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## Senate Poised to Pass Huge Industrial Policy Bill to Counter China

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Faced with an urgent competitive threat from China, the Senate is poised to pass the most expansive industrial policy legislation in U.S. history, blowing past partisan divisions over government support for private industry to embrace a nearly quarter-trillion-dollar investment in building up America's manufacturing and technological edge.

The legislation, which could be voted on as early as Tuesday, is expected to pass by a large margin. That alone is a testament to how commercial and military competition with Beijing has become one of the few issues that can unite both political parties.

It is an especially striking shift for Republicans, who are following the lead of former President Donald J. Trump and casting aside what was once their party's staunch opposition to government intervention in the economy. Now, both parties are embracing an enormous investment in semiconductor manufacturing, artificial intelligence research, robotics, quantum computing and a range of other technologies.

And while the bill's sponsors are selling it in part as a jobs plan, the debate over its passage has been laced with Cold War references and warnings that a failure to act would leave the United States perilously dependent on its biggest geopolitical adversary.

"Around the globe, authoritarian governments smell blood in the water," Senator Chuck Schumer, Democrat of New York and the majority leader, warned in a recent speech on the Senate floor. "They believe that squabbling democracies like ours can't come together and invest in national priorities the way a top-down, centralized and authoritarian government can. They are rooting for us to fail so they can grab the mantle of global economic leadership and own the innovations."

Mr. Schumer and the bill's other sponsors have steered clear of the phrase "industrial policy," knowing that would revive a 30-year-old debate about whether the government was picking winners and losers, or championing certain industries over others. That argument goes back to the days of the Reagan administration, when the biggest threat to America's semiconductor and auto industries seemed to be Japan, and the federal government started some small-scale initiatives, including one called Sematech, to reinvigorate the semiconductor industry. (The federal government's participation in Sematech ended a quarter-century ago.)

In an interview on Friday, Mr. Schumer pushed back on the idea that the United States was seeking to back industrial champions, as China does. "Industrial policy means we're going to pick Ford and give them money," he said.

“This means we’re going to invest in quantum computing or A.I. or biomedical research, or storage, and then let the private sector take that knowledge and create jobs,” Mr. Schumer said, adding later: “These are the areas of dominance that we need research in, and these are the areas of potential industrial growth; great job growth.”

One difference from the debate in the 1980s is that Japan is both an industrial competitor and a military ally. China, of course, is a rising geopolitical rival, and that has changed the nature of the debate. No one argued in the 1980s that Japan would use its largest companies as a tool for surveillance or a potential weapon of war; that is exactly the concern about China.

“The commercial and military distinction is eroded in China’s case,” said Senator Chris Coons, a Delaware Democrat who co-sponsored several bills that have been folded into the legislation. In China, “almost all the big companies are elements of state power and tightly connected to the central government, which largely has financed their dramatic rise.”

What is most striking about the legislation is the degree to which the projects that the bill funds closely parallel those in China’s “Made in China 2025” program, which funnels huge government spending into technologies where the country is seeking to be independent of outside suppliers. The Chinese government announced its initiative six years ago.

The result, many experts say, is that the bill may accelerate the decoupling of the world’s largest and second-largest economies, even as each worries about how dependent it is on the other. Beijing fears that it will be reliant for years on foreign sources for the most advanced chips and cutting-edge software; Washington has the mirror-image worry that China’s dominance in 5G technology will give Beijing the ability to cut off American telecommunications.

The shift to limit the intertwining of the two economies may also be sped by steps like the one President Biden took on Thursday, when he issued an executive order barring Americans from investing in Chinese businesses that support China’s military, or that manufacture surveillance technology used in ethnic or religious repression.

While some Republicans have balked at the bill’s costs — a \$52 billion subsidy program for the country’s semiconductor firms and another \$195 billion in scientific research and development — most are still signing on. And that has created concerns that the legislation, a classic Washington mash-up of other bills that has grown to more than 2,400 pages, may be longer on cash than real strategy.

Mr. Schumer rejected that contention in the interview.

“When the government invests in pure forms of research, down the road it creates millions of jobs,” he said, citing investments in the National Institutes of Health and the National Science Foundation.

His Republican co-sponsor, Senator Todd Young of Indiana, argues that the ideological orthodoxies of his party have been swept away by the realities of how China funds its “national champions” like Huawei, the telecommunications giant that is wiring nations around the world with 5G networks capable of directing traffic back to Beijing.

“We can’t be wedded to old doctrines and shibboleths,” Mr. Young said in an interview. “The world has changed. Our economy has changed. The needs of our country have changed.”

Senator John Cornyn, a conservative Texas Republican who has been critical in the past of government funding of industry, said of the semiconductor funding, “Frankly, I think China has left us no option but to make these investments.”

