

China opposes \$52 billion CHIPS Act

Article

The news: China is opposing the **Creating Helpful Incentives to Produce Semiconductors for America (CHIPS) Act**, which releases **\$52 billion** to subsidize US semiconductor production, [per](#) Bloomberg.

The CHIPS Act's big caveat: The law [specifies](#) that companies accepting US federal subsidies will be restricted from making any "significant transaction" to materially expand their chipmaking capacity in China or any other foreign country of concern for 10 years.

- The terms of the legislation create a minefield for companies seeking incentives, **effectively making them choose between the US and China for long-term aspirations.**
- Exceptions only apply to expanding facilities related to “legacy semiconductors,” and not cutting-edge chips. Companies like **Qualcomm** and **Intel** produce premium processors for PCs and smartphones, not legacy chips.
- **The restrictions serve to guard against the potential for Chinese companies to copy cutting-edge technologies.** But Beijing says the chips bailout is discriminatory.

Brewing opposition: “We resolutely oppose the US’ restrictive actions targeting certain countries,” said **Yu Xiekang**, vice chairman of the **China Semiconductor Industry Association** during an industry conference in Nanjing.

“It contains essentially discriminatory clauses in market competition and creates an unfair playing field, which goes against the WTO’s fair-trade principles,” he added.

Representatives of China’s Foreign Ministry reportedly called the legislation “economic coercion,” saying it would hinder innovation, [per](#) Nikkei Asia.

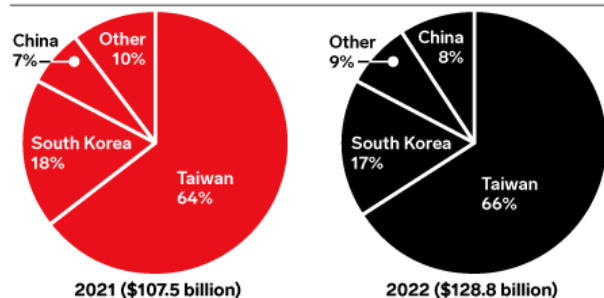
What’s the catch? “I don’t think China has any good immediate policy options at this point,” said **Xiaomeng Lu**, director of **Eurasia Group’s** geo-technology practice. “China essentially doesn’t have the technology to create those [chip] fabs.”

What’s next? The passing of the CHIPS Act takes place at a time when China’s leadership is increasingly [frustrated](#) with its years-long failure to develop semiconductors that can replace US circuitry, despite allocating more than **\$100 billion** to the sector.

- **China President Xi Jinping** planned to [invest](#) trillions of dollars to strengthen the country’s tech sector and reduce reliance on foreign suppliers. This investment could be compromised by current economic uncertainty.
- China’s economy is struggling to ramp up from persistent COVID-19 closures, with manufacturing [falling](#) to a five-month low in April.
- **Beijing’s response to the CHIPS Act could come in the form of product embargos or enforced regulations.**
- In context, Beijing threatened to put Taiwan-based TSMC on its "Unreliable Entity List" during the US’ **Huawei** [embargo](#), [per](#) Nikkei Asia. The list marks foreign businesses accused of treating Chinese companies unfairly.

Semiconductor Foundry Revenue Share Worldwide, by Country, 2021 & 2022

% of total



2021 (\$107.5 billion)

2022 (\$128.8 billion)

Source: TrendForce as cited in press release, April 25, 2022

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