Congress of the United States
House of Representatives
SELECT COMMITTEE ON THE CHINESE COMMUNIST PARTY
548 Cannon House Office Building
Washington, D.C. 20515
(202) 225-6002

January 05, 2024

The Honorable Gina Raimondo
Secretary
U.S. Department of Commerce
1401 Constitution Ave NW
Washington, D.C. 20230

The Honorable Katherine Tai
Ambassador
U.S. Trade Representative
600 17th St NW
Washington, D.C. 20508

Dear Secretary Raimondo and Ambassador Tai,

We are concerned that the People's Republic of China (PRC) is on track to flood the United States and global markets with foundational (commonly referred to as "mature" or "legacy") semiconductors. While the Administration has taken strong actions to ensure U.S. advanced semiconductor technology is not transferred to the PRC, far less attention has been given to the risk that a surge of PRC-made foundational chips poses to U.S. economic security. Secretary Raimondo recently acknowledged this risk, stating "we have seen potential signs of concerning practices from the PRC to expand their firms' legacy chip production and make it harder for U.S. companies to compete."[1] However, we need to move from studying the problem to actually addressing the strategic risk to the U.S. industrial base. It is time for action.

Foundational chips are the lifeblood of a modern economy and a modern military. A recent Center for Strategic and International Studies report declared "most automobiles, aircraft, home appliances, broadband, consumer electronics, factory automation systems, military systems, and medical devices" rely on foundational semiconductors.[2] If the United States becomes dependent on the PRC for foundational chips, our military and economic well-being may run the risk of being overly reliant on the CCP. As the PRC's domestic economic pressures mount, PRC policymakers have called for domestic lenders to direct credit to the domestic manufacturing sector, instead of taking the much needed step of reforming domestic lending and

[1] The U.S. Department of Commerce. December 21, 2023. "Commerce Department Announces Industrial Base Survey of American Semiconductor Supply Chain." https://www.commerce.gov/news/press-releases/2023/12/commerce-department-announces-industrial-base-survey-american
[2] Shivakumar, Wessner, and Howell. Center for Strategic and International Studies. "The Strategic Importance of Legacy Chips." March 2023. https://www.csis.org/analysis/strategic-importance-legacy-chips

encouraging a shift to domestic consumption.[3] For this reason, PRC industrial overcapacity will grow and force the U.S. and our trading partners to respond to the PRC's trade surpluses for years to come and undermine U.S. efforts to develop alternatives.

The PRC's massive subsidization and investment in its semiconductor industry is part of the PRC's industrial strategy, with targets set in its Made in China 2025 initiative and 14th Five-Year Plan. From reduced taxes, preferential pricing on land, state-subsidized equity and lending costs, to cash infusions, the PRC has been pulling every lever to prop up its domestic industry while pushing out global competitors. Indeed, the PRC recently rolled out a new state-backed semiconductor fund that aims to raise an additional $41 billion to support PRC industry. This is in addition to the tens of billions raised through the China Integrated Circuit Industry Investment Fund from 2014 to 2019.[4] Of the new or major expansions of semiconductor fabrication planned between 2022 to 2026 at 300mm, the PRC leads the world with 22 projects, while North America is stuck at 10.[5]

The PRC understands the strategic importance of achieving independence and dominance of the foundational semiconductor industry. For example, the Semiconductor Manufacturing International Corporation of China (SMIC), which was placed on the Entity List for its assistance to the Chinese military industrial complex, plans to have one plant starting construction and one going into operation every year.[6] The PRC is by far the largest buyer of foreign semiconductor manufacturing equipment, representing nearly half of all sales for Lam Research and ASML in the most recent quarter.[7] According to research from the Rhodium Group, the PRC and Taiwan could account for 80% of global production of chips 20 nanometers to 45 nanometers. For chips 50 to 180 nanometers, the same report estimated the PRC could control around 50% of the global foundry capacity within a decade.[8] The PRC was the second largest semiconductor exporter in 2022 (excluding re-exports), with an estimated $125 billion in exports.[9] Without coordinated intervention by the world's key economies, these trends will continue. Just as Russia had to scour the world for chips to keep its weapons production alive after Western sanctions, the United

---

[3] Stella, Yifan Xie, and Fairless Tom. 2023. "China Is Making Too Much Stuff—and Other Countries Are Worried." The Wall Street Journal. https://www.wsj.com/economy/trade/china-is-making-too-much-stuffand-other-countries-are-worried-f949cd27.

[4] Zhu, Julie, Kevin Huang, Yelin Mo, and Roxanne Liu. 2023. "Exclusive: China to launch $40 billion state fund to boost chip industry." Reuters. https://www.reuters.com/technology/china-launch-new-40-bln-state-fund-boost-chip-industry-sources-say-2023-09-05/.

[5] David, Ryan, Torsekar, et al. Silverado Policy Accelerator. "Foundational Fabs: China's Use of Non-Market Policies to Expand its Role in the Semiconductor Supply Chain." October 2023. https://silverado.org/news/report-foundational-fabs-chinas-use-of-non-market-policies/

[6] Li, Lauly. Nikkei Asia. "China's SMIC foresees better Q2 on rush of domestic chip orders." May 12, 2023. https://asia.nikkei.com/Business/Tech/Semiconductors/China-s-SMIC-foresees-better-Q2-on-rush-of-domestic-chip-orders

[7] Singh, Jaspreet and Cherney, Max. Reuters. "Lam Research forecasts revenue below estimates despite China business boom." October 18, 2023.

[8] Kleinhans, Goujon, Hess, et al. Rhodium Group "Running on Ice: China's Chipmakers in a Post-October 7 World." April 4, 2023. https://rhg.com/research/running-on-ice/

[9] Silverado report p. 23

States and the global economy may be forced to do the same if the PRC decides to restrict access to PRC foundational chip production.

We urge USTR and the Department of Commerce to utilize all existing trade authorities to address the flow of PRC foundational semiconductors into the United States or to explain what new authorities or mechanisms are needed to protect our supply chains and our domestic producers of similar technology.

Considering these issues, we would like your answers to the following questions to hear how your agencies are taking action to address this problem:

- Does the United States have sufficient authority to establish "component tariffs" that impose import duties on the foundational chip itself, rather than the finished product?

- If not, what additional authorities are needed?

- How can the U.S. work closely with our key trading partners to ensure that the U.S. is not acting alone and that U.S. actions are coupled with intensified efforts to help create new markets for U.S. exports globally?

Urgent action is needed to prevent the PRC from dominating foundational chips, which would give the PRC excessive leverage over the modern global economy. We request a briefing within 60 days to hear how your agencies intend to address this problem. Thank you, and we look forward to your response.

Sincerely,

Mike Gallagher
Chairman
House Select Committee on the CCP

Raja Krishnamoorthi
Ranking Member
House Select Committee on the CCP