



Public Comments Submitted in Response to USTR Initiation of Section 301 Investigations: Acts, Policies, and Practices of Certain Economies Relating to Structural Excess Capacity and Production in Manufacturing Sectors

Docket No. USTR–2026-0067

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EXECUTIVE SUMMARY

In its request for comment, the Office of the U.S. Trade Representative (USTR) solicits comments on and recommendations “regarding the acts, policies, and practices of certain economies relating to structural excess capacity and production in certain manufacturing sectors.”

In response to this request, these comments provide analysis specifically on China’s structural excess capacity and production and respectfully put forth recommendations for USTR’s consideration, including:

- The 301 investigation should recognize that structural excess capacity from China is categorically different in scale and scope than that from other countries.
- Remedies under this investigation should reflect this difference, focusing on tariffs to resolve concerns associated with Chinese structural excess capacity.
- Tariffs on China should be complemented by the negotiation of binding plurilateral sectoral agreements with U.S. partners to build sufficient scale to provide a commercially viable alternative market not dependent on China or distorted by unfair Chinese trade practices.

Using the example of mature node semiconductors, a sector in which China’s increasing share of global markets presents both economic and national security concerns, the comments outline the types of commitments that could be included in a binding plurilateral sectoral agreement, including:

- **Commitments to support demand for derisked supply chains for mature chips**
 - Government procurement commitments to restrict Chinese mature chips from government procurement markets while also ensuring such markets remain open to all countries participating in the sectoral agreement.

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- Supply chain integrity commitments to align policies related to the import of Chinese mature chips intended for deployment in critical infrastructure or other sensitive, non-governmental applications.
- Common tariff policy to create a price mechanism that preferences mature chips produced in countries participating in the sectoral agreement.
- **Commitments to coordinate supply-side policies on mature chip production**
 - Notification and transparency requirements around incentives provided for mature chip production in chips club member jurisdictions.
 - Coordination of restrictions on outbound investment flows that contribute to China's structural excess capacity in mature chips production.

THE PROBLEM OF STRUCTURAL EXCESS CAPACITY

The 301 investigation covers a broad range of countries and potential drivers of structural excess capacity among the countries listed. These comments focus on China's unique role in creating structural excess capacity in global markets. China's structural excess capacity is categorically different than potential excess capacity from other sources, and U.S. remedies and responses should reflect this fact. Moreover, under certain scenarios China's growing global market share in critical sectors may unreasonably burden U.S. commerce even where this market share does not necessarily arise from structural excess capacity. USTR should consider also taking actions in these scenarios.

Excess capacity from China is categorically different than that from other sources.

The structural imbalance of China's economy, and the impact that its export-led growth model has on other economies, is a well-documented and long-standing concern for the United States and other advanced economies.² State support for strategic sectors, unfair trade practices, and an unwillingness to undertake difficult reforms to reorient the Chinese economy towards more consumption-driven growth have all contributed to conditions today in which Chinese manufacturing exports undermine the ability of other countries, including the United States, to strengthen their own domestic industrial capacity.³ These challenges have worsened in recent years, with Chinese over capacity surging in strategic sectors as well as across the economy, when looking at traditional definitions of overcapacity based on factory utilization rates.⁴ China is also now running its largest trade surplus ever, recorded at \$1.2 trillion at the end of 2025, a 20 percent increase from the prior year.⁵ Whether confined to technical concepts of overcapacity or more broadly considering the structural imbalances associated with China's state-supported, export-led growth model, it is

² Emily Kilcrease and Adam Tong, *Disorderly Conduct* (CNAS, 2024), https://s3.us-east-1.amazonaws.com/files.cnas.org/documents/DisorderlyConduct_EESCarnegie_2024_Final_062624.pdf.

