

# *U.S. Is Using Taiwan as a Pressure Point in Tech Fight With China*

The Trump administration is challenging Chinese access to Taiwan's high-tech supply chain — and, by extension, Beijing's influence over the island it claims as its territory.



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The Trump administration has for years sparred with China over tariff threats, technology and the terms of their trade deal. But in a pair of actions last week, the administration escalated those economic tensions in a way that comes close to touching a red line for Beijing: its contentious relationship with Taiwan.

One of the world's leading computer chip makers, Taiwan Semiconductor Manufacturing Company, or T.S.M.C., said Thursday that it would build a factory in Arizona, a move heralded by American officials as a first step toward relocating a vital supply chain to the United States.

The next day, the Department of Commerce announced a rule change that could stymie the business the Chinese tech giant Huawei does with T.S.M.C. and other global chip manufacturers.

The administration has been working on multiple fronts to isolate Huawei, a major global smartphone brand and the planet's largest producer of the equipment that powers mobile networks. But simultaneously undermining Huawei and bringing T.S.M.C. closer into the American orbit is a one-two punch of industrial policy that would have been unthinkable only a few years ago, one that raises the prospect of a more serious conflict between China and the United States.

Never before has the Trump administration so forcefully challenged Chinese companies' access to Taiwan's high-tech supply chain — and, by extension, Beijing's influence over the self-governing island democracy, which it claims as part of its territory.

China considers its claim to Taiwan nonnegotiable, and it has lashed out at companies and politicians for failing to acknowledge it, even inadvertently.

The administration seems intent on “hitting at targets that are both economically and politically sensitive for Beijing,” said Eswar Prasad, a professor at Cornell University.

China's Ministry of Commerce condemned Washington's latest move against Huawei, saying it would do what was necessary to protect the interests of Chinese businesses.



Huawei's headquarters in Shenzhen, China. The company said its business would "inevitably" be affected by a Commerce Department rule change announced last week. Noel Celis/Agence France-Presse — Getty Images

Since the United States Commerce Department announced the rule change, industry analysts and executives have highlighted what they said could be a significant workaround.

The rule change bars companies around the world from using American technology to produce or design chips that are sent, either directly or through an intermediary, to Huawei itself. But it does not appear to prevent them from producing chips that would be sent to Huawei's customers or partners, such as contract manufacturers that assemble phones and other devices on Huawei's behalf.

The rule could still disrupt Huawei's business, however, forcing the company or its suppliers to reorganize their operations. And the Commerce Department could revise its rule in the coming months to narrow any loopholes.

"The future of at least a major portion of Huawei's business is now firmly in the hands of the Commerce Department," said Paul Triolo, a technology policy analyst at Eurasia Group.

Huawei this week declined to answer reporters' questions about the amended rule, although it acknowledged that its business would "inevitably" be affected.

The company appears to have been preparing for the possibility of being cut off from key suppliers. As of the end of 2019, Huawei had stockpiled \$23.5 billion worth of finished products, components and raw materials, according to its annual report, an increase of nearly three-fourths from a year before.

While the practical effects of the new rule remain unclear, the political message sent by last week's announcements was unambiguous: The Trump administration is eager to thwart China's efforts to dominate critical technologies and is turning to Taiwan as a new point of leverage.

Ever since the signing of the countries' so-called Phase 1 trade deal ushered in a truce in January, the Trump administration has gradually been ratcheting up its rhetoric against China. Mr. Trump has blamed

Beijing for failing to halt the coronavirus outbreak and has questioned the future of his hard-won trade deal. With the next election half a year away, Mr. Trump is hoping to blunt fierce criticism from Democrats over his handling of the virus.

Tensions have also spilled over into the World Health Organization, which counts China as an influential member but excludes Taiwan.



