Submission of the
Semiconductor Industry Association

Proposed Modification of Action Pursuant to Section 301: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation

Docket Number: USTR-2019-004
June 17, 2019

I. Introduction

The Semiconductor Industry Association (SIA) takes this opportunity for public comment to express our deep concern with the Administration's proposed tariffs on consumer information technology products as part of the proposed additional tariffs on $300 billion in U.S. imports from China.

Semiconductors and its value chain are the bedrock of the modern American economy, powering virtually everything digital from cellphones and cars to supercomputers and military systems. U.S. chipmakers lead the world with close to half of the global market share. Semiconductors are America's fourth largest export, with a global trade surplus of over $4.5 billion and a trade surplus with China of $2.5 billion in 2018.[1] Nearly half of the manufacturing operations of major U.S. semiconductor firms is located here in the United States, across 19 states, directly employing close to 250,000 workers in the U.S. with well-paying jobs. More importantly, we are one of America's top exporting industries and a critical strategic asset that helps to drive U.S. economic competitiveness and technological leadership.

II. Analysis

As stated in previous submissions[2], SIA supports the Administration's goal to address discriminatory and burdensome trade practices of the Chinese government. However, we have made the case to the Administration that tariffs imposed on semiconductors and the broader IT industry will harm America's tech companies, and are an ill-equipped tool to address the problematic Chinese forced tech transfer and IP theft activities that were the subject of the Section 301 investigation. [3]

[1] Official U.S. government trade data, U.S. Department of Commerce, obtained from the U.S. International Trade Commission, Dataweb: https://dataweb.usitc.gov/.
[2] See SIA comments on the 301 process filed October 2017, May 2018, and July 2018.
[3] Submission of the Semiconductor Industry Association Regarding Proposed Determination of Action Pursuant to Section 301: China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property, and Innovation. Docket Number USTR-2018-0005. May 11, 2018.

The Administration's previously announced tariffs encompass nearly the entire semiconductor supply chain, including semiconductors, semiconductor manufacturing equipment, raw materials, substrates/printed circuit boards, printed circuit assemblies, heatsinks, telecoms networking equipment, and customer desktops/servers. The additional proposed $300 billion in tariffs now threaten virtually all information technology products – and purchasers of semiconductors – including key consumer products like laptops, cellphones, printers, solid state drives, video game consoles, televisions, displays, and more.

The U.S. IT sector is a significant and expanding segment of the overall economy that underpins hundreds of thousands of jobs, innovation, and U.S. leadership in critical "must-win" technology sectors. IT spending accounts for approximately 4% of US GDP in 2017, or around 8% including telecom and Internet of Things [IoT] spending. If tariffs on key consumer IT products are implemented, the economic consequences for the U.S. IT industry will be crippling.

According to research commissioned by SIA, imposing tariffs on virtually all Chinese-imported IT products would **decrease the U.S. IT market by $70 billion over 2019 and 2020**. Prior to this escalating trade conflict, IT spending was forecasted to grow at 5.0% in 2019 and 5.3% in 2020. If the additional tariffs are implemented, IT spending growth would drop almost 3 percentage points, down to 2.1% in 2019 and 2.4% in 2020.[4]

This is because vendors will be forced to pass on higher costs to their customers, which may trigger a slowdown in demand or competitive shifts. In other cases, vendors will try to absorb costs, either because end-user price sensitivity is elastic (mobile phones) or because competitive dynamics demand it (printer parts and consumables). Either way, there will be costs to the U.S. economy and IT sector in the form of cutbacks in IT spending, job losses and weaker wage growth as companies face slowing profitability and revenue.

A slowdown in IT revenues or profitability would also have knock-on effects for other connected sectors (via suppliers, partners, channel companies, distributors, etc), greatly damaging U.S. economic growth, productivity and competitiveness. According to SIA commissioned research completed at the beginning of the year, the net impact of the **additional tariffs on IT products would decrease U.S. GDP growth by 0.9% in 2019, and 0.3% in 2020** from the baseline Economist Intelligence Unit (EIU) forecast of 2.5% GDP growth in 2019 and 0.8% in 2020.