³ François de Soyres et al., "China's Trade Dominance and the Role of Industrial Policies", Board of Governors of the Federal Reserve System, March 23, 2026, <https://www.federalreserve.gov/econres/notes/feds-notes/chinas-trade-dominance-and-the-role-of-industrial-policies-20260323.html>; Paul Krugman, "China's Trade Surplus, Part III", Substack, January 18, 2026, <https://paulkrugman.substack.com/p/chinas-trade-surplus-part-iii>; Camille Boullenois, Malcolm Black, and Daniel H. Rosen, *Was Made in China 2025 Successful?* (Rhodium Group, 2025), <https://www.uschamber.com/assets/documents/Was-MIC25-Successful-final.pdf>.

⁴ Camille Boullenois, Agatha Kratz, and Daniel H. Rosen, *Overcapacity at the Gate* (Rhodium Group, 2024), <https://rhg.com/research/overcapacity-at-the-gate/>.

⁵ Tamim Bayoumi and Joseph E. Gagnon, "Fasten your seat belts for the next China shock", March 12, 2026, <https://www.pii.com/blogs/realtime-economics/2026/fasten-your-seat-belts-next-china-shock>; Keith Bradsher, "China Announces Record Trade Surplus as Its Exports Flood World Markets," *New York Times*, January 13, 2026, <https://www.nytimes.com/2026/01/13/business/china-trade-surplus-exports.html>.

clear that China's export surpluses are categorically different in scale, scope, and impact than those from any other country.

China's state-supported trade imbalances have strategic implications for the United States, in addition to economic impacts. China is an increasingly capable producer of advanced technologies, including those with dual-use (i.e., military and civilian) applications. Unlike other major trading partners, China has clearly demonstrated its willingness to deny critical supplies to the United States to gain geopolitical advantage, as evidenced by its sweeping controls on rare earths in 2025. Over-reliance on Chinese sources of critical goods leaves the United States vulnerable to Chinese geoeconomic coercion, undermining the security of U.S. supply chains and undercutting the U.S. ability to take competitive actions of its own against China. Despite years of U.S. efforts to persuade China to curtail its harmful trade practices, Beijing has persisted in its efforts to provide state support to critical sectors with the aim of capturing global markets.

These strategic factors are fundamentally different than what exists with other major trading partners with whom the United States has a goods trade deficit. Imbalances with close partners and security allies may, under certain circumstances, present discrete burdens or restrictions on U.S. commerce but do not directly threaten U.S. economic and national security interests in the way that Chinese control over critical goods does. Additionally, the administration has successfully concluded reciprocal trade agreements with many of the partner countries listed in the investigation notice, which is a clear indication that concerns over imbalances with close partners are amenable to a negotiated resolution. Importantly, many of these agreements with U.S. partners and allies include commitments to strengthen economic security cooperation. These agreements show a path towards addressing U.S. concerns over imbalances while also creating a productive structure for closer alignment and cooperation to advance U.S. and partner economic security interests.

An increasing Chinese share of global markets for critical goods is a strategic problem, whether or not arising from over capacity.

The notice defines structural excess capacity as “underutilized industrial production capacity that is sustained through government interventions or policies incentivizing companies to maintain or grow their unused capacity inefficiently.”⁶ Certain sectors in which Chinese trade surpluses exist may be the result of structural excess capacity that meets that definition. However, other sectors may not be characterized by structural excess capacity but state-supported gains in global market share nonetheless present an unreasonable burden to U.S. commerce.

A notable example is mature node semiconductors, primarily meaning logic chips at 28nm or higher nodes.⁷ Factory utilization rates of the major Chinese chip fabricators are on par with industry standard.⁸ At the same time, Chinese capacity is expanding rapidly across all classes of mature chips, approximately doubling since 2015 and accounting for over half of planned production expansion globally.⁹ Much of the current production expansion may be targeted at Chinese domestic consumption, as China (alongside the United

⁶ Initiation of Section 301 Investigations: Acts, Policies, and Practices of Certain Economies Relating to Structural Excess Capacity and Production in Manufacturing Sectors, 91 Fed. Reg. 12886 (2026), <https://www.federalregister.gov/d/2026-05214/page-12887>; Boullenois, Kratz, and Rosen, *Overcapacity at the Gate*

⁷ Sujai Shivakumar, Charles Wessner, and Thomas Howell, "The Strategic Importance of Legacy Chips," CSIS, March 3, 2023, <https://www.csis.org/analysis/strategic-importance-legacy-chips>.

