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## What's Been Happening

### 1 — DeepSeek's Deep Ramifications for U.S.-China S&T Competition — 1

#### [In One Sentence]

- Nvidia lost nearly US\$600 billion in market value as tech stocks plunged over fears that Chinese startup DeepSeek had short-circuited the U.S.' AI dominance, with other chip industry players also hit—Micron and Arm fell 10%, while ASML dropped 6%.
- Microsoft has integrated DeepSeek's R1 AI model into its Azure cloud and GitHub, announcing that customers will soon be able to run it locally on Copilot+ PCs.
- Tech groups contend that DeepSeek's progress with less-advanced chips demonstrates that restricting high-end equipment sales fails to block Chinese firms from advancing in sensitive technologies and instead undermines U.S. industry.
- The House Select Committee on the CCP has urged the Trump administration to impose export controls on Nvidia's H20 and similar AI chips, extend restrictions to AI inference chips, update Federal Acquisition Regulations to ban federal use of China-based AI, and use executive power to bar China's AI in critical infrastructure.
- Trump met with Nvidia CEO Jensen Huang on January 31 in their first-ever meeting amid mounting concerns over DeepSeek.

#### [Mark the Essentials]

- Pentagon employees used DeepSeek's AI chatbot for days before it was blocked over security concerns tied to Chinese servers but fully banning it remains difficult due to its integration into government systems and potential indirect access through cloud services.
- OpenAI is rapidly expanding with massive funding and infrastructure investments, seeking up to \$40 billion—second only to SpaceX—to support Stargate.
- OpenAI's expansion, backed by SoftBank, Microsoft and Oracle, aligns with President Trump's strategy to uphold U.S. AI dominance against China, but its effectiveness remains uncertain as experts suggest the funding may still be insufficient.

- Despite the alleged “massive breakthrough”, many experts question DeepSeek’s cost advantage, noting that the reported \$5.6 million training cost covered only one run and excluded full R&D expenses, likely making the actual cost much higher.

### [Keeping an Eye On...]

- Granted, DeepSeek is not your typical player in the Chinese digital innovation space. With its home-grown roots, self-funded model, flat management structure, and progressive approach to talent development, DeepSeek is more exception than rule. That said, DeepSeek is no fluke. It is just one among a string of recent S&T advances that has seen China’s footprints recorded on the dark side of the moon and on the depths of the ocean floor. Admittedly, many of the breakthroughs from 6<sup>th</sup> generation stealth fighter jets to nuclear fusion to advances in satellite-to-ground laser communications are in the hardware rather than software space – although Huawei (with its Harmony operating system and Ascend logic chip), TikTok, and Game Science (developer of Black Myth: Wukong) might beg to disagree.

The bigger picture story of the DeepSeek shockwave is that of the coming of age of China’s S&T capabilities. The country has always had immense S&T aptitude. The buildout of a broad-based manufacturing base (like its East Asian peers) is now providing the foundation as well as the clay for this latent aptitude to work mind-bending discoveries and breakthroughs. Much like China enjoyed gleaming advanced economy-quality infrastructure a decade ago, even as it was a developing country with modest per capita incomes, China today possesses an advanced economy-level S&T ecosystem even as it is still a mere upper middle-income country. A country with 1/6<sup>th</sup> the per capita income of the U.S. should not be a scientific ‘near-peer’. But it is. Come 2035 and 2050, one can only imagine the scale of China’s tech and scientific breakthroughs. Going forward, China’s best strategy is to remain in the slipstream of the American tech dynamo. From AI to quantum to space, staying as a ‘near-peer’ that is leashed competitively to the Americans means that U.S. innovation will carry China along to a promised land of S&T breakthroughs that is inhabited by only two players – the Americans and the Chinese, with the rest of the world left far behind. For an upper middle-income economy, this is plenty.

As for the U.S., the long arch of its strategic trade controls is already bending in China’s favor, contrary to Washington’s purposes. The export controls will come to be seen in time as having done more to concentrate minds in Beijing to foster domestic S&T self-sufficient capabilities, including in core technologies, than any ‘Made in China 2025’ plan could have achieved. As China reforms its own S&T ecosystem, including the state’s weak investment in basic research as well as the relative lack of backward linkages between industry and academia/public research, the capability for breakthroughs will only increase manyfold. U.S. administrations and its Commerce Department would do well to internalize, in this regard, a hard eternal truth (that has typically been learnt during blockades in wartime): *that there are no essential products, only essential uses*, and that necessity – the mother of invention – will almost always furnish alternative pathways to a gifted competitor. DeepSeek is a demonstration of how software ingenuity can compensate for hardware constraints (high-performance AI chips) and how novel approaches to architecture and training strategies can provide alternative pathways to developing cutting-edge LLMs (large language models) that provide just-as-satisfactory end-uses.

It's game-on in U.S.-China S&T competition. This new tech race is young, waves of technological innovation will keep washing up on both shores of the Pacific, and nobody is about to throw in the towel anytime soon. Hopefully, the diffusion of its many benefits will spread far and wide and leave most better off.

