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THE PENINSULA

Making America Chipless Again

Published March 7, 2025

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Category: Technology

"You should get rid of the CHIP Act and whatever's left over, Mr. Speaker, you should use it to reduce debt. Or any other reason you want to." This pronouncement from President Donald Trump's first address to Congress in his second term fully unmasked his administration's trade 2.0 agenda. If realized, the repeal of the CHIPS and Science Act potentially affects the direction of billions of dollars of targeted investment in semiconductors, which benefit from the legislation's broad subsidies and incentives.

The United States accounted for just 12 percent of global semiconductor manufacturing in 2020, a steep decline from 37 percent in 1990. The global race to secure dominance in artificial intelligence (AI), coupled with latent supply-chain risks exposed by the 2020 pandemic and growing geopolitical vulnerabilities involving fabrication plants around the Taiwan Strait, have brought these issues to the forefront. As such, reshoring chip production to the United States became a topline issue for the Department of Commerce under the Joe Biden administration.

The CHIPS Act appropriates more than USD 52 billion in both direct subsidies and loans to help reshore semiconductor production to the United States and support research. The bespoke nature of semiconductor production entails that a final product, such as a graphics processing unit (GPU) used for AI data centers, uses a panoply of advanced parts sourced from dozens of fabrication facilities around the world. Accordingly, foreign companies like TSMC from Taiwan or Samsung and SK Hynix from Korea receive a significant share in funding awards from the CHIPS Act to partially reshore in the United States, and Samsung and TSMC are among a handful of companies with billion-dollar-plus

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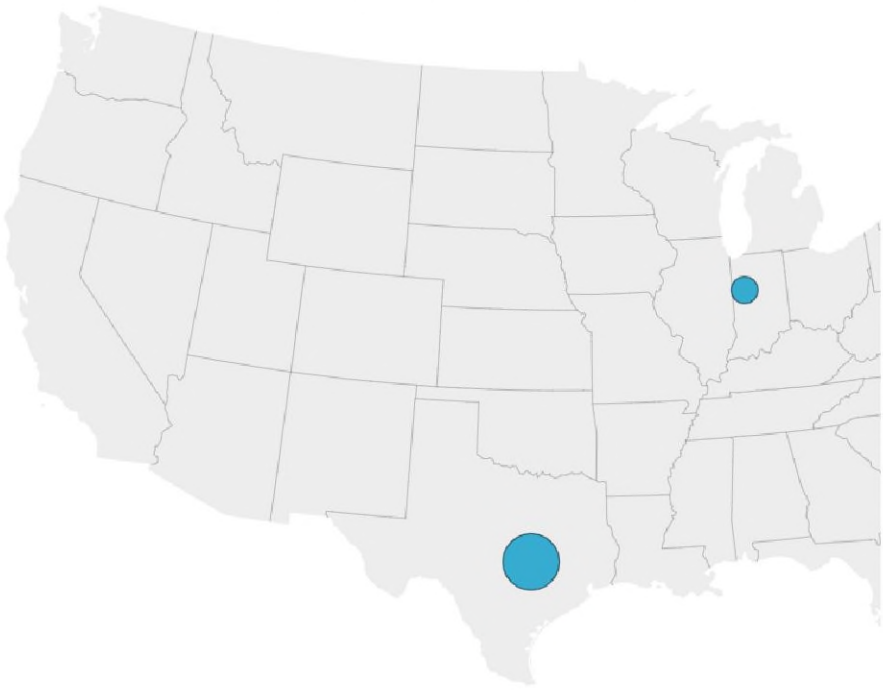
allocations. Leading in areas like high-bandwidth memory for GPUs, Korean companies represent roughly USD 5.158 billion in grant-based funding awards out of the total USD 39 billion set aside for manufacturing projects. Accordingly, specialization by foreign companies in areas like high-bandwidth memory or leading-edge nodes makes international cooperation essential to the United States' semiconductor supply chains, and the elimination of funding disbursements and similar tax incentives under the CHIPS Act could put the continued allocation of these types of U.S. investments under threat.

CHIPS Act Grant Awards to Korean Companies

The CHIPS Act, enacted in August 2022, commits more than $52 billion in subsidies and direct loans to semiconductor manufacturing projects across the United States.



Map: Tom Ramage, Korea Economic Institute of America (KEI). Sources: Manufacturing Dive, National Institute of Standards and Technology (NIST), U.S. Department of Commerce. Last updated March 5, 2025. • Get the data • Created with Datawrapper

While candidate Trump broadly implied that the upshot of the CHIPS Act could have been accomplished with tariffs, plans to scrap it altogether were absent from the campaign trail. Still, the hints were there. At a campaign event, Speaker of the House Mike Johnson told reporters that a Republican-controlled house "probably will" try to repeal the CHIPS Act, although he later walked these comments back. Similarly, in line with Trump's recent efforts to roll back federal diversity, equity, and inclusion (DEI) initiatives, pundits have equated the bill with DEI by deriding provisions of the legislation that contain priority accommodations for minority-serving institutions, economically disadvantaged individuals, and women in the labor force—citing these as potential reasons for projects not coming online fast enough or why companies chose other countries altogether.

What is now clear is that the new White House believes fully in the power of tariffs to reshore manufacturing. Shortly after his inauguration, Trump suggested instituting as high as a 100 percent "tax" on foreign semiconductor production, which has since been promulgated as a potential 25 percent tariff on chip imports. Regarding the ability of tariffs to replace incentives under the CHIPS Act, Trump stated in his address to Congress, "All that was important to them was that they didn't want to pay the tariffs, so they came and are building, and many other companies are coming...and they will come because they won't have to pay tariffs if they build in America."

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For observers, this agenda may appear to be succeeding. TSMC announced a USD 100 billion investment to expand its operation in Arizona the day before Trump's address. TSMC's main footprint in Arizona was, for the most part, cemented under the Biden administration using the auspices of the CHIPS Act, under which they benefited from a USD 6.6 billion award. But depending on the timeframe of its ultimate rollout, the unveiling of its full planned investment allows TSMC's Arizona operations to become the largest single foreign direct investment project in U.S. history at a total of USD 165 billion—its announcement timing a boon to Trump's new term.

Given this nuance, it remains to be seen if this strategy will succeed in the long run for other companies to make similar investments. Although TSMC may have moved to avoid the tariffs altogether, without a specific exemption, it is hard to say if this strategy works to avoid the costs of foreign production under Trump. Semiconductor fabrication plants can take more than a decade to come online. Conversely, if the CHIPS Act is kept in place, investment efforts spurred by the legislation could have a dual purpose of playing into the president's love of deal-making and fulfilling the strategic need for U.S. semiconductor investment.

No matter TSMC's ultimate impetus, certainty will need to be conveyed for major chip investors in the U.S. economy. Of the USD 39 billion in grants available under the CHIPS Act for manufacturing, the Biden administration reportedly rushed to conclude unresolved negotiations for more than USD 30 billion before the start of the second Trump administration, lest the deals fall into uncertainty under a new administration. Government and company sources told the Wall Street Journal that "legally binding, completed awards would be impossible to pull back absent an act of Congress." Despite this, the Commerce Department's CHIPS office has already lost more than a third of its staff amid the government-wide purge of probationary employees, reinforcing the threats facing the program's implementation.

With this in mind, the new administration will have to grapple with how to best balance domestic industrial policy with strategic global competition for chip reshoring efforts to be successful. Replacing carrots for sticks within U.S. chip policies will likely not increase the speed at which the United States reclaims semiconductor dominance.

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