The University of Chicago

Between Two Worlds: The Magnificent 7's Tightrope Walk in US and China Rivalry

By Megan Y. Cui

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Faculty Advisor: Dali L. Yang

Preceptor: Adam M. Parker

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Section I: Abstract

The AI and semiconductor regulatory landscape in the United States is being actively defined by the balance of power between the Magnificent 7 companies and the US government. As the US government struggles to comprehend the rapidly evolving tech landscape, they rely on the M7 to assess its development. The state-business dyad is intensified by the structural backdrop of US-China relations, where both great powers are vying for the dominance of AI and semiconductors. I argue that the M7 and the US government are engaged in a non-linear relationship that's both competitive and collaborative. By examining each M7's operations in China, I demonstrate how their activities inform US policymakers about which kinds of technologies could risk improving China's commercial and defense sectors. Subsequently US policymakers enact regulations to restrain the M7 companies from offering those technologies in China. As China continues to make breakthroughs in AI innovation and semiconductor productions, M7 companies will have stronger incentives to operate in this growing market, prompting US policymakers to impose more targeted restrictions.

Section II: Introduction

Although the 2017 Trade War signaled the beginning of US China decoupling, tensions have been steadily escalating since the start of the 21st century across a range of economic and security issues. Among their sprawling competition over global governance, military buildup, Taiwan's territorial status, and China's rapid economic rise, US-China rivalry has been further intensified by an aggressive race for technological supremacy, with both sides employing ruthless measures to outmatch the other in semiconductors and Artificial Intelligence. As the competition accelerates, this technological rivalry has created an opportunity for a few of the

world's most powerful companies to be at the forefront of US and China rivalry. Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla - "The Magnificent 7" - are among the world's most powerful companies in the world as they have a combined market capitalization of $17 trillion and account for over one-third of the S&P 500. From facilitating everyday, functional tasks to building national military complexes, these seven corporations occupy an outsized role in the domestic business landscape and have tremendous influence in US politics and foreign policymaking. As US-China relations continue to sour, the M7 struggle to maintain their commitments to the Chinese market while simultaneously heeding to domestic regulations.

The market turmoil brought on by DeepSeek and Liberation Day reveal just how deeply intertwined the fate of the M7 companies are with China. After Chinese AI startup Deep Seek produced cutting edge computing capabilities that ran at a fraction of M7's AI spending, Wall Street immediately dimmed their forecast on M7. And after Liberation Day's market haywire cooled, investors quickly adjusted to the sobering reality that President Trump maintained a 145% tariff on China that freezes bilateral trade and will severely disrupt global supply chains. Despite the reprieve from all other tariffs, M7's stocks still ended in the red as investors remain concerned about how the global economy will be upended by US-China decoupling.

While President Trump's policies tend to be extreme and irregular, his stance on China has remained consistent. Over the last decade, national security concerns stemming from China have increasingly dominated and affected American businesses that have wanted to operate without borders. Free trade and globalization, once regarded as the foundation of international politics, has been steadily undermined by growing domestic pressures. In particular, US policymakers have long voiced their concerns of the Chinese Communist Party's (CCP) ability to gain access to critical technologies from US companies and turn them into bargaining chips. Yet

even as regulatory headwinds grow, the M7 have and will strive to find ways to continue operating in the Chinese market. The reasons are simple: one, any technology company would be enticed by China's 1 billion, tech-savvy and hungry consumers as well as its critical position in global supply networks. Two, companies report to shareholders, not the government. I argue for selectively studying the M7 for two reasons: their irreplaceable position in the world economy and global politics, and the lack of systematic review of their role as political actors amid US-China rivalry. As national security becomes intertwined with advanced technologies, the M7 and their ability to commerciale and widely distribute these technologies makes them potent non-state actors capable of shaping interstate relations. Meanwhile, policymakers are not tech programmers, thus they have limited understanding about the uncertainty and risks that could come from AI and semiconductor innovation. To grasp the implications of technological advances on national security, policymakers have focused on the M7 and their operations in China, sowing tensions between the state and its critical non-state actors.

Amid growing geopolitical fragmentation, the relationship between businesses and the government has become crucial in shaping a state's ability to assert power within the global economic and political landscape. How have the M7 companies continued to develop distinct strategies to defend their access to the Chinese market while still complying with American policymakers? I argue that the M7's presence in China is both threatening and informative for the US government as these companies continue to push tech frontiers while policymakers learn from their operations and enact policies to address newfound risks. The power dynamic is in constant flux: as the M7 continuously adapts their strategy in China and navigates the unpredictability of potential policy countermeasures, US lawmakers become more well-equipped to enact targeted restrictions towards the M7 and restrain them from providing critical

technologies to China. Are the M7 meaningfully challenging the US government by further anchoring themselves in China, or are they being effectively constrained by more stringent regulations? Examining their strategies in China provides valuable insight into how companies navigate geopolitical fragmentation, and also reveals how far the US government is willing to compromise its free market principles to forcefully align business interests with national interests.

I will begin by analyzing relevant discussions on the US state-business relationship, and how US-China relations is complicating this dynamic. Then I will offer a primer of the US policy framework on AI competition against China, and adopt an in-depth, case study approach of each M7 company exploring their contentious relationship with US policymakers. Specifically, the case study will focus on how each M7 company currently operates in China, how US policymakers have responded to the M7's compliance in China by continuously amending semiconductor and AI regulations, and how the M7 companies have resisted these policy changes with further operational changes. Finally, I will conclude by speculating on the development of domestic policies regarding each M7 company's future trajectory, and how the feedback loop between the M7 and the US government will continue to shift the state-business dyad and destabilize the future of US-China relations.

