

Caging a Dragon: How economic statecraft shaped Huawei's global FDI footprint

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Introduction

Huawei is a classic example of how blurred the lines of corporate control can get in China, where the Communist Party-state controls virtually any and all aspects of the Chinese nation.

If one company epitomizes the struggle that corporations are facing as a result of Great Power rivalry, there is perhaps no better candidate than Huawei Technologies. The Chinese company was founded in Shenzhen in 1987 by an ex-People's Liberation Army (PLA) engineer, Ren Zhengfei.

From its humble beginnings as a manufacturer of phone switches, Huawei grew to be a globally important supplier of all manner of information communications technologies (ICT), related infrastructure, and is perhaps best known as a world leader in 5G telecommunication networks and equipment – the most dominant and, for a time, near-monopolistic 5G supplier.

While Huawei is best known for 5G equipment and increasingly as it champions China's efforts to outsmart Western tech controls to produce cutting-edge smartphones, the company is also heavily involved in cloud computing, producing its own semiconductors, helping foreign nations build "smart" cities, making products running on the Internet-of-Things (IoT), and artificial intelligence (AI).

Ostensibly a privately held company with a dizzying web of international subsidiaries, Huawei is a classic example of how blurred the lines of corporate control can get in China, where the Communist Party-state controls virtually any and all aspects of the Chinese nation, including key aspects of any global Chinese company's decisions.



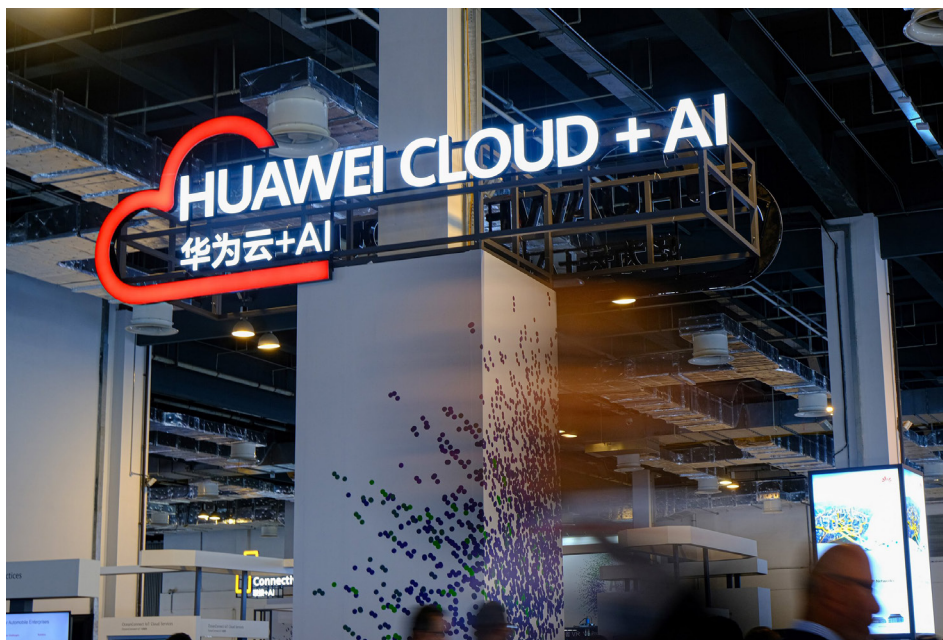
From its humble beginnings as a manufacturer of phone switches, Huawei grew to be a globally important supplier of all manner of information communications technologies.

Huawei's dominant position in geostrategically sensitive industries, its alleged PLA connection, and the suspicion that its equipment and software might enable Chinese access to data of its foreign clients, have put the company in the crosshairs of the West's economic statecraft.

In 2013, Xi Jinping said "data is the new oil" in driving the next industrial revolution. Access to and control over data were going to be a key determinant of China's economic success and therefore global power. China, with its large population and therefore huge amounts of data creation, always had a strong advantage by sheer dint of numbers. Huawei, given its product mix and strong international presence was designated a "dragon's head," a euphemism for national champion, in China's drive to dominate key global industries and develop "new quality productive forces" for control of the future.

Huawei's dominant position in geostrategically sensitive industries, its alleged PLA connection, and the suspicion that its equipment and software might enable Chinese access to personal and other data of its foreign clients, have put the company in the crosshairs of the West's economic statecraft to shield its own interests against China's rise.

