

COVER STORY

## The 5G Fracture

Can Ericsson survive after being shut out of China? When it comes to 5G, a post-China future may not be as bleak as imagined.


BY LUKE PATEY — SEPTEMBER 11, 2022

*Illustration by Luis Grañena*

It is a rare event for a well-resourced multinational to struggle to find a lawyer to represent it. It is an even rarer event when its main competitor lends a helping hand in the search.

But chasing corporate ambitions in China can make even the sharpest executives do strange things.

In late 2020, when Swedish Post and Telecom Authority banned Chinese telecoms firms from supplying equipment to Sweden's fifth-generation (5G) mobile networks on security grounds, Ericsson's boss, [Börje Ekholm](#), did almost everything in his power to see the decision reversed. This included helping Huawei, China's tech champion, seek a Swedish law firm to appeal the ban against it.<sup>1</sup> Ekholm [also lobbied](#) the Swedish government to not move ahead with a Huawei ban, and he even suggested it may no longer be tenable to keep Ericsson's 13,000 strong staff and headquarters in Sweden.

The bizarre moves by Ericsson's top executive may find an explanation in the fear of Beijing's reprisal; the Chinese market, after all, [generated](#)  close to 17 times more revenues for Ericsson than Sweden that year.

Ekholm, who [served](#) on the board of Alibaba until this March, had reason to worry. Since Sweden's Huawei ban, which was upheld this summer by an appeals court, Ericsson has been largely excluded from the unprecedented business opportunity of developing China's 5G roll-out — the largest in the world. In 2020, before the ban, Ericsson [received](#) an 11 percent market share in China's 5G mobile network rollouts. But in the most recent tender, Ericsson and its Finnish counterpart Nokia were [not even invited](#) to bid.

"It was a political decision," says John Strand, CEO of [Strand Consult](#), a telecom industry consultancy. "Ericsson and Nokia are being punished for what is happening in Sweden and elsewhere. The Chinese government is basically saying that for every dollar Huawei and ZTE lose outside China, they will gain one or two inside China."

Indeed, at a time when China is undergoing a transformative boom with new 5G technologies, Ericsson is experiencing sharply declining sales in China, [closing its R&D activities](#) and [laying off](#) hundreds of staff. Like many international companies, all the company ever wanted was a slice of the immense Chinese market. Beijing seems to be leaving it with less than a morsel.

Considering that western business leaders often [attribute](#) their competitive position in China as synonymous with their global standing, Ericsson's shrinking market share looked like a severe risk. Ekholm's desperation to stay in China's good graces was largely rooted in a longstanding belief that having a significant [presence](#) in China is critical for a company's success.




Börje Ekholm during the Session "Building Digital Networks of Tomorrow" at the Annual Meeting of the World Economic Forum in Davos, January 23, 2019.  
Credit: World Economic Forum via [Flickr](#)

#### Addition of Entities to the Entity List

**AGENCY:** Bureau of Industry and Security, Commerce.

**ACTION:** Final rule.

**SUMMARY:** In this rule, the Bureau of Industry and Security (BIS) amends the Export Administration Regulations (EAR) by [adding Huawei Technologies Co., Ltd. \(Huawei\) to the Entity List](#). The U.S. Government has determined that there is reasonable cause to believe that Huawei has been involved in activities contrary to the national security or foreign policy interests of the United States. BIS is also adding non-U.S. affiliates of Huawei to the Entity List because those affiliates pose a significant risk of involvement in activities contrary to the national security or foreign policy interests of the United States. Huawei will be listed on the Entity List under the destination of China.

Addition of Huawei to the Entity List. Source: [Federal Register, Vol. 84, No. 98, Tuesday, May 21, 2019, Rules and Regulations](#) 

Yet Ericsson's China dream may have been a mirage. And with its recent troubles there serving as a splash of cold water, analysts say Ericsson is waking up to a brighter global future than many anticipated. Indeed, as geopolitical blowback hits its Chinese competition, the Swedish company has the chance to leverage its technological cutting edge into strong global market share.

In a way, the U.S. market has already proven that geopolitics present both challenges and opportunities. In 2012, after Congress recommended that Huawei be kept out of American mobile networks, the U.S. took off as Ericsson's largest market. More recently, in May 2019, the U.S. Department of Commerce [placed](#) Huawei on its entity list, restricting it from accessing American technology. Other large economies — including Japan, [India](#), the United Kingdom and France — are also outright blocking Huawei or

phasing out Chinese network equipment.

