

Opinion **US-China relations**

America needs a better strategy on semiconductors

Export controls are necessary, but they are not a complete competitive strategy.

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President Joe Biden inspects a semiconductor wafer at Intel's campus in Chandler, Arizona. Industry is best positioned to inform the government on how it can 'outcompete' China © Brendan Smialowski/AFP via Getty Images

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The 2022 National Security Strategy establishes as a strategic objective that the US will “outcompete China” and “maintain and refine its competitive edge”. Stimulated in part by the geostrategic shock of pandemic-induced supply chain disruptions, the Biden administration established semiconductors as the principal competitive battleground. Yet for all the grand statements of intent, the US government has so far failed to produce a plausible strategy for achieving these aims.

Its efforts have been focused in two directions: \$52bn in Chips Act incentives to build domestic manufacturing and R&D capacity; and export control policies that aim to deny China access to advanced compute and artificial intelligence capability.

While unprecedented, these actions fail to account for upstream or downstream considerations such as the need for increased domestic demand to drive supply chains onshore. For an industry as complex and capital intensive as semiconductors, we must holistically redefine the battlespace.

Success in a competition requires a clear strategy that cultivates one's own sources of strength relative to those of the competitor. Unfortunately, our approach thus far has failed to capitalise on America's greatest competitive advantages: innovation and foreign partners.

The US semiconductor industry's biggest strengths are the companies and academic institutions whose innovations have enabled both overwhelming American market dominance and the fantastic rate of technology advances globally, as well as the foreign partners who share a critical role in our collective ability to secure this supply chain. Properly leveraged, these assets should be an insurmountable competitive advantage. Rather, these partners are diverging.

Policymakers have become increasingly troubled by continued corporate activity in China which they view as contrary to US national interests. Industry feels battered by export controls and unpredictable policies that hamper its ability to plan for the long term. Foreign partners are wary of entangling their own critical industries in volatile American policy.

Let me be clear: export controls, outbound investment and other such restrictions are a necessary element of any US-China strategy. China's unfair trade practices have played a significant role in the erosion of critical US supply chains. And no one doing business in China, no matter how diligent or well intentioned, can prevent the transfer of dual-use technology to its defence, intelligence or security services.

It should come as no surprise, therefore, that the US has ramped up export controls to protect against the use of its critical technology in ways that run counter to its national interests. But we should also acknowledge that these tools can only work as part of a holistic "compete" strategy.

We have implemented export controls that uniquely disadvantage US companies without accomplishing a strategic aim. We have impeded their access to key growth markets, for which Chinese competitors are waiting in the wings. We have implemented incentive programmes so burdensome as to deter companies from participating.

So how do we generate the requisite degree of urgency and collaboration between governments and industry that such a challenge requires? The answer is leadership, specifically by the president and the White House.

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The executive class of the President must oversee strategic coordination of the disparate array of government authorities needed. It must lead a radical and holistic rethink of how government and industry interact. Policymakers must adopt a long-term, business-oriented mindset, understand the calculus that drives business decisions, and identify policies that would align business interests with those of national security. The government must prioritise dialogue with foreign partners to establish a common view of the threat landscape and align strategic aims.

For its part, industry is best positioned to inform the government on how it can “outcompete” China. It must bring to the table constructive business solutions that take national security and foreign policy goals into account. Attempts by industry to divert policymakers from pursuing those ends are counterproductive.

We must deploy America’s sources of strength to their greatest competitive advantage. We must demonstrate the leadership and strategic sophistication necessary to enlist industry and foreign governments as collaborative partners. The outcome of the strategic competition with China in semiconductors will define US national and economic security for the foreseeable future. We must do better.

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