### [Expanded Reading]

- [DeepSeek gives Europe's tech firms a chance to catch up in global AI race](#), *Reuters*, February 3, 2025
- [Love it or ban it, Chinese technology has made America better](#), *The Washington Post*, January 31, 2025
- [What DeepSeek Revealed About the Future of U.S.-China Competition](#), *Foreign Policy*, February 3, 2025
- [China's DeepSeek is redefining AI tech. Here's why the US must get on board](#), *South China Morning Post*, January 29, 2025
- [SoftBank, OpenAI unveil Japan AI joint venture](#), *Reuters*, February 3, 2025
- [How U.S. efforts to restrict China from Nvidia's fastest chips may have backfired](#), *CNBC*, January 27, 2025

## 2 — Trump Comes Out Swinging with his Tariff Stick; World Groans — 2

### [In One Sentence].

- Just minutes after President Trump announced his sweeping 10% tariffs on all Chinese imports, China announced retaliatory tariffs on select American imports and an antitrust investigation into Google.
- President Donald Trump agreed to delay the 25% tariff on imports from Canada and Mexico for a 30-day period, as both countries announced moves to ramp up security at their borders, while describing the 10% tariff on Chinese imports as just the “opening salvo”.
- The latest AmCham survey reveals that U.S. businesses in China are increasingly concerned about heightened U.S.-China tensions, with more companies considering relocating despite recognizing the importance of positive bilateral relations for business growth, while a majority anticipate further deterioration in U.S.-China ties in 2025.
- President Trump has announced plans to impose new tariffs on semiconductors, pharmaceuticals, steel, and other products as part of his strategy to incentivize domestic manufacturing, generate revenue, and use it as a negotiating tool, while also considering the use of executive powers to implement these measures.
- Despite an initial defiance, Colombia agreed to accept U.S. deportation flights following Trump's threats of tariffs and restrictions, resulting in suspended tariffs but ongoing temporary restrictions.
- Howard Lutnick, nominee for Secretary of Commerce, backed broad tariffs for trade fairness reasons, especially with China, despite economists' warnings of widespread negative impacts.

### [Mark the Essentials]

- The White House announced earlier that Chinese President Xi and President Trump were scheduled to speak over the tariffs issues, yet later said that the call was cancelled following China's announcement of its retaliatory measure.
- Trump ordered Treasury Secretary Scott Bessent and the U.S. Trade Representative to draft retaliatory measures, including tariffs and recourse to Section 891 of the U.S. Internal Revenue Code, which allows the president to double the tax rate on foreign persons in the U.S. if he determines that their sovereigns are subjecting U.S. citizens to discriminatory or extraterritorial taxes.
- At Davos, Trump said that he views Canada and the EU as unfair trade partners, citing trade deficits, restrictive policies, and penalties on U.S. firms, and has threatened tariffs on both.

- Canada this past Sunday released a full list of U.S. products that would be subject to its retaliatory tariffs, including alcohol, household appliances, tools, firearms, dairy products, fruits, vegetables, and clothing, worth an estimated USD 20 billion.
- Former Sen. Pat Toomey of Pennsylvania criticized Trump's tariff plan as contradictory, arguing that tariffs cannot both raise revenue and revive domestic manufacturing without raising consumer costs, while warning that aggressive tariffs will provoke retaliation, particularly against U.S. agriculture.
- Chinese Vice Premier Ding Xuexiang reaffirmed China's opposition to trade wars and protectionism at the World Economic Forum in Davos, emphasizing their harm to all nations and urging global cooperation.

### [Keeping an Eye On...]

- The new round of trade wars under Trump 2.0 is upon us. It took just 14 days for the first shots to be fired, and that too at a time when President Trump's U.S. Trade Representative is yet to be confirmed. In Trump 1.0, it took 14 months before the first (steel and aluminum) tariffs were introduced. This new round of trade wars will be more protracted and disruptive than its predecessor. While Canada will likely get away relatively lightly (the U.S. actually runs a large trade surplus with Canada if one strips away the energy and resources trade), Mexico and, down-the-line, the European Union, will face a harder slog (the end of the free trade arrangement with Mexico could well be on the anvil, post-2026). As for China, the tit-for-tat reprisals could well be off-the-charts. Beijing is already showing that it is not about to turn the other cheek, though its reprisals will be measured and on its own terms. Oh, what a different age we live in from Trump 1.0 when the The Donald and Mr. Xi were gently nuzzling each other in Mar-a-Lago within three months of his inauguration. This time around, a full-blown trade and technology war could well be underway three months into Trump 2.0. Folks, it's time to buckle up for a bumpy ride.

Be that as it may, at this early date when the first shots have just been fired (and some pulled back), it is once again useful to recapitulate the philosophical, practical and political drivers of Mr. Trump's obsession with the tariff instrument. In the president's view, goods that are consumed in the U.S. must be produced at home using American workers. To the extent that some of these goods must be imported from overseas, an equivalent dollar amount of American goods should be purchased by that relevant country. At day's end, bilateral trade should be balanced. Anything less is a 'loss' for the U.S. And, hence, his dislike of the sort of large bilateral trade surpluses run by China, and his sense of personal affront when they are especially run by allies and partners, such as the European Union, Canada, Japan, South Korea, and Taiwan, which happen to doubly benefit from expensive treaty-underwritten or implicit U.S. defense guarantees. This amounts to a "double screw" of America, "a real trick", in Trump's own words.