The additional tariffs on IT products would also weaken investment in new technologies in which the United States currently maintains a clear advantage over China and other countries, such as artificial intelligence (AI), cloud, and big data and analytics. Such reduced investment could have an effect not only on our economic security, but military superiority as well. For example, U.S. designed microprocessors provide a critical "backbone" for modern American

[4] IDC Industry Brief, sponsored by Semiconductor Industry Association, Trade War: Impact on IT Spending , February 2019

military superiority[5] by enabling "military leadership technology"[6]—from advanced weapons to nuclear development and from radar to cyber operations.

III. Conclusion

IT firms make up a significant sector of the U.S. economy, and any slowdown in this sector will have a ripple effect through a broad range of other industries, greatly impacting U.S. economic growth. There is no scenario in which tariffs on IT products is positive for the U.S. economy. To avoid inevitable harm to U.S. consumers, employment, economic growth, IT industries, productivity and technology leadership, we request that the U.S. administration remove key consumer IT products from the proposed tariff list, including those listed below:

Annex 1: HTS Subheadings Requested for Removal from $300 Billion Proposed Tariff List

HTS Subheading	Product Description	U.S. Imports from China ($), 2018
1. 8517.12.00	Telephones for cellular networks or for other wireless networks	43,206,764,206
2. 8471.30.01	Portable automatic data processing machines, not over 10 kg (Laptops)	37,457,412,708
3. 9504.50.00	Video game consoles and machines, other than those of heading 9504.30	5,367,623,958
4. 8528.52.00	Other monitors capable of directly connecting to and designed for use with an automatic data processing machine of heading 8471. (Displays)	4,656,486,207
5. 8528.72 (All lines)	Color television reception apparatus	4,630,251,265
6. 8523.51.00	Semiconductor media, solid state non-volatile storage devices	3,993,828,540
7. 8517.70.00	Parts of telephone sets (switches, chassis)	2,569,856,021
8. 3926.90.99	Other articles of plastic, nesoi	2,376,546,597
9. 8443.31.00	Multifunction units (machines which perform two or more of the functions of printing, copying or facsimile transmission)	2,313,915,100
10. 8525.80.40	Digital still image video cameras	1,730,750,493
11. 8528.71.20	TV reception set top boxes with a communication function, nesoi.	1,577,653,051
12. 8507.60.00	Lithium-ion batteries	1,480,683,171

[5] *Electronics Industry Study Report: Semiconductors and Defense Electronics*, The Industrial College of the Armed Forces, National Defense University (2003), at 3, http://www.dtic.mil/dtic/tr/fulltext/u2/a524792.pdf.

[6] Defense Science Board, *High Performance Microchip Supply*, Office of the Under Secretary of Defense for Acquisition, Technology & Logistics (2005), at 1, https://www.acq.osd.mil/dsb/reports/2000s/ADA435563.pdf.

13. 8518.30.20	Headphones, earphones, and combined microphone/speaker sets, other than telephone handsets	1,096,915,784
14. 8517.18.00	Telephone sets, nesoi	1,009,215,957
15. 8528.62.00	Projectors capable of directly connecting to and designed for use with an automatic data processing machine of heading 8471	613,678,946
16. 8521.90.00	Video recording or reproducing apparatus, other than magnetic tape-type.	539,809,657
17. 8518.21.00	Single loudspeakers mounted in their enclosures	468,009,893
18. 9013.80.90	LCD Monitors/SVC Panels	326,496,413
19. 8528.59.25	Color video monitors w/flat panel screen, video display diagonal n/ov 34.29 cm, not incorporate VCR or player	325,935,685
20. 9504.90.40	Game machines (o/than coin- or token-operated) and parts and accessories thereof.	195,894,734
TOTAL		**115,937,728,386**

Source: Official U.S. government trade data, U.S. Department of Commerce, obtained from the U.S. International Trade Commission, Dataweb: https://dataweb.usitc.gov/. Downloaded June 11, 2019.