⁸ Paul Triolo, "Legacy Chip Overcapacity in China: Myth and Reality," CSIS, April 30, 2024, <https://www.csis.org/blogs/trustee-china-hand/legacy-chip-overcapacity-china-myth-and-reality>; Reva Goujoin, Jan-Peter Kleinhans, and Laura Gormley, *Thin Ice: US Pathways to Regulating China-Sourced Legacy Chips* (Rhodium Group, 2024), <https://rhg.com/research/thin-ice-us-pathways-to-regulating-china-sourced-legacy-chips/>.

⁹ Goujoin, Kleinhans, and Gormley, *Thin Ice: US Pathways to Regulating China-Sourced Legacy Chips*.

States) is among the largest end consumers of mature chips.¹⁰ However, experience with other sectors, such as electric vehicles and solar panels, shows that gaining a controlling position within China's domestic market is often a stepping stone to international expansion, raising the prospect of intensifying pressure in global markets for mature chips from Chinese producers.

China's mature chip production expansion is not accidental. As an earlier Section 301 investigation on China's semiconductors found, "For decades, China has targeted the semiconductor industry for dominance and has employed increasingly aggressive and sweeping non-market policies and practices in pursuing dominance of the sector."¹¹ Moreover, as U.S. and allied export controls on semiconductor manufacturing equipment have constrained China from expanding production at the leading edge, mature chips have become a priority within China's chips sector. A secure, reliable supply of mature chips is critical for the U.S. economy, critical infrastructure, and national security functions. China's growing dominance of global mature chip markets—regardless on whether the source of such dominance is structural excess capacity—will prevent the United States from procuring mature chips from a diverse set of trusted suppliers, and thereby undermine U.S. economic and security interests. Notably, one of the reasons why the previous Section 301 investigation on Chinese semiconductors found China's policy to dominate the semiconductor industry unreasonable and burdens or restricts US commerce is because it "creates economic security risks from dependence and vulnerabilities in sectors critical to the functioning of the U.S. economy"¹²

Unilateral approaches to structural excess capacity will push that capacity elsewhere, but are unlikely to resolve the underlying causes.

To date, unilateral U.S. tariff walls have led to lower bilateral trade deficits with China, but have been unable to address the underlying causes of China's structural excess capacity or unfair trade practices. The U.S. trade deficit with China in 2025 was the lowest recorded since China joined the WTO in 2001.¹³ At the same time, China's trade surplus with the world hit record highs. Rather than creating meaningful incentives for China to change its underlying practices leading to structural excess capacity, U.S. tariffs succeeded primarily in pushing the burden of China's excess capacity to other markets.¹⁴ The result is that domestic U.S. producers may enjoy protection from Chinese imports while selling within the U.S. market, but they will remain substantially disadvantaged when trying to export to third-party markets in which Chinese imports flow unimpeded. Exports are vital to U.S. manufacturing sectors, including in strategic sectors such as aerospace and microelectronics.¹⁵ The administration's admirable goal of rebuilding U.S. manufacturing cannot succeed without a policy that facilitates U.S. manufacturing exports and directly addresses the impact of excess Chinese capacity in third party markets.

¹⁰ Goujoin, Kleinhans, and Gormley, *Thin Ice: US Pathways to Regulating China-Sourced Legacy Chips*; Triolo, "Legacy Chip Overcapacity in China: Myth and Reality."

¹¹ Notice of Action: China's Acts, Policies, and Practices Related to Targeting of the Semiconductor Industry for Dominance, 90 Fed. Reg. 60848 (2025), <https://www.federalregister.gov/documents/2025/12/29/2025-23912/notice-of-action-chinas-acts-policies-and-practices-related-to-targeting-of-the-semiconductor>.

