounced on the issue. But in fact, the U.S. report fails to spell out any specific examples of security threats.

These U.S. political fears can be likened to an outdated Cold War mentality.

Huawei and ZTE represent a symbolic phenomenon, wherein developing countries are trying to secure a foothold in the hi-tech market of technologically advanced countries. This has caused discomfort to developed countries like the United States, which have been playing a dominant role in this regard.

Trade protectionism is harmful to China and does little good for the United States. While causing trouble for Chinese companies, it also damages U.S. businesses, casting a shadow on its commercial environment. Acting too aggressively to block foreign companies' market entry and being overly cautious will only cause the United States to lose business opportunities and miss out on a chance to boost its domestic economy and employment.

Economic globalization demands that all countries open their market to the outside world on an equal footing. Against the backdrop of a world economic recession, we should be alert to the threats posed by trade protectionism to economic globalization and the world economic recovery. ■

### WRITE TO US

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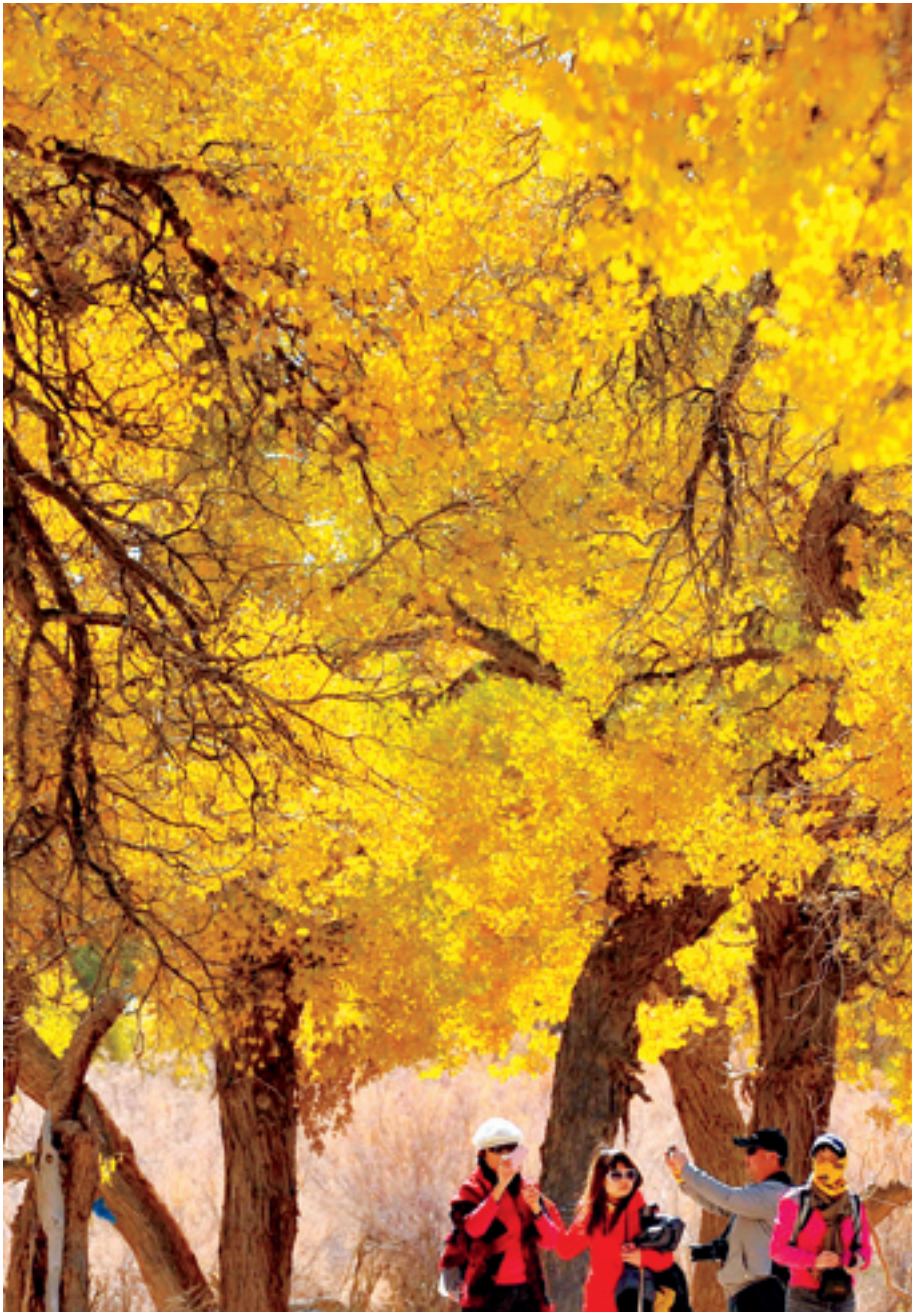
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## Autumn Beauty

Tourists walk through the populus euphratica forest in the Ejina Banner, north China's Inner Mongolia Autonomous Region, enjoying the beautiful fall colors and snapping photographs on October 12.