Taiwan Semiconductor Manufacturing Company, one the world's leading chip makers, announced last week that it would build a factory in Arizona. Ritchie B Tongo/EPA, via Shutterstock

In April, Mr. Trump halted funding for the W.H.O., criticizing it for “pushing Chinese misinformation,” and on Monday he threatened to pull the United States out of the organization. Also on Monday, his secretary of state, Mike Pompeo, condemned the W.H.O. for excluding Taiwan from its annual meeting, saying that Beijing was trying to “silence” Taiwan.

The United States has also grown more active in jockeying against China to build up and control access to the technological components that power everything from smartphones to missiles.

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Last May, the Commerce Department added Huawei to its “entity list,” requiring American companies to obtain a license before they can sell to the Chinese firm. The administration has since issued a series of other restrictions on collaborating and trading with Chinese technology companies.

The Commerce Department said the latest rule change was meant to thwart Huawei’s efforts to get around past restrictions. To lessen its reliance on American suppliers, Huawei has sought to meet more of its semiconductor needs in-house. But to mass-produce those chips to its specifications, Huawei still needs T.S.M.C. and other foundry firms, which rely extensively on software and equipment made by

American providers.

By taking aim at Huawei's access to a company that sits in Taiwan, the Trump administration added a dash of geopolitical insult to the injury.

Taiwan has long been of keen political significance for both Beijing and Washington. It is currently governed by a party that is suspicious of China's ruling Communist Party and favors closer ties to the United States.

In recent years, Taiwan's status as a global capital of semiconductors has added to its strategic importance. T.S.M.C. makes microchips for big global names across the tech world, including Apple, Qualcomm and Huawei's chip subsidiary, HiSilicon.

"You have the best semiconductor manufacturer in the world, and China thinks it owns the land it sits on," said Stacy Rasgon, a semiconductor analyst with the research firm Sanford C. Bernstein. "It shows just how dependent everyone is on T.S.M.C."

In a series of private discussions through last year, officials from the departments of Commerce, State and Defense urged T.S.M.C. to open an American facility as a way to strengthen political ties and guard against threats from China that could lead it to cut off shipments to the United States.

For many months, T.S.M.C. rebuffed those offers, citing costs. East Asia is the center of the global electronics supply chain, and Mark Liu, the company's chairman, had said that the major stumbling block was the greater expense of operating in the United States.

But recent entreaties from Washington — including, apparently, the promise of funding — changed the company's mind.

On Friday, a spokeswoman for T.S.M.C. said the company now saw "a potential possibility for us to close the cost gap," but she declined to elaborate. In a call on Friday, a State Department official suggested funding might be forthcoming from Congress, where lawmakers have discussed new funds to stimulate the semiconductor industry.

Analysts said spiraling tensions between the United States and China might also have forced T.S.M.C.'s hand. According to its latest annual report, a fifth of its revenue is from companies headquartered in China, but 60 percent is from customers based in North America.

"T.S.M.C. wants to sit in the middle and be Switzerland," said Ben Thompson, author of the influential tech newsletter Stratechery. "But it was getting to the point where that was unsustainable."

Another factor that may have led American officials to push for the Arizona factory is their broader fears about China's influence in Taiwan and its ability to hack or sabotage supply chains there, said Mr. Triolo of Eurasia Group. T.S.M.C. plays a crucial role in producing commercial chips that also have military applications in aircraft, satellites and drones.

The real purpose of the Arizona deal may have been "to allow T.S.M.C. to eventually become a trusted member of the U.S. military's supply chain," Mr. Triolo said.

The geopolitical dimensions of the technology tussle are not lost on Huawei executives.

At an event at Huawei's headquarters in Shenzhen on Monday, one of the company's deputy chairmen, Guo Ping, made pointed remarks about Washington's motivations for continuing its crusade against Huawei, even amid the global coronavirus crisis.

"The United States believes that technological leadership is the foundation of its supremacy," Mr. Guo said. "Technological leadership from any other countries or companies could put American supremacy at risk."