Due to the expansive scope of this topic, this paper will focus on US policy measures enacted during the Biden and Trump administrations starting from 2021, which covers the most important regulatory changes regarding AI and semiconductors. Also, this paper will examine China's domestic tech environment only to the extent that it supports the analysis of the relationship between US businesses and the US government. My case study analyses demonstrate that M7 companies have varying degrees of entrenchment and thus distinct

strategies of operating in the Chinese market. Due to their different business models and varied positions in the AI and semiconductor value chain, some M7 companies - like Nvidia - are exposed to more stringent and targeted regulations than others as it offers more critical technologies. Yet the rest of M7 companies are also under intense scrutiny due to their compliance with Chinese cybersecurity laws, investment and collaboration with Chinese technology companies and government-affiliated organizations, accommodation of censorship requests, active engagement with Chinese suppliers and senior CCP officials, and provision of technology products and services to Chinese consumers. Depending on how their products have been accessed by the Chinese market and government, each M7 company will face varied forms of policy restrictions ranging from broad to targeted, which will incentivize companies to continue modifying their products or expanding into adjacent or novel technologies to evade current restrictions. This feedback loop of state-business contestation will continue until a M7 company decides to entirely exit from China. Ultimately I argue that as China makes rapid technological advances, the M7 companies will continue to want to operate in China to further maximize their profits, further destabilizing the relationship between private and public governance as well as the broader US-China rivalry.

Section III: Literature Review

A Tale of Two Countries and Three Powers

This paper situates itself at the interaction of two broad discussions. As US-China rivalry intensifies, US multinational corporations (MNCs) find themselves increasingly entangled in a growing web of sanctions and restrictions. Against this macro backdrop, businesses are now seen as political actors and having to choose sides. This inevitably creates tension between governments and their private sectors. By merging these two broad discussions, this paper aims

to fill some critical gaps. One, compared to industry level research, few studies have conducted independent, firm-level analysis of large corporations that disproportionately affect domestic and international policymaking. Two, while there is abundant news coverage of the M7 companies, there is a noticeable gap in academic research exploring the formation of nascent AI and semiconductor policies and bridging it to the business operations of technology companies. Three, analytical frameworks that seriously consider the M7 as structural actors who assume a legitimate role in shaping US-China relations remain underdeveloped. Chris Miller's *Chip War* and Edward Fishman's *Chokepoints: American Power in the Age of Economic Warfare* offer the most up-to-date and cohesive research on how the evolution of semiconductors and advanced technologies situated the US as an international leader, and how techno-geopolitical uncertainty has increasingly destabilized the modern economy and international order. While their analyses provide invaluable insight into the development of techno-nationalist policy agendas happening across the world's most powerful nation-states, both authors fall short on different ends of the spectrum. While Fishman examines how the US government employs economic statecraft against its geopolitical rivals, he implicitly portrays technology companies as secondary players with limited influence on interstate dynamics. Similarly, while Miller explores how the US government harnessed private sector innovation to assert control over the semiconductor industry and reshape economic and military competition, he briefly touches on the issue of private US companies defying public governance to operate in China but does not explore that further. Therefore, this paper aims to bridge the micro-level analysis of company strategy to the broader relationship between business and state and US-China rivalry. Ultimately this paper focuses on exploring the complex relationship shared by the US government and its critical corporations, and how that's being unfolding against China's rapid technological progress.

US Multinational Corporations in China

US-China Decoupling

Reiterating the focal point of this paper, I will expand on one facet of state-business relations by analyzing it in the context of deteriorating US-China relations. This necessitates a brief discussion on how US Multinational Corporations (MNC) generally operate in China. The first section explores how the 2017 Trade War disrupted the longstanding trend of US MNCs advocating for open trade with China, compelling firms to adopt independent strategies and reassess whether they can afford to continue operating in China. The second section outlines key strategies successful US MNCs have adopted to navigate China's regulatory environment, setting the stage for a case study approach examining how M7 companies have sustained their operations in China.

By drawing on the emerging field of scholars who demonstrate how domestic politics have fundamentally changed the ways that US MNC operate in China, I argue that their insights support the need for adopting a more granular, firm-level assessment of how US companies navigate geopolitical tensions. China remains as one of the most important foreign markets for US MNCs. During the late 90s, US MNCs flocked to China to capitalize off of their unskilled labor force, cheap land and raw materials, and favorable investment terms (Tse et al., 2024). As China rapidly advanced its industrial productivity to invest in technology, automation, and a high skill labor force, US MNCs have switched from conducting low-value manufacturing activities to high-value, knowledge-intensive production (Tse et al., 2024). Compared to domestic firms, MNCs occupy the most valuable positions in the economy as they tend to be larger, more productive and most in favor of trade liberalization (Kim and Milner, 2019). Unlike the smaller producers who oppose trade but struggle with collective action, only a handful of firms can reap

disproportionate gains from trading with China, which allows them to band together to form effective pro-trade coalitions (Osgood, 2019). Liu et al. argue that since MNCs are far more embedded in foreign markets -particularly China - than the average company, they have historically been staunch advocates of free trade with China. But the 2018 Trade War disrupted the longstanding advantage for US MNCs to outsource production to China. Under the first Trump administration, Republicans and Democrat policymakers reached a bipartisan agreement to implement tariffs to combat Chinese theft of intellectual property and the nation's growing trade deficit. This effectively increased the companies' political costs for opposing the tariffs, as well as efforts to resist subsequent "tough on China" bills. Steven et al., discuss how in the process of establishing legitimacy in the host country, such as strategically aligning their priorities through long-term economic, political, and social commitments to the Chinese government and market, US companies risk losing legitimacy in the eyes of their home country and stakeholders (Stevens et al, 2016). Therefore MNCs have increasingly adopted the strategy of neither exiting from the Chinese market, nor explicitly opposing Trump's tariffs that could lead to federal backlash (Zeng, 2021).

