

Semiconductors

China turns against Nvidia's AI chip after 'insulting' Howard Lutnick remarks

Comments by US commerce secretary trigger Chinese regulatory effort to stop tech groups buying H20 processors

Zijing Wu and **Cheng Leng** in Hong Kong

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Beijing's move to restrict sales of Nvidia's China-specific artificial intelligence processor was prompted by remarks from US commerce secretary Howard Lutnick about chip exports that officials found "insulting".

A group of Chinese regulators have mobilised in an effort to dissuade domestic tech companies from acquiring the H20 — a watered-down processor widely used for artificial intelligence in China.

According to people with knowledge of the regulatory action, the Cyberspace Administration of China (CAC), the National Development and Reform Commission (NDRC) and the Ministry of Industry and Information Technology (MIIT) moved in response to comments made by Lutnick last month.

"We don't sell them our best stuff, not our second-best stuff, not even our third-best," Lutnick told CNBC on July 15, the day after the Trump administration lifted export controls, implemented in April, on H20 sales.

"You want to sell the Chinese enough that their developers get addicted to the American technology stack, that's the thinking," he added.

Some of China's senior leaders found the comments "insulting", leading the policymakers to [seek ways to restrict](#) Chinese tech groups from buying the processors, according to two people with knowledge of the latest regulatory decision-making.

As a result, Chinese tech groups held off or significantly downsized their H20 orders, according to those with knowledge of their plans.

The actions by Chinese regulators underline how high-powered chips driving advances in AI are at the heart of tension between the world's two largest economies,

which are also trying to manage friction over trade and Donald Trump's plans for much bigger tariffs on Chinese imports.

The moves have come as a blow to Nvidia, whose chief executive Jensen Huang [last month visited Beijing](#) and committed to stay competitive in the country. The US bans Nvidia, the world's dominant supplier of AI chips, from selling its most powerful processors in China.

Following Huang's warmly received trip, [Nvidia](#) received enough interest from Chinese clients for it to tell chipmaking partner TSMC to reopen its H2O production lines, according to two people with knowledge of the matter.

Chinese regulators have urged more use of domestic chips in recent years, but tech giants from Alibaba to ByteDance argued that their AI development would be impaired without Nvidia's chips, hurting China's chance to win a technology arms race with the US.

However, some close to the tech companies said they have become more accepting of a switch, especially for "inference", in which AI systems respond to requests from users.

That shift came after wider testing and adoption of chips from domestic producers including Huawei and Cambricon, following Washington's initial April ban on exporting Nvidia's H2Os.

"Lutnick's speech gives the coalition [of regulators] one more reason to intensify its efforts to push tech firms to use China's own chips," said a person close to the policymakers.

A week after his comments, China's internet regulator CAC issued so-called "window guidance" — an informal notice — to major tech companies such as ByteDance and Alibaba, citing security concerns and instructing them to halt new orders for Nvidia's H2O chips, according to people with knowledge of the regulator's effort.

On July 31, the agency [summoned Nvidia executives](#) over alleged “serious security issues”. In a statement, the CAC claimed that US AI experts had revealed Nvidia’s chips have location tracking and can be shut down remotely — a claim strongly disputed by Nvidia.

MIIT, China’s regulator of telecoms and software, also spoke with Chinese tech executives informally to reinforce CAC’s stance, according to one of the people with knowledge of the meetings.

The NDRC, the Chinese state planner in charge of the country’s drive for tech independence, then issued its own guidance, requesting that tech groups refrain from purchasing all Nvidia chips, including the H20, said those with knowledge of the move.

NDRC has been for years given the task of promoting chip independence and helping domestic players such as Huawei to win market share from Nvidia.

The involvement of CAC has created more pressure for Chinese tech giants to comply, even if the instructions remain informal. Any potential penalties from the watchdog would choke their daily operations.

These actions are in sharp contrast to other Chinese departments, such as the commerce and foreign affairs ministries, which have been more open to Nvidia’s business, according to industry insiders.

The two ministries, which are also in charge of trade negotiations with the US, welcomed Huang in July as a positive signal for foreign businesses and to show Beijing’s goodwill in trade talks, the people said.

“A lot of uncertainties remain depending on trade negotiations and Washington’s next moves,” said one of the people. “The fact that all current restrictive guidance from various regulators remain informal provides some room for future changes.”

Despite some Washington officials and lawmakers seeking stronger chip curbs, US

President Donald Trump has [said he could potentially allow](#) a downgraded Nvidia Blackwell chip to be exported to China in addition to H20.

Some Chinese tech companies have held off H20 orders because they want see if the China-specific Blackwell chip, which potentially has better performance, would become available, according to people with knowledge of their thinking.

Some Beijing policymakers are pushing to ban foreign chips altogether for inference, which accounts for most AI demand, according to a person recently summoned for a meeting with them.

That is unlikely to happen soon due to a shortage of domestic chip supplies, which Beijing hopes to address next year when several advanced production lines are due to launch.

China's foreign ministry said: "As a matter of principle, science, technology, and economic and trade issues should not be politicised, instrumentalised, or weaponised. Containment and suppression will not hold back China's development."

Other Chinese regulators and ministries did not respond to questions for comment. Alibaba and ByteDance did not answer emails requesting comment. The US Commerce department did not immediately respond to a request for comment.

Nvidia said: "As both governments recognise, the H20 is not a military product or for government infrastructure. China won't rely on American chips for government operations, just like the US government would not rely on chips from China. However, allowing US chips for beneficial commercial business use is good for everyone."

Additional reporting by Michael Acton in San Francisco and Eleanor Olcott in Beijing

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