

hq@triviumchina.com

Trivium China

Markets Note

Trivium tech and trade war wrap

July 27, 2023 / No. 173

Geopolitics are increasingly at the center of China's economic story. Given that the US is actively taking steps to reshape its relationship – and that of its allies – with China, it's become necessary for multinational companies and investors to keep track of the expanding list of China-focused economic restrictions and Beijing's evolving approach to dealing with them.

Thus, we introduce the first edition of the Trivium tech and trade war wrap! Each month, we'll bring you a recap of key developments in China-related cross-border trade and investment restrictions and assess where things are headed.

July was a relatively slow month in terms of new regulation. Instead, policymakers in DC focused their efforts on ensuring enforcement of on-the-books export controls and sanctions, lobbying allies to get on board with restrictions, and formulating future policies.

The big story was that Beijing placed **critical industrial minerals gallium and germanium under export control**, in what amounts to the most notable countermeasures China has taken since the US and its allies began imposing restrictions on a range of semiconductor exports to China last year.

Here's our wrap of other notable developments:

The word in DC

1. On July 11, three independent fashion designers **sued Chinese fast-fashion e-commerce platform Shein** in the US under the RICO Act for IP theft.

- Shein is accused of large-scale copyright infringement for its use of algorithms to replicate styles from other designers and sell them at lower costs.

2. In a July 17 interview with Bloomberg, Treasury Secretary Janet Yellen shed more light on the Biden administration's **plans for an outbound investment review mechanism** targeting US investment into China's tech sector. Per Yellen:

"[Outbound investment controls] would serve as a complement to export controls that we have in place to make sure that we've covered all the channels by which technologies can be transferred to China that we think pose national security concerns."

"They would focus on a few sectors, in particular semiconductors, quantum computing, and artificial intelligence."

"They would contain a combination of notification requirements and, in very narrowly scoped portions of these sectors, prohibitions."

3. On July 19, WSJ scooped that the **US House Select Committee on the CCP was investigating four VC firms** in connection with their China investments related to semiconductors, AI, and quantum computing.

- The committee warned that such investments may contribute to human rights abuses, China's military modernization, and China's efforts to supplant US technological leadership.
- The purported goal of the investigation is to compile information that will help Congress craft future outbound investment screening legislation.

4. On July 25, the **US Senate passed an amendment to the National Defense Authorization Act (NDAA) requiring that US companies notify the Treasury Department** before making high-tech investments in "countries of concern", including China.

- Sectors covered include:
 - Advanced semiconductors and microelectronics
 - AI
 - Quantum information science and technology
 - Hypersonics
 - Satellite-based communications
 - Dual-use networked laser scanning systems
- The bill will not become law unless it also passes the House of Representatives and is signed by the President as part of the NDAA.

The word in Beijing

1. On July 3, the Ministry of Commerce (MofCom) placed two minerals – **gallium and germanium – and their related compounds under export control**, effective August 1.

- Companies must obtain regulatory approval to export the materials, both of which are critical inputs in a host of high-tech products.
- Beijing accounts for over 80% and 60% of global gallium and germanium production, respectively.
- Japan (38%), Germany (30%), and the Netherlands (20%) are China's primary gallium export markets.

Our take: These measures are aimed squarely at Japan and the Netherlands, both of whom have recently placed limits on exports of semiconductors and related technologies to China – at the urging of the US.

Some context: On June 30, the Dutch government outlined new export controls that will restrict semiconductor machinery maker ASML from sending certain advanced chipmaking equipment to China.

- ASML will require a license to ship its most advanced machines – including the TWINSCAN NXT:2000i deep ultraviolet lithography system – outside the country.
- On July 14, Bloomberg reported that the controls will also forbid ASML from maintaining, repairing, and providing spare parts for controlled equipment without government approval.

2. On July 5, former MofCom Vice Minister Wei Jianguo hinted China is planning **further countermeasures against US-led export controls**. Per Wei:

"If high-tech restrictions on China become tougher in the future, China's countermeasures will also escalate."

3. In a July 7 interview, WTO deputy director general and former MofCom official Zhang Xiangchen warned that **decoupling could undermine China's manufacturing industry**.

"If the decoupling becomes severe and orders from major customers and for advanced products decrease...[China's] manufacturing capability will gradually decline."

Three questions for August:

- Will the Biden Administration announce its long-discussed outbound investment screening regime focused on China's high-tech sector?
- How – if at all – will Beijing deploy its new export controls on gallium and germanium?
- With China indicating more willingness to hit back against economic restrictions, will countries like Japan and the Netherlands dial back their own controls?

Need anything more?

Send us mail

No.10 Jintong West Rd, Building A/B, Floor
7, Chaoyang District, Beijing, 100020

策纬(北京)管理咨询有限公司
北京市朝阳区金桐西路10号远洋光华国际
AB座7层

Email us

hq@triviumchina.com

Follow us

www.triviumchina.com

Twitter: [@triviumchina](https://twitter.com/triviumchina)

Facebook: [/triviumchina](https://facebook.com/triviumchina)

LinkedIn: [/company/trivium-china/](https://linkedin.com/company/trivium-china/)