

For Biden, Thwarting China's Development Is Job One

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The Biden administration has imposed a blockade on advanced computer chips headed for China. The action is expected to slow China's technological development while inflicting serious damage on the broader economy. The strategy has been widely praised by the media and foreign policy experts, but a growing number of analysts wonder if the plan could backfire?

Dan Wang is skeptical that Biden's blockade will succeed in the way the authors had intended. Wang is a technology analyst who presented his views in an editorial at the *New York Times*. Here's what he said:

The White House is intent on outcompeting China on technology. The ground on which this competition is taking place is chip making. But the Biden administration shouldn't sit back and savor this accomplishment for one reason: **What if its core belief — that advanced semiconductors are one of the critical fronts in the contest — is wrong?...**

America's actions are driven by the assumption, articulated by the national security adviser, Jake Sullivan, that computing chips are a force multiplier technology, staking it as critical to continued U.S. leadership. But **what if the U.S. government is too focused on the most novel technologies rather than the most important ones?** I believe America is in a great power contest with China, one that will be multidimensional and protracted, making it unlikely that success hinges solely on who can stay ahead in a few advanced technologies....

An excessive focus by the United States on A.I. — and on the advanced chip-making capabilities it requires — may represent a failure to appreciate China's broad technology strengths. While China has suffered serious setbacks in chip production, its companies are vaulting ahead in other sectors. Last year China overtook Germany in automobile exports, and it is on track to overtake Japan as the

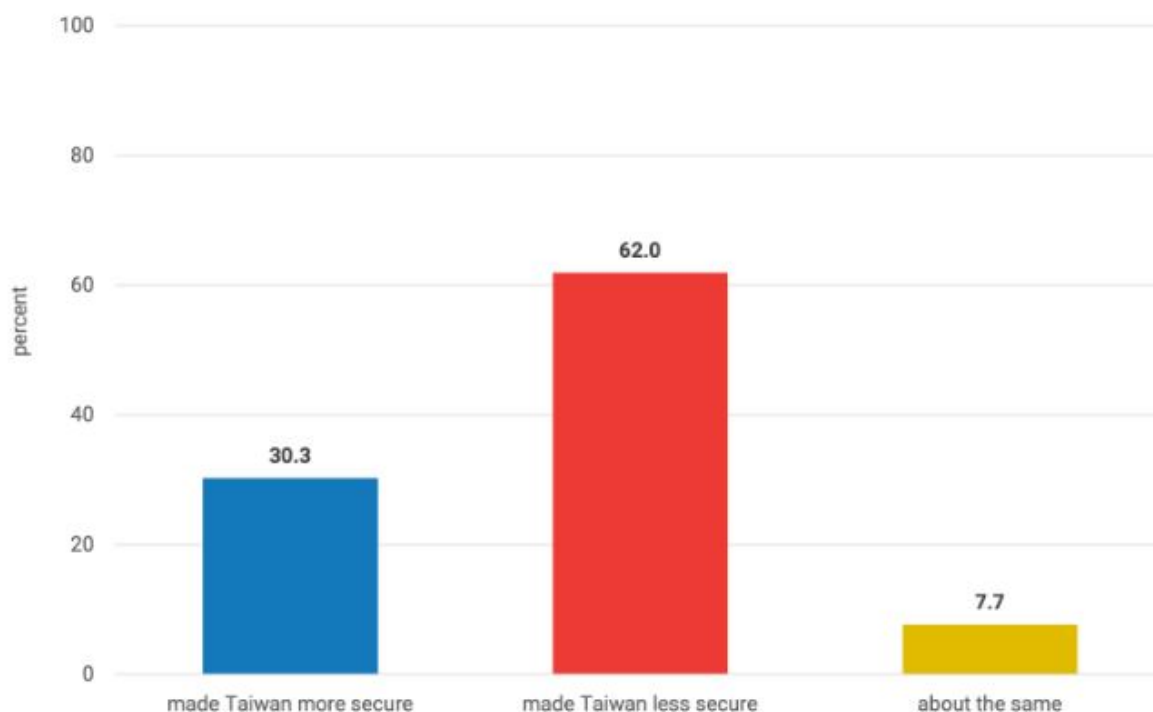
global leader this year. While most of these exports consist of foreign brands produced in China, the numbers reflect the deep expertise that Chinese companies have built in the next era of automotive technologies, particularly in car batteries.