Although US MNCs once lobbied as a unified front, their free trade coalition has significantly fragmented. Combined with the polarization of domestic politics, rise in populism and nationalism, and augmented executive power in regulating trade, MNCs have adjusted to operating as disaggregated actors and discreetly resisting protectionist policies (Zhu et et al., 2021). Liu et al. reiterates this phenomena by arguing why firms have struggled to collectively oppose the trade war is because of their heterogeneous nature, such as the varying costs they face (Liu et al., 2022). US MNCs in China have distinct business models, ownership structures, size of capital investments and experiences operating in the local market. Therefore exposure to

tariffs is a strong but non-deterministic factor of whether firms are more likely to exit the Chinese market, even for export-reliant companies (Liu et al., 2022). Companies in China take into account a variety of factors when conducting cost-benefit analysis since they command different tariff mitigation measures, such as seeking tariff exclusions, working with industry associations, and hiring local Chinese policymakers to leverage their political connections (Liu et al., 2022). This is crucial to understanding why US MNCs have responded in vastly different ways to the rising political and economic costs of operating in China. Their decisions have often been far more nuanced than a simple, binary choice between staying or exiting the Chinese market.

If scholars have already called for a disaggregated approach to studying US MNCs at large, then this further supports the case for focusing specifically on the M7. While the M7 shares similarities with other US MNCs in terms of global presence and role as political actors, I argue for independently examining their corporate strategy and political activities because of their outsized impact on domestic and foreign policymaking. In their analysis, Kim and Milner argue that large MNCs deploy high lobbying expenditures to pressure policymakers into adopting their foreign policy preferences (Kim and Milner, 2019). Since large MNCs like the M7 tend to separately advocate for policy issues that are tailored to their own agendas, I argue that using other MNCs to generalize the M7's political incentives is not effective. Over the last few years, many US MNCs have exited China - but not the M7. The M7 are significantly better at tolerating higher political and economic costs than most other MNCs. Vortherms's analysis reveals how firm entrenchment in the local markets - which increases with size and age - provides companies with more resources and relationships to withstand political crises (Vortherms and Zhang, 2024). In sum, imposing generalized assumptions and uniform

frameworks about firm decisions obscures the different realities lived by each M7 company in China and misrepresents how each company's experience has uniquely contributed to the US tech governance framework.

Overview of US MNCs' Policy Toolkit in China

Prior to the Trade War, many US MNCs operating in China learned to adopt distinct policies and practices to adapt to its unique regulatory landscape and market conditions. Scholars like Tse et al., examine how foreign companies continue to operate in China despite concerns over weak IP rights, forced technology transfers, and fragile legal protection. Because the Chinese government aims to retain strict control over MNCs, corporations have to modify their ownership structures to form alliances with local partners - specifically joint ventures with Chinese state-owned enterprises (SOEs) - which often promotes innovation and knowledge sharing but also introduces challenges such as diverging objectives (Tse et al., 2024). When there is synergistic coordination between MNCs and their Chinese partners, they can overcome institutional complexity, regulatory ambiguity, and local competition. But the degree of alliance efficacy and innovation capacity greatly fluctuates depending on the firm and geographic regions. Furthermore, prompted by institutional voids, MNCs have heavily invested in relationship management by cultivating *guanxi* ties with government officials, networks of firms, and financial institutions to gain access to insider information and help strengthen supply chain reliability.

Institutionalist scholars like Tse et al., provide a useful primer of the complexity of China's institutional landscape, and how MNCs have created a set of effective strategies to navigate regulatory ambiguities. However, their research could benefit from a more granular and disaggregated approach. Given the same political and economic setting, why do some US

companies adopt certain policies and others don't? Here is where I reiterate the importance of bridging the micro-level analysis of firm operations to the macro, institutional backdrop. Noticeably, many institutionalist scholars tend to generalize their discussions on how MNCs interact with the Chinese government by categorizing them only insofar as by their industries. I argue that this approach overlooks important distinctions. Without examining the specific operations, products, and services of individual companies, this obscures the nuanced ways in which firms within the same industry can interact with the regulatory landscape in distinctly different ways.

Thus based on the current discussion, I demonstrate that there needs to be a continuous effort to adopt a more disaggregated, firm-level approach to analyzing how distinct US corporations - particularly the M7 - operate in China. Examining the granularity of corporate strategies can provide more informed predictions of the severity of political risk that critical technology companies could face from both domestic regulators and foreign governments.

Business versus the State

The complex relationship between business and state has been widely addressed by scholars representing two camps. On the one hand, many believe that companies like the M7 have become increasingly powerful entities, assuming state-like functions to actively skew the policy landscape in their favor. On the other hand, many adopt the state-centric approach and argue that the US government has become more well-equipped to regulate companies like the M7. When bargaining with foreign powers, the US government has increasingly leveraged the M7's global influence to advance its national agenda. Ultimately I argue for reconciling both sides as the relationship between business and the state is progressively more convoluted and

interdependent. Instead of singling out either side as the dominating force, I argue that it's more productive to see the M7 and the US government in a dyadic and fluctuating relationship, constantly adjusting their strategies and responding to each other's actions. Because as much as the state wants firms to support their foreign policy goals, firms actively shape foreign policy decisions so that it benefits their business (Gertz and Evers, 2020).