Huawei has on many occasions found itself the subject of international controversy for its questionable ties to the Chinese state, though Ren and other company officials have repeatedly denied that Huawei would ever hand over sensitive data to Beijing. Some notable occasions include reports in 2018 that data from the African Union's Huawei-built headquarters server was being transferred back to China every day and had been since 2012.¹ International concern was exacerbated by allegations from the US Department of Justice and foreign multinationals that accused Huawei of repeated and brazen intellectual property theft, which the company has denied, in addition to allegedly assisting North Korea, Iran, and many other states with installing equipment for domestic surveillance and political repression.²



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Huawei's global footprint

In total, Huawei made 308 greenfield overseas investments between 2010 and 2024 with an aggregate value of US\$17.4 billion, creating around 50,000 jobs in 70 different countries.

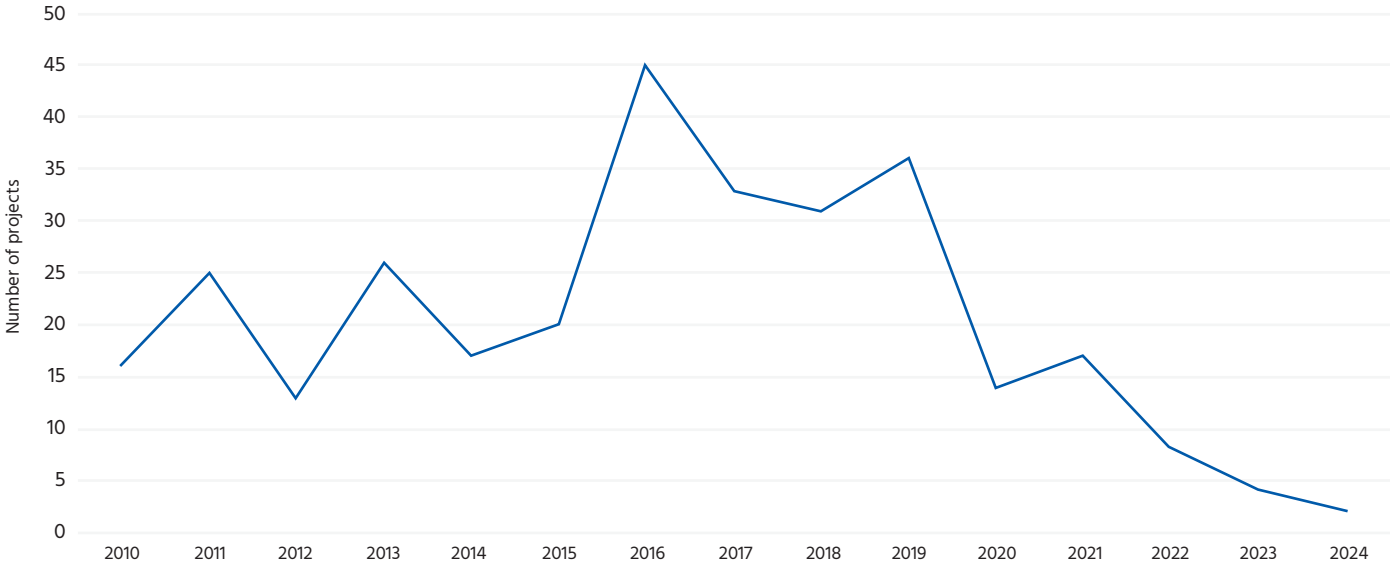
Huawei's global clout remains formidable. It is the largest Chinese outbound investor in greenfield projects globally both by number of projects and the jobs it has created overseas since 2010, according to fDi Markets data. The company ranks fifth among Chinese companies in terms of the capital value of its overseas investments.

In total, Huawei made 308 greenfield overseas investments between 2010 and 2024 with an aggregate value of US\$17.4 billion, creating around 50,000 jobs in 70 different countries – making it a multinational corporation in the truest sense of the word.

These overseas investments cover a wide variety of activities. Some 40% were in research and development, a proxy for how much the company might have relied on foreign expertise as it ramped up its global ambitions from 2010 onward.

Huawei built 119 R&D facilities overseas in the 2010-2024 period valued at around US\$6.5 billion with a focus on developed European countries. The dataset listed three in the United States in 2016, including one in Bellevue, Washington State, which in 2019 became the epicenter of a 10-count indictment by the US Justice Department against the company for theft of trade secrets that Justice said “drastically cut [Huawei's] R&D costs... giving the company a significant and unfair competitive advantage,” as well as charges of wire fraud and obstruction

Figure 1 – Annual Huawei outbound direct investment by number of projects



Source: Huawei annual reports

Huawei's rapidly expanding overseas operations, the many accusations against the company's practices, the security fear engendered by President Xi Jinping's openly stated ambitions to challenge the West for global leadership began to trigger a wave of pushback against the company, first by the US and then a wide swathe of the rest of the world.

of justice. The indictments were part of a wave of US complaints against Huawei, including allegations that the company violated Western sanctions to do business with Iran and North Korea, and obstructed justice by allegedly later destroying related evidence. Huawei has repeatedly denied the accusations and countersued the US.

