US hits leading Chinese chip maker

Nick Beams
28 September 2020

In a major escalation of its economic war against China, the United States, at the direction of the Pentagon, has imposed a crippling ban on the country's leading chip maker, following earlier decisions to cut off the telecom giant Huawei from its US chip suppliers.

The Commerce Department issued a letter to companies on Friday declaring that exports to Semiconductor Manufacturing International Company (SMIC) posed an "unacceptable risk" of being diverted to "military end use" and licences had to obtained before exporting technology to the company.

The decision by the Commerce Department emanates from the Pentagon which earlier this month said it was working with other agencies to ascertain whether the company should be blacklisted because of alleged links with the Chinese military. The Commerce Department did not completely blacklist SMIC but the decision to require export licences is a significant step in that direction.

A statement issued by the department said: "In general, the Bureau of Industry and Security in the Department of Commerce is constantly monitoring and assessing any potential threats to US national security and foreign policy interests. While we cannot comment on any specific matter, BIS, with its inter-agency partners, will take appropriate action as warranted."

When the Pentagon's move first became known, SMIC said it was in "complete shock" over the news and was open to communication with US government agencies to resolve any misunderstanding. That proved to be of no avail.

Responding to Friday's decision, it said: "SMIC reiterates that it manufactures semiconductors and provides services solely for civilian and commercial end-users and end-uses. The company has no relationship with the Chinese military and does not manufacture for military end-users and end-uses."

China's Foreign Ministry spokesman Zhao Lijian accused the US of "blatant bullying," but did not indicate whether China would take any retaliatory action.

"What it has done has violated international trade rules, undermined global industrial supply and value chains, and will inevitably hurt US national interests and its own image," he said.

Trump launched a trade war against China in 2018, leading to the imposition of tariffs on around three quarters of all Chinese exports to the US. This was couched in terms of reducing the trade imbalances between the two countries, with Trump claiming China was ripping the US off to the tune of $500 billion a year.

But the underlying objective was always to prevent China from developing high-tech industries that the US regards as an existential threat to its economic and military dominance. In the two and a half years since economic warfare was launched, this objective has emerged ever more clearly into the open.

At present there are more than 275 China-based firms on the US so-called entity list, meaning they are effectively banned.

The decision on SMIC, which is China's biggest chip maker, means supplies of US components will be choked off, crippling its further development. Roughly 50 percent of its equipment comes from American sources. Reflecting the complex international division of labour characteristic of high-tech industry, the company also supplies the US firms Qualcomm and Broadcom.

Explaining the significance of the latest US move, Paul Triolo, head of tech policy analysis at the Eurasia Group, told the *Financial Times*: "It all depends on how the US implements this. In the worst-case scenario, SMIC is completely cut off, which would severely set back China's ability to produce chips. This

© World Socialist Web Site

would be a tipping point for US-China relations."

Nicholas Klein, a Washington lawyer specialising in international trade told Reuters: "There's been a lot of coverage on the Trump administration's action regarding TikTok, but the more significant action … [is] the increasing restrictions on SMIC and other Chinese national champions like Huawei."

China lags well behind the US in the development of chip technology and SMIC is regarded as one of the companies, a so-called "national champion," that could start to close the gap. The US moves are aimed at ensuring this does not happen.

Established in 2000, SMIC is now China's largest chip maker and in July raised $6.8 billion in its initial public offering (IPO), more than double its target and the largest IPO in China for 10 years. The company recently announced a joint-foundry venture with the government for the making of chips, and increased its capital expenditure budget for 2020 to $6.9 billion from $4.3 billion.

The fact that the escalating measures against China are being dictated by the Pentagon and the military-intelligence establishment, rather than the Commerce Department or the office of the US Trade Representative means they are likely to intensify under a Biden administration.

The most significant difference between the Democrats and Republicans is the Democrats' assertion that Trump has used tariffs in a way that alienates US allies and weakens a common push against China.

As the *Wall Street Journal* commented in the article published at the weekend: "The former vice-president and Democratic challenger says he will woo allies battered by Trump trade sanctions, rethink the use of tariffs and try to create a united front against China."

Speaking to the Journal, Biden's national security advisor Jake Sullivan said: "It's better to be pulling together a range of like-minded economies. That's how you get real leverage."

That leverage goes far beyond trade because, as the article noted, the trade war had "morphed into a technology war and has now reached deeply into areas of national security."

Amid escalating military operations by the US directed against China, the present situation recalls that which developed in the lead-up to the outbreak of war between the US and Japan in 1941.

In the late 1930s, the US imposed a series of sanctions against Japan over the supply of oil that led to the Japanese push into South East Asia, starting with the bombing of Pearl Harbor. Today the US is seeking to cut China off from the contemporary life-blood of the global economy—the development of computer chips and other major technologies—on the basis that this constitutes a threat to its "national security."

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site