The forest, covering an area of more than 26,667 hectares, is among the most famous of its kind in the world. The golden leaves set against a blue sky form a stunning scene, attracting tourists and photographers every autumn season.

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**“I don’t know. Happiness means a healthy body and an absence of mental burdens, but now I’m under high pressure and bothered by worries. Can I say that I’m not happy? If I say it, people will think I’m posing. How could a person be unhappy after winning the Nobel Prize?”**

Mo Yan, this year’s winner of the Nobel Prize in Literature, responding to a reporter from China Central Television who asked him if he was happy during an interview on October 14

**“There have been car-free days and events such as turning off the lights for one hour. Similarly, the one-day fast serves as a wake-up call in the face of impending danger.”**

Yang Pu, a commentator with cnhubei.com, applauding the State Administration of Grain’s notice on its official website asking employees in the country’s food industry to fast voluntarily for 24 hours on October 16, the World Food Day

**“Everybody knows civil service jobs are easy and stable and don’t require overtime. My current job imposes a heavy workload. Although many civil service positions offered have many so-called tough conditions, I still believe those jobs would be easier than many others.”**

Wang Yun, an employee at a consulting firm in Beijing, expresses his thoughts on October 16 on next year’s national civil servant examination, which is expected to attract 2 million applicants

## King Dies in Beijing



**Norodom Sihanouk**, former king of Cambodia, died after battling cancer, diabetes and hypertension in Beijing at the age of 90 on October 15.

Sihanouk was king of Cambodia twice, from 1941 to 1955 and again from 1993 until he abdicated in 2004. He led Cambodia to independence from France and inaugurated a rare period of political stability during the first period of his reign.

The friendship between Sihanouk and Chinese leaders started at the 1955 Bandung Conference, when he held private meetings with China's then Premier Zhou Enlai. Having lived in exile in China, Sihanouk often referred to the country as his "second homeland," and it was from China that he received political support in times of adversity and almost all his medical treatment in the last years of his life after being diagnosed with prostate cancer in 1994.

The Sihanouk pair has donated disaster relief funds to China almost every year, between \$50,000 and \$100,000 each time.

## Subsistence Allowances

China has set aside 69.6 billion yuan (\$11.13 billion) from the central budget to pay for subsistence allowances for needy rural and urban families next year, the Ministry of Finance said on October 12.

Of the fiscal spending, 35.1 billion yuan (\$5.61 billion) will be used for urban allowances, while the rest will be distributed to rural areas, according to a statement from the ministry.

The Chinese Government has earmarked 87.5 billion yuan (\$13.99 billion) for minimum living allowances since the start of the year, with 44.36 billion yuan (\$7.09 billion) given to poor urban families, according to the statement.

China established the subsistence allowance system in the late 1990s. The allowances are given to those whose per-capita household income falls below the local minimum subsistence level.

Last year, the average monthly urban subsistence level was 287.6 yuan (\$45.98) per person, up 14.5 percent year on year. The figure for rural areas was 143.2 yuan per person (\$22.89), up 22.4 percent.

## Military Zones

China is considering protecting its defense-related scientific, technological and industrial facilities as military zones, according to a People's Liberation Army (PLA) officer.

Some key organizations will be zoned

as forbidden or restricted military areas, said Ma Yifei from the PLA's Headquarters of the General Staff on October 17.

National defense organizations related to science, technology and industry have a direct bearing on the country's national security and defense strengths, thus requiring good security, confidentiality, air exclusion and electromagnetic environment conditions, Ma said.

However, such organizations are off-limits to the protection of military installations under current law and regulations, and many of them face a complicated surrounding environment, Ma said, adding that such situations have resulted in some information leaks and undermined the efficiency of these facilities.