There exists a salient information asymmetry between the M7 and the US government. Although the US government wants to exert control over its private sector, it cannot regulate what it does not know. In order for policymakers to develop more effective regulations, they need to learn about what the technologies are and how they're evolving. Given the gray area of loosely formed regulations, it's difficult to decide whether M7 is entirely exploiting loopholes when they're advancing innovation and commercialization in China. I argue that this tricky dynamic creates a feedback loop, where M7 companies operating in China are faced with increasingly more restrictive measures, who then seek to modify their operations to meet current regulations and prevent their exit from China. The oscillating interaction between the M7 and the US government has become *the* critical feature in shaping how policymakers understand and regulate tech innovations.

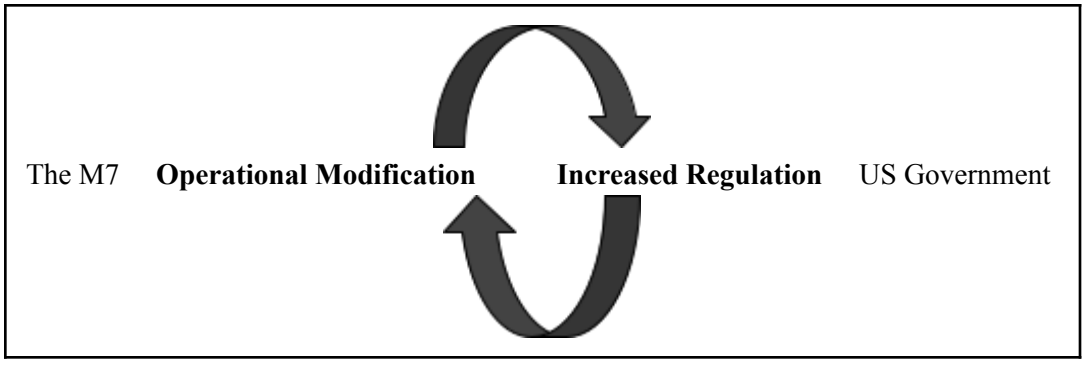


Figure I. I argue that through the M7's operations in China, US policymakers gain deeper insight into the national security risks posed by critical technologies, prompting stricter regulations that, in turn, compel the M7 to modify their operations.

A Strong, Central State in the Making

Now I shift towards discussing the literature within the state-centric camp. Over the last decade, states have increasingly bolstered technological advancement to strengthen national security. Among the new tech world order, China has emerged as a great power, posing a challenge to the US-led order. Many scholars have taken a historical approach to understand how the modern technology competition is rooted in long-standing ideological divides regarding state governance. As an agricultural society, China has long abided by stricter social standards and ethical norms that prioritize the collective at the expense of the individual. Today, the Chinese government frequently cites Confucian values to frame AI as a tool for maintaining social order and harmony (Hine and Floridi, 2024). Example initiatives such as the "social credit system" depict a state agenda engineered to produce desirable social rather than market outcomes (Zuboff, 2019). In stark contrast, protestant ethics that champion individual hard work are deeply enmeshed in the American identity. Along with its free-market approach and robust private sector, the US government infuses individual innovation with technological sublime (Hine and Floridi, 2024). Thus the American AI strategy emphasizes individual rights, democratic oversight, and privacy protection, reflecting ideals of freedom and transparency that are fundamentally at odds with Chinese values of order and harmony.

I argue that the historical contextualization of modern Chinese and US technology competition is insightful but has two critical flaws. One, this type of analysis neglects the role played by private, non-state actors, and their evolving relationship to the state. For instance, Hine and Floridi's analysis primarily focuses on central governments, and how their political and ideological agendas are passively received by private enterprises. Soon I will demonstrate how

private actors have consistently pushed back against state agendas. Two, historical contextualization can be overly focused on boilerplate terms in policy statements that don't necessarily capture the full magnitude and complexity of their rationale. Rather than treating official rhetoric as a genuine reflection of deep-rooted cultural and value-based conflicts, it's possible that both the US and Chinese governments are strategically weaponizing their allegedly irreconcilable differences to legitimize mutual hostility. This subtle but important distinction calls into question the true drivers of modern diplomacy: Is the great power rivalry genuinely rooted in ideological divides, or are these differences being deliberately emphasized to justify strategic competition?

Juxtaposed with this historical perspective is the contemporary discussion on US and China's diverging governance frameworks on digital capitalism. As digital companies have grown to dominate the most profitable sectors of the global economy, states have created distinct regulatory institutions and governance frameworks - an expansive sphere of control that involves private actors, government agencies, digital technologies and infrastructure systems - to control these companies (Schmalz, 2024). Schmalz argues that the US government has altered its digital governance strategy as a direct response to China's astonishing progress. In the earlier days, US digital capitalism emerged as a free-market, globalized system. US MNCs, particularly the M7, helped integrate world regions into the liberal-internationalized sphere. This is diametrically opposed to China's strategy, where the CCP focused on investing in its emerging domestic market while its tech companies remained largely within national borders, working to catch up with their Western counterparts (Schmalz, 2024). During the 2010s, China's domestic tech players like Huawei, Alibaba, Baidu, and Tencent emerged as global competitors and functional equivalents to US Big Tech, presenting a competitive, state-led digital order known as the "red

stack" (Schmalz, 2024). The growing competitiveness of Chinese Big Tech and CCP's glaring role in managing these companies has inevitably alarmed US policymakers. By maintaining control over domestic markets and expanding into foreign markets, the CCP has harvested vast amounts of data to reinforce its surveillance infrastructure. An example includes China's BRI initiative in the Global South and providing countries with extensive Chinese hardware and software (Schmalz, 2024). In response, the US has tried to prevent its allies from doing business with Chinese digital companies. An example includes the Clean Network Initiative introduced by US Secretary of State Mike Pompeo in 2020, which proposed plans for its allies to remove any technical components produced by the "red stack" (Schmalz, 2024). The incompatibility of these two technological spheres demonstrate the juxtaposition of ongoing internationalization of US and Chinese tech and increasingly territorialized competition spearheaded by both great powers. Through the foreign expansion of its critical technology companies, both the US and Chinese governments have rapidly integrated other countries into their governance structures.

