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Qualcomm deal scuttled: China hits back at US in trade war

China has hit back at the US in its ongoing and deepening trade war, with Beijing effectively scuttling a $44 billion takeover by the American technology giant Qualcomm of a Dutch chipmaker NXP Semiconductors.

Qualcomm announced late Wednesday that it was pulling out of the deal after it became clear that the Chinese government was not going to sign off on the takeover. China was the last of nine national jurisdictions whose approval was needed under anti-monopoly provisions for the deal to go ahead.

At $132 billion last year, China is the world's largest semiconductor market with most of the revenue going to companies based in South Korea, Japan, Taiwan and the US.

According to widespread reports, Chinese regulators responsible for vetting takeover deals had signed off on it earlier this year and it was only waiting for the final go-ahead from the Beijing government. But the approval never came and just hours before the deadline was due to expire Qualcomm announced it was pulling out.

The official Chinese government position is that the lack of approval had nothing to do with the China-US trade conflict. "As far as I know, the case is a matter of antitrust law enforcement," a spokesman for the Chinese Ministry of Commerce said.

But as one source told the *Financial Times*, echoing reports in other media, "all the technical issues had been resolved" and that from Qualcomm's perspective "everything that was needed to be done was done."

The deal had been two years in the making, starting under the Obama administration. The turning point came in May with the announcement by the Trump administration that it was going ahead with tariffs on $50 billion worth of Chinese products, especially those connected to Beijing's "made in China 2025" plan. The White House invoked Section 301 of the 1974 Trade Act on the grounds that China was engaging in intellectual property theft and forced technology transfers.

The decision came just three days after a high-level meeting in Washington with members of the Trump administration and Chinese Vice-Premier Liu He. Following that meeting, in which China had agreed to increase its imports from the US by as much as $100 billion, US Treasury Secretary Steven Mnuchin said the trade war had been put on "hold."

So Washington's about-face and imposition of tariffs was in essence a public slap in the face for China's chief trade negotiator. The mood in Beijing changed and, while there was no official statement, it was clear that final takeover approval was going nowhere.

"We obviously got caught up in something that was above us," said Steve Mollenkop, Qualcomm chief executive.

The company will now have to pay a $2 billion breakup fee to NXP and has announced a $30 billion share buyback program in order to meet the demands of financial investors.

The collapse of the takeover has far-reaching implications for chipmakers and other high-tech companies that had been waiting for the outcome of the Qualcomm-NXP deal before going ahead with their own merger and acquisition (M&A) moves.

"It certainly raises concerns about future M&A," analyst Michael Walkley told Bloomberg. "There's increasing uncertainty in how long the issues with China will last and if they'll continue to block deals."

In its report on the collapsed deal, the *Financial Times* cited one industry analyst who said it had put a "big red light on any big M&A in the semiconductor industry in the short term. The stakes in technology are obviously very, very high, particularly given that semiconductors are a huge strategic priority for China."

More than $200 billion worth of M&A deals were reported in 2015 and 2016, including the Qualcomm-NXP agreement. Smaller companies were seeking to improve their position in the face of a slowdown in the PC and smartphone sectors and to best prepare for the 5G wireless technology which is now about to be rolled out.

That activity slowed down in the past year and has now "pretty much come to a screeching halt," according to another industry analyst cited in the *Financial Times* .

Qualcomm has been at the centre of the shifts in the industry and the conflict between the US and China over high-tech development. In March, US President Donald Trump directly intervened to prevent a $142 billion takeover of Qualcomm by the US company Broadcom on “national security” grounds.

The Committee on Foreign Investment in the US (CFIUS) intervened in the process, at the invitation of Qualcomm. It found that Broadcom’s practices after takeovers, based on cutting costs in order to finance them—a very common practice on Wall Street—would mean that Qualcomm’s spending on research and development would be reduced.

This would open the way for Chinese companies such as Huawei to expand their influence in setting standards for 5G development.

“While the United States remains dominant in the standards-setting space currently, China would likely compete robustly to fill any void left by Qualcomm as a result of this hostile takeover,” CFIUS said.

But having “saved” Qualcomm four months ago on the grounds of ensuring “national security” against China, the actions of the Trump administration on tariffs, invoking the same grounds, have now dealt it a significant blow.

It is likely not to be the last of such measures. Trump has threatened to impose tariffs on up to $500 billion worth of Chinese products, covering its entire exports. Chinese imports of US products are some $350 billion less and so it does not have scope for retaliatory tariff measures.

This means that it will increasingly seek other ways to hit back. The scuttling of the Qualcomm deal may be the first of such measures and signals the escalation of the trade war into other areas.