Negative: SemiConductor Tariffs - good

By “Coach Vance” Trefethen

AFF Plan removes Section 301 tariffs on Chinese semi-conductors. [Semi-conductors are computer chips]

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Negative: SemiConductor Tariffs - good

HARMS / SIGNIFICANCE RESPONSES

1. No link between China tariffs and higher US prices

After 2018 tariffs: Price of US produced semiconductors went down 45%. Price of imports from other countries (not affected by the China tariffs) went up more than 50%. Price of imports from China went up 8%

US International Trade Commission 2023. "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries" March 2023 (accessed 9 Apr 2023) https://www.usitc.gov/publications/332/pub5405.pdf

Imports of Semiconductors and Other Electronic Components (3344) from China decreased significantly after 2018 (table 6.9). This decline followed several years of annual growth. U.S. production and imports sourced from the rest of the world increased steadily between 2016 and 2021. U.S. production increased by about $24 billion between 2016 and 2021 (about a 22 percent increase during that time), but imports sourced from the rest of the world, other than China, tripled during that time period. The prices of these products, relative to prices in 2016, have varied during this time period as well (table 6.10), which would have contributed to the fluctuations in the import value trends. As of 2021, the price of U.S.-produced products was about 45 percent lower than in 2016 while the price of imports from China was 8 percent higher and the price of imports from the rest of the world was more than 50 percent higher. The price of imports from China increased by up to 125 percent from 2016 to 2018. The rapid upward trend began in 2017

2. "Tariffs are bad / cost money / distort the economy" -

Even if it's generally true that "free trade is good" - semiconductors from China are an exception

Greg Ip 2022 (chief economic commentator, Wall Street Journal) 27 July 2022 "Semiconductor Subsidies, Tariffs Are the Price of Reducing Dependence on China" WALL STREET JOURNAL (accessed 9 Apr 2023) https://www.wsj.com/articles/the-free-trade-case-against-subsidies-and-tariffs-changes-when-china-is-involved-11658925419

Subsidies and tariffs waste resources, burden taxpayers and politicize decisions best left to markets. No wonder economists extol free trade. But there are exceptions, and the subsidies that Congress [is on the verge of approving](https://www.wsj.com/articles/senate-approves-280-billion-bill-to-boost-u-s-science-chip-production-11658942295?mod=article_inline) for semiconductor production may be one. So might the tariffs that President [Donald Trump](https://www.wsj.com/topics/person/donald-trump) imposed, and President Biden has maintained, [on imports from China](https://www.wsj.com/articles/biden-might-soon-ease-chinese-tariffs-in-a-decision-fraught-with-policy-tensions-11656927001?mod=article_inline).

National security risk justifies deviation from free market principles

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Subsidies and tariffs are usually intended to protect domestic industry and jobs from foreign competitors, or give them an edge in foreign markets. More than two centuries ago Adam Smith wrote “The Wealth of Nations” in part to discredit protectionism. But he made an exception for national security, defending, for example, laws that required British ships to carry British imports. “Defense is of much more importance than opulence,” he wrote.

3. Total costs to society outweigh

Cost "savings" of Chinese semiconductors is offset by numerous risks that outweigh

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Allowing the production of semiconductors, and countless other products, to migrate to China may be economically efficient, but has a downside: the potential for China to leverage that dependence in some future conflict with the U.S. or its allies, much as Russia is now leveraging Europe’s dependence on its gas to undercut support for Ukraine. In a [recent speech in South Korea](https://home.treasury.gov/news/press-releases/jy0880), Treasury Secretary Janet Yellen, an economist, labeled this risk an “externality,” which refers to a cost that an economic transaction imposes on others, such as pollution from a factory. Trade policy, she said, should take “into account externalities arising from concentration of supply chains, geopolitical concerns and value—rather than overly focusing on cost.”

4. A/T "Intellectual property not at risk"

There are other risks involved: Natural disasters and geopolitical conflicts can disrupt the supply chain

Sujai Shivakumar and Charles Wessner 2022 (*Shivakumar is director and senior fellow of the Renewing American Innovation Project at the Center for Strategic and International Studies. Wessner is a senior adviser with the CSIS Renewing American Innovation Project*) 8 June 2022 " Semiconductors and National Defense: What Are the Stakes?" (accessed 9 Apr 2023) https://www.csis.org/analysis/semiconductors-and-national-defense-what-are-stakes

The disaggregation and offshoring of significant elements of the U.S. semiconductor production chain heightens risks relevant to national security, including the potential for intellectual property theft, the introduction of counterfeit devices, and the disruption of the far-flung and delicate chip supply chain by natural disasters or geopolitical conflicts.

DISADVANTAGES

1. China controls entire US economy

Link: Semiconductor chips are as vital as oil to the US economy, and China can take them away

Asa Fitch and Greg Ip 2023 (Fitch - reporter covering the semiconductor companies in The Wall Street Journal's San Francisco bureau. Ip - chief economic commentator, Wall Street Journal) 14 Jan 2023 WALL STREET JOURNAL "Chips Are the New Oil and America Is Spending Billions to Safeguard Its Supply" (accessed 9 Apr 2023) https://www.wsj.com/articles/chips-semiconductors-manufacturing-china-taiwan-11673650917

Only in the past two years has the U.S. fully grasped that semiconductors are now as [central to modern economies](https://www.wsj.com/articles/the-world-relies-on-one-chip-maker-in-taiwan-leaving-everyone-vulnerable-11624075400?mod=article_inline) as oil. In the digitizing world, power tools commonly come with Bluetooth chips that track their locations. Appliances have added chips to manage electricity use. In 2021, the average car contained about 1,200 chips worth $600, twice as many as in 2010. The supply-chain crunch that created a [chip shortage](https://www.wsj.com/articles/expanding-from-autos-to-appliances-and-sex-toys-the-chip-shortage-is-far-reaching-11619783117?mod=article_inline) brought the lesson home. Auto makers lost $210 billion of sales last year because of missing chips, according to consulting firm AlixPartners. Competition with China has stoked concerns that it [could dominate](https://www.wsj.com/articles/chinese-semiconductor-ipos-surge-as-chip-arms-race-heats-up-11671631201?mod=article_inline) key chip sectors, for either civilian or military uses, or even block U.S. access to components.