¹² Notice of Action: China's Acts, Policies, and Practices Related to Targeting of the Semiconductor Industry for Dominance, 60848

¹³ Hannah Miao and Roque Ruiz, "How Trump's Tariffs Are Choking U.S.-China Trade," *Wall Street Journal*, March 27, 2026, <https://www.wsj.com/economy/trade/how-trumps-tariffs-are-choking-u-s-china-trade-0ccc685a>.; "Trade in Goods with China," United States Census Bureau, 2026, <https://www.census.gov/foreign-trade/balance/c5700.html>.

¹⁴ Bayoumi and Gagnon, "Fasten your seat belts for the next China shock"; Bradsher, "China Announces Record Trade Surplus as Its Exports Flood World Markets."

¹⁵ Eric Chewning and André Dua, "US manufacturing: The next frontier for sustainable, inclusive growth", April 21, 2022, in *Future of America*, produced by McKinsey & Company, Audio Podcast, 32:39, [https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/future-of-america/us-manufacturing-the-next-frontier-for-sustainable-inclusive-growth#/.](https://www.mckinsey.com/featured-insights/sustainable-inclusive-growth/future-of-america/us-manufacturing-the-next-frontier-for-sustainable-inclusive-growth#/)

Moreover, as China's excess exports attributable to its structural excess capacity are blocked from the U.S. market and move to third-party markets, producers in these third-party markets will respond by exporting more to the United States. The result will be a shift in the composition of bilateral trade balances but the fundamental distortions of China's excess capacity will remain. This is most clearly the case in commodity markets that are priced globally, where the effect of China's excess capacity on global prices will distort markets whether or not any particular country is directly importing from China. The result is a whack-a-mole problem, where pushing down on excess capacity from one market merely results in it resurfacing in another.

For these reasons, unilateral U.S. tariffs have provided only a partial response to the challenge of Chinese structural excess capacity, providing limited protection for U.S. markets while leaving the underlying causes of structural excess capacity unresolved. The Chinese government has also shown little inclination to alter its practices, even when under significant tariff pressure from the United States. To address concerns with increasing Chinese share of global markets in critical technologies, the United States must have a more multi-faceted approach to build commercial demand for derisked critical goods and supply chains outside of China.

The ongoing efforts of the U.S. government to negotiate a plurilateral agreement on trade in critical minerals is an excellent demonstration of how a coordinated approach with close U.S. partners can support market structures that are not reliant on China. The critical minerals agreement could potentially include a broad range of innovative mechanisms to address the fundamental problem of a market highly distorted and dominated by Chinese state intervention, such as agreed price floors, investment incentives, and common standards in addition to border measures (e.g., tariffs).¹⁶ While the United States has started to take assertive actions to strengthen its own domestic rare earths capabilities, the plurilateral approach recognizes that cooperation with partners will be necessary to create sufficient scale for a viable market alternative to Chinese-dominated rare earth supply chains. The plurilateral approach is a good template for addressing other areas of market distortions caused by Chinese trade practices, including those related to structural excess capacity.

Plurilateral agreements can serve as an alternative tool to universal or baseline tariffs. The administration's use of universal tariffs is intended to broadly deal with country-wide trade imbalances. Plurilateral agreements address more specific concerns around particular sectors and can be most useful in building viable market alternatives to counter China's immense scale, particularly in sectors that are highly distorted by unfair trade practices or structural excess capacity. This set of comments focuses on the goals of a plurilateral agreement, using the mature node semiconductor sector as an example.