It's not just cars. Industry estimates put Chinese companies at owning around 80 percent of the supply chain for solar manufacturing. Chinese electronics makers have produced a rising share of the components in Apple's iPhone. And increasingly in less glamorous products — such as industrial machinery and basic household equipment...

With one hand, the U.S. government is blocking China's progress on A.I. and supercomputing, but with the other, it is ushering Chinese companies toward concentrating their efforts on chips for products of daily use. And **a world in which Chinese companies dominate the production of mature chips — driven directly by American policy — hardly looks like a victorious outcome for the United States....**

We need to spend less time making ever more marginal refinements to restricting an emerging technology. Rather, **we should take a more holistic view of a long-term contest with a peer competitor. That means broadening the strategic focus to a wider range of sectors** and following through on plans to build unglamorous technologies, too. [Biden Is Beating China on Chips. It May Not Be Enough](#), New York Times

FIGURE 2
Effect of Pelosi's visit on Taiwan's security



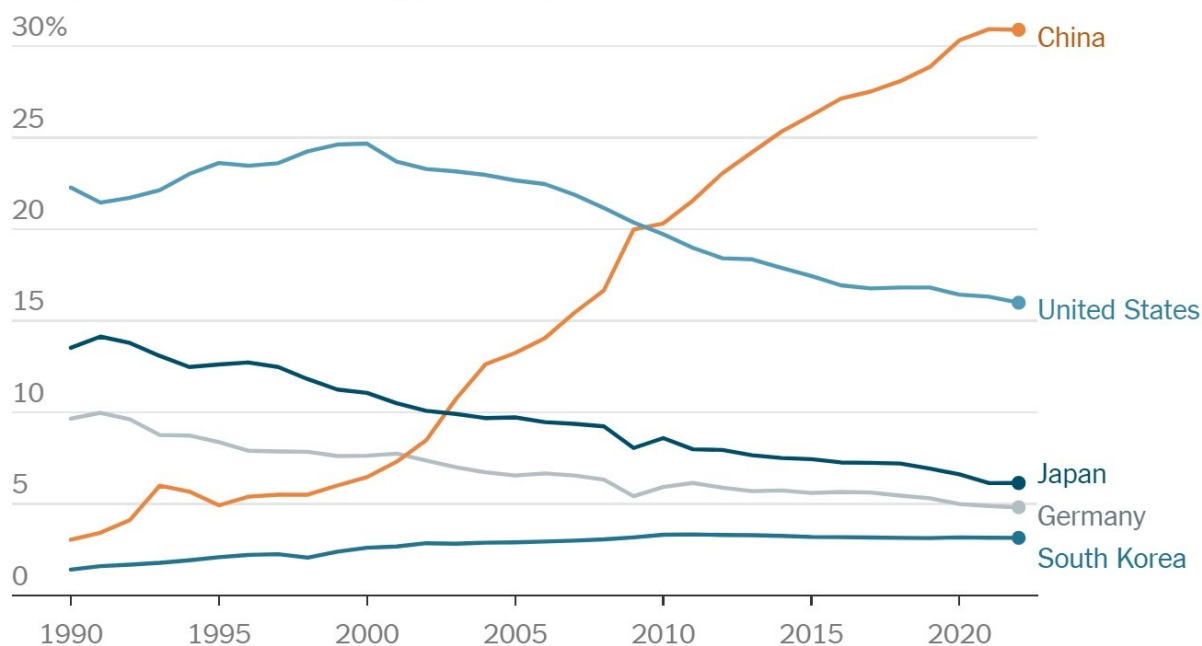
Source: January 2023 Election Study Center poll

BROOKINGS

Wang's op-ed helps to point out the shortcomings of Biden's blockade. Whatever technological gains the US may achieve in the near-term, they will pale in comparison to China's forward progress in other, more mundane sectors of the economy. **What the**

blockade illustrates is the administration’s obsessive search for a “silver bullet”, that is, a ‘magical weapon’ that will help them to achieve their broader strategic objectives. Unfortunately, there is no silver bullet that will make a waning empire with dilapidated infrastructure, an aging workforce, a failing educational system, and a hollowed out industrial core, more competitive. The United States will have to spend less money on its wasteful and over-bloated military and more on the development of its productive assets and industries if it wants to compete head-to-head with a manufacturing powerhouse like China.