In contrast to Schmalz, Rolf and Schindler critique that Beijing and Washington are no longer competing in terms of state versus platform capitalism. Instead, both states have converged into a state-platform capitalist governance model and are adopting similar strategies (Rolf and Schindler, 2023). While the US government has focused on preventing Chinese companies from operating in the US, regulators have also grown cautious of how its domestic firms may continue to interact with Chinese big tech and circumvent domestic regulations (Schmalz, 2024). Although it criticizes China's party-state capitalism model for interfering with its private sector, the US has already begun tightening control over its own domestic platforms to increase their structural dependence on state interests (Rolf and Schindler, 2023). On top of regulatory instruments like sanctions and subpoenas, the US government has attempted to

permanently authorize its bulk-surveillance program. After Edward Snowden exposed the enmeshment of private corporations in facilitating extensive surveillance programs for government agencies, the state continues to instrumentalize platform companies into servicing its defense sector (Rolf and Schindler, 2023). In 2018, the Trump administration published its national cyber strategy report to justify state control over the tech sector in the name of national security (Rolf and Schindler, 2023). The government has also relied on offering financial incentives to align the agenda of private companies with those of the state. By awarding Big Tech companies like Amazon, Google, and Microsoft with lucrative defense contracts, the US government aims to leverage its spending power to influence firm behavior and foster stronger public-private partnerships to promote national security (Rolf and Schindler, 2023).

Here I provide several critiques to the discussion above. Authors like Schmalz, Rolf and Schinder highlight the critical differences as well as growing convergence between Chinese and American digital governance frameworks. They also raise important questions about how the US government is centralizing control over private companies and embroiling them into a broader strategy aimed at leveraging geopolitical alliances to restrict the flow of capital and talent into China's tech sector. However, these authors fail to address how the boundaries between the state and private sovereignty are consistently being renegotiated. These conglomerates command tremendous resources and informal networks that allow them to flexibly operate across jurisdictions and markets, often transgressing competing spheres of digital capitalism. Thus their discussion oversimplifies the complex scenarios under which tech conglomerates interact with US regulatory frameworks. Even though the US government has increasingly involved the M7 companies in developing its domestic industrial-military complex, private companies are not explicitly mandated to uphold the national security agenda. An example include Microsoft

collaborating with Chinese research institutions and providing research that has been adopted by Chinese military scientists and the National University of Defense Technology in China (Hung, 2025). Many have come to view M7 as paying lip service to the US government since they continue to operate under geopolitical rivals and offer products that are often used by foreign states to strengthen their commercial and military sectors.

Modern Leviathans

In sharp contrast, many scholars and policymakers argue that exceptional companies like the M7 have grown to exceed state capacity. Scholars like Chandler and Mazlish capture this sentiment by illustrating MNCs as Leviathans of the 21st century. In domestic settings, large corporations exert political influence to obtain subsidies, reduce tax burdens, and shape regulations. In their quest for seeking low-cost inputs in foreign markets, large firms are able to pit nation-states against each other to lobby for more favorable regulations (Chandler and Mazlish, 2005). Recent trade agreements - such as chapter 11 provision of the North American Free Trade Agreement (NAFTA) - grant foreign corporations and investors a large degree of immunity from national sovereignty (Chandler and Mazlish, 2005). Corporate lawsuits have created a compelling "regulatory chill" effect, where national and local regulators have become reluctant to enact regulations as they anticipate future corporate challenges (Chandler and Mazlish, 2005).

Companies like the M7 are capable of reorganizing entire industries and inventing new ecosystems. Through algorithmic control and unilateral contractual rights, platform companies have created unique regulatory systems to police individual vendors and establishments (Kenny et al., 2021). Similarly, Zuboff describes the immense threat posed by surveillance capitalism towards human agency and democracy. Behavior modification is an incredibly profitable

business, one that merges private with public interest. Zuboff asserts that both private companies and the government are equally culpable of acting as surveillance capitalists in using human behavioral surplus to generate prediction products. Since the Constitution prevents the US government from pursuing an overly aggressive surveillance agenda, intelligence agencies have grown progressively reliant on private companies for their vast collection of human data, further contributing to the lawlessness of these companies. While promoting a neoliberal ideal of a globally connected and informed society, Big Tech has quietly imposed a significant cost on its supposedly “free” products and services by extracting and monetizing consumer privacy. The ricochet of innovation and violation have become increasingly difficult for the public to follow and comprehend, further enabling Big Tech to quickly mobilize for new exploitative opportunities and challenge legal and social institutions (Zuboff, 2019). As former Google CEO Eric Schmidt once blatantly said, “We’ll move much faster than any government” (Zuboff, 2019).

As the US government actively involves private, non-state actors in policy making, such as Big Tech’s role in designing contact tracing tools and tracking medical capacity during COVID19, AI and chip developments will expedite federal reliance and its outsourcing trends (Khanal et al., 2024). The majority of M7 companies, such as Nvidia, Google, Amazon, and Microsoft, currently serve on the Department of Homeland Security's Artificial Intelligence Safety and Security Board (Holland, 2024). Many have criticized the decision to have these companies advise on secure AI deployment in critical infrastructure when it’s likely that they would benefit from looser regulation and oversight. Bruce Schneier, adjunct professor at the Harvard Kennedy School, described the M7 as "They're not being leaned on[;] they're actually making the rules” (Holland, 2024). As M7 pushes further into uncharted territory of AI and

semiconductors, US regulators may increasingly find themselves at the mercy of these companies, hindered by their limited understanding of the tech frontier.