## Eco-friendly Railway

The Ministry of Environmental Protection said on October 16 that the Qinghai-Tibet Railway has passed its environmental impact assessment.

The ministry launched the assessment of the world's highest rail system in early October and announced the results to be "satisfying."

The wildlife paths, protection of vegeta-



**CALLIGRAPHY LESSON** Students practice calligraphy at a primary school in Xiaohuang Town in Dongxiang County, central China's Jiangxi Province, on October 15

**ANNIVERSARY SHOW** Visitors tour aircraft at an exhibition featuring the achievements of Nanjing University of Aeronautics and Astronautics in Nanjing, capital of east China's Jiangsu Province, on October 16

tion, frozen earth, marsh and scenery, as well as anti-pollution measures have met expectations, and realized the harmony of projects and the environment, according to the ministry.

Environmental supervision started before construction of the 1,956-km railway and continued after its first operation on July 1, 2006.

## Island Naming

China is planning to name the country's un-designated islands and islets, according to an official newspaper with the State Oceanic Administration.

The administration has also ordered provincial authorities to complete local island census and compile information with names and locations of the islands and islets by the end of April 2013, the newspaper said on October 16.

By the end of last year, China had given official names to 1,660 islands and placed marks, such as stone tablets, on these territories, the newspaper said. The naming and marking of another 1,664 islands will be completed by August next year.

According to the official, China has more than 7,300 islands measuring 500 square meters or larger.

## Afforestation Goals

China is expected to raise its forest coverage to 21.66 percent by 2015 in a bid to improve the country's ecological environment, said Sun Zhagen, Deputy Director of the State Forestry Administration (SFA), on October 14.

China will beef up its afforestation efforts to cope with global climate change, Sun said.

China's forest coverage reached 20.36 percent in 2009, up from 18.21 percent in 2006, with 20.54 million hectares of forests restored, according to SFA figures.



JIANQIANG

**HORSE FESTIVAL**  
Contestants attend a horse race during the Eighth Naadam Fair in the Mongolian Autonomous Prefecture of Bayingolin in Korla, Xinjiang Uygur Autonomous Region, on October 13



XINHUA

**RECORD SETTER** Some 900 tents are placed in the shape of a dragon during the Golden Beach Camping Festival in Qingdao, east China's Shandong Province, on October 13. The Guinness World Record organization declared it the largest tent mosaic ever, covering an area of 3,400 square meters

The Central Government earmarked a total of 46.2 billion yuan (\$7.39 billion) from 2008 to 2011 to subsidize farmers whose farmland was reclaimed and turned into forests.

## Bio-diversity Protection

More than 1.3 million hectares of wetland will be transformed this year into habitats to protect the bio-diversity of Poyang Lake, China's largest freshwater lake, local authorities announced on October 16.

With an investment of 15 million yuan

(\$2.4 million), the project will include returning vegetation to wetlands, dredging aqueducts, setting up boundary markers, building patrol trails and weather monitoring facilities in Poyang County, east China's Jiangxi Province.

Another 50 million yuan (\$7.99 million) has already been pumped into environmental protection of the Poyang Lake wetlands, including radioactive assessment and water quality improving, officials said.

Poyang Lake is Asia's largest destination for winter migrant birds. About 95 percent of the world's white cranes, 50 percent of its white-naped cranes and 60 percent of its swan geese spend the winter there every year.

## Civil Service Recruitment

The Chinese Government has promised to recruit more university graduates who have taken on leadership roles in the countryside in a bid to encourage more college students to work in rural communities after graduating.

Next year, 10 to 12 percent of newly recruited civil servants in the country will be college grads who have experience working as "village officials," according to the State Administration of Civil Service.

The number of university students with official positions in rural communities is expected to increase to 600,000 by 2020 from the current 200,000, officials said.

## Fewer Limits

China's securities watchdog has allowed overseas investors to hold a higher stake in the country's securities firms, in its latest move to relax controls on foreign investment in the financial industry.

Overseas investors can now hold stakes as high as 49 percent in joint-venture securities firms, compared with the previous investment cap of a third of the companies' equities, according to a statement issued by the China Securities Regulatory Commission (CSRC) on October 16.

At least one domestic investor should own a stake of no lower than 49 percent in such joint venture securities firms, but the restriction does not apply to listed securities firms,

the CSRC said.

The policy change took effect on October 16 and came after previous steps were taken by China to further open its financial markets and ease restrictions on foreign investors.