Share of world manufacturing production



Source: UNIDO • By The New York Times

It’s also worth noting, that the blockade has dramatically impacted the bottom line of the major chip producers. Headlines like these can now be found in all the major mainstream media:

Samsung to extend production cuts after \$7 billion chip loss in first half, Reuters

SK Hynix, one of the biggest memory chipmakers, reports record quarterly loss as prices slump, CNBC

Intel, Samsung, Micron and others are being hit by one of the worst chip routs ever in a swift decent from the pandemic sales surge, Bloomberg

Semiconductor giants are losing money on every chip as historic glut threatens to wipe out earnings, South China Morning Post

An industry that still is undergoing post-Covid distress syndrome, has now been whipsawed by precipitous policies aimed at containing a rising China. Here’s more on the topic from an article at the *Global Times*:

During a recent White House meeting with the chief executive officers of American semiconductor giants, **Intel, Nvidia and Qualcomm criticized the Biden**

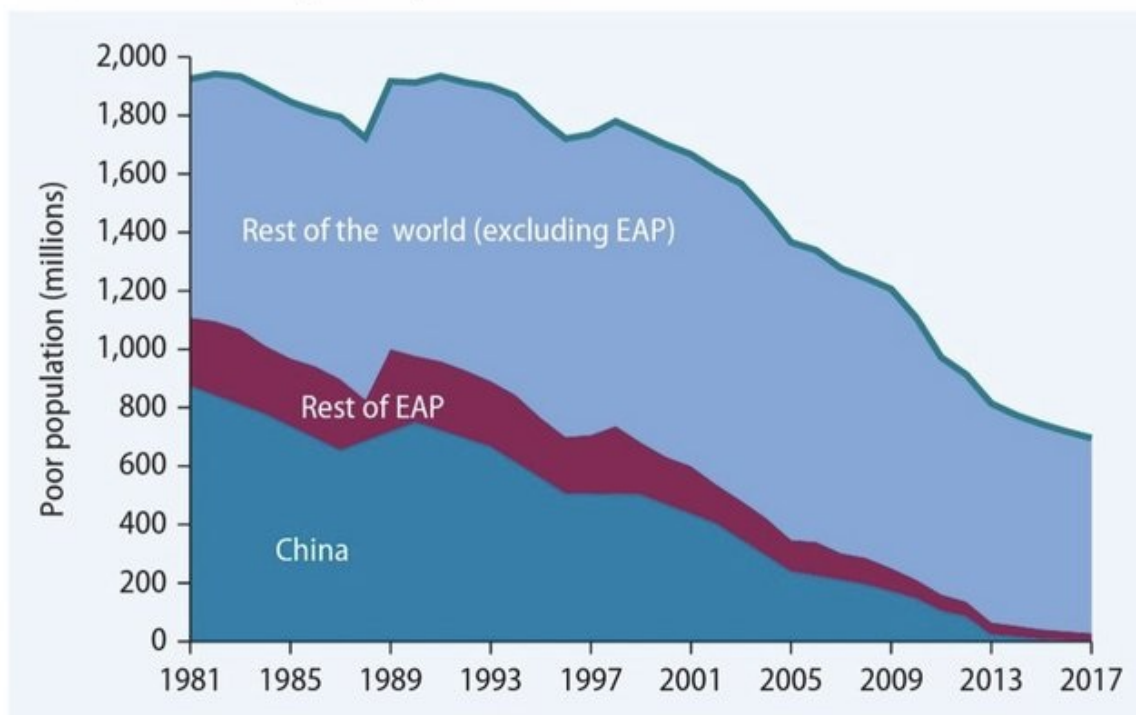
administration's relentless approach to curb exports of advanced chips to Chinese customers, saying the restrictions will surely backfire on them, depleting them of a big revenue source and endangering their ability to lead the sector in the future.

The blunt warning is an attestation that the US government's so-called "small yard and high fence" strategy to scupper China's technology sector progress is ill-willed in the first place and to no avail in the end. For an example, Nvidia CEO Jensen Huang told senior US officials that **limiting sales of American chips in China had "just made alternatives more popular."**

The undertone is **if the American chip companies lose the market share in the world's largest semiconductor market, they will lose them permanently.** All the more, the availability and quality of the software that Chinese companies are using more than compensates for any hardware restrictions by Washington, the CEOs said. [US-led semiconductor technology blockade to backfire on itself, allies](#), Global Times

Still, the Biden administration is charging ahead blindly despite the protests of industry honchos or skeptical allies. They're not concerned about the loss of revenues for chip manufacturers or the impact their blockade could have on the industry as a whole. They are convinced that their onerous export controls will succeed and that, eventually, Beijing will submit to Washington's diktat.

FIGURE 1.2 China accounts for almost three-quarters of global extreme poverty reduction since 1981: Poverty headcount based on the international poverty line, 1981–2017



Sources: Lugo, Niu, and Yemtsov 2021, based on PovcalNet adapted from World Bank 2018.
Note: EAP = East Asia and Pacific.

Most analysts, however, believe it is only a matter of time before China catches up and is able to produce its own advanced semiconductors. After all, China spends "\$400 billion in

annual chip imports” which will now be diverted to domestic production. Given China’s strides in other areas of technological development, we expect that they will bridge the gap within the decade. Consider, for example, what happened to Huawei. This is from an article at the *New York Times*:

Huawei may prove instructive once again. Battered by American sanctions and China’s strict pandemic controls, the company’s 2022 profits fell by a staggering 70 percent compared with the previous year. But there are signs of life: Despite the plunge in profits, revenues rose slightly, and the company’s operating system, HarmonyOS — which it developed after being cut off from using Android — has been installed on more than 330 million devices, mostly in China. ...

Bereft of American chips and technology, Huawei has been forced to redesign and remanufacture all of its legacy products to ensure they contain no American components. The company is dragging along an entire domestic supply chain in its wake, sending its own engineers to help train and upscale Chinese suppliers it once shunned in favor of foreign alternatives. **Recently, Huawei claimed that it had made significant breakthroughs in the electronic design software used to produce advanced semiconductors at a size that, though still a few generations behind the U.S., would put it further along than any other Chinese company. If Huawei manages to succeed, it could emerge from American sanctions stronger and more resilient than ever.** [‘An Act of War’: Inside America’s Silicon Blockade Against China](#), *New York Times*

So, yes, Trump’s sanctions put Huawei into a steep tailspin, but now the tech-giant is back on its feet and gaining momentum. Can we expect the same from China’s budding chips industry?

Yes, we can. China’s development may be delayed but it won’t be stopped. And when China finally catches up, they will remember the countries that violated WTO rules and abandoned their “free market” principles in order to inflict as much pain on China as possible. This is from a post at *Econofact*:

The rules of the WTO prohibit countries from acting unilaterally in response to what they perceive as violations by other countries. WTO members are instead required to use the WTO dispute settlement system for their complaints. This is intended to eliminate the possibility of a retaliatory spiral of protectionist measures. **Recent moves by the United States to impose tariffs, justified as important to national security, are widely regarded by other countries as unilateral action that is illegal under WTO law.....**

