

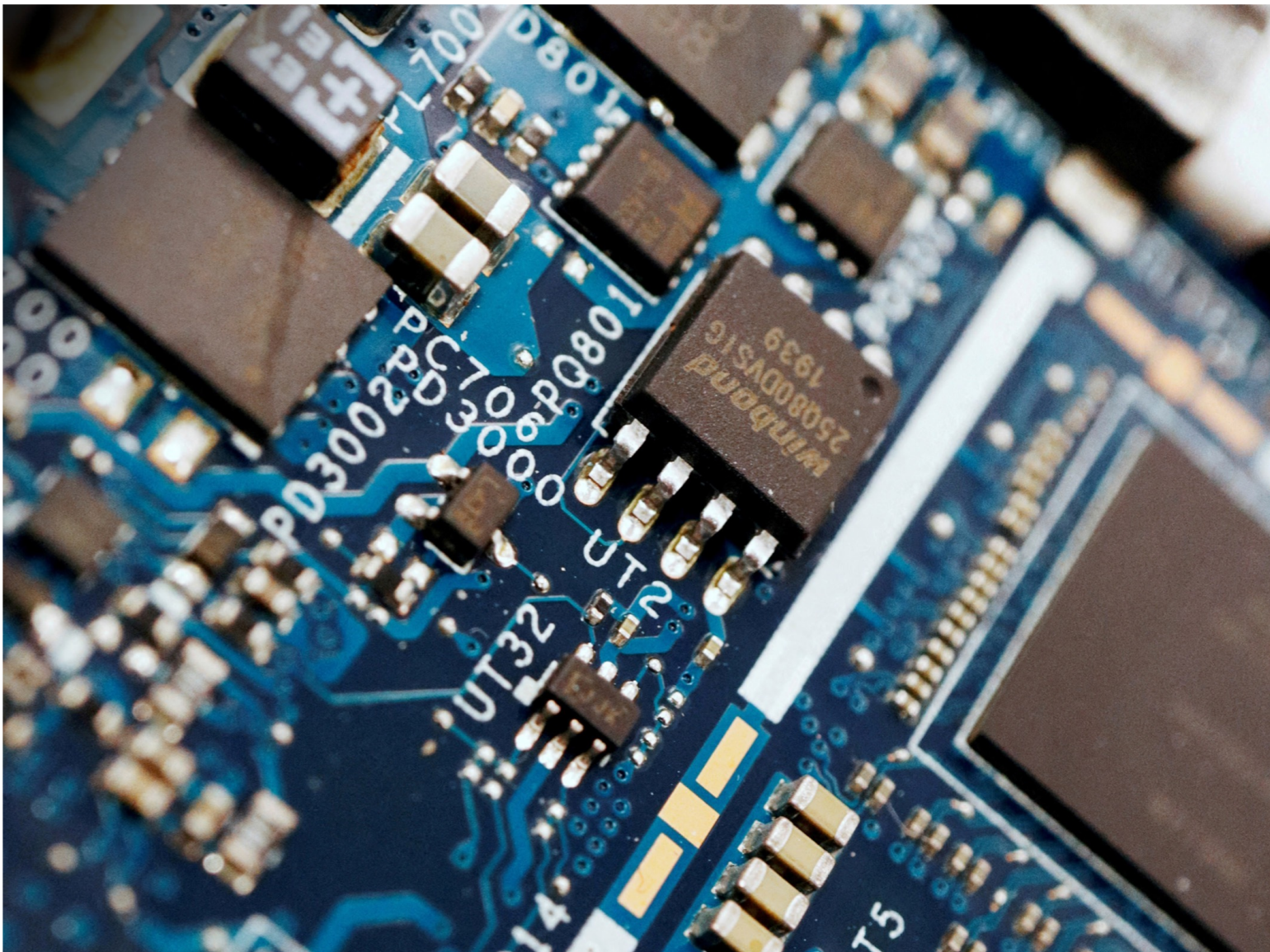
## “China Strikes Back on Chips War”

*June 8<sup>st</sup>, 2023*

The Chinese government has heightened its conflict with Washington over technology and security matters by advising users of sensitive computer equipment to avoid buying products from Micron Technology Inc., the largest memory chipmaker in the United States.

The Cyberspace Administration of China has mentioned unidentified "significant network security risks" linked to Micron products that could potentially endanger China's information infrastructure and national security. Nonetheless, the administration did not disclose any specific details about these risks in its concise announcement.

The agency has directed Chinese operators of critical information infrastructure to stop procuring products from Micron Co.





China's access to advanced technology, with potential military applications, has been restricted by the United States, Europe, and Japan. In response, President Xi Jinping's government has exhibited increased assertiveness towards neighbouring nations such as Japan and Taiwan. The Chinese government has voiced apprehensions about the repercussions of these limitations. However, it faces challenges in retaliating effectively without compromising its domestic industries, including smartphone manufacturing, as well as its initiatives to develop chip suppliers.

