Opinion **US-China relations**

US industry is getting its way on China

Biden administration officials were keen to stress the limited scope of new rules announced in last week's executive order

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Last week, officials briefing reporters on President Joe Biden's long-awaited executive order restricting American investment in China used the words "narrow" and "narrowly" no fewer than 10 times in half an hour. They emphasised that new rules would reach just three "national security sensitive technologies": advanced semiconductors, quantum computing and artificial intelligence.

The rules will apply only to the "subset" of technologies in those three categories that are "specifically designed for military or intelligence end-uses" and only to particular categories of private investment such as venture capital, private equity and joint ventures.

The approach reflects "our longstanding commitment to open investment," the officials insisted. The action is "not an economic one" and the goal is "not decoupling our economies". To illustrate the point, "investments in entities engaged in the development of less-advanced semiconductors or AI systems designed for certain dual-use capabilities that pose national security risks" can, subject to certain conditions, proceed.

More than anything, what this rhetoric reflects is the administration's "consultations with over 175 industry stakeholders”. Leaders in the semiconductor industry, especially, have been vocal opponents of any efforts to curtail their sales and investment abroad, insisting that access to the Chinese market is vital to their own and, by implication, US economic success.

“Overly broad, ambiguous, and at times unilateral restrictions risk diminishing the US semiconductor industry’s competitiveness,” the Semiconductor Industry Association has warned.

That message clearly resonates in the Treasury department, which has reportedly led the push against interference with free trade and capital flows. Intruding even to protect national security, Treasury secretary Janet Yellen has suggested, “harms our own narrow economic interests”. Testifying before Congress in June, she asserted, “we gain and China gains from trade and investment that is as open as possible”.

The most popular arguments for this view, offered by Intel chief executive Pat Gelsinger and Nvidia boss Jensen Huang, hold that access to the Chinese market is crucial to investment in the US, both because profits realised in China can be reinvested at home, and because meeting Chinese demand provides the impetus for building US capacity.

“If I have 25 per cent to 30 per cent less market, I need to build less factories,” said Gelsinger at the Aspen Security Forum last month. In May, Huang told the Financial Times: “If the American tech industry requires one-third less capacity [due to the loss of the Chinese market], no one is going to need American fabs, we will be swimming in fabs.”

But the goal of redeveloping advanced semiconductor fabrication in the US is not to export the chips to China; it is to supply an American market that is today wholly dependent on imports.

Indeed, the Intel experience refutes more broadly the idea that reaping profits in China is somehow vital to investment and competitiveness in the US. The company’s world-beating years pushing the frontier of microelectronics came at a time when it had lower sales and lower profits, and a much greater need to innovate.

The second argument that industry will reach for is a self-defeating one. Pulling out of China is what President Xi Jinping *wants* the US to do, because he aspires to indigenous Chinese leadership in these fields. “If [China] can’t buy from . . . the United States, they’ll just build it themselves,” says Huang.

If China's goal is to become self-sufficient in these technologies and supplant American producers, and its policy is to aggressively transfer technology from American producers so long as they remain in the market, the argument in favour of remaining is what, exactly?

As the former General Electric chief executive Jeffrey Immelt famously remarked of the Chinese, before his company disavowed it: "I am not sure that in the end they want any of us to win or any of us to be successful."

The real argument is next quarter's profit.

One can perhaps forgive the lobbyists their poor arguments; they are only doing their job. What's unforgivable is those in the Biden administration failing to do theirs, and to distinguish the private from the public interest.