In July, the country lowered its threshold for qualified foreign institutional investors, allowing them to hold up to a 30-percent stake in a listed company, up from the previous 20-percent stake cap.

## Sales Surge

China's home appliance sales, under the country's rural subsidy program, surged 39.4 percent year on year to 17.54 billion yuan (\$2.78 billion) in September, the Ministry of Commerce said on October 17.

In the first nine months, subsidized home appliance sales in China's countryside rose 21.6 percent from a year earlier to 153.86 billion yuan (\$25.08 billion).

As of the end of September, China had subsidized 275 million home appliance units valued at 659.76 billion yuan (\$105.5 billion) since the subsidy program began in 2009.

The program, which will continue until January 2013, is part of the government's efforts to stimulate rural consumption and buoy the nation's economic growth amid the global economic downturn.

Under the program, farmers can receive subsidies equal to 13 percent of the price of the home appliances they buy.

## Green Census

On October 16, China launched the fourth census on its environmental protection industry in order to prepare scientific data for the nation's policymakers, according to the Ministry of Environmental Protection (MEP).

The census will cover the manufacturing of environmental protection, resource recycling and environmentally friendly products in 2011.

Services related to the environmental protection industry, including the operation of environmental protection facilities and the construction of environment-related projects, will also be included in the census.

In order to get a clearer picture of the environmental protection industry, the nation urgently needs this census, said Wu Xiaoqing, Vice Minister of the MEP.

The industry is focused on transitioning from manufacturing to services, said Wu, adding that the market had demanded higher quality and improved delivery capacity in the sector.

Similar projects were carried out in 1993, 2000 and 2004. The results of the new census are scheduled to be released in the first half of 2013, according to the MEP.

China's environmental protection industry has been growing rapidly in recent years.



**BETTER FOOD, BETTER LIFE** Participants observe food models at the 12th China International Exhibition for Grain and Oil Products, Equipment and Technology in Jinan, capital of east China's Shandong Province, on October 16, 2012. The three-day event attracted 1,062 enterprises from home and abroad

## Numbers

# 405.1 billion kwh

China's total electricity consumption in September, up 2.9 percent year on year, according to the National Energy Administration.

# 2.76 billion yuan

The predicted third-quarter net profit of Wuliangye Yibin Co. Ltd., one of China's top liquor makers, according to a company statement for the Shenzhen Stock Exchange.



Revenues topped 1.1 trillion yuan (\$175.89 billion) in 2010, according to government data.

## Marine Functional Zoning

China has approved marine zonal schemes for eight major coastal regions until 2020 in an effort to enhance environmental protections.

The State Council approved plans submitted by Shandong, Fujian, Zhejiang, Jiangsu, Liaoning and Hebei provinces as well as Tianjin Municipality and Guangxi Zhuang Autonomous Region.

“Marine functional zoning provides a legal basis for effective protection of marine ecology and the environment and rational exploitation of marine resources,” read documents published by the State Council and released on October 16.

The planning of marine-related industries is required to work in accordance with the new zoning.

The documents show that 16,100 hectares in Guangxi, 33,350 hectares in Fujian and 50,600 hectares in Zhejiang are among the areas that are protected, which include mariculture, marine conservation and reserved areas. This is to ensure reasonable control of marine exploitation and guarantee fishermen’s livelihoods and the development of modernized fishery, according to the report.

The documents add that maritime regulations should be strengthened, the system of examination and approval for exploitation and sea reclamation should be strictly implemented and there should be better maritime law enforcement.

## Closer Connections

A new high-speed railway was put into operation in east China on October 16, integrating cities in the country’s interior into the country’s high-speed rail network, which until now mostly covered developed coastal regions.

The new 132-km railway links Hefei and Bengbu, two cities in inland Anhui Province,

## Chinese Writers Sue Apple

Chinese writer **Li Chengpeng** sued Apple Inc. for selling unlicensed electronic versions of his books via its iTunes store on October 11, along with seven other Chinese writers, including Han Han, Hao Qun and Han Ailian. They demanded a total compensation of 10 million yuan (\$1.6 million) from Apple for uploading their works to iTunes and selling them to readers without their permission. However, Apple argued that it was the application developers who should stand trial. It further claimed that after it deleted the works in question from the online store, there have been no violations and therefore they need not pay compensations. The plaintiffs retorted that since Apple owns and manages the App stores, it should not evade its responsibility.