From a practical standpoint, tariffs backed by the heft of the American consumers' purchasing power provides useful leverage to instigate dealmaking with foreign countries on a variety of trade and non-trade concerns – be it striking up quantitative purchase targets of U.S. goods to balance trade, bending foreigners to equalize tariff levels with that of the U.S.' to level the playing field, or shutting down illegal immigration and drug trafficking passageways. In the post-CHIPS Act/IRA era, tariffs can also be a useful and cost-free industrial policy tool to reshore production, rather than have to dispense massive grants or subsidies to

foreigners. Besides, in his view, the last time (almost) across-the-board tariffs were imposed on China and more selectively but universally on steel and aluminum items, the U.S. economy still came away with a healthy economy and the fastest real wage gains of any presidency in the 21<sup>st</sup> century. So why wouldn't it be the case again in Trump 2.0? And the Treasury earned handsome revenues too. As for the politics of tariffs, isn't the 'forgotten man' a white, non-college educated, non-unionized worker who resides in a small or medium size-town town in a purple state? Tariff protectionism fits in just right.

There is much that can be challenged about President Donald Trump's philosophical and practical view of the value of tariffs. But that's a conversation for another day. As for now, and as a new round of trade wars in Trump 2.0 gets underway, it is worth recapitulating these drivers of Mr. Trump's own thinking on the issue.

### [Expanded Reading]

- [Trump Orders Treasury to Investigate Discriminatory Taxes](#), *Tax Notes*, January 20, 2025
- [Trump Criticizes Europe and Threatens Tariffs in Davos Speech](#), *The New York Times*, January 23, 2025
- [Canada Releases List of Products Covered in Retaliatory Tariffs on US Goods](#), *The Economic Times*, February 2, 2025
- [Trade War Has No Winners, China's Vice Premier Warns, as Trump Threatens Tariffs](#), *CNBC*, January 21, 2025
- [Trump to speak with China's Xi on Tuesday, trade adviser Navarro says](#), *Reuters*, February 4, 2025
- [China counters with tariffs on US products. It will also investigate Google.](#), *AP News*, February 4, 2025
- [Trump in no hurry to talk to Xi amid new tariff war](#), *Reuters*, February 5, 2025

## On the Hill

### [Legislative Developments]

- House Republicans reintroduced the *Reciprocal Tariff Act*, granting the president authority to impose equal retaliatory tariffs on countries with higher duties or non-tariff barriers, aligning with Trump's push for aggressive trade measures against Mexico, Canada, the EU, and China.
- Sen. Josh Hawley (R-MO) introduced the *Decoupling America's AI Capabilities from China Act* to ban AI trade, research, and investment with China, following DeepSeek's market disruption.
- Rep. Greg Murphy (R-NC) reintroduced the *End China's De Minimis Abuse Act* to block duty-free entry for tariffed Chinese goods, supporting Trump's trade agenda to prevent tariff evasion and contraband imports.
- House Republicans reintroduced the *Restoring Trade Fairness Act* to strip China of permanent normal trade relations, phase in 35-100% tariffs, and redirect tariff revenue to U.S. farmers and manufacturers impacted by Chinese retaliation.
- House Ways & Means Chair Jason Smith (R-MO) reintroduced a bill to impose a reciprocal tax on foreign investors and corporations from countries with discriminatory or extraterritorial taxes, aligning with Trump's rejection of the OECD global tax framework.
- Sen. Bernie Moreno (R-OH) introduced a bill to redirect IRS funding from the *Inflation Reduction Act* to create an External Revenue Service for collecting tariffs and foreign revenue.

### [Hearings and Statements]

- The Senate Commerce Committee is to vote on Howard Lutnick's nomination for Commerce Secretary and review supply chain bills aimed at bolstering resilience and domestic manufacturing.
- The Senate Commerce Committee is exploring strategies to counter China's investments near the Panama Canal, discussing national security risks and proposing increased U.S. involvement in Latin America.
- Congressman John Moolenaar (R-MI), who serves as House China Committee Chair, has advocated for stricter U.S. tech and capital controls on China, while emphasizing *de minimis* entry rule reforms.

**[Expanded Reading]**

- [DeepSeek Fallout: GOP Sen Josh Hawley Seeks to Cut Off All US-China Collaboration On AI Development](#), *Fox News*, January 29, 2025
- [Congressman Moore Introduces U.S. Reciprocal Trade Act](#), Office of Congressman Riley M. Moore, January 24, 2025
- [Senators Raise Concern About Chinese Influence On Panama Canal Operations](#), *Reuters*, January 28, 2025
- [U.S. Sen. Bernie Moreno Introduces Bill to Fund Trump's External Revenue Services](#), *Cleveland.com*, January 22, 2025