And Senator Mark Warner, Democrat of Virginia and the chairman of the Senate Intelligence Committee, where he has focused on China’s moves to dominate global telecommunications networks, argues that without a robust domestic industry, the United States has no way of enticing allies away from Chinese suppliers.

The bipartisan agreement is jarring in an era of partisan bitterness. But some things never change: The bill has been a godsend to lobbyists. In addition to many parochial projects inserted in the legislation in a bid to win broader support, there is a round of funding for NASA that seems likely to benefit Jeff Bezos’ space venture and another provision that doubles the annual budget of the Pentagon’s Defense Advanced Research Projects Agency.

President Biden issued an executive order barring Americans from investing in Chinese businesses that support China’s military. Credit...Doug Mills/The New York Times

The bill is gaining support after years in which the United States has objected to government subsidies for private industry — whether it was Airbus in France or Huawei in China.

“We’re making an attempt to punish China and their bad industrial policies,” said Sage Chandler, the vice president of international trade at the Consumer Technology Association, a trade group. “But rather ironically, we punish them and then start to copy exactly what they’re doing in a number of ways.”

The semiconductor funding is intended to both boost domestic manufacturers and lure the best of the foreign semiconductor manufacturers to open new, advanced manufacturing in the United States. Mr. Schumer has already pressed several companies to start building in upstate New York.

Intel, a pioneer in microprocessor technology that has since fallen behind in many arenas, said in March that it would invest \$20 billion to build two new factories outside Phoenix, where it already has a significant presence.

The plants will allow Intel to build semiconductors for other chipmakers, known in the chip industry as “foundries.” Right now the largest foundry of all is run by Taiwan Semiconductor Manufacturing Company — which provides many of the semiconductors for 5G phones and other high-speed cellular technology. The company is an oddity, because part of its facilities in Taiwan supply China’s manufacturers, and others supply the West’s.

That dual-supplier status has played into the struggle between Beijing and Washington over preserving Taiwan’s de facto independence at a time of rising concern that President Xi Jinping of China might try to take the island by force. American intelligence officials believe that Mr. Xi is hesitant to make such a move partly out of fear that the company’s fabrication lines might be destroyed, an outcome that would also upend much of China’s computer and telecommunications strategy. The risk, one intelligence official said recently, was “just too great” for Mr. Xi.

But no one wants to rely on that geopolitical calculation. So the Trump administration, in its last year in office, began wooing Taiwan Semiconductor to build bigger facilities on American soil.

The company says it has started building a chip fabrication plant, also in the Phoenix area, for advanced semiconductors. The project has received local financial support in Phoenix, but the company declined to say how much government funding has come through overall.

Some of the funding in the bill would go toward persuading foreign semiconductor manufacturers to open facilities in the United States — an approach similar to one taken by China, but in which it has made comparatively little progress.

When President Moon Jae-in of South Korea visited the White House last month, both Seoul and Washington committed to joint projects for semiconductors and the complex batteries used in electric cars. But while South Korean corporate executives traveled with Mr. Moon, there were no announcements of concrete investments, an indication that luring foreign manufacturers would remain a challenge.

American companies that could be in line to receive money from the legislation include large businesses like Micron Technology and Texas Instruments, one of the founding players in the American chip business. But the allocation of funds to specific companies will not be decided by the administration until after Congress approves the bill.

Already, there are signs of tension over who will benefit. The chip shortage that has hit the American automobile industry, impeding production, has also exposed disagreements in what kinds of semiconductors the federal government should be funding.

Automakers need what are essentially commodity chips — the ones that power dashboard maps and monitor engine operations. Members of the Senate Commerce Committee approved \$2 billion in additional funding for the bill aimed at addressing the industry's concerns.

But giving priority to the auto industry could come at the expense of investing in more cutting-edge semiconductors, those that use the smallest circuitry and would power next-generation products.

Scott Lincicome, a senior fellow at the libertarian Cato Institute, said the bill was touching off a feeding frenzy in the tech sector. “Lobbyists for giant companies see this, and they’re going to be sure to exploit it,” he said. “This is a very good time to be seeking subsidies for any industry in the technology space.”

The debate, so far, has not dwelled on the lessons of past successes and failures in government efforts to back new technologies. Instead, it has been focused on not losing ground to Beijing, often reflecting the will of Mr. Schumer, one of the Democratic Party's loudest China hawks for decades, who is determined to use his new status as the majority leader to push the legislation through.

“The bill is not perfect. There are elements I could do without,” said Senator Roger Wicker of Mississippi, the top Republican on the Commerce Committee. “And there are parts that I wish were included. But on the whole, this is a necessary step to keep our nation competitive.”