Sixty-one of the 308 investments went into sales, marketing, and support, totalling slightly more than US\$1 billion between 2010 and 2024, a relatively paltry fraction of the total US\$17.4 billion. The destinations of these investments were spread out globally but with more emphasis on smaller and developing economies such as Pakistan, Kenya, Romania, Bolivia, Algeria, and Sri Lanka, reflecting the company and China Inc.'s determination to nurture a wide swathe of customers in the Global South that they hoped – and hope – would anchor their strategic footprint. Five investments were in telecommunication carriers and 26 were in the data processing and hosting services sector.

Huawei's rapidly expanding overseas operations, the many accusations against the company's practices, the security fear engendered by President Xi Jinping's openly stated ambitions to challenge the West for global leadership began to trigger a wave of pushback against the company, first by the US and then a wide swathe of the rest of the world.



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The sanctions begin

The US Commerce Department's Bureau of Industry and Security placed Huawei and its subsidiaries on the bureau's "Entity List". In addition, the US implemented a Foreign Direct Product Rule to cut off Huawei's access to products made in third countries using US technology.

The US began to push back in earnest against Huawei's dominance in leading-edge ICT, particularly its lead in 5G technology, in December 2017 with a ban on the procurement of certain Huawei equipment by the US defense department.

In 2019, the offensive against Huawei escalated. The US Commerce Department's Bureau of Industry and Security (BIS) placed the company and its subsidiaries on the bureau's "Entity List", which limits the scope for US companies to export and supply equipment and technology to Huawei without special license. Such licenses are normally regulated with a presumption of denial, meaning they're likely to be denied unless in very exceptional circumstances. In addition, the US implemented a Foreign Direct Product Rule, which applies to foreign-made products that use US technology, to cut off Huawei's access to such components made in third countries.

The sanctions against Huawei were rapidly expanded in subsequent years, particularly during the Trump administration, including intense lobbying abroad to block the expansion of Huawei's 5G dominance. In 2024, the US revoked licenses held by Qualcomm and Intel to export chips to Huawei.

In addition to its own sanctions, the US exerted pressure on other countries to either not use Huawei equipment in new infrastructure or, if it was already installed, to remove it. This met with mixed results.

Key allies such as Australia, New Zealand, Japan, and Taiwan outright banned Huawei from their 5G networks. When combined with the US, these economies account for about one-third of global gross domestic product (GDP). The United Kingdom has set a deadline for the removal of Huawei equipment from its networks. Up to 10 European Union member states have implemented far-reaching restrictions on the use by operators of Huawei equipment, while other have merely put in place regulatory frameworks that entail detailed risk analysis before contracts can be awarded. The EU itself has stopped all funding to Huawei and has stated it will "take measures to avoid exposure of its corporate communications to mobile networks using Huawei and ZTE as suppliers," and apply this policy to "all Commission sites, including its main seats, its Representations and offices in all Member States."³

In many cases, however, countries have refrained from making overt statements on the use of Huawei equipment, preferring to simply award contracts to other companies while maintaining a façade (or in some cases a genuine stance) of open competition, likely to avoid unnecessarily alienating China.

Have the sanctions worked?

Huawei's outbound investments have dropped off significantly since the US sanctions and diplomatic lobbying began. Of the 308 greenfield projects Huawei undertook between 2010 and mid-2024, just 46, or 15% of the total, were announced since the beginning of 2020.

To assess if American economic statecraft toward Huawei worked, one must first be clear as to its intent.

The US' concerns were threefold: to ensure the safety of its own critical infrastructure; to ensure the security of its communications with allies; and to ensure that Huawei was not in a position to develop a monopoly in the supply of 5G equipment.

To these quite specific objectives could be added a broader objective: to ensure that liberal democracies were awake both to the dangers posed by embedding Chinese technology in critical infrastructure and the broad nature of the technological competition that was ensuing between China and Western-leaning nations. This necessitates signalling to US and western multinational companies that geopolitical competition would carry costs and that their compliance with policy goals in the national interest would potentially infringe upon their commercial freedom.

The effects on Huawei's global footprint are an imperfect gauge of the policy's success, but it suggests some gains, though with massive policy effort and international coordination.

