Congress of the United States
Washington, DC 20515

July 12, 2021

The Honorable Gina Raimondo
Secretary
Department of Commerce
1401 Constitution Avenue, NW
Washington, D.C. 20230

Dear Secretary Raimondo,

We write to express our strong support for your commitment to "use all tools to the fullest extent possible" to mitigate the national security risks in our technology trade with the People's Republic of China (PRC). Despite the systemic challenges posed by the Chinese Communist Party's (CCP) defense-driven economy, your Department has a nimble tool to respond immediately to entities that are reasonably believed to be involved in activities contrary to the national security or foreign policy interests of the United States. One such company that meets this criteria for being included on your Entity List is **Yangtze Memory Technologies Company (YMTC)**, which has clear ties to the Party-state and military and plays a significant role in CCP plans to control the supply chain for a strategic dual-use sector.

YMTC is the PRC's state-owned national champion for memory chips — a type of semiconductor with defense, artificial intelligence, and aerospace applications. YMTC was created as a joint-venture by the National Integrated Circuit (IC) Industry Investment Fund, Tsinghua Unigroup (a state investment firm that is one of the IC Fund's shareholders), the Hubei IC Industry Fund (a regional branch of the national IC Fund), and the Hubei Science and Technology Investment Group (an investment vehicle of the Wuhan Municipal Government that provides capital investment, infrastructure and services for the PRC's strategic industries, including semiconductors).

YMTC's leadership has extensive ties to the Party-state, including executives with previous employment at the Semiconductor Manufacturing International Corporation (the PRC's leading national semiconductor foundry and a CCP military company) and the arm of the Ministry of Industry and Information Technology that provides C4ISR-related technology to the CCP military. YMTC's influence and importance to the Party-state was demonstrated when the CCP let YMTC continue manufacturing memory chips in Wuhan during the initial outbreak of coronavirus.

YMTC is linked to the CCP military through its complex corporate network. YMTC's parent, Tsinghua Holdings, has a vast network of subsidiaries and affiliates supplying the CCP military. These connections to military entities no doubt contributed to multiple decisions by the U.S. government to investigate or outright block YMTC's parent from acquiring leading U.S. semiconductor companies — such as Micron and Western Digital.

The CCP is implementing an unprecedented industrial plan to vertically control each segment of the semiconductor supply chain. Because memory chip producers in market economies complete

largely on cost, irrational state subsidies and non-financial support — including forced procurement of PRC technology and theft of intellectual property — given to PRC firms such as YMTC, threaten to give the CCP a growing and potentially commanding share of global production in this dual-use technology. An October 2020 study by the Yole Development Group shows that YMTC's entry into the global semiconductor market may cause the industry to lose $101 billion in revenue by 2026. PRC industrial policies and market share targets are incentivizing YMTC to pursue a business strategy of oversupplying the market without regard to traditional economic profit drivers, which may result in YMTC's market share going from 1 percent currently to 17 percent by 2026. Such a sharp, distortive increase in production would likely severely harm U.S. and allied country manufacturers and disrupt the ability of the U.S. government and its critical infrastructure sector to have a secure, trusted supply of memory chips.

As you have rightfully highlighted, production deficiencies in the U.S. semiconductor supply chain are "a national security risk and an economic security risk." Your support for the bipartisan Creating Helpful Incentives to Produce Semiconductors for America Act recognizes the reality that supply chains for critical technologies, such as memory chips, are a matter of national security. General Secretary of the CCP Xi Jinping's statement that the PRC "must tighten the dependence of international production chains on China" highlights the urgency in ensuring the supply of memory chips never becomes a point of leverage for the CCP over the United States.

YMTC's reliance on U.S. and other foreign sources of equipment and software, which is a microcosm for the broader PRC semiconductor industry, makes export controls, which you oversee, an effective option to mitigate this threat to U.S. national security, economic security, and foreign policy interests. With no PRC firm or alternative foreign provider capable of providing YMTC with comparable equipment and software — including high aperture etching tools, metrology and inspection tools, and cleaning systems — a unilateral control with a foreign direct product rule would significantly hinder YMTC's ability to implement a CCP industrial plan designed to weaken U.S. national and economic security and increase its reliance on the PRC.

Based on these specific facts that link YMTC to the CCP military, the Party-state, and a national semiconductor plan designed to deplete the U.S. defense industrial base, the national security community needs your leadership on this urgent matter to prevent YMTC from obtaining the technology it needs to continue engaging in activities contrary to our national security. By including YMTC on your Entity List you would be protecting our national security. We look forward to a quick response to this letter and to your efforts to further counter the significant and growing threat of the CCP.

Sincerely,

MICHAEL T. McCAUL
Member of Congress

BILL HAGERTY
United States Senator