A CHIPS CLUB PROPOSAL

Section 301 authorities allow not only for the imposition of tariffs, if a foreign trading partner's practices are unreasonable or discriminatory and burden or restrict U.S. commerce, but also the negotiation of agreements to resolve the identified trade concerns. The ongoing investigation offers an important opportunity to create a coordinated approach with U.S. partners to strengthen demand for derisked mature chips through the negotiation of a "chips club" agreement with partners, with common measures to support demand for mature chip production within the jurisdiction of chips club partners while aligning policies to counter unfair Chinese trade practices in the mature chips sector, including related to structural excess capacity or excess global market share gained through unfair trade practices. Such an effort would also respond to the outcome of the earlier Section 232 investigation on the effect of chips imports on U.S. national security, which directed

¹⁶ Request for Comments on the Design of a Plurilateral Agreement on Trade in Critical Minerals and Policy Actions To Strengthen the Resilience of Critical Mineral Supply Chains, 91 FR 9686 (2026), <https://www.federalregister.gov/documents/2026/02/26/2026-03868/request-for-comments-on-the-design-of-a-plurilateral-agreement-on-trade-in-critical-minerals-and>

the Secretary of Commerce and the U.S. Trade Representative to jointly pursue trade negotiations on semiconductors.¹⁷

The current Section 301 investigation covers the economies that are both major consumers and major suppliers of mature chips. On the consumer side, this includes China and the European Union, who along with the United States constitute a large majority of end consumption of semiconductors globally.¹⁸ On the supplier side, this includes Taiwan, South Korea, Japan, China, and the EU as major wafer fabrication locations (along with the United States, and to a lesser extent India), as well as other countries that play important roles in the semiconductor value chain, such as Malaysia, Vietnam, Thailand, and Singapore.¹⁹ The inclusion of countries that are critical parts of global chips markets and also traditional U.S. partners creates an opportunity to leverage the 301 investigation to create a novel policy response to China's structural excess capacity through the creation of a chips club, building the conditions for a robust alternative market for mature chips that is not reliant on China.

The objective of the chips club should be to address the economic and national security concerns presented by a rising Chinese share of global mature chip production. Specifically, the chips club objectives should be to:

- Support a competitive and commercially viable market for mature chips that is not reliant on Chinese supply, including supporting demand for mature chips produced within chips club jurisdictions; and
- Protect the U.S. market from security concerns related to the use of Chinese mature chips in national security, critical infrastructure, or other sensitive applications.

The importance of a buyers club

Most of the policy interventions contemplated in these comments are intended to leverage the combined market power of the United States, Europe, Japan and other U.S. partners as buyers of chips. Other than China and the United States, the EU is the most significant consumer of semiconductors. The EU represents 20 percent of final consumption of semiconductors; the United States accounts for another 25 percent.²⁰ Including additional important allied end markets such as Japan, this type of buyers club accounts for a strong majority of global chip consumption, providing it with an opportunity to shape global demand trends. Using their combined buying power, the United States, Europe, and allies can create a strong demand signal for mature chips produced outside of China.

Demand-side commitments of chips club members could be structured around three concentric areas of policy interventions. First, government procurement commitments would leverage governments' ability to shape markets directly through their role as a customer. Second, supply chain integrity commitments would exclude untrusted suppliers from critical infrastructure and other security-linked deployments of mature chips

¹⁷ The White House, "Adjusting Imports of Semiconductors, Semiconductor Manufacturing Equipment, and Their Derivative Products Into the United States," press release, January 14, 2026, <https://www.whitehouse.gov/presidential-actions/2026/01/adjusting-imports-of-semiconductors-semiconductor-manufacturing-equipment-and-their-derivative-products-into-the-united-states/>.

¹⁸ U.S. International Trade Commission, "Recent Developments in Global Semiconductor Industry," press release, November 2023, https://www.usitc.gov/publications/332/executive_briefings/ebot_recent_developments_in_global_semiconductor_industry.pdf.

¹⁹ Lin Jones et al., *U.S. Exposure to the Taiwanese Semiconductor Industry* (U.S. International Trade Commission, 2023), https://www.usitc.gov/publications/332/working_papers/us_exposure_to_the_taiwanese_semiconductor_industry_11-21-2023_508.pdf.

²⁰ Antonio Varas et al., *Strengthening the Global Semiconductor Supply Chain in an Uncertain Era* (Boston Consulting Group and Semiconductor Industry Association, 2021), https://www.semiconductors.org/wp-content/uploads/2021/05/BCG-x-SIA-Strengthening-the-Global-Semiconductor-Value-Chain-April-2021_1.pdf.

outside of government. Third, tariffs and other border price-adjustment mechanisms would be used to shape economy-wide markets and ensure Chinese producers could not unfairly undercut allied production.