Huawei's outbound investments have dropped off significantly since the US sanctions and diplomatic lobbying began. Of the 308 greenfield projects Huawei undertook between 2010 and mid-2024, just 46, or 15% of the total, were announced since the beginning of 2020. These projects had an aggregate value of US\$4.3 billion. In the five-year period up to 2020, the fDi Markets database posted 165 Huawei projects announced at an aggregate value of US\$7.7 billion.

The largest of these post-2020 projects is the proposed building of an ICT equipment factory at Brumath in northeastern France at a cost of about US\$220 million. The plant is yet to be built. This is the only overseas manufacturing investment post-sanctions and would be the largest by some margin if it comes to fruition.

The data tells us how Huawei has pivoted its strategy. Its other investments in the post-sanctions era have been concentrated in the Global South and is targeted at sectors such as education and training; sales and marketing; and corporate headquarters for regional or country operations, rather than ICT manufacturing.

This probably reflects both the extraterritorial reach of the US and its diplomatic success in swaying allies to adopt a tougher stance against Huawei as well as the commercial reality that Huawei's value-for-money product offering remains compelling to poorer countries whose primary concern is development rather than security. By 2022, Huawei's number of overseas investments by projects had petered down to single digits per year, falling sharply from its heyday of 45 projects in 2016, according to fDi data. So too has the value of its outbound investments.

In the course of 10 years, Huawei has gone from a predominantly export-orientated company to one that predominantly sources its revenue from China.

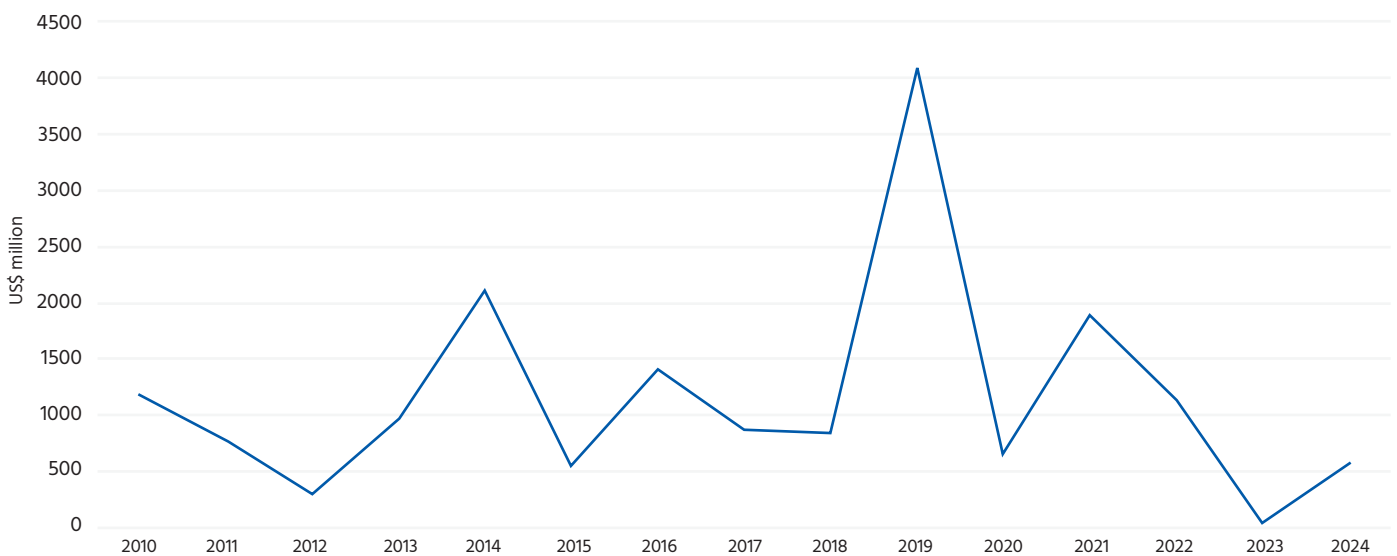
Measured by revenue, the US sanctions appear to have clipped Huawei’s wings too, especially overseas. Huawei’s revenue peaked in 2020 at 891 billion renminbi (US\$129 billion), after six years of very rapid growth from 240 billion renminbi (US\$34 billion) in 2013. In 2021, Huawei’s revenue plummeted to 627 billion renminbi (US\$88 billion), down 30% year-on-year. In 2023, revenue recovered to 704 billion (US\$99 billion), which is still 20% below its 2020 peak.⁴

But the revenue data belies how quickly the company moved to meet the challenge. In 2020, as the onslaught of US sanctions bit, Huawei’s operating profit fell 6.8% year-on-year, its annual reports say. It posted gains of 67% in 2021 as the world turned massively online in the pandemic’s grip. Renewed US strictures under the Biden administration forced its profit to contract again in 2022, this time by 65% year-on-year. But Huawei last year posted an operating profit gain of 147%, as the company turned to cloud computing, smart automotives, and consumer electronics to make up for the challenges on the ICT infrastructure front.