Following the implementation of China's increasingly stringent information security laws, a government evaluation of Micron was initiated on April 4. This action came shortly after Japan and the United States imposed restrictions on China's access to processor chip manufacturing technology due to security apprehensions.

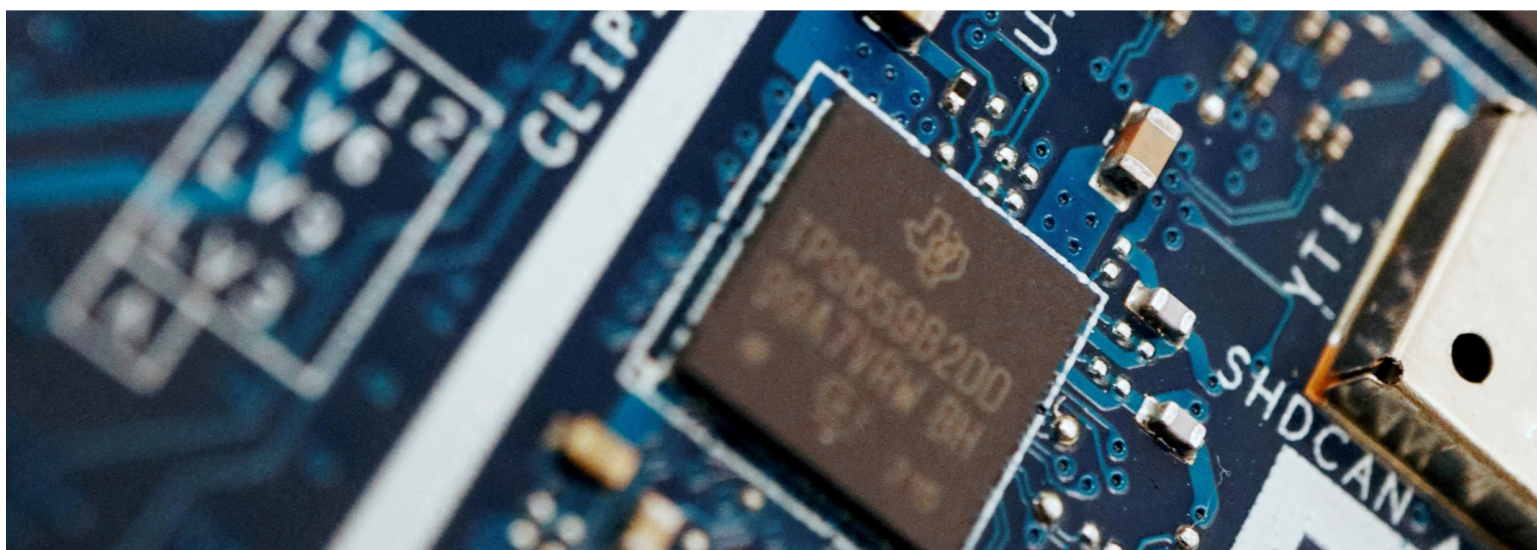
Moreover, foreign companies have been alarmed by the Chinese authorities' raids on consulting firms like Bain & Co., Capvision, and the due diligence firm Mintz Group. Surprisingly, the authorities have not provided any specific reasons for these raids. In response, the United States government and business organizations have called upon China to clarify the new legal restrictions on information and provide insights into their enforcement procedures.

The review announcement regarding Micron appears to have been intended to alleviate concerns among foreign companies.

The Cyberspace Agency has affirmed that China is actively promoting external market expansion and embracing businesses, platforms, products, and services from various countries, provided they comply with Chinese laws and regulations.

In March, President Xi accused the United States of impeding China's progress and called upon the public to retaliate. Nevertheless, China has approached retaliation cautiously, likely due to concerns about disrupting domestic industries responsible for manufacturing a significant portion of the world's smartphones, tablets, and other electronics. These industries heavily rely on over \$300 billion worth of imported foreign chips annually. To reduce dependence on foreign technology, China is investing substantial amounts of money in accelerating chip development.

However, the current capabilities of domestic foundries are limited, only enabling the production of low-end chips for applications like home appliances and automobiles, rather than advanced technologies such as smartphones and AI systems.



Due to the ongoing conflict, there is growing apprehension about the potential division of the world into separate domains characterized by incompatible technology standards. This could lead to a scenario where computer products and smartphones from one region would be incompatible and unable to function in other regions. Such a situation would likely result in increased costs and could potentially hinder innovation.

The relationship between the United States and China has significantly deteriorated due to various factors, including security concerns, Beijing's treatment of ethnic minorities in Hong Kong and Muslim-occupied territories, territorial disputes, and China's substantial trade surpluses. This strained relationship is currently at its lowest point in decades.

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