As a result, Ericsson's global market share is growing while Huawei's stake, after well over a decade of growth, fell from 31 percent in 2020 to 28 percent in 2021, [according](#) to Dell'Oro Group figures. In the first half of 2022, Huawei and ZTE (its main Chinese competitor) represented 90–95 percent of total industry revenues inside China. But outside the Chinese market, Ericsson [alone](#) accounts for 39 percent, up from 33 percent in 2017. With European telecoms picking up far more [new 5G deals](#) than Huawei, some market intelligence firms [now place](#) Ericsson as the global frontrunner.

“Ten years ago Huawei was the big winner during the roll-out of fourth-generation mobile networks,” says Strand. “But for 5G they may become the big loser”



Börje Ekholm discusses Ericsson's second-quarter results, July 16, 2021. Credit: CNBC International TV

Like any multinational, Ericsson prefers that the global market not fragment between China and the West. Losing its once prosperous business in China is hardly ideal. Last July, for instance, Ekholm tried to put on a good face by [describing](#) the 60 percent fall in Ericsson's year-on-year quarterly sales in China as a “bit of headwind.” He has said the company will not [give up](#) on winning back its lost market share.

But Ericsson has also been quick to [highlight](#) the fact that, despite significant losses in the Chinese market last year, its net sales remained steady, with 8 percent growth when excluding the Chinese mainland. “50 percent of the world's 5G traffic outside of China is carried over Ericsson radio networks,” [commented](#) Ekholm in a July earnings call. Ericsson also sees its innovations in 5G continuing apace, even though some argue that being in China's giant and diverse market is essential to 5G research and development.

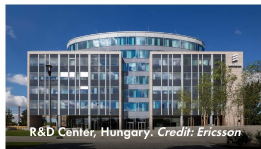
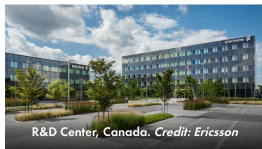
A spokesperson for Ericsson told *The Wire* that, despite its troubles in China, its global success is underpinned by its technological leadership and involvement in 5G networks in “more countries, than any other vendor.”

“China contributed a lot, but I wouldn't say it is mandatory that we continue there.”

— [Jesper Rhode Andersen](#), management consultant

“Today the advantages China once offered are slowly eroding and new tech centers are beginning to appear,” says [Jesper Rhode Andersen](#), a management consultant who worked for Ericsson for 18 years, including as head of R&D, innovation and M&A in Latin America. “At Ericsson, we circulated people around our 16 R&D centers and discovered that

diversity among the teams, different conditions and different working environments produced a great development platform. China contributed a lot, but I wouldn't say it is mandatory that we continue there.”



Indeed, just as decoupling presents new risks, some say it has its benefits too: What is lost in China, can be gained elsewhere.

“Any multinational does not want to miss the economic and technological opportunity being in China can offer,” says an industry source who requested anonymity because he is familiar with the strategies of European telecom vendors. “But due to degrading business conditions, the calculation is changing less by choice than necessity. There is no need to be in China the same way you thought you needed to before.”

## FROM CHINA BOOM TO CHINA CHALLENGE

When Lars Magnus Ericsson opened a telegraph repair shop out of a small kitchen in Stockholm in 1876, he did not foster global ambitions to enter the Chinese marketplace. But it did not take long for Ericsson's equipment to reach China.

Less than two decades after founding the future global telecoms multinational, Ericsson moved to an expanded and modernized workshop in the Swedish capital and began manufacturing tens of thousands of telephones for international markets, including the delivery of 2,000 so-called “Coffee Grinder” units to China, some of which ended up in the Imperial Palace in the Forbidden City.



The “Coffee Grinder” telephone.

Source: Ericsson corporate archives at Centre for Business History in Stockholm

In his book, [\*Ericsson and China: A Lasting Relationship\*](#), Per-Olof Björk, who was chief representative

in China for Ericsson from 1988 to 1991, chronicles the Swedish company's long history in the Chinese market. In the six years following Ericsson's first shipment to China, in 1894, the value of the Chinese market grew nine-fold. By 1900, China was Ericsson's tenth largest market.

This long history mattered to Ericsson's modern ventures in China, Björk says.

“When I first came in 1984, the state-owned telecom operators had never really negotiated with a western company before,” he says. “But we could show pictures of a Chinese delegation visiting Ericsson headquarters back in 1906. This left an impression that we were not just coming for a short time and helped us establish a strong market presence.”

Björk had set up shop in the tight confines of two rooms at the Jinglun Hotel in central Beijing, and initially, he argues, Ericsson and others hesitated to enter joint ventures with local firms due to Beijing's technology transfer demands. But Beijing then [harnessed industrial policy](#). It offered carrots — in the form of reduced taxes and tariffs for foreign telecoms establishing joint ventures — as well as sticks, in the form of import quotas and formal and informal dictates on where Chinese telecom operators should buy their network



equipment.



Per-Olof Björk working in the hotel office in the early days of Ericsson's modern engagement. Source: P-O Björk, private

The strategy worked. By the late 1980s, three of Ericsson's main foreign competitors had formed joint ventures and were allowed to produce fixed-line telephone systems. Not long after, Ericsson also gave in. In 1992, it partnered with Panda Electronics in Nanjing, a state-owned firm, and urged its global suppliers to relocate to China. With new offices in Dalian, Guangzhou and Shanghai, more collaborations followed, and the Swedish company deeply integrated its Chinese customers and suppliers into its global operations. By 2005, Ericsson had [75 percent of its supply chain](#) in China.

The set up, Björk notes, had its advantages for Ericsson as well. By the late 1990s, China had emerged not only as a large market, but one with the added value of production as well as research and development.

"In Germany, we had a big market and big R&D. In India, we had a large market and production," says Björk. "But at the time there was no other country other than China where we had all these three qualities — the market, the production and the R&D — together in one place."

The short-term result was unprecedented revenues. The annual sales Ericsson enjoyed in China between 1998 and 2001 have not yet been surpassed by the Swedish company despite the massive expansion of the Chinese telecom market since. Demand was so revved up for mobile phones outside of its factories in Beijing that trucks stood bumper to bumper waiting to load new products as soon as they came off production lines.

Ericsson eventually stopped producing mobile phones, but China's significance for its main business — mobile network infrastructure — did not wane. China [became](#) the world's largest telecoms market in 2002. Ericsson's CEO at the time, Kurt Hellström, [called](#) China "the most active and attractive market in the world."

But the long term arrived sooner than imagined, with homegrown Chinese competition emerging on the scene. Huawei's rise took Ericsson's executives by surprise, says [Kristina Sandklef](#), an independent China analyst and a former senior China advisor at Ericsson.

“ Huawei's growth benefited quite a lot from the strong capacities of the Chinese state in mobilizing nationwide resources. ”

“China was a smooth sale initially,” she says. “[Ericsson] took their market share for granted and did what local interlocutors and staff told them. [Ericsson executives] would wine and dine their [Chinese] operators, take them golfing and arrange summer camps for their kids in Europe. They were engineers, not China experts. Most of them did not know much about Chinese politics.” (In 2019, Ericsson paid more than \$1 billion in fines to settle allegations it [violated](#) the U.S. Foreign Corrupt Practices Act.)

Indeed, in 2005, then-CEO Carl-Henric Svanberg told the [Financial Times](#) that his Chinese competitors were still “a long step” away from challenging the Swedish telecom. He argued that because his company was so deeply embedded in the Chinese telecom supply chain, Ericsson enjoyed the same cost benefits as Huawei.

But Huawei had a lot more going for it than just access to the efficient Chinese supply chain. While not a state-owned enterprise, it benefited [both directly and indirectly](#) from Beijing’s policies of guaranteed market access, induced tech transfers and generous subsidies and financing. Huawei also engaged in considerable reverse engineering and has been [charged](#) with intellectual property theft. When Ericsson cut staff — after the bursting of the dot-com bubble saw its NASDAQ-listed share price [fall](#) from \$24 to \$0.73 — Huawei happily [scooped up](#) the departing highly qualified scientists and key employees and managers.<sup>2</sup>

These practices, of course, are not alien in western industries. In designing his initial telephones, some argue that Ericsson’s founder exploited the fact that the American inventor Alexander Graham Bell [was not successful](#) in attaining a patent in Sweden. Ericsson and other European and American telecoms have also benefited from [state aid](#). When first entering China, for instance, Sweden provided soft loans to Chinese customers working with Ericsson.



Carl-Henric Svanberg presenting a 73% rise in first-quarter profits for Ericsson, at a press conference in Stockholm, April 22, 2005. Credit: Pressens Bild/Henrik Montgomery via [AP Photo](#)



Ren Zhengfei, Founder and CEO of Huawei Technologies at the Annual Meeting of the WEF in Davos, January 22, 2015. Credit: World Economic Forum via [Flickr](#)

China’s state capitalism model, however, takes industrial spending to a new level. [Some reports](#) place official support for Huawei alone at \$75 billion — a figure that towers above what its western competition has received of late. From 2013 to 2018, Chinese state grants to Huawei were 17 times larger than similar subsidies from the Finnish government to Nokia. Ericsson received next to none in the same time span.

“Huawei’s growth benefited quite a lot from the strong capacities of the Chinese

state in mobilizing nationwide resources,” says Yun Wen, author of *The Huawei Model: The*

### *Rise of the China's Technology Giant.*

Yun, however, argues that it would be a mistake to see techno-nationalism as the sole reason behind Huawei's rise. Through an early internationalization process and integration into international R&D networks, Huawei's techno-globalism made it stand out among its Chinese peers. Huawei also exploited the immense revenues from its home market to fund R&D activities and [offer](#) low prices to overseas customers, [under-cutting](#) its western competitors by up to a third.

In other words, Ericsson was not up against a slow-moving, wasteful, state-owned enterprise, but a speedy, adaptive, and internationally shrewd Chinese multinational.

Initially, Huawei went abroad to emerging and developing economies in Africa, Latin America and [Asia](#). By the time the company looked to more advanced economies, such as Europe, telecom operators were hungry for the low prices on offer. With few opportunities [to consolidate](#) due to EU regulations, companies such as Vodafone and Deutsche Telekom had low profit margins and looked to Huawei's cost savings for relief. As a result, while Ericsson and other foreign telecoms were pushed to the periphery of the Chinese market, Huawei and ZTE rose to make up [nearly half](#) of Europe's 4G mobile networks market by 2019. Huawei even beat out Ericsson for a large contract in its own backyard in Sweden.



Carsten Dilling from TDC, a Danish telecoms company, and Ryan Ding from Huawei at the 2013 announcement of a \$700 million contract for Huawei to upgrade TDC's mobile network. Credit: Huawei Technologies

By 2015, Huawei was the world's largest telecommunications equipment maker. In recent years, the company has played a leading role in patenting 5G technologies and is an [important contributor](#) in the 3<sup>rd</sup> Generation Partnership Project (3GPP), an international consortium of standard-setting bodies responsible for ensuring interoperability between mobile systems.

"Twenty or thirty years ago, China had very little intellectual capital and real innovation," says [Edward Tse](#), CEO of Gao Feng Advisory Company, a China-based management consulting firm. "But it has turned the corner now."

### LIVING WITH HUAWEI

5G promises much: higher-speeds, lower latency, wider bandwidth. It is the backbone of the 4<sup>th</sup> industrial revolution. By the end of the decade, experts [argue](#) the benefits of 5G will begin to emerge, giving life to the Internet of Things by enhancing automated factories, autonomous vehicles, smart cities and more. Whereas 4G can connect 2,000 devices per square kilometer, 5G will [connect](#) 1 million.

Tse sees Huawei's role in establishing 5G standards as representing a new phase in China's rise as a tech power. "It means even if the product, equipment, or network is not made by the Chinese, the underlying standard is still Chinese."

“Huawei is huge, but they are throwing resources at everything. Ericsson has had to be selective and long term in their R&D thinking.”

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But while Huawei has made great strides in 5G, it never finished off Ericsson and its European brethren. Indeed, analysts say the European telecoms are still very much in the [5G tech race](#). In many rankings, Huawei is deemed to have the most 5G patents, but Ericsson and Nokia, alongside Qualcomm and Samsung, are also frontrunners when it comes to patent essentiality — quality or so-called ‘non-junk’ patents — that [generate](#) higher licensing revenues.

“If you look at the contributions to the 3GPP standards. Yes, Huawei has its fair share,” says [Hosuk Lee-Makiyama](#), director at the European Centre for International Political Economy. “But basically two-thirds of all contributions come from Europe. We invented 5G. We know better than anyone else how it works. And if I look at who is investing in 6G experimental research, it’s us. We’re doing all the heavy lifting on both traditional and open-source development.”

Lee-Makiyama sees software underpinning the future competitiveness of European telecoms. “Rather than a transceiver that anyone can make, Ericsson and Nokia know edge computing that is becoming increasingly important in the convergence of cloud and telecom infrastructure,” he says.

Analysts note that this focus on software was purposeful. In the 2010s, as Ericsson pulled itself off the ground, it [shifted](#) its focus from hardware to software development, with the goal of preparing for the next wave of mobile technology.

“Huawei is huge, but they are throwing resources at everything,” says [Frank Maaø](#), senior equity research analyst at DNB Markets, Norway’s largest financial services group. “Ericsson has had to be selective and long term in their R&D thinking.”

Maaø highlights how Ericsson was the first to design future-proof software platforms upgradable from 4G to 5G. “This has now matured to be very cost competitive,” he says.

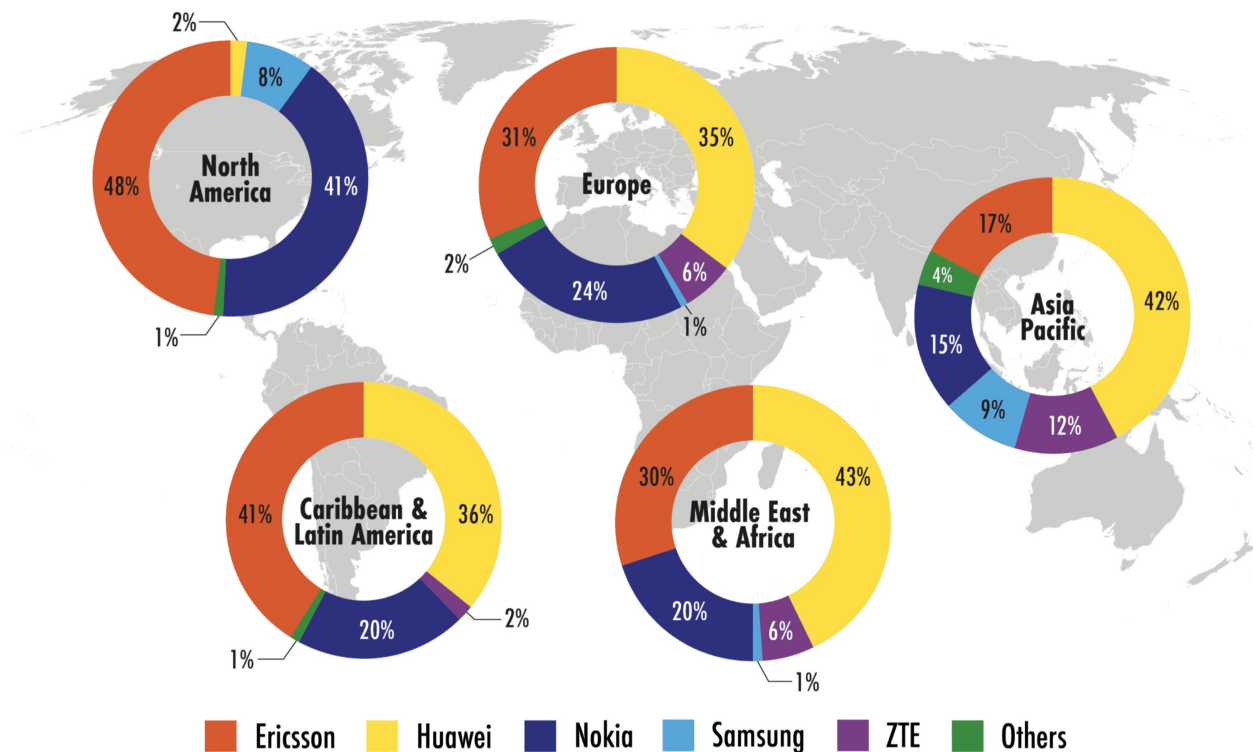


A visitor observes Ericsson’s VR system during the Mobile World Congress, February 26, 2019. Credit: Sipa via [AP Images](#)

## Regional Market Shares in the RAN Market, 2018

A Radio Access Network (RAN) is a major component of the telecoms infrastructure. This network connects individual devices to other parts of a network wirelessly, through radio connections.





Data: Dell'Oro. Caption credit: Oxford Economics 'The Economic Impact of Restricting Competition in 5G Network Equipment' Report, November 2019.

Despite Huawei's rise, that competitiveness has allowed Ericsson to maintain strong global market shares in advanced and emerging economies alike. Even before U.S. pressure was applied against Huawei's global business, Ericsson and Nokia had a higher combined market share than Huawei and ZTE in every region except Asia Pacific, [according to Dell'Oro figures](#). Huawei is [prominent](#) in many emerging markets, of course, but some analysts say its dominance in mobile network infrastructure is often overstated.

"Ericsson and Nokia don't win everything in the emerging markets, but they have a huge market share in MENA [Middle East and North Africa] and Sub-Saharan Africa," says Lee-Makiyama. "Where's the emergency?"

Indeed, while the tightening of the Chinese market coupled with recent geopolitical pressures are forcing Ericsson to reimagine its China future, some say the fears of a global telecom decoupling are overblown. In reality, they argue the three elements that once made up the China telecom dream didn't vanish overnight, when Huawei was banned from western markets. Instead, some advantages never fully materialized while others faded over time — giving Ericsson time to recalibrate its approach.

**“None of the big American telecom operators ever really used Chinese network equipment. The door was wide open for Ericsson to come in.”**

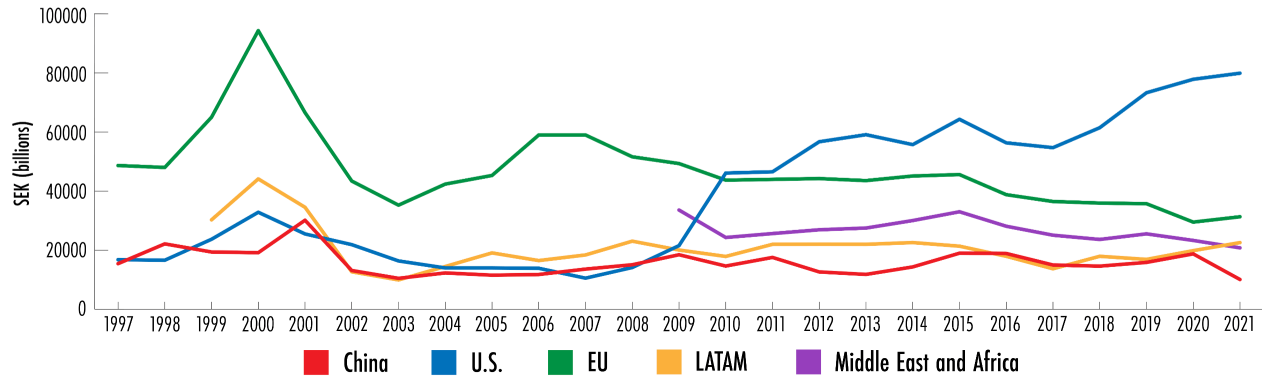
— [John Strand](#) of Strand Consult

First, from a sales perspective, after Ericsson's initial boom years in the late 1990s, China never really reemerged as the market Swedish executives had hoped for. Not since 2001 has its revenues in China represented over 10 percent of the company's total. Although sales figures fluctuate according to the different roll-out times of mobile networks, Latin America, the Middle East and Africa — regions with economic and telecom market sizes a fraction of

China's own — have often outpaced the Chinese market as a revenue generator for Ericsson.<sup>3</sup>

## Ericsson Global Sales Comparison (1997-2021)

In Swedish Krona (SEK) Billions.



Source: Author's calculations from Ericsson annual reports based on available data

"You cannot look at Ericsson and Nokia's market share in China isolated order by order. You must look at how it fell over time and how Huawei's stake grew," says [John Strand](#) of Strand Consult.

Strand, however, points out that just as Ericsson was losing market share in China, Huawei's absence in the U.S., the world's largest economy, gave the Swedish telecom a tremendous boost.

"None of the big American telecom operators ever really used Chinese network equipment," he says. "The door was wide open for Ericsson to come in."

After the U.S. House Intelligence Committee [recommended in 2012](#) for Huawei and ZTE to be kept out of American mobile networks, the United States blew China away as Ericsson's largest market. Over the past decade, Ericsson's annual sales in the U.S. have been 3 to 5 times higher than those in China, making up over one-third of its total revenues. Together, the U.S. and the EU made up close to half of Ericsson's total 2021 revenues. The decision by the majority of EU countries to turn away from Huawei will only help to minimize the Swedish telecom's losses in China moving forward.

Second, China's importance as a manufacturing hub is in decline. After the U.S. Department of Defense (DoD) listed Ericsson's Chinese partner, Panda Electronics, as having close ties to the People's Liberation Army in 2020, Ericsson [announced](#) it was no longer sourcing products from the Nanjing-based group. But this is more a bump than a barricade since the company was already opening new manufacturing facilities around the world.

"With increased automation and lower transportation costs and lead time, it is a trend in Industry 4.0 to have a continuous and robust supply chain," says the industry source familiar with the plans of European telecom vendors. "But geopolitical developments accelerated the regionalization of supply chains. The industry is moving from just-in-time to just-in-case."

Indeed, before the DoD's announcement, in 2019, Ericsson could see which way the wind was blowing, and it [finished](#) building a heavily automated factory in Lewisville, Texas, to serve North American customers. It also produces 5G network equipment in Estonia and [Poland](#) for Europe's 5G needs and has built-out its facilities in Brazil.

In Asia, China's neighbors are reaping the rewards of changing supply chains. Ericsson [expanded](#) its manufacturing base in India starting in 2016, and this July established a [new hub](#) to supply the Asia Pacific in Malaysia.

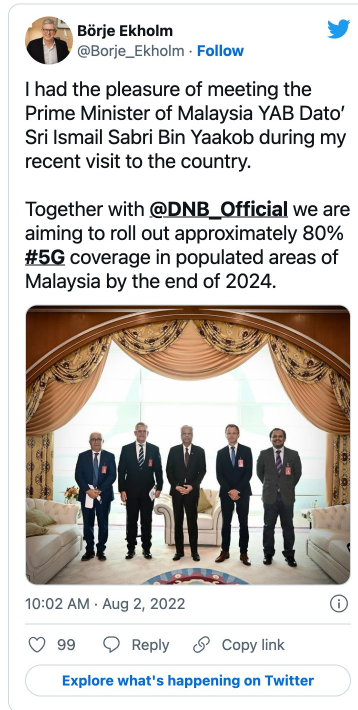
Lastly, the cost advantages of doing R&D in China are fading. Salaries for software programmers and data scientists are now above those in [other East Asian markets](#), while the risks of doing R&D in China have become more and more evident.

"Ericsson thought it would get credit by collaborating with universities and research centers and employing a large number of Chinese engineers," says Andersen, the former R&D head at Ericsson in Latin America. "But that didn't happen. Over the years Ericsson was capped on market share and there was considerable IP leakage to the competition."

Andersen notes that in recent years, important features of Ericsson's intellectual property in mobile network technology have come out of Brazil.


Still, Ericsson's diminished role in China may hold consequences — especially for its future technological competitiveness.

"China is likely to remain the largest national market for telecom infrastructure and applications built upon it," says [John Lee](#), director of East West Futures Consulting, a risk consultancy focused on China and technology. "Its international advantages still lie mainly in providing a conducive ecosystem for the implementation of new technologies."



Ericsson Market Area North East Asia (MNEA) Head Chis Houghton, and China Mobile Vice President Li Zhengmao, sign a Strategic Cooperation Framework Agreement at Mobile World Congress 2018 to build on Ericsson leadership in Internet of Things (IoT) Connectivity Management, February 25, 2018. Credit: [Ericsson](#)

[Tim Rühlig](#), a research fellow at the German Council on Foreign Relations, notes that this advantage mainly has to do with so-called 'standalone 5G' mobile networks. Unlike the first stage of 5G development, where a new radio access network is overlaid over an existing 4G core, standalone involves installing a new 5G core, which then connects a greater diversity of

devices and [allows](#)  for ultra-reliable and extremely low latency.

China, South Korea and, to some extent, Japan are frontrunners in rolling out standalone 5G. And while South Korea and Japan will be important smaller markets for Ericsson and Nokia to test and collect information on standalone 5G, Rühlig says Chinese firms will still have an advantage.

“Huawei will have a huge market in China where it can trial a multitude of applications both in private and public networks,” he says. “The data of experience they have will be enormous.”

Others see the posited advantages of standalone 5G and China's industry leadership as misplaced. Strand, the telecom consultant, explains that there is currently no difference in functionality between standalone and non-standalone 5G, in which operators get 2G, 3G and 4G solutions as well.

“Applications requiring the high speeds and low latency of 5G are simply not ready yet,” he says. “Non-standalone is the more intelligent solution.”



Workers at the construction site of a 5G base station at Chongqing Hi-tech Zone in Chongqing, China, April 15, 2020. Credit: Wang Quanchao/Xinhua via [Alamy](#).

In any case, China's lead on 5G is also [under question](#). It is rolling out the most 5G base stations compared to others, but whereas Chinese mobile operators count every individual base station, American operators report cell sites, which include multiple base stations. The 5G race could be much closer than it appears.

“China could be a couple years ahead, but eventually everyone can have this technology,” says Maaø, of DNB Markets. “There are first-mover advantages, but there are first-mover disadvantages too.” He points to the [high electricity consumption levels](#) facing Chinese operators due to the earlier model radios installed in China's initial 5G roll out compared to newer ones available today.

Perhaps most significantly, Washington's [pressure](#) in restricting Huawei's access to advanced semiconductor chips may also succeed in undermining the potential of China's 5G mobile networks. After initially stockpiling chips before the U.S. ban took effect, a recent leaked internal memo from Huawei founder Ren Zhengfei warned that China's tech champion was in “[survival mode](#)” as a result of American sanctions and a Covid 19-induced global economic downturn.

“Huawei is truly good at engineering, and they are able to compensate in many ways,” says Maaø. “But as time passes, it will be harder for them to fight the laws of physics when it comes to processing power.”



It is far from an ideal scenario, analysts say, but just as Huawei grew into a leading global telecom with very limited access to the American market, European telecoms can still prosper without significant stakes in China.

“ It would be a mistake to only focus on how we can face China. We just need to focus on how we can do things better. ”

— Per-Olof Björk, Ericsson's former Chief Representative in China

Looking forward, Ericsson [hopes](#) it can grow from its current low single digit market shares in China's mobile networks. Such a sliver still matters, of course: China currently represents as much as half of the global 5G mobile network market and [a quarter](#) of the global network equipment market. But in the wake of geopolitical rumblings, the growing number of industries that find themselves on the expanding fault-lines of industrial and technological decoupling can take solace in the fact that a sliver might be enough. 5G markets in the U.S., EU and elsewhere will grow in time to diminish China's centrality. The global market is big and diverse.

Ericsson's experience in China may not be repeated across all industries, but it is instructive to multinationals facing the dual [challenge](#) of China's market restrictions and intensifying geopolitical pressures. Per-Olof Björk, Ericsson's former chief representative in China, who went on to become vice president for China and Northeast Asia, tells the story of being asked by a journalist in 1990 how he felt about his company getting thrown out of China. The journalist had attained an internal state document pegging only three network equipment producers as permitted to manufacture fixed line networks in China's telecoms industry — and Ericsson was not on the list.



Per-Olof Björk, third from left, at the launch of his book. December 19, 2018. Credit: [Swedish Chamber of Commerce in China](#)

It was not good news for Björk. But it was a long way from leading to Ericsson's exit.

“I had to explain that our market was not only about fixed networks,” he says. “We had private networks. We had mobile networks. There was quite a broad range of products.”

Ericsson's business went on to grow rapidly in China on the back of 2G mobile technology, and now, 25 years later, its global business is enjoying a revival with the fifth generation. In 2012, when Björk retired, most foreign executives would have found it hard to imagine a future for a company that was largely left out of the Chinese marketplace. A decade later, Ericsson is discovering that there might be life after China.

“When I started in the mid-eighties the competition for us was mainly from the Japanese,” says Björk. “Then the Americans came in, and after them, the Chinese. But Ericsson was founded in 1876. It would be a mistake to only focus on how we can face China. We just need to focus on how we can do things better.”

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Luke Patey is a senior researcher at the Danish Institute for International Studies and Lead Senior Research Fellow at Oxford University's Institute for Energy Studies. He is author of [How China Loses: The Pushback Against China's Global Ambitions](#). His work has been published in *The New York Times*, *Financial Times*, *The Guardian*, *The Hindu*, *Foreign Affairs* and *Foreign Policy*. [@LukePatey](#)

## COVER STORY



### Insuring Engagement

BY BRENT CRANE

At age 97, Maurice "Hank" Greenberg, the former CEO of AIG, has advocated for deeper U.S. engagement with China for longer than perhaps any living American businessman. While his positioning as a private sector statesman seems out of touch given the current state of U.S.-China relations, his son, Evan Greenberg, who is CEO of Chubb, is updating the Greenberg engagement slogan for the current moment.

## THE BIG PICTURE



### Semiconductor Shakeup

BY ELIOT CHEN

A look at key concepts in the semiconductor supply chain and what recent events mean in the competition over its control.

## Q & A



### Hal Brands On Navigating America's "Danger Zone" With China

BY BRENT CRANE

The scholar talks about his new book; why China's best days are behind it, both strategically and economically; how that could lead to China lashing out; and why he fears U.S. strategy isn't coming together...



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