Li, 44, once a soccer commentator and now a social critic and best-selling writer, has captured public attention in recent years for his humor and biting satire.



LIAN ZHENXIANG

**TRANSPORTING TREASURE** A new pipeline for transporting natural gas from west to east China is under construction in Gansu Province. Stretching 7,378 km long, from Xinjiang Uygur Autonomous Region to Fujian Province, the pipeline will transport 30 billion cubic meters of natural gas each year

cutting the journey between them by one hour to 38 minutes on a high-speed train traveling at a maximum 350 km per hour.

The section also connects to the high-speed railway between Beijing and Shanghai, and is also part of the special passenger line linked to Wuhan, capital of central China’s

Hubei Province and Chengdu, capital of southwest China’s Sichuan Province.

The shortest trip from Hefei to Beijing has been cut to less than four hours after the new railway entered service. Previously, traveling by train from the capital city of Anhui to Beijing took about 10 hours.

# 12,575 kg

The world record set by Chinese scientists in the amount of seed cotton harvested on a single hectare of land in northwest China’s Xinjiang Uygur Autonomous Region, according to the Xinjiang Academy of Agricultural Sciences.

# \$24 million

The loan amount Tianjin Binhai Teda Logistics, a Chinese logistics company, will receive from the Asian Development Bank, according to an announcement by the bank on October 15.

## EGYPT

A horse cart passes the Pyramid of Khafre near Cairo on October 11, the day the pyramid was reopened following a three-year restoration project



U. MUZZI



DING HANTAO

Two students wash their hands during an event marking Global Handwashing Day in Nairobi on October 15, which was aimed at promoting the simple health act of washing hands with soap to reduce illnesses in Kenyan villages

## KENYA



Spain's Crown Prince Felipe, King Juan Carlos and Princess Letizia (left to right) attend the Spanish National Day military parade in Madrid on October 12

## SPAIN



Skydiver Felix Baumgartner jumps out of a capsule suspended beneath a helium balloon about 39 km above Roswell in New Mexico on October 14, becoming the first person to break the sound barrier in freefall at a top speed of 1,342 km per hour

## THE UNITED STATES

<http://www.bjreview.com>



A man cooks a communal meal during an event to raise awareness of food waste on October 13 in Paris. Some 5,000 people were invited to enjoy a giant curry using 800 kg of vegetables that supermarkets would have disposed of

## FRANCE



Cambodians pray in front of the Royal Palace in Phnom Penh on October 15 in remembrance of their former King Norodom Sihanouk, who died that day at 90 years old

## CAMBODIA

COVER STORY

# POLITICAL ATTACK ON CHINESE FIRMS

Political factors wield decisive influence in excluding Chinese telecom providers from the American market By Lan Xinzhen



IN THE SIDELINES: William Plummer, vice president of external affairs for Huawei Technologies Co. Ltd., speaks to the media following a news conference in Washington, D.C., on October 8, 2012

Perhaps sated by a report from the House Permanent Select Committee on Intelligence, claiming that “Huawei and ZTE (Zhongxing Telecommunication Equipment) threaten U.S. national security,” Huawei, the second largest telecom-equipment provider in the world, has hastened preliminary steps to get listed. Despite its Beijing-based public and media office’s denial of any IPO preparations, insiders reveal Huawei has been in contact with some international accounting firms and investment banks, and Hong Kong and London are the likely choices.

Some believe Huawei’s IPO plan is designed to improve transparency in a bid to boost its chances of winning major overseas contracts. Among the top five telecom giants, Huawei is the only one yet to go public and is now haunted by the ill will of American politicians who are dead set against the company’s expansion into the United States.

On October 8, the committee unveiled the result of its one-year investigation into Huawei and ZTE, suggesting the American Government not use equipment manufactured by the two companies. On October 14, the U.S. Congress launched a second round of investigations against the Chinese firms.

Huawei and ZTE strongly denied the accusations. Huawei argued the report was aimed at hindering Chinese ICT (information and communication technology) companies from accessing the American market. The report leveled false allegations against Chinese firms and ignored copious factual information provided by Huawei as well as its good track record of network security in the United States and worldwide.

ZTE also said that its own equipment posed no threat to U.S. national security because all equipment it supplied to American operators had been assessed by the U.S. Security Assessment Laboratory, which is supervised by the U.S. Government.

