Final Testimony

CCIA Testimony on the U.S. Trade Representative's 301 Investigation into China's Acts, Policies, and Practices Related to Targeting of the Semiconductor Industry for Dominance

Thank you for the opportunity to provide input on the 301 investigation into the People's Republic of China's, or PRC, acts, policies, and practices related to targeting of the semiconductor industry. I represent the Computer & Communications Industry Association, or CCIA, a trade association of internet and technology firms, many of whom produce goods that rely on foundational semiconductors, also known as legacy chips, as inputs. CCIA recognizes the importance of these chips to U.S. economic and national security, and welcomes the opportunity to cooperate with the U.S. government on efforts to address foreign practices that distort this critical market while ensuring the continued competitiveness of leading U.S. companies.

In our accompanying written submission, we consider the range of the PRC's acts and policies in this sector and our recommendations for best policy responses where such measures are unreasonable, discriminatory, or burden U.S. commerce. My comments today will address the actionability determination from the perspective of members of industry that integrate legacy chips as components into various end-products.

The first topic I would like to address is the notion that the PRC adopts acts, policies, and practices related to targeting the semiconductor industry for export dominance. CCIA would emphasize the need for this investigation to specify the nature of evidence relevant to this determination. The notice for this investigation cites the PRC's Made in China 2025 national strategic plan as preliminary evidence - however, this document seeks to increase China's domestic content of core materials, including legacy chips, to 70%. This approach suggests an attempt at import substitution rather than export dominance, the latter of which is the intended focus of this investigation. Moreover, the notice for this investigation cites China's efforts to achieve indigenization and self-sufficiency as a potential qualifier to indicate an attempt at export dominance. Given that numerous countries, including the key trading partners and the U.S. government, have adopted similar policy goals, we recommend that this investigation further qualify how the PRC's efforts are uniquely different and harmful. If USTR is to establish an actionability determination in this investigation, we recommend that it do so on the basis that the identified policies are clearly intended to achieve export dominance and in a manner distinct from efforts being undertaken by the U.S. government or key trading partners.

The second substantive topic I'll address is anti-competitive and non-market policies employed by the PRC for the purpose of targeting the legacy chip sector. To that end, I'd like to note that the majority of the policies employed by the PRC in this regard are neither unique to China nor the legacy chip sector. Multiple governments, including the U.S. and key trading partners, have employed market access barriers, including tariffs, subsidies and other non-tariff trade barriers to support their domestic semiconductor industry. Moreover, of

policies that inhibit foreign firms' ability to operate in the country, such as forced transfer of intellectual property, none are specific to the semiconductor industry and instead represent market-wide barriers that should be addressed accordingly (as they were in the first Trump Administration's U.S.-China Agreement). Therefore, CCIA recommends that any actionability determination on this topic be based on identifying a specific strategy pursued by the PRC that undermines the competitiveness of foreign firms specific to the semiconductor sector, to ensure that any subsequent remedies are appropriately tailored.

The third topic I'll address is the question of whether the PRC's policies burden or restrict U.S. commerce in legacy chips and related downstream industries. There are several reasons why developments in China's semiconductor sector are likely to have a limited impact on the pricing ability and commercial performance of producers outside China, particularly those in the U.S. Notably, the most significant factors impacting the health and viability of the U.S. semiconductor industry emanate from within the United States itself, rather than from developments in China. In the U.S. government's estimation, the primary challenges to the growth of U.S. semiconductor production relate to capital costs, labor availability, permitting and other domestic factors, which result in it costing 30% more to build a new fab in the United States than it does to build similar facilities in Singapore, South Korea, or Taiwan. Moreover, in the context of downstream industries, the risk of dependence by U.S. firms on Chinese suppliers is low. The use of Chinese-fabricated chips in U.S. supply chains already faces limits and its share is likely to decline further. It is also the case that the current presence of Chinese-fabricated chips in U.S. supply chains is exceedingly low, indicating that PRC-sourced semiconductors are not positioned to create vulnerabilities for the United States. The Department of Commerce's recent finding that PRC chips represent only 2.8% of total chips consumed by unit and 1.3% of chips by value underscores this point. Therefore, CCIA recommends that USTR develop an actionability determination for dependence within the legacy chip sector based on a clear indication that the lack of domestic production of such chips is due to policies by the PRC and not largely due to market factors within the U.S. and, specific to downstream products, that PRC chips represent a significant amount of chips by unit and value as to induce a risk of dependence.

I hope these comments assist with USTR's actionability determination in this investigation, and we look forward to the opportunity to contribute further to this investigation and appreciate your consideration of this input.