Government procurement commitments

Government procurement can support both chips club objectives, creating a demand signal for derisked chips while also mitigating against the security risks associated with the government’s use of Chinese chips in sensitive applications, including those related to national security. The United States has already taken steps to leverage its government procurement powers, including through Section 5949 of the 2023 NDAA, which prohibits executive agencies from procuring or obtaining certain products and services that include covered semiconductor products or services effective December 23, 2027.²¹

In the context of a chips club, three specific commitments related to government procurement could help establish strong and predictable demand for mature chips produced outside China. First, each government should establish and maintain a government procurement restriction that allows it to preclude mature chips produced (i.e., wafer fabricated) or packaged in China from their government procurements. Second, each government commits not to restrict its government procurement market for other members of the chips club. Third, governments commit that chips procured for the defense sector will exclusively come from other club members (with exceptions in scenarios where no viable sources are available from participating members).

While government procurement will be an important policy lever to signal demand for derisked mature chips, it is not a silver bullet. A known risk of government procurement requirements is that they can result in inferior goods or constrained supply available to U.S. government, if government requirements diverge significantly from what the commercial marketplace would otherwise support. This is particularly true for chips, where government procurement remains a small percentage of overall demand for chips.²² At an extreme, the requirements can leave the government without a qualified supplier, if market demand does not support commercial viability of a supplier that must meet onerous USG requirements. Scale, therefore, is key to ensure that procurement requirements create a strong enough demand signal to avoid this counterproductive outcome. Chips club members may also want to include a phase-in period and establish an evaluation function to assess on a regular basis the effectiveness of the government procurement requirements in supporting demand for derisked mature chips.

Europe will be an essential partner, given the size of its overall consumer market, its burgeoning interests in defense and industrial base spending, and the possibility to also incorporate NATO procurement in the chips club commitments. Promisingly, the T7, a group of think tanks advising the G7, has previously recommended G7 members commit to procure mature chips only from signatories of the WTO’s Agreement on Government Procurement, which would exclude Chinese-produced chips from G7 procurement markets.²³ Yet, Europe is also engaged in its own “Buy Europe” efforts, including for the defense sector, as part of its overall push to increase defense spending and build autonomy from the United States in defense

²¹ Federal Acquisition Regulation: Prohibition on Certain Semiconductor Products and Services, 91 FR 7223 (2026), <https://www.federalregister.gov/documents/2026/02/17/2026-03065/federal-acquisition-regulation-prohibition-on-certain-semiconductor-products-and-services>

²² Direct government procurement of chips is estimated to be only about 1 percent of the total market, although this figure would be higher if also including chips embedded in other goods purchased by governments. See 2025 State of the U.S. Semiconductor Industry (Semiconductor Industry Association, 2025), <https://www.semiconductors.org/wp-content/uploads/2025/07/SIA-State-of-the-Industry-Report-2025.pdf>.

²³ Agathe Demarais et al., *Economic Security / Boosting economic security collaboration among G7 economies and like-minded allies* (European Council on Foreign Relations, 2026), https://ecfr.eu/wp-content/uploads/2026/02/T7-solution-paper_Boosting-economic-security-collaboration-v1.pdf.

capabilities.²⁴ The chips club can be an important corrective to this trend, offering a construct where both U.S. and European suppliers can benefit from the broader scale offered by mutually open government procurement demand for mature chips.