In line with this discussion, Gertz and Meyers reveal indicators of weak central governance by detailing the challenges that the US government faces in trying to exert control over its powerful non-state actors. Tracing back to the 1980s, the broad financialization and deregulation led to the retreat of the public sector and opened the floodgates for private sector growth. Decades of laissez faire policies and dwindling public investment in R&D have weakened government and corporation linkages (Gertz and Meyers, 2020). As the US government shifts from incentives to enforcement in its efforts to rein in private companies, it has encountered numerous challenges. Big Tech companies actively resist state compliance by turning to the court system and lobbying Congress. Consider the case of the FREEDOM Act, a federal law that enables service providers to contest government directives through legal proceedings (Gertz and Meyers, 2020). Gertz and Meyers addresses the salient collective action problem amongst US policymakers, which allows private companies to exploit their divided stance and cultivate insider alliances. Furthermore, firms recognize the value add of their critical technologies towards geopolitical competition, and many have tried to capitalize from the government's solicitation for cooperation by demanding for more advantageous treatment. For example, in 2019 Meta founder and CEO Mark Zuckerberg told US lawmakers that they should support the firm's operations in cryptocurrency, or else the US could face imminent threats from China dominating the sector. Therefore it's clear that as the government tries to control its large businesses, business leaders are increasingly seeking compensation in return for their cooperation (Gertz and Meyer, 2020).

While this thread of discussion is particularly relevant and reflects the opinions of an astounding majority of policymakers, these scholars obscure the emergence of national AI policies, and how regulatory institutions have evolved to better regulate M7 companies. As much as private enterprises have disrupted public governance, many comparative and institutionalist scholars argue that various states - including the US - have constructed effective policy frameworks to govern their tech sectors that move beyond the simplistic dichotomy of strong versus weak regulation. States often adopt a mixed approach, flexibly pulling levers between direct and indirect intervention. Direct intervention could entail constraining private actors or stimulating innovation and public funding into private startups, and indirect intervention could resemble softer regulation to implement market friendly governance policies or upholding normative expectations for industry players to self-regulate (Djeffal et al., 2022). In contrast to the popular perception that the governments try to inhibit private innovation by imposing unnecessary red tape, authors like Djefall et al. demonstrate that policymakers have made notable progress in developing AI governance strategies that both publicly fund entrepreneurial efforts and create leeway for private actors to promote innovation. Different states are experimenting with policy mixes tailored to their domestic environments. Even with its limitations, the US government currently commands an extensive network of informal and formal institutions, as well as private and public actors, to collectively advance federal and state-level regulations with more ex-ante mechanisms to better predict and address corresponding risks (Lee at al., 2025). In particular, President Trump's attempt to overhaul the liberal-market model, and in its place construct a more state-centric industrial policy framework, reflects how the US government is headed for a stronger regulatory regime to bolster state oversight over emerging technologies.

In sum, I argue that neither a purely state-centric or corporatocratic stance is adequate to understanding the future of AI and semiconductor innovations, as well as the future trajectory of techno-nationalist policy agenda. The US government and the M7 are engaged in a continual struggle for sovereignty while remaining mutually dependent on each other's expertise and recognition. The business-government relationship remains in flux and will continue to change as both sides adjust to escalating geopolitical tensions increasingly hinging upon the development of high tech. This completes the section where I position my argument within a fluctuating state-business dyad and intensified US-China decoupling.

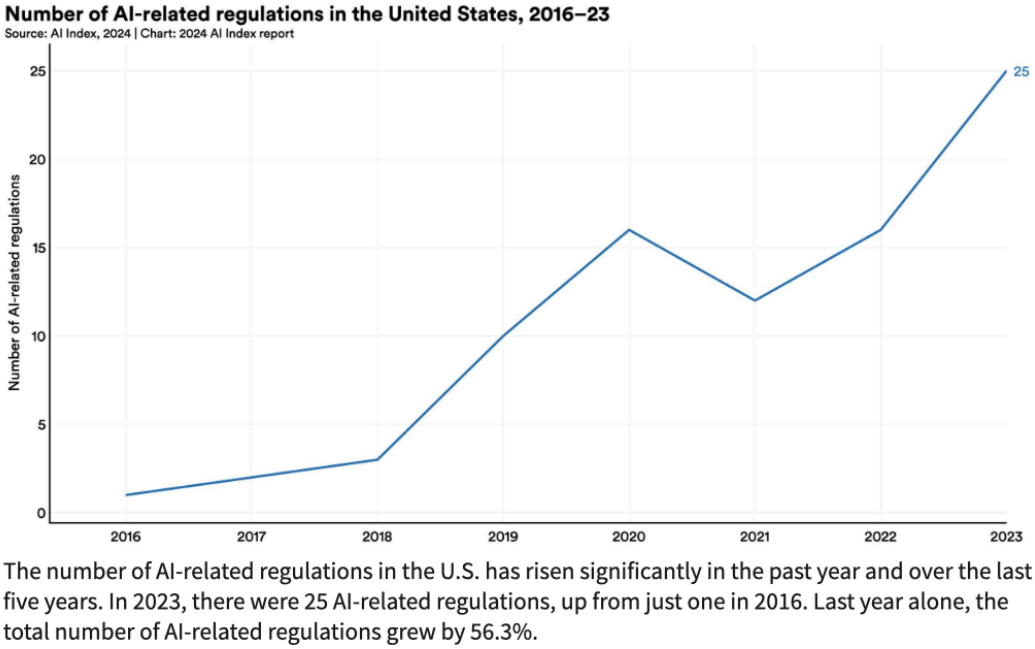


Figure II. The recent surge in the number of AI related regulations issued by the US government reflects the high-stake competition unfolding across US-China tech rivalry (Source: Stanford University HAI).

