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INTERNATIONAL TRADE AND FINANCE**

## U.S. trade and investment restrictions: laudable but costly goals

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U.S. Commerce Secretary Raimondo's recent visit to China resulted in the announcement of a new "export control enforcement information exchange" between the United States and China. The laudable goal is to prevent China from using U.S. technology for military purposes against the United States or our allies. An information exchange may be a way to explain things to each other, but the fact remains that the export controls are indeed in place.

China represents large revenue streams for three of the largest US chip producers—about 20% for Nvidia, 60% for Qualcomm, and 20-30% for Intel. If these U.S. companies cannot license or export to China, then their revenue streams will decrease, and that can translate into smaller margins, less hiring, and less spending on research and development.

U.S. officials have been coordinating with other countries to ensure they participate actively in the strategy. Without coordination among key suppliers, China will circumvent U.S. export controls and access the U.S. technologies from another source.

Export controls do not guarantee China won't advance on its own. Last week Huawei [released](#) a smartphone that reportedly comes with 5G capabilities. Time will tell if these chips can be produced in high volume and at reasonable cost. The technology is still generations behind market leaders like Taiwan Semiconductor Manufacturing, but it would still represent a big step forward for China's chipmakers.

Last year Nicholas Burns, the U.S. ambassador to China, [said](#) that U.S.-China ties are at their lowest moment since 1972. Several U.S. officials have visited China in an effort to ease tensions. Secretary of Commerce Gina Raimondo is the fourth U.S. cabinet-level official to visit since June. Secretary of State Anthony Blinken, Secretary of Treasury Janet Yellen, and Climate Envoy John Kerry visited earlier this year.

Efforts to ease tensions are welcome. Many U.S. businesses and agricultural producers that do business with China are worried that one of their largest markets is at risk.

But trade and political tensions have been heating up over the past few years. The Trump administration imposed [tariffs](#) in 2018 in response to China's forced technology transfer, foreign

ownership restrictions, intellectual property theft, and cyber-enabled theft of sensitive commercial information. Biden continued the tariffs and in 2021 [signed a ban](#) on goods from the Xinjiang region to try to stop goods made with forced labor from entering our market. The White House and members of Congress have expressed concerns over China using U.S. technology in military efforts against us and allies.

On October 7, 2022, the Bureau of Industry and Security at the U.S. Department of Commerce [announced](#) sweeping regulations and expanded export controls. The measures were aimed to curb the sale of advanced U.S. semiconductors and equipment to China and restrict U.S. persons from supporting the development of China's chip sector. The Biden administration has also implemented licensing requirements on U.S. shipments of highly advanced chips to China, and recently announced new restrictions on Americans investing in some Chinese companies developing advanced semiconductors and quantum computers starting next year.

All these restrictions are limiting U.S. sales to China. Intel CEO Pat Gelsinger [said](#) this summer that fewer sales mean less production and hinted that Intel may no longer need to build chip factories in the United States.

That would mean that at least part of the \$278 billion in CHIPS Act funding, which was to go to chip manufacturing in the United States, would be for naught.

Adding insult to injury, this week [China ordered](#) officials at central government agencies not to use Apple iPhones. Apple relies on China for 19% of its overall revenue.

The benefits of preventing China from using U.S. technology for military purposes against the United States or allies will not be apparent to the market. The decrease in exports, revenues, and licensing royalties, however, will be quite evident.

*Opinions expressed are solely those of the author and not the Yeutter Institute or the University of Nebraska-Lincoln.*