Whether or not the prospective IPO will breathe new life into Huawei’s U.S. plans is uncertain. Disagreements over whether to go public are rife within the company. In November 2011, when the House Permanent Select Committee on Intelligence filed for investigation against Huawei and ZTE, Huawei’s executives and board of directors raised the possibility of an IPO.

Proponents believed an IPO could enhance the company’s transparency and sources of income, while opponents argued an IPO plan would not yield the desired result because ZTE was under investigation despite its status as a listed company.

## Political force-out

In 2007 and 2008, Huawei’s two attempts to



IN THE CONGRESS: House Intelligence Committee Chairman Mike Rogers (left), and committee ranking member Dutch Ruppersberger, talk about Chinese security threats during a news conference on Capitol Hill, on October 8, 2012 in Washington, D.C.

acquire 3COM, an American network equipment manufacturer, were blocked due to U.S. national security concerns. In 2010, its bids for 2Wire and the mobile network branch of Motorola also failed to obtain approval from the U.S. Government. In 2011, the company backed away from its attempt to purchase 3Leaf, an American server producer.

Since February 2011, when the House Permanent Select Committee on Intelligence began its investigation into Huawei and ZTE, the two companies have cooperated with the committee in an open and transparent manner.

The committee insists that Huawei has been heavily subsidized by the Chinese Government, which is thought to be eager to use it as a Trojan horse to infiltrate the American communications network.

However, as allegations swirled by the U.S. Congress that both companies pose “security threats” to the country, no evidence has yet to be presented. People familiar with the inquiry revealed that those conducting the investigation dug into reports of suspicious activity and visited nearly 1,000 telecom equipment buyers. “We knew certain parts of the government really wanted” evidence of active spying, said one source, who requested anonymity. “We would have found it if it were there.”

A spokesman for Huawei said the company knew little about the review but expected no evidence of espionage to be found.

The United States is more sophisticated in network and telecommunications development than China. If a security threat did exist, the United States would quickly spot it.

“I don’t know where these ‘security threats’ come from,” said Mei Xinyu, a research fellow of the Chinese Academy of International Trade and Economic Cooperation.

“Huawei has an undisclosed level of closeness to the Chinese Government,” according to the report, which points to the

background of Ren Zhengfei, the company’s founder, who served in the PLA (People’s Liberation Army) engineering corps in the 1970s in its information technology research unit.

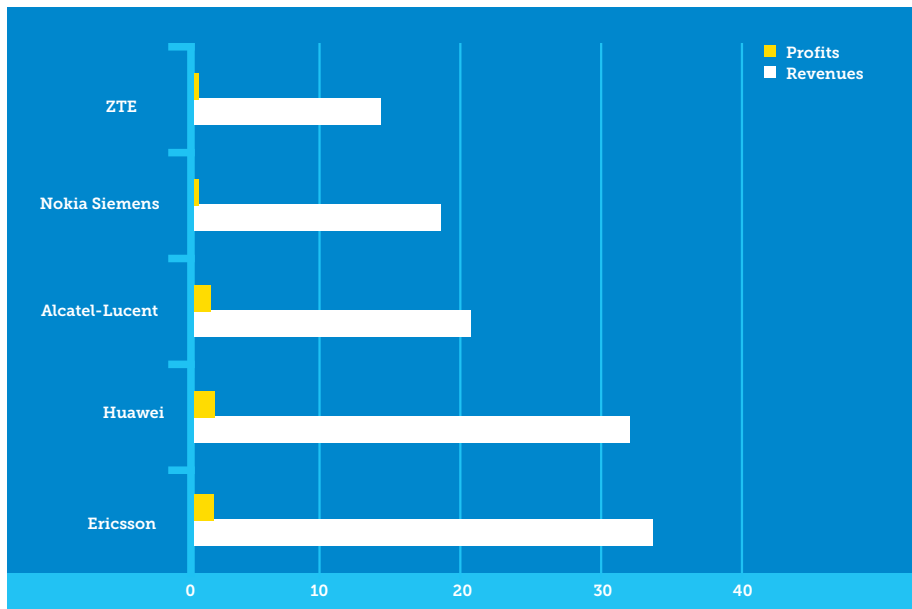
In an open letter responding to the speculation in 2010, Ren’s personal details were published. “Ren, born into a rural family on October 25, 1944, spent his childhood in a small remote town in Guizhou Province. He graduated from Chongqing University of Civil Engineering and Architecture in 1963 and had engaged in the trade of civil engineering since then. In 1974, he began to serve as an engineering construction soldier in the PLA to participate in building the Liaoyang Chemical Fiber United Factory and served successively as a technician, engineer and deputy director, without a military rank. After cuts to the armed forces, he left the army in 1983. Later, he moved to Shenzhen and took up a post at a logistics service base. Unhappy with his job, he set up Huawei in 1987 with just 21,000 yuan, a bit more than \$2,500 at the time. Ren has been Huawei’s president since 1988.”