Supply chain integrity regulation commitments

Beyond its direct procurement role when it acts as a customer, governments can also leverage their regulatory role to support demand for derisked supply chains. A core element is the ability to regulate the importation of mature chips to address national security risks that can arise from the physical security of the chip, which may be compromised to degrade performance and/or provide surreptitious remote access to sensitive information, and could be introduced at any stage of the chip production process.²⁵ In the United States, the Commerce Department's Information and Communications Technologies and Services (ICTS) program and the FCC's Covered List program allow the government to restrict technology imports that pose such a threat to national security. These programs could be used to restrict the import or use of mature chips intended for deployment in sensitive non-governmental functions, such as critical infrastructure, though neither has been used for this purpose. Under a chips club construct, members should agree to establish and maintain comparable authorities that would enable them to restrict the importation of Chinese mature chips for security reasons. As a corollary, members would agree not to use these authorities to restrict the import of mature chips from other members. These programs address security risks directly, but also have indirect benefits for derisked supply chains by creating demand for such supply chains through constraints on purchases from China.

Tariffs and other trade measures commitments

The chips club should also include economy-wide measures to create broader incentives for all end users of mature semiconductors to purchase chips from derisked supply chains. This primarily involves using tariffs and other trade measures such as quotas as a mechanism to adjust chip prices based on the location of their production or packaging, such that prices for chips from China will increase relative to those from chips club members. In the absence of efforts to raise the effective price of Chinese chips for end users, governments will struggle to ensure sufficient predictable demand for non-Chinese chips. While government procurement rules and supply chain integrity restrictions largely focus on excluding Chinese chips from certain sensitive sectors altogether, the economy-wide tariffs and trade measures discussed in this section should not aim to eliminate Chinese chips from the market but rather to ensure they cannot completely overwhelm markets and push out other producers, which would result in dangerous dependencies.

Designing trade measures to effectively cap China's share of the market for ultimate end users of mature chips, however, presents a number of challenges. The United States currently imposes tariff rates of 50 percent on Chinese semiconductors, arising from an earlier Section 301 investigation into China's forced technology transfer practices.²⁶ The subsequent Section 301 investigation on Chinese semiconductors determined that additional tariffs are appropriate, however established the initial additional tariff rate at 0

²⁴ Aaron Mehta and Valerie Insinna, "Europe is pouring money into defense. Can US firms reap the reward amid trans-Atlantic tension?", *Breaking Defense*, June 25, 2025, <https://breakingdefense.com/2025/06/europe-is-pouring-money-into-defense-can-us-firms-reap-the-reward-amid-trans-atlantic-tension/>; Wilson Shirley and Dejana Saric, "The Future of European Defense," *Goldman Sachs*, June 30, 2025, <https://www.goldmansachs.com/insights/articles/the-future-of-european-defense>.

²⁵ Jordan Robertson and Michael Riley, "The Long Hack: How China Exploited a U.S. Tech Supplier," *Bloomberg*, February 12, 2021, <https://www.bloomberg.com/features/2021-supermicro>.

²⁶ The White House, "Memorandum on Actions by the United States Related to the Statutory 4-Year Review of the Section 301 Investigation of China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation," press release, May 14, 2024, <https://bidenwhitehouse.archives.gov/briefing-room/presidential-actions/2024/05/14/memorandum-on-actions-by-the-united-states-related-to-the-statutory-4-year-review-of-the-section-301-investigation-of-chinas-acts-policies-and-practices-related-to-technology-transfer-intellectua/>.

percent set to increase to a higher, to be determined amount on June 23, 2027.²⁷ The tariffs apply to 18 tariff lines covering semiconductors and related inputs and products.

These tariffs, however, are largely without impact given that the United States does not directly import semiconductors from China in meaningful quantities. Chinese-produced chips instead more commonly enter the U.S. market either after final packaging and assembly in a third country (often in Southeast Asia) or most frequently embedded within another intermediate or final good, which may be sourced directly from China or from a third country. For these reasons, for U.S. tariff policy to meaningfully shape demand for non-Chinese chips, component tariffs should be applied to other products that contain Chinese-produced semiconductors, based either on the assessed value of the embedded semiconductor or specific unit tariffs (e.g. a set levy for each chip). While implementing such a tariff program will be technically complex, the NDAA process to exclude certain semiconductors from government procurement may prove a useful precedent for designing supply chain due diligence rules to identify Chinese chips within companies' supply chains, as it will also apply to semiconductors that are components of other end products.