While some commentators have been quick to laud the recovery in Huawei’s profitability, much of the improvement appears to have been driven by asset sales. Some 71% of the company’s net profit in 2023 came from “other income”, which typically means income that doesn’t come from a company’s main business, such as interest, rent, and gains from the sale of fixed assets as well as direct grants from the government.

Also noteworthy is how much China itself became a market for Huawei. In 2013, just 35% of Huawei’s sales came from China. The Chinese share of revenue rose steadily to 52% just before the US unleashed its sanctions and then exploded upward as overseas sales tumbled. The domestic share of total revenue leapt to

Figure 2 – Annual value of Huawei’s outbound direct investment projects (US\$ million)



Source: Huawei annual reports

Huawei has, in its own way, become that most Western of creatures, a corporate creation that has for Beijing grown too big to fail. How much that would eventually cost its masters provides a bellwether to the fortunes of China's grand strategy.

59% in 2019 and then to 67% in 2020, where it roughly remains. In the course of 10 years, Huawei has gone from a predominantly export-orientated company to one that predominantly sources its revenue from China.

The change in share of overseas revenue reflects the stagnation of its overseas expansion in US dollar terms. In 2014, Huawei's overseas revenue was just shy of US\$30 billion. It grew at a compounded annual rate of 16% for the next four years to US\$52 billion in 2018. Since then, however, it has fallen steadily to just under US\$33 billion in 2023. In dollar terms, its overseas sales were lower in 2023 than they were in 2021 and are now little changed from the 2014 level.

However, it should also be noted that 2023 has been a tough year for ICT infrastructure sales broadly as capital expenditure globally in the sector fell. Huawei's two largest competitors Ericsson and Nokia reported 2023 sales of about US\$25 billion and US\$24 billion respectively – comparable to Huawei's global ex-China sales.

Huawei's swift growth between 2013 and 2019 and its ability to pivot is a reflection not just of its vaunted nimbleness to tough geopolitical conditions, but also a concerted and consistent effort by China's Party-state to support the company through all manner of subsidies and government procurement contracts. As one analysis put it, "State-owned enterprises, government agencies and Communist Party bodies sought Huawei chips, smartphones, cloud services and software, with some procurement contracts calling for Huawei gear by name."⁵ In addition, there has been a noticeable increase in reported subsidies that Huawei receives, estimated by analysts to have reached US\$3 billion in the last five years.

While the company will continue to enjoy the support of the Communist Party-state and therefore has a significant built-in advantage compared to its global rivals, the biggest fear among Western geopolitical stewards, that Huawei's lead in 5G technology would morph into a monopolistic grip on the market, has failed to materialize. Viable alternatives caught a break and took shape. It appeared uncertain prior to the Western sanctions that there would be any viable alternative to Huawei at all in the near term.

Over the past five years, there has been a considerable awakening in Western capitals to the vulnerability of critical national infrastructure and the need for trusted suppliers. The need to nurture commercially viable alternative suppliers to those from China is now widely accepted as the price of geostrategic security.

Huawei isn't emblematic of China or even the rest of Chinese industry. It has been one of the most intensely sanctioned and globally monitored companies in the world. The waxing and waning of its global footprint do not speak to the totality of China's broader global geopolitical blueprint or the successes or failures of other Chinese outbound investors. But Huawei has, in its own way, become that most Western of creatures, a corporate creation that has for Beijing grown too big to fail. How much that would eventually cost its masters provides a bellwether to the fortunes of China's grand strategy.

Researcher bio and endnotes

Stewart Paterson spent 25 years in capital markets as an equity researcher, strategist and fund manager. He has worked in London, Mumbai, Hong Kong and Singapore in senior roles with Credit Suisse, Credit Suisse First Boston, CLSA and more recently, as a Partner and Portfolio Manager of Tiburon Partners LLP.

Having started his career with Hill Samuel in London in 1991, Stewart has covered the full spectrum of global markets equity strategy, developed market equities and emerging market equities. In 2007, he co-founded Riley Paterson Investment Management in Singapore, where he ran a macro-driven hedge fund. He returned to the UK in 2012.

Stewart is the author of *China, Trade and Power: Why the West's economic engagement has failed*, a highly acclaimed book supported by the Hinrich Foundation. He is also the Founder of Capital Dialectics, a monthly publication aimed at financial institutions.

Stewart holds an MA degree in Economics from the University of Aberdeen.



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Endnotes

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