The committee, armed with such background information, argued, “Analysts in the field hold different views. For example, some of them take Ren as the director of the PLA Information Engineering University, which they believe maintains close links with the PLA GSD (General Staff Department). For this reason, Ren may be still in touch with the Chinese military.”

Top leaders at Huawei consider such speculation ridiculous. Since China opened up to the world over 30 years ago, hordes of ex-servicemen and government officials have resigned from their posts to begin new careers. If these conjectures are true, does it mean all the Chinese entrepreneurs maintain close ties with the Chinese Government?

The committee added, “Huawei can’t provide detailed information to explain how the Chinese Government normally regulates, ►►

## Top Telecom equipment makers, 2011 (\$bn)



(Source: *Beijing Review*)

controls and supervises it.”

“It mirrors the Cold War mentality in the U.S. Congress. Such a mentality will not only affect Chinese firms, but also severely undermine the commercial environment in the United States,” said Mei.

On October 9, Shen Danyang, spokesman of the Ministry of Commerce, announced that the ministry “strongly opposes” the U.S. report, one based on “subjective guesswork” and “false evidence,” as it uses national security as an excuse for blocking Chinese companies from fair competition in the U.S. market.

Shen said the move by the U.S. side violated its long-held free market principles and would undermine investment and cooperation between the two countries’ companies.

“We hope the United States could make concrete efforts to create a just and fair market environment for companies from both sides and promote the sound development of bilateral economic and trade ties,” Shen said.

### Motives

For Huawei and ZTE, security concerns over their products have been the largest stumbling block on the path of their American expansion. To tackle the situation, Huawei hired a former American official as its chief security officer, and hoped to win trust through an overseas listing, but to no avail.

Shi Yinong, a professor at the School of International Studies at Renmin University of China, says Chinese enterprises have been suffering from a lack of trust by the U.S. Government, especially when they try to invest in sensitive areas, a reflection of American concerns over a rising China.

“The U.S. Government is sensitive to Chinese investment in fields which it believes may pose a potential threat to U.S. national security, like energy and telecommunications. The obstacle Huawei and ZTE now face might have been expected because the United States has never lowered its guard against Chinese firms wanting to access its hi-tech sector,” said Shi.

Jiang Yong, Director of the Economic Security Research Center at the China Institutes of Contemporary International Relations, believes trade protectionism is masquerading as a defense of national security.

“The United States has a long practice of setting up trade barriers against Chinese enterprises. This latest move can be taken as its prolonging protectionist measures adopted after the financial crisis. Now, the targets are Huawei and ZTE, both of which have developed by leaps and bounds in the international market,” said Jiang.

Political factors aside, Jiang believes Cisco, a Huawei rival, may be the real impediment facing Huawei and ZTE. According to industry statistics, the growth of the global telecommunication market was a mere 12.2 percent in 2011, far less than the 31-percent growth rate registered in 2010. It is widely believed that the euro-zone sovereign debt crisis, coupled with uncertainties of an economic recovery, will lead to further declines in growth. Under such circumstances, Huawei and ZTE, whose products are more competitively priced, are more appealing to customers. According to Cisco’s 2011 financial report, the company saw a drop in its gross profit. Price competition from its Chinese rivals is one factor behind its slackening performance.

Closely connected with the U.S. Government and military, Cisco is an active lobbying group. It is unlikely to sit by and

watch its largest rival possibly make inroads in a market it currently dominates.

### A jousting with no winner

Nobody knows whether the report published by the U.S. Congress will trigger a telecommunications trade war between China and the United States.

In 2011, the United States took up \$1.3 billion, or 4 percent of Huawei’s total revenue, and \$30 million of ZTE’s. Huawei is second only to Ericsson in the manufacturing of routers, switches and other telecom equipment, and ZTE ranks fifth. In contrast, 16 percent of Cisco’s revenue comes from the Pacific Rim and China, and for Cisco, China is also the second fastest-growing market in the region after Japan. Currently, China accounts for 30 percent of Cisco’s overall profits, while the United States makes up 45 percent. If a trade war breaks out, Cisco would have far more at stake than Huawei.

