



## **Why the U.S. House's China competition bill is a disaster**

Bradley Blankenship  
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The U.S. House of Representatives introduced on January 25 its version of a bill designed, its sponsors claim, to bolster the country's semiconductor industry and boost competitiveness with China. All told, the bill envisages more than \$200 billion in investment over the next five years into American manufacturing, technology, research and development.

But, as with the Senate's "Strategic Competition Act of 2021" that has been stalled out since the summer of last year, this bill misses the mark completely, violates Washington's obligations to the World Trade Organization (WTO) and would have disastrous results for average Americans if passed.

For starters, the \$50 billion five-year fund for semiconductor manufacturing, aimed directly at competing with China and addressing global chip shortages, is unnecessary and potentially disastrous for the industry altogether.

As the Cato Institute discussed in a piece in December 2021, the semi-conductor shortage will likely be alleviated midway through this year, which means taxpayer subsidies are, at a minimum, wasteful but potentially harmful.

Since the semiconductor industry is cyclical, which is a major reason for the narrow market failure at play right now, artificially increased capacity could lead to "overcapacity and eventual trade conflicts – especially since other large economies, such as the EU, South Korea and China, are also offering them," according to the Cato Institute.

A relevant historical parallel is a trade dispute that happened in the 1980s and 1990s between the U.S. and Japan (and later South Korea) over memory chips. This dispute, the authors of this piece of note, hurt American tech companies and consumers.

The bill generally seeks to expand the typical "trade remedies" employed by Washington, which violate its WTO obligations. Just one day after the introduction of the bill in question, on January 26, the WTO issued a decision that will allow China to impose duties on \$645 million worth of imports from the U.S. annually because of its abuse of antidumping and countervailing duties (AD/CVD).

The U.S. government consistently abuses these AD/CVD powers in ways that contravene broad public interest, which it is ironically barred from considering in its decisions, which hurt global trade. This isn't even to discuss the ways that unilateral sanctions, another component of this bill which hurt the American and global economy.

Likewise, the bill includes firm "Buy American, Hire American" requirements that proponents say will help create American jobs. And while this is true, though one can question if indeed these are the sorts of jobs the country ought to be focusing on, it would no doubt reduce competition in the American market.

Protectionist trade policies from Washington have consistently had such effects. They are, in principle, meant to protect the industries from foreign competition and it would be no exaggeration to say that America's soaring inflation is, in large part, a consequence of its anti-competitive practices.

Just look at how this is affecting farmers in America. Food prices are spiking globally due to several constraints but a major factor for U.S. farmers is protectionism. For example, tariffs on U.S. imports of phosphate fertilizers from places like Russia and Morocco, two leading producers, are raising costs and, in effect, cutting off U.S. farmers from the global market. Expanding these policies into new goods or new sectors will only hurt them.

On top of the fact that this bill is apparently designed to help U.S. workers and consumers, though it will actually hurt them, the administration of President Joe Biden is apparently working to address the issue of competition as a source of inflation but can't connect the dots on how protectionism is fueling domestic monopolies.

Politics is a major constraint here. Biden is sitting at a historically low approval rating, largely because he can't pass anything through Congress, and he needs a breakthrough on the Capitol. As a foreign scapegoat, China is usually a sure trick to bring together a bitterly divided Congress.

Biden has routinely shaped his domestic agenda message around competition with China, arguing that not spending on his priorities would give ground to Beijing.

Plus, this bill also offers the allure of jobs. While this is a major buzzword for the American electorate, it lacks nuance or contemplation of whether these jobs are taking the country's economy back a few decades in the long run.

As for now, statements from House Republicans imply that the bill may be stuck in a bind for the time being as they trip over themselves to see who is more anti-China. But here's hoping that some sensible members of Congress will bury this thing for all the reasons I mentioned – because it would surely mean more WTO arbitration and hurt average Americans.