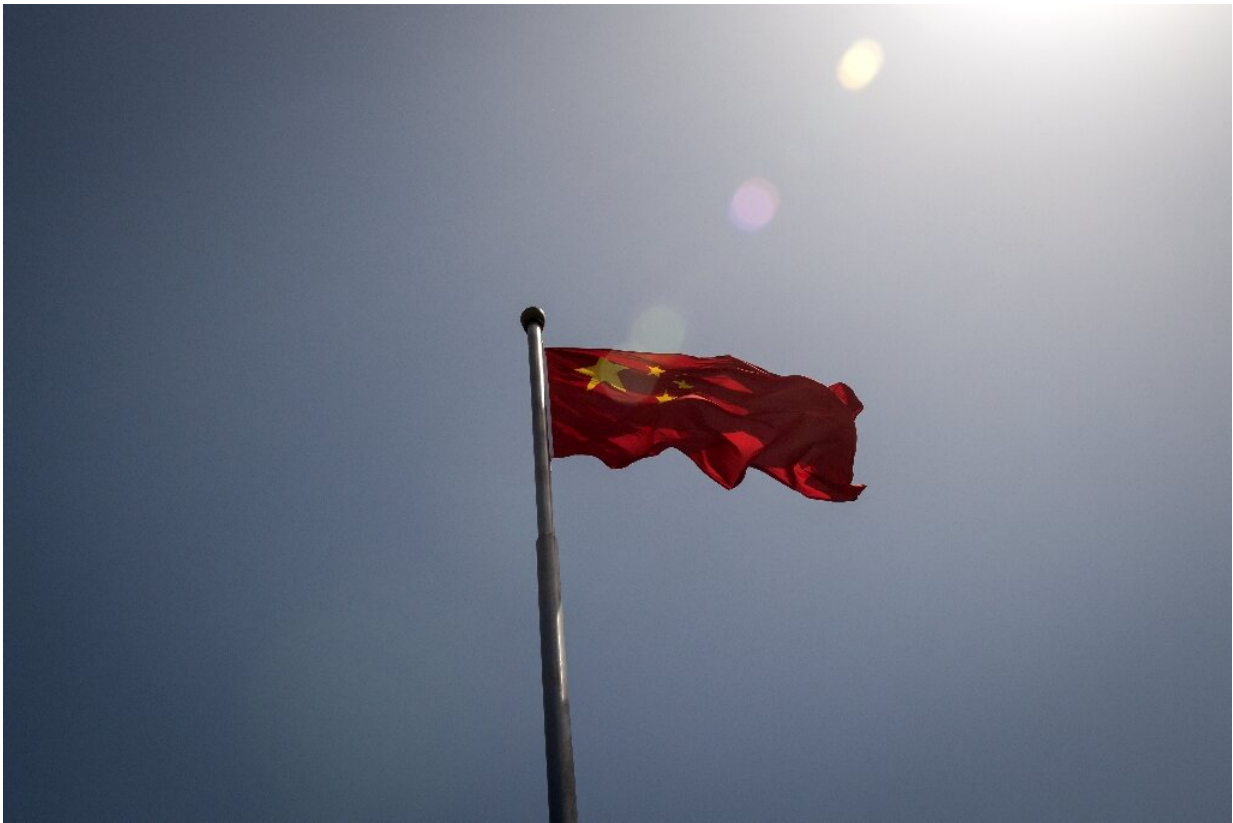


China chip giant SMIC shares dive on US export controls

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The reported export controls on Chinese chip maker SMIC are the latest salvo in the battle between Washington and Beijing over tech

Shares in China's biggest chip maker tumbled Monday on reports that Washington had imposed export controls on the company, the latest

salvo in the battle for technological dominance over Beijing.

In a new blow for China's advanced tech ambitions, the US Commerce Department reportedly ordered companies to seek permission before selling equipment to Semiconductor Manufacturing International Corp (SMIC).

Equipment sold to the Chinese company posed an "unacceptable risk" of being diverted to "military end use", according to a letter sent to major US computer chip firms that was seen by The Wall Street Journal and the Financial Times.

News of the letter, which was first reported Saturday, sent SMIC's Hong Kong-listed shares plunging as much as 7.9 percent to a four-month low Monday morning, extending a 25 percent loss for the month as investors fretted it would soon be targeted for sanctions by Washington. It later recovered some losses to end down 3.88 percent.

Advanced tech has become one of the many battlefronts that have opened up in the past few years as relations between Beijing and Washington plummet to their lowest levels since diplomatic relations were restarted in 1979.

SMIC is China's biggest contract manufacturer of chipsets and a key pillar of Beijing's plans to achieve semiconductor self-reliance.

Analysts say China's dependence on foreign—including US-made—chips hinders that national goal.

Backed by several state-owned entities, SMIC has made strides at improving China's chip capabilities but it remains heavily reliant on imported equipment and software.

Under the new rules announced by the Commerce Department, US companies that want to sell equipment to SMIC will now have to apply for a licence.

"The restriction, once implemented, will severely damage SMIC's existing and future manufacturing capabilities, and customer trust," Bernstein analysts led by Mark Li wrote in a note.

"Without steady supply and service from the US, the yield and quality of SMIC's capacity will degrade, as early as in a few months for more advanced nodes."

Tit for tat tech tensions

On Monday SMIC said it had yet to receive any notification of the new restrictions from the Commerce Department.

"The company has no relationship with the Chinese military and does not manufacture for any military end-users or end-uses," it said in a statement.

The export restrictions for SMIC come after a similar US campaign to hobble Chinese telecom giant Huawei, which Washington fears could allow Beijing to tap into global telecoms networks.

The US Commerce Department in May announced plans to cut off Huawei's access to global semiconductor supplies, which the company said would threaten its survival.

The move against SMIC is less severe than placing Huawei on its so-called entity list—a de facto blacklisting—but it will likely further inflame Beijing's anger.

Donald Trump has become increasingly hawkish towards China as he battles for re-election in November.

His administration has also announced plans to ban Chinese social media apps TikTok and WeChat on national security grounds.

Those advocating a more hawkish stance towards Beijing have long warned of a symbiotic relationship between Chinese companies and the country's military and security apparatus.

They have also complained of unfair trade practices such as intellectual property theft and state-sponsored cyber espionage.

But many analysts argue that Trump's actions could backfire on the US tech sector and other American businesses by encouraging China and other countries to respond in kind.

More ominously, Trump appears to be moving toward "crony capitalism" by brokering deals that benefit his friends.

One recent example is a proposed deal to transfer control of TikTok from its Chinese parent to Walmart and Oracle—the latter a tech giant founded by a major fundraiser for the president.

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