Institute For Policy Innovation
IPI

Freedom
Innovation
Growth

February 5, 2025

BEFORE THE

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE

Washington D.C.

Docket ID: USTR-2024-0024, Request for Comment on the Section 301 Investigation of China's Acts, Policies, and Practices Related to Targeting of the Semiconductor Industry for Dominance.

The Honorable Juan Millán
Acting United States Trade Representative
Office of the United States Trade Representative
600 17th Street NW
Washington, DC 20508

Dear Acting United State Trade Representative Millán:

I and my colleagues at the Institute for Policy Innovation (IPI) would like to thank the Office of the United States Trade Representative for inviting comment on the Section 301 proceeding into China's targeting of the semiconductor industry, and for considering our input.

The Institute for Policy Innovation is a non-profit, non-partisan public policy "think tank" based in Irving, Texas, and founded in 1987 to research, develop and promote innovative and non-partisan solutions to today's public policy problems. IPI is a public foundation, supported wholly by contributions from individuals, businesses and other non-profit foundations.

We at IPI believe in free trade, as in the most liberal trade policies possible. We generally oppose government interfering in a transaction between a willing seller and a willing buyer, regardless of whether that transaction crosses political borders. We're fond of saying "countries don't trade; people do."

However, every policy position and principle must consider national security, which is among the most vital functions of government. Genuine national security concerns should always factor into any government policy decision. Too often recently national security has been used as a pretext for old fashioned protectionism and zero-sum thinking on trade, and we are critics of such pretext. However, the matter upon which we comment today is a genuine and obvious national security matter.

Through tightened export controls and the CHIPS Act, the United States has continued to expand policies to protect domestic semiconductor manufacturing capabilities—policies that encompass both industrial competitiveness and national security components. Initiatives to

bolster U.S. semiconductor production, and thereby improve supply chain security, have been supported by each of the past three presidential administrations (Obama-Biden, Trump-Pence, Biden-Harris); Republican and Democrat lawmakers; and even U.S.-allied nations, including Japan and the Netherlands, which are dominant suppliers of lithography semiconductor equipment.

So long as China maintains its ideology and poses a threat to the free nations of the world, reducing our dependence on China for critical chips and depriving China of advanced technology are in the national security interests of the United States. Further, while total semiconductor supply chain self-sufficiency (i.e., no reliance on foreign suppliers) is inadvisable and unfeasible, preventing China from monopolizing the legacy chip market, including upstream inputs like **Silicon Carbide (SiC) substrates and wafers**, is necessary for America to have a secure and reliable supply via domestic production and "friend-shoring"—reorienting global supply chains away from adversarial countries to those with which the U.S. has normalized relations.

As the USTR's investigation docket notes, China has "nearly doubled its global share of foundational logic semiconductors production capacity" over the past six years. *CIO* magazine reported in December 2024 that China is poised to account for more than 60% of new global capacity for legacy chips by 2030, which is "supported by billions of dollars in subsidies, wage-suppressing labor practices, and state-directed technology transfers."

The Chinese Communist Party (CCP) remains committed to achieving dominance in emerging high-tech industries, as outlined by the national "Made in China 2025" plan, which is predicated on state-funded subsidization. Last year China established its "largest-ever" semiconductor investment fund, a $47.5 billion initiative spearheaded by the country's six largest state-owned banks. This third and largest round of financing indicates the Chinese government is "doubling down" on its strategy to create overcapacity and thereby price out competitors.

SiC production is the latest industry targeted by the CCP to consolidate semiconductor supply chains. SiC wafers have become a preferred semiconductor base material because of their improved performance, especially in high-power applications, such as electric vehicles (EVs), aerospace technology, solar panels, and defense systems. Late last year media reported that Chinese oversupply depressed prices for six-inch SiC wafers to about 25% below manufacturing costs and caused eight-inch SiC wafer prices to fall 50% in six months.

Those trends corroborate that the Chinese government and its state-sponsored companies are applying the same strategy China used to monopolize global LED, renewable energy, and battery manufacturing markets, among others. That is, leverage state subsidies to bolster domestic production, deflate market prices, and force out free-market competitors.

Unlike China's dominance in the other markets, its gains in SiC substrates wafer production pose a threat to the United States' national security. SiC-wafer semiconductors are a critical component of EV powertrains, battery chargers, rail transit, and electrical power grids. If China is allowed to gain an even tighter grip on SiC production, U.S. supply chains for these important industries will become even more dependent on one of our country's biggest adversaries.

Likewise, U.S. national defense systems could become dependent on Chinese suppliers in the same way. Many flagship defense networks—particularly radar-dependent systems, like the

Aegis Missile Defense, avionics systems, and satellite programs—rely on SiC-wafer chips, which can operate in harsh conditions. Supply-chain dependence on China could jeopardize the integrity and functionality of these (and other) defense systems. American military leaders and reports consistently identify China as the greatest threat to U.S. national security, and it's reasonable to assume that in the event of a military conflict with China or one of its allies, China would sever sales to the United States, significantly disrupting supply chains.

IPI commends the USTR and related U.S. government agencies for working to strengthen America's semiconductor supply chains. IPI supports USTR's Section 301 investigation and believes evidence warrants trade controls to prevent China from subverting U.S. legacy chip and particularly SiC-wafer semiconductor manufacturing.

Thank you for your consideration. I am available to answer questions and welcome the opportunity to discuss these issues with USTR leadership in greater detail.

Sincerely,

Tom Giovanetti
President
Institute for Policy Innovation (IPI)