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MITIGATING ALLY CONCERNS ABOUT U.S. SEMICONDUCTOR POLICIES

By Andrew Grotto

In August 2022, President Joe Biden signed the bipartisan CHIPS Act into law. The CHIPS Act appropriates over \$50 billion in subsidies for building chip plants in the United States and supporting chip-related R&D. It also includes a 25% tax credit for certain chip-related manufacturing projects and other measures to support U.S. technological competitiveness and enhance the resilience of the global semiconductor supply chain. President Biden followed up with an executive order (14080) on federal implementation of the legislation.

Nothing in the legislation or the executive order limits eligibility for the subsidies to U.S. companies. Indeed, a major aim is to offset the subsidies that other governments already give to their national semiconductor champions and thus make the United States a more cost-effective place to produce chips, regardless of where the corporate headquarters are located. Foreign companies that meet the criteria that the Biden administration develops for awarding incentives should benefit from the law the same way that similarly situated U.S. companies would.

The bill's many supporters in Congress, the administration, and the business and research communities have regularly emphasized that the United States cannot achieve its semiconductor resilience goals on its own. And yet in many allied capitals—for example, Seoul, Tokyo, Taipei, Amsterdam, and Brussels—there is a notable undercurrent of skepticism about U.S. motivations and goals among government, business, and civil society leaders. The United States must overcome this skepticism if it is to exercise the global leadership that is required to build and sustain a resilient semiconductor supply chain with its allies.

One major source of skepticism is a perception that the United States is using security as cover for a populist economic agenda of protecting manufacturing jobs and repatriating jobs lost to overseas competition. Until relatively recently, U.S. credibility in multilateral export control regimes, international sanctions initiatives, trade negotiations, and other areas where economic and security interests potentially clash owed much to Washington's reputation for hostility to industrial policy and its embrace of free trade principles. Indeed, the policy processes in such areas as export controls, sanctions, and national security reviews of foreign investment give decisive (or, in the case of the Committee on Foreign Investment in the United States, exclusive) weight to national security considerations over business interests.

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Much has changed in recent years. The bipartisan backlash against free trade and market access; President Donald Trump's tariffs on steel, aluminum, and other imports to protect national security under Section 232 of the Trade Expansion Act of 1962; the Biden administration's full-throated defense of Section 232 and its recent [rejection](#) of a WTO panel's finding that the steel and aluminum tariffs violated WTO law; and the clean energy subsidies in the bipartisan Inflation Reduction Act have touched a nerve among U.S. allies. These actions color their assessments of how sincere Washington is when it claims that the CHIPS Act is a security priority worthy of allied support.

In response to these concerns, President Biden [promised](#) "tweaks" to U.S. industrial policy during French president Emmanuel Macron's state visit. What those tweaks might be—and whether Congress would support them with legislation, should it be required—are open questions.

The other major source of skepticism about U.S. semiconductor policy is uncertainty about U.S. policy toward China. Some allies—notably, European allies—have lumped the CHIPS Act with the Inflation Reduction Act when expressing grievances about U.S. industrial policy and its nationalist thrust, even though the CHIPS Act raises a very different set of challenges for allies. Specifically, the law conditions eligibility for semiconductor subsidies on the recipient promising to not expand its manufacturing capacity in China.

For allies that already have substantial manufacturing capacity in China or have a major stake in the Chinese market for semiconductors, the CHIPS Act presents a complex dilemma. Political and business leaders in Japan, South Korea, and Taiwan seem to understand that their economies are dangerously exposed to Chinese economic coercion. Indeed, they have all experienced such coercion

before. Their dilemma is how to reduce this exposure in a manner that does not crater their economies or trigger Chinese economic or even military reprisals.

A recurring question I hear from political and business leaders in the region is whether it is U.S. policy to blunt China's technological advancement. The policy zeitgeist in Washington would answer yes, but then splinter when pressed for details about priorities and limits.

In the case of semiconductors, for example, there is general consensus on preserving the U.S. technological edge over China, denying the country the ability to serve as a chokepoint in the semiconductor supply chain, and constraining its military modernization. On the other hand, China is today an indispensable link in the complex, intensely global semiconductor supply chain. The main concern in allied capitals is that the goal of U.S. policy is to blunt China's technological advancement, full stop. In addition to playing directly into Beijing's propaganda claims about U.S. intentions, messaging about U.S. policy risks coming across as ideological, unrealistic, and, absent President Biden's promised tweaks, economically self-serving.

The Biden administration has numerous bilateral and multilateral initiatives underway to address these challenges, including the U.S.-EU Trade and Technology Council, the Indo-Pacific Economic Framework, and the Quad, among others. The administration, however, needs Congress as a partner in these initiatives. Tweaks, let alone major policy muscle movements, could require congressional support, whether legislative or budgetary. In addition, knowing that Congress expects to be kept updated on these initiatives will help the administration manage the interagency complexities of undertaking multiple parallel efforts at once because agencies and their witnesses do not like to be embarrassed in hearings. ~