Section IV: US AI and Semiconductor Policy Development

To explain the rationale behind the US government's approach to developing its preliminary AI and semiconductors policy frameworks, I will discuss how the evolving

US-China rivalry has shaped how US policymakers perceive technological advances in relation to national security. Afterwards I will provide a succinct overview of the current policy framework and highlight important policy establishments.

Defensive and Offensive: US Tech Governance Against China

During the Cold War, the US government launched stringent export controls on semiconductors as they were exclusively used by the military and NASA. However, with the rise of the consumer electronics industry at the close of the 20th century, semiconductors became increasingly commercialized and integrated into the global market (Schumacher, 2024). The divergence between semiconductor's commercial and military usage has greatly complicated regulatory measures. Policymakers are concerned with how the explosive innovation in commercial data, computing power, and advanced chips could lead to adversary states harnessing US commercial innovation for their military developments (Bateman, 2022). As China ascends as a technological powerhouse, US policymakers are increasingly nervous and pushing for more comprehensive, defensive measures that cover both commercial and military technologies. To clarify, defensive measures are aimed at minimizing the outflow of domestic technologies and equipment. In contrast, offensive measures entail investing in domestic innovation and R&D, and boasting educational and professional opportunities to support AI leadership (Bateman, 2022). While this paper does not go into depth about these 2 different types of policies, it's worth mentioning that policymakers are very much divided on which path they should pursue in the long-term fight against China.

For now, there is a united front of policymakers who proclaim that the openness of US digital technologies has been excessively exploited by Chinese theft. During the 2010s, China exponentially increased its imports of US-made chips to construct their domestic software and

digital sectors, becoming both the number one competitor and consumer of the US chip industry (Miller, 2022). In DC, this eventually culminated into a centralized, techo-nationalist policy agenda primarily aimed at constraining China (Bateman, 2022). The Obama administration hastily piloted some early starts to limiting the influence of Chinese tech, while under the Trump administration, there were more pointed restrictions on technology exports to Chinese companies like Huawei (Bateman, 2022; Schumacher, 2024). This paved the way for the Biden administration to oversee the most dramatic expansion of the number and scope of measures taken against China, specifically regarding AI and chip technology (Tewari, 2025). His administration not only introduced stringent export controls to curb US chip supply to China, but also introduced large-scale initiatives like the US CHIPS Act to initiate the re-shoring of chip manufacturers through allocating grants, tax credits, and subsidies to stimulate domestic manufacturing (Tewari, 2025). Under Trump's second term, he has accelerated these offensive measures by expediting American manufacturing and raising the stakes for those who aren't willing to invest in the country. Chip makers like TSMC, Samsung, Intel and Nvidia have all recently pledged to build multi-billion dollar plants in the US that will take many years to actualize (Tewari, 2025). Furthermore, Trump has yet to repeal any of Biden's export controls on sensitive technologies (Law, 2025). He has upheld Biden's AI Diffusion Framework, maintaining the sweeping measures to limit exports of AI chips and frontier model weights that effectively takes place this month. To cement his policy stance, Trump's most recent ban on Nvidia exporting low value chips to China signals the administration's commitment to adopting more stringent, defensive measures.

Overview of US Export Controls

In order to contextualize US policies recently enacted to restrain M7 activity in China, I will delineate the current policy stance. To date, the domestic policy framework on AI and semiconductors has primarily been shaped by export controls, which are issued by the President and regulated by the Department of Commerce. Because technology advances so quickly, there has been a lack of harmonized and cohesive legislative efforts to target AI and semiconductors. As lawmakers grapple with diverging views on how to combat US-China tech rivalry, the executive branch has been more effective in spearheading policies to address these urgent and rapid developments. Furthermore, the 2018 Export Control Reform Act laid the foundation for future US Presidents to exert control over the flow of commodities, software, and technology in the name of national security (Allen and Goldston, 2025). Notably, Biden's 2023 AI Safety Order fortified Presidential power as the centerpiece in the governance model of AI innovations (Saeed, 2025). Under the President's supervision, the Bureau of Industry and Science (BIS) regulates dual-use technologies - such as advanced semiconductors - and regularly updates the Export Administration Regulations (EAR) (Bateman, 2022). Two preliminary AI and semiconductor bills - the Remote Access Security Act and Decoupling America's Artificial Intelligence Capabilities from China Act - are clear indicators that the growing patchwork of federal and state laws will continue to reinforce measures proposed by the executive branch and follow the broader strategy of choking off China's access to critical technologies (Fechner et al., 2025).

Below I describe some relevant export controls that the US government has issued to prevent China from accessing US technologies. To begin with, the EAR includes a list-based regime called the Commerce Control List (CCL), which requires specific technologies, commodities and software to obtain a license to be exported to China (Bateman, 2022).

Accompanying these CCLs are end-user and end-use controls. Under end-user control, the BIS has an Entity List that blacklists major Chinese AI and semiconductor firms like Huawei from accessing US technologies. Similarly, end-use controls are meant to restrict Chinese firms from accessing components that could be used to produce semiconductors (Allen and Goldston, 2025). Although the BIS mainly oversees US-origin items, it has since expanded its jurisdiction to foreign products through the Foreign Direct Product Rule (FDPR) as a countermeasure to prevent Chinese firms from accessing chips, semiconductor manufacturing equipment, and spare components through foreign headquarters and partners (Allen and Goldston, 2025). As part of the December 2024 export controls, the BIS expanded the scope of FDPR to prevent the re-exporting of foreign products that contain US-originated materials between foreign countries (Bateman, 2022). In January 2025, the Biden administration issued its final round of controls through the AI Diffusion Rule, revising existing EAR export controls by requiring stricter due diligence from semiconductor foundries and packaging firms that are looking to export to countries outside the predetermined list of buyers. The AI Diffusion Rule also established first-of-its-kind restrictions for certain closed-weight AI models, and created global licensing rules on the quantity of US-designed chips that can be sold to countries ranked in terms of their allyship to the US (Richardson, 2025).