As the United States determines its domestic approach to chips tariffs, drawing on both the current 301 investigation on structural excess capacity, the previous 301 investigation on Chinese semiconductors, as well as the Section 232 investigation on semiconductors, there is an opportunity to coordinate with other consumers and producers of mature chips to address the threats posed by China's efforts to dominate these global markets. The basic deal on offer would be that chips club members agree on a common tariff approach to Chinese mature chips, both in terms of rate and form (i.e., including component tariffs on goods with embedded chips) and in return their chips receive tariff-free access to any jurisdiction in the club. Again, the key is to produce scale. The United States currently accounts for about 8 percent of global wafer fabrication capacity for mature chips, which is expected to increase to 10 percent by 2032.²⁸ It is unrealistic to expect a near-term shift to self-sufficiency, so the goal instead should be to create a robust alternative market to Chinese supply. A chips club would also provide export opportunities to other major markets, including by creating the leverage to demand that other major consumers, like Europe, put up a tariff wall to keep their markets open and competitive for U.S. firms rather than those markets being overwhelmed by Chinese excess supply.

Supply-side interventions

The primary benefit of a chips club would be to establish and coordinate support for demand for derisked supply chains. However, certain supply-side actions could also benefit from incorporation into the chips club, particularly regarding how members (and firms within member countries) are making investments into mature chip production capabilities. All major chip producing countries have some sort of incentive program related to chips manufacturing.²⁹ The chips club could include a requirement for notification to other members of incentive programs, to facilitate loose coordination of investment decisions and guard against the potential for distortionary incentives. To encourage and enforce such notifications, the club could provide members a right to impose countervailing duties on chips produced in subsidized fabs from other members when such incentive programs were not notified to the club. Similarly, as governments including the United States have established equity stakes in certain chipmaking companies and other firms relevant to chip supply chains (e.g. in critical minerals), chip club members should notify each other of any relevant government equity stakes and any non-commercial assistance the government is providing to such firms, again to facilitate loose coordination, promote a more level playing field, and share lessons on effective strategies.

²⁷ Notice of Action: China's Acts, Policies, and Practices Related to Targeting of the Semiconductor Industry for Dominance, 60848.

²⁸ Raj Varadarajan et al., *Emerging Resilience in the Semiconductor Supply Chain* (Boston Consulting Group and Semiconductor Industry Association, 2024), https://www.semiconductors.org/wp-content/uploads/2024/05/Report_Emerging-Resilience-in-the-Semiconductor-Supply-Chain.pdf.

²⁹ SIA, *2025 State of the U.S. Semiconductor Industry*.

An additional consideration related to investment could be restrictions from chips club members on investments in China's mature chip fabrication expansion. To date, the United States program to regulate outbound investments in China is the most robust amongst the G7, but even the U.S. program does not cover investments in mature chip production (though it does cover U.S. investments in advanced chip production). If the primary goal of the chips club is to build an alternative market to China's structural excess capacity, it would appear logical to restrict the ability of firms in member countries from making investments that build that capacity. Establishment of an outbound investment program that covers, or could cover, mature chips investments in China should be a core requirement for members in the chips club.

CONCLUSION

Global structural excess capacity burdens and restricts U.S. commerce and poses a significant threat to U.S. economic and national security interests. The problem, however, is overwhelmingly due to China's impact on global markets and its pursuit of market dominance in key strategic sectors, including mature semiconductors. Unilateral U.S. efforts to address China's actions are unlikely to shift its behavior.

An alternative approach, where the United States works with a broader coalition of countries to create sufficient demand to allow commercially viable markets not dependent on China, is more likely to bear fruit. The United States has announced its intention to explore such an approach on critical minerals; these comments have outlined how this approach could also be applied in the mature chips market. Ultimately, these types of binding plurilateral sectoral agreements will allow the United States to source from secure and reliably supply chains and export to a broader external market insulated from unfair Chinese competition.