Furthermore, the report has tarnished the image of the business environment in the United States. In the eyes of Chinese people, the United States is a leader in the free economy. However, its protectionist actions following the financial crisis have been disappointing.

The biggest worry for Huawei and ZTE is not losing the U.S. market but the possibility of U.S. allies following suit.

Canada and the UK announced on October 12 their own investigations into Huawei- and ZTE-made telecom products. With Huawei’s presence in countries like Canada, the UK, Germany, France and Australia, any domino effect could have a devastating impact on the company.

Headquartered in Shenzhen, south China’s Guangdong Province, Huawei is a privately owned enterprise. In its infancy, Huawei invited IBM to help build its core operating departments, such as R&D, product development, its supply chain and financial management, for which IBM sent over 200 consultants. Huawei’s success is largely attributed to its ties with IBM.

On October 9, the Chinese Ministry of Foreign Affairs declared the establishment of its Department of International Economy. One major function of the new department is to settle emerging international economic disputes interwoven with complicated political issues, which may prove helpful to Huawei and ZTE.

### Staying with U.S. plan

“Huawei is a diversified business group. We

are trying to open the U.S. market by satisfying customers in different fields. We are fully aware of the political obstacles we are facing. One thing is certain: The independence and integrity of Huawei and the quality and security of the solutions it provides are illustrated by its cooperation with more than 500 telecom operators in 140 countries,” Huawei’s Beijing-based public and media office said in a statement it presented to *Beijing Review* on October 12.

The statement said Huawei is committed to providing American customers with innovative products and services and becoming a long-term investor in the United States. Since expanding its business into North America in 2001, Huawei has purchased \$30 billion worth of products and services from over 280 American suppliers, which has contributed significantly to local employment. Any intervention and obstruction to free competition will hurt the entire industry chain.

“We had hoped to ensure that the investigation would be fact-based and objective in its review of our business activities and the global issue of cyber security. Over the past 11 months,

Huawei has cooperated with the committee in an open and transparent manner, and engaged in good faith interaction: Our top management team carried out multiple rounds of face-to-face communication with the committee members in Washington D.C., Hong Kong and Shenzhen. We opened our R&D area, training center and manufacturing center to the committee and offered a wealth of documentation, including the list of members of the board of directors and the supervisory board over the past 10 years, and the annual sales data since our establishment in 1987. We also made the list of our shareholding employees, the shares they hold, as well as information about our funding resources and financial operations available to the committee,” said the statement.

“We adopted a transparent approach in providing this information to ensure the results are fact-based and unbiased, hoping the committee’s objective review of our business can clarify any misperception of Huawei,” the statement added.

## Introspection needed

Chen Yongdong, an associate professor and

independent scholar in information management, e-commerce and new media, suggests that since the U.S. Government believes the Chinese Government has much bearing on Huawei and ZTE, their normal commercial activities are under constant surveillance.

However, concerns over alleged “security threats,” which have been amplified by the U.S. Government, might cost the United States to lose business opportunities and profits.

Chen believes the Chinese Government should use the Huawei case as an opportunity for reflection. China is the most open telecommunications market in the world, where protectionism barely exists. Almost all telecom firms try to make a fortune here, with some having achieved great success. China treats enterprises of different nationalities equally without discrimination.

In stark contrast to Chinese enterprises struggling in the U.S. market, American telecom firms, represented by Cisco, are sailing by smoothly in China. A handful of foreign companies, like Cisco, Intel, Microsoft, Motorola, IBM, HP and Apple, have swallowed a large share of the Chinese market.

Cisco-manufactured telecom equipment has been widely used by households and by the government in the fields like education and commerce. But in the United States, Chinese equipment will likely be barred from government use.

If China were to treat American firms the same way, it would be impossible for Cisco to enter China’s IT telecommunications equipment market. It is worth asking why the United States—a country that regularly extols the virtues of global free trade—behaves the way it does toward Chinese firms.

“When we open up to countries with ulterior motives and our generosity is met with scrutiny and obstruction, should we also enhance our own national security awareness?” asks Chen. ■



R&D LAB: An engineer handles equipment at Huawei’s headquarters in Shenzhen on June 3, 2010

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