While the policies listed above are far from exhaustive, they sufficiently indicate how policymakers are learning about and making amendments to real time developments. Each technology area - whether that be AI software, semiconductors, and cloud services - has a different strategic profile. While policymakers see Chinese imports and smuggling of US semiconductors as a clear-cut case for implementing restrictive measures, they remain uninformed about how other AI technologies and cloud services can also effectively compromise

national security (Bateman, 2025). Before fully understanding the economic impacts, market dynamics, supply chains, and innovation paths of each technology sector, policymakers are likely to rely on trial-and-error policy experimentation, adjusting their approach in response to real-time developments.

Policymaking does not exist in a vacuum. I argue that the government's recent decisions to amend and expand restrictive measures have been primarily informed by M7's operations in China. And reiterating the discussion above, only companies as large and resourceful as the M7 have the ability to continue operating in China. With the explosion of AI and semiconductor developments, M7 benefits from economies of scale, enabling them to pioneer R&D and product developments that ripples across the global technology ecosystem. As much as they frustrate US policy makers with their operations in China, the M7 companies serve as canaries in the coal mine, providing the government with valuable intel on the real-time, rapid progression of AI and semiconductor innovations, and the national security threats they may present through their commercial avenues. The ongoing balance between the M7 and the state has become a critical feature in refining the US regulatory landscape. Through the M7, the US government gains insight into technological progress and can propose and amend policies that are more effective at restraining the M7 from providing critical technologies to China.

Section V: Case Study

In recent years, the M7 has had to reassess its operations in China, making strategic compromises by downsizing or shifting portions of its activities to other countries. Yet despite these headwinds, Meta, Amazon, and Alphabet are still finding ways to re-enter China, while NVIDIA, Apple, Microsoft, and Tesla are modifying their strategies to maintain their presence in

China. While they consistently claim that they are upholding US national interests, their action says otherwise. My case study method involves analyzing each company's business strategies in China, and addressing the relevant regulatory policies established as a response to their operations. My primary sources include corporate disclosures, such as SEC filings and earnings calls for risk disclosures starting in 2021. Since company disclosures only provide limited information on company strategy, plus there has been no systematic analysis on how the M7 operates in China, I will refer to relevant business and financial news articles to piece together each company's operational strategies in China. As I have already drawn on policy memos from CSIS, Carnegie Endowment, and Brookings to identify salient regulatory changes on AI and chip technologies, I will proceed to demonstrate how these regulatory changes are direct responses to each M7's operations in China.

In order to understand how the M7 formulates their long-term strategy in China against heightened scrutiny from the US government, each company will be analyzed across 4 categories: one, their broader strategy to re-enter or maintain their presence in China. Two, specific business opportunities they've pursued to expand into the Chinese market. Three, possible security concerns directly related to their pursued business opportunities. Four, domestic policies that have been created to counter M7's business efforts in China. I created these 4 categories to help discern the dyadic exchange between M7 companies operating in China and how the US government assesses their risks and responds with corresponding restrictions. More specifically, the first and second categories of analysis will gather evidence of how each M7 operates in China, and how their actions potentially conflict with the national interests of the US government. This paper expects to see M7 companies, in varying degrees, comply with Chinese cybersecurity laws, form domestic partnerships to cede control to local Chinese companies and

suppliers, curry favor with senior Chinese government officials, and adopt similar strategies that other US MNCs have relied on to operate in China. I will describe their operational strategies through analyzing their product and service offerings and subsequently deriving their broader strategy for operating in China.

The paper will then describe how each M7 company has raised concerns among US policymakers, particularly with how their AI technology and infrastructure is being accessed by Chinese companies and the government. The third and fourth categories will explore how each M7 company's activities in China may have created potential conflicts with US national interests. For example, by indirectly enabling Chinese firms to access advanced semiconductor chips and cloud computing services. Finally, the paper will describe how US policymakers have responded with targeted or broad based restrictions, and anticipate any impending regulations from future administrations and policymakers. This paper expects more critical companies directly offering sensitive technologies, like fabless chip company Nvidia, to face more timely and targeted regulations.[1] Next, I expect other fabless non-chip companies, like Microsoft, Meta, Alphabet, and Amazon, that are discreetly offering critical AI models and cloud computing technologies, to receive more targeted restrictions. Finally, fabless non-chip companies like Tesla and Apple are toss-up companies that will likely face variable restrictions. Both companies primarily produce consumer electronics and electric vehicles, and their AI and cloud computing technologies are relatively less advanced than the other M7 companies as they're tailored to their hardware. While US policymakers have not viewed their activities in China as particularly salient threats to national security, Apple and Tesla have been ramping up their in house AI and chip development,

[1] Fabless chip firms like Nvidia are companies that focus on designing chips, outsourcing the production of chip designs to foundries like TSMC and Samsung. Both fabless chip and non-chip firms are competing for advanced chip designs, but Nvidia's chips currently outperform the rest of the chips designed by the M7 (Dual Insights, 2025).

which could draw more scrutiny and stringent regulations. I hypothesize that the US government may view certain M7 companies as particularly more vital to securing AI supