

Chip war standoff: Germany puts car makers ahead of U.S. allies in fight for “world’s most critical technology”

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- Study reveals why German firms are refusing U.S. demands to freeze China out of vital tech
- Germany continues selling semiconductor chips to China, ignoring U.S. embargo
- Links with car makers lead German chip firms to choose China over U.S. relations

New research out today [8th July] reveals why German firms are refusing to join the United States' tech trade war with China over semiconductor chips, a key component in modern electrical devices.

University of Sussex and Kings College London researchers found heavy links between German car makers like Mercedes-Benz, BMW and Volkswagen, and the country's semiconductor firms. With automotive companies now dependent on Chinese markets and suppliers, the researchers say this explains why Germany is defying U.S. calls to cut China out of semiconductor supply chains in an ongoing global trade dispute known as the chip war.

Dr Steven Rolf, Research Fellow at the Digital Futures at Work Research Centre, University of Sussex Business School, said: “China spends more on importing semiconductors than oil and the U.S. is using all its leverage to get European firms to turn off the tap. The pressure is huge. Which is why it's been so interesting to see German players ignoring calls to separate, or decouple, from China.

“Once you see how deeply German automotive and semiconductor interests are wedded together it makes sense. They're stuck in the middle, vulnerable to US powers on tech, and China on cars. For now, it looks like they're sticking with the latter.”

Dubbed “the world's most critical technology” in a 2022 book on the subject, semiconductors are used in modern electronics like smartphones, medical devices and routers. The industry is worth more than \$500bn and expected to double by 2030.

Dr Rolf adds: “American attempts to stall China by weaponising supply chains rely on a relatively small number of firms across Europe and Asia. These firms can be understood as chokepoints, capable of blocking or accelerating China's technological advances.

“Yet they are critically understudied. For the first time we can see the difficult choices companies like Merck, Siemens and SÜSS MicroTec are having to make between U.S. tech and lucrative Chinese markets, and the political ramifications of those choices.”

The study found German semiconductor firms are no more dependent on Chinese markets than those in Japan or South Korea, countries which have supported American efforts and even withdrawn from China altogether. Yet what the researchers term “secondary exposure”, through links to other important industries like car makers, has led them to resist the U.S. embargo.

Dr Julian Germann, Senior Lecturer in International Relations, University of Sussex School of Global Studies, added:

"Germany's semiconductor industry may not be the largest, but its strategic importance to the U.S. China chip war is undeniable. The calculated defiance by firms at the frontline of U.S. China competition suggests that the next American president would need to ramp up pressure on Germany to enforce tech sanctions against China."

Written by researchers at the University of Sussex and Kings College London today's paper analyses new trade datasets and annual company reports. It is part of an ongoing study into the role businesses across the world are playing in U.S.-led initiatives to decouple its economic relations with China.

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