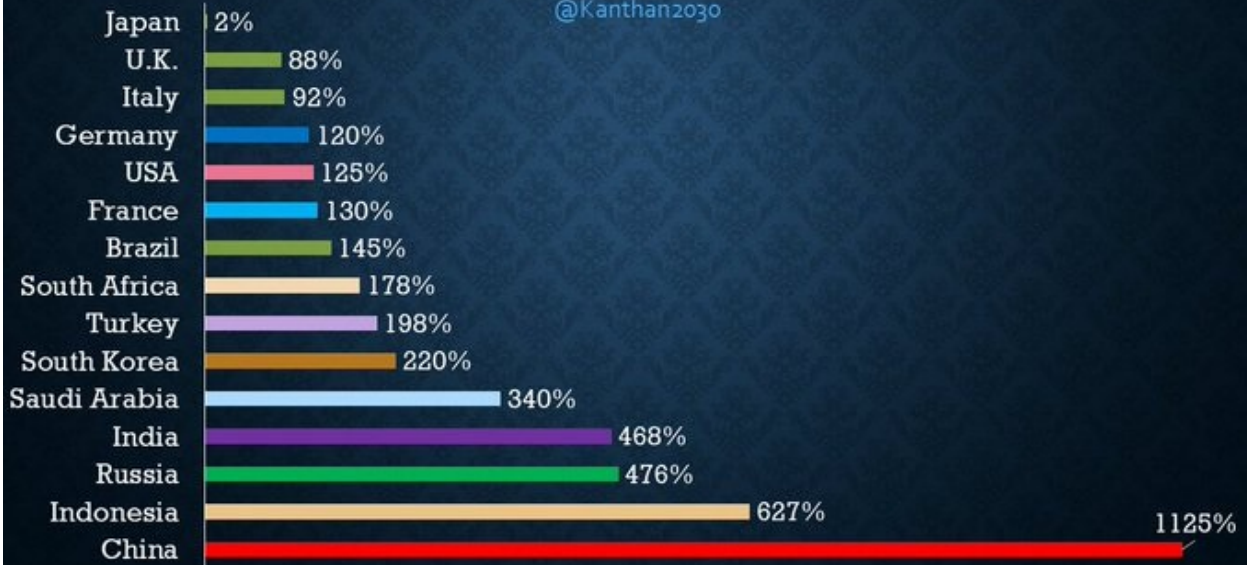
Unilateral action violating WTO rules risks destroying a system that the United States has led for decades, and that has benefited this country. [U.S. Trade Policy: Going it Alone vs. Abiding by the World Trade Organization](#), *Econofact*

Simply put, **Biden’s advanced semiconductor blockade is cheating. It is a clear violation of the rules the US agreed to uphold.**

Total GDP Growth: 2000-2020

Source: World Bank

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As we noted earlier, the vast majority of western journalists not only support the blockade but, also, take great delight in the fact that China is being unfairly targeted. Michael Schuman at *The Atlantic*, for example, is thrilled that Biden has taken such aggressive action which he thinks is entirely justified. Here's what he said:

President Joe Biden showed Xi who's boss. Two days earlier, on October 21, Biden had dropped the hammer on China's semiconductor industry by fully implementing a slew of tough controls on the export of American chip technology to China. This is a painful blow to Xi's ambitions to rival the U.S....

Biden's new policy reveals that the standard narrative of China's unstoppable ascent and America's inexorable decline is based on flawed assumptions. The U.S. continues to hold tremendous economic and technological advantages over China, which, as Biden just signaled, Washington is becoming more willing to use against its Communist competitor. Above all, **Biden's export-control measures are a ruthless expression of American clout—and an intentional reminder that, in many respects, America has it and China does not.** ...

These controls mark a distinct shift in Washington's approach to China. On top of trying to outcompete China, which is the intent of the CHIPS Act recently passed to support the U.S. semiconductor sector, **Washington is now purposely and openly working to hold back Chinese economic progress.** Allen called the controls a "genuine landmark in U.S.-China relations" that heralds "**a new U.S. policy of actively strangling large segments of the Chinese technology industry—strangling with an intent to kill.**" [Why Biden's Block on Chips to China Is a Big Deal](#), *The Atlantic*

Not surprisingly, Schuman's views are shared by a vast number of his colleagues in the media. **They all seem to believe that China must be punished for succeeding in a system the US helped to create.** What's striking about Schuman's piece, however, is the diabolical glee with which he promotes the "new U.S. policy of actively strangling large segments of the Chinese technology industry... with an intent to kill." That might sound a bit extreme for an opinion piece, but it does accurately reflect the aims of the Biden team who

seem fully-committed to “thwarting Chinese capabilities on a broad and fundamental level.” In short, **sabotaging China’s technological rise looks to be Washington’s top priority.**

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