Optimal Investment Conditions for ICT and Technology

TFMA: Seizing Global Trade Opportunities and Minimizing Global Trade Threats

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HUAWEI TECHNOLOGIES CO., LTD.
Outline

1. What Factors Attract and Repel?
2. When Huawei Invests
3. Conclusions
What Factors Attract?

Some factors are within and some beyond the control of policymakers

01 Geographic | Economic | Demographic
1. Market size (millions or billions)
2. Proximity to other regional markets
3. Economic vitality of the population
4. Purchasing power of the population

02 Ecosystem Factors
1. Skills
2. Infrastructure and logistics
3. Ease of doing business
4. Upstream and downstream supply chains
# What Factors Attract?

Ecosystem factors and amenable policy interventions

## Skills

**Policy interventions**
- Mandatory primary and secondary education for all
- Technical education with focus on STEM
- Vocational colleges and apprenticeship programs
- Immigration policies to attract the right skills from abroad
- Open education services markets

## Infrastructure

**Policy interventions**
- Infrastructure strategic vision with project pipeline
- Governance and contract mechanisms to reduce renegotiation risk
- Transparent and predictable procurement, permitting and tax regimes
- Contract mechanisms to hedge against currency risks
- Possibility to resolve any disputes through international arbitration

## Business Climate

**Policy interventions**
- Reduce regulatory and compliance burden to the minimum necessary
- Independent, well-trained, and adequately-resourced judiciary
- Highest-level political commitment to reduce corruption across the public service
- Commitment to open and contestable markets for all goods and services
- Commitment to improving ranking on WB’s Ease of Doing Business survey

## Up/downstream

**Policy interventions**
- Strategic medium to long term industrial policy vision for targeted clusters
- Tax breaks and incentives to foster specific sectoral value chains
- Targeted interventions to develop and foster talent pools with local tertiary institutions
- Special economic zones with lower regulatory burdens and more open labor markets
- Ease trade restrictions and lower trade costs (logistics) for importers and exporters in targeted sectors
What Factors Repel?

Anything that raises the cost of doing business or increases investment risk

**Disruptive import procedures, discriminatory procurement and tax policies**
These can massively tilt the playing field against foreign firms.

**Capital Controls**
These and similar instruments raise the risk profile of a country for foreign investors.

**Local content requirements**
These can have a huge impact on investors' freedom of action.

**Forced technology transfer**
These requirements will force investors to consider very carefully whether or not to invest in a country.

**Foreign equity limits**
These deprive investors of full control.

**Restrictions on forms of incorporation**
These limit the options of investors and put them on an unequal footing with domestic firms.

**Restrictions on appointing executives**
Investors want to appoint people they trust with proven track records.

**Immigration restrictions**
A very strict immigration regime with harsh enforcement will deter investors.
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When Huawei Invests

Huawei at a Glance

180,000 Employees
80,000 R&D employees
170+ Countries
15 R&D institute and centers
No. 72 Interbrand's Top 100 Best Global Brands
No. 129 Fortune Global 500
When Huawei Invests

Focusing on Information Transmission, Storage, and Distribution to Provide ICT Solutions and Services for Three Customer Groups

- Serving hundreds of millions of consumers
- Serving global carriers
- Serving global enterprises and industry customers

Consumer Business
A brand loved by consumers

Carrier Business
Customers' best strategic partner

Enterprise Business
Enabler and preferred partner of enterprise digital transformation

A Global Leader of ICT Solutions and Products

Information Distribution and Presentation
- Smartphones
- MBB & home devices
- Wearable devices
- Vehicle telematics

Information Transmission
- Wireless networks
- Fixed networks
- Carrier software and core networks

Information Processing and Storage
- Enterprise networks
- M2M connection management platforms
- Data center infrastructure
- Big data analytics platforms
- Cloud services

Professional services
When Huawei Invests

Globalized Resource Deployment, Localized Operations

- Operations in 170+ countries; approximately 180,000+ employees comprising 160+ nationalities worldwide; 71% localization rate
- Huawei’s global value chain allows the smooth transfer of capabilities around the world, develops and retains talent in local countries, and creates jobs and economic opportunities.
- Strengthen glocalized operations and ensure that local management teams shoulder operating responsibilities from end to end and have corresponding decision-making authority.
- Ensure that the global industry chain is grounded in win-win approaches and reciprocal obligations; be a responsible corporate citizen in the local community.
When Huawei Invests

R&D Centers Worldwide

Switzerland

Software, architecture, innovation, and devices

Wireless and system
Mathematics, aesthetics, and images

Optical network and devices

Fixed network, engineering, and quality

Wireless, devices, and engineering

Mathematics

Engineering, parts, audio & video, and quality

Software engineering

Wireless (short-distance)

When Huawei Invests

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When Huawei Invests

Typical market entry, engagement and investment pathway

01 Enter a new market as a pure seller of equipment
   Usually Huawei will send “scouts” to prospect for new market opportunities, or partner with a local and established distribution channel.

02 Establish local office
   If medium to long term market prospects are promising, Huawei will typically open a local office or open a technical support center, as well as investing resources in systematically bidding on tender opportunities.

03 Begin systematic stakeholder engagement efforts
   Particularly with
   - Operators who buy most of its equipment and enter into multi-year management service contracts with Huawei;
   - Governments, who often own equity in one or more operators and who issue licenses.
   - Broader society groups with CSR activities, etc.

04 Launch institutionalized engagement efforts
   These often take the form of establishing joint research facilities with operators or sponsoring technical curricular or research local institutions.

05 Ramp up local presence
   This can happen in a number of ways:
   - Open a supply center;
   - Establish R&D facilities;
   - Establish production or assembly facilities.
   - Training centers and specialized services centers.
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Four things to bear in mind about the global ICT industry

1. **ICT is not necessarily labor intensive**
   Manufacturing in ICT has largely been outsourced to contract suppliers like FoxConn or Flextronics with extremely tight margins, crushing work conditions and limited technology transfer.

2. **ICT is an R&D intensive industry**
   You need a highly-developed pool of skilled professionals in order to attract the most capital-intensive investment (e.g. R&D centers).

3. **ICT is multi-faceted**
   The ICT industry is hardware, software, services, it’s logistics, marketing, engineering, distribution, etc. Each segment of the industry can become an investment for host countries with the right conditions and sound policies.

4. **Trade and investment policies matter**
   Participation to the WTO Information Technology Agreement is a basic pre-requisite for success. All major ICT hubs and players at the innovation frontline have localized most of their investment in ITA members. And it’s very easy to do.
Conclusions

Some Characteristics of an Optimal Investment Regime

Market Access
- Have an open and non-discriminatory investment regime.
- Limit investment reviews to only the most clearly strategic assets.
- Limit the use of the nation security exception to the most clear-cut cases.

National Treatment
- Treat foreign investors the same as domestic investors in all areas of policy, regulation and legislation.
- Allow foreign investors to join local business associations.

Partnership
- When contemplating far-reaching changes to the investment or business climate consult first with business and the private sector.
- Work together with the private sector in enacting and implementing policy and regulatory reforms.

Cross-cutting issues
- Skills
- Infrastructure and logistics
- Predictability of the investment climate | Ease of doing business | Rule of law
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