Impact: Lost jobs and wages. Workers can't work if factories don't have semi conductors

Asa Fitch and Greg Ip 2023 (Fitch - reporter covering the semiconductor companies in The Wall Street Journal's San Francisco bureau. Ip - chief economic commentator, Wall Street Journal) 14 Jan 2023 WALL STREET JOURNAL "Chips Are the New Oil and America Is Spending Billions to Safeguard Its Supply" (accessed 9 Apr 2023) https://www.wsj.com/articles/chips-semiconductors-manufacturing-china-taiwan-11673650917

“There’s zero leading-edge production in the U.S.,” said Mike Schmidt, who heads the Department of Commerce office overseeing the implementation of [the Chips and Science Act](https://www.wsj.com/articles/house-passes-chips-act-to-boost-u-s-semiconductor-production-11659035676?mod=article_inline), signed into law by President Biden in August, which directs $52 billion in subsidies to semiconductor manufacturing and research. “We are talking about making the U.S. a global leader in leading-edge production and creating self-sustaining dynamics going forward. There’s no doubt it’s a very ambitious set of objectives.” The recent shortages that hurt the most didn’t necessarily involve the most expensive chips. Jim Farley, [Ford Motor](https://www.wsj.com/market-data/quotes/F) Co.’s chief executive, told a gathering of chip executives in San Jose, Calif., in November that factory workers, meaning workers in North America, had worked a full week only three times since the beginning of that year because of chip shortages. A lack of simple chips, including 40-cent parts needed for windshield-wiper motors in F-150 pickup trucks, left it 40,000 vehicles short of production targets.

2. National security risk

Link: National defense relies on availability of semiconductors

Senate Republican Policy Committee 2021. SEMICONDUCTORS: KEY TO ECONOMIC AND NATIONAL SECURITY 19 Apr 2021 (accessed 9 Apr 2023) <https://www.rpc.senate.gov/policy-papers/semiconductors-key-to-economic-and-national-security>

Semiconductors enable nearly every modern industrial, commercial, and military system, including smartphones, aircraft, weapons systems, the internet, and the electric grid. They are critical to the economic and national security of the United States.

Link: Section 301 tariffs were very effective at diversifying semiconductor sourcing away from China

US International Trade Commission 2023. "Economic Impact of Section 232 and 301 Tariffs on U.S. Industries" March 2023 (accessed 9 Apr 2023) https://www.usitc.gov/publications/332/pub5405.pdf

The model of Semiconductors and Other Electronic Components estimates a large decrease in imports from China as a result of section 301 tariffs, up to 72 percent in 2021 (table 6.11). U.S. production of these products is estimated to have increased by as much as 7.8 percent in 2020 in response. Imports from the rest of the world increased as well, ranging from almost 6 percent of all imports in 2018 to 30– 40 percent in recent years.

Link: Tariffs are effective at diversifying the supply of semiconductors away from reliance on China

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Even as the U.S. and its allies dominate advanced chips, such as those used in data centers, China [is expanding its market share](https://www.wsj.com/articles/china-bets-big-on-basic-chips-in-self-sufficiency-push-11658660402?mod=article_inline) in low-end chips vital to numerous industries including autos. This will continue as long as China can ignore profits while Western companies can’t and thus have no incentive to diversify toward more expensive suppliers. Tariffs provide one incentive. While Mr. Trump placed tariffs on most Chinese imports in 2018 mainly to reduce the U.S. trade deficit, another goal was to force U.S. companies to “consider other options on where to manufacture those goods,” said Matt Turpin, who served on Mr. Trump’s National Security Council and is now affiliated with the Hoover Institution, a think tank. Tariffs didn’t shrink the overall U.S. trade deficit, just as free traders predicted. But they appear to have expanded U.S. imports from Mexico, South Korea and Vietnam, according to various studies, at China’s expense—which might have benefits that free traders don’t consider. “Bilateral tariff wars don’t really accomplish much,” Mr. Young said. “But…shifting of sourcing to a friendly country, that may not be a bad thing.”

Impact: We lose a war if our access to semiconductors is cut off

Senate Republican Policy Committee 2021. SEMICONDUCTORS: KEY TO ECONOMIC AND NATIONAL SECURITY 19 Apr 2021 (accessed 9 Apr 2023) <https://www.rpc.senate.gov/policy-papers/semiconductors-key-to-economic-and-national-security>

The National Security Commission on Artificial Intelligence highlighted the risk in stark terms in a recent [report](https://www.nscai.gov/wp-content/uploads/2021/03/Full-Report-Digital-1.pdf)**:** “If a potential adversary bests the United States in semiconductors over the long term or suddenly cuts off U.S. access to cutting-edge chips entirely, it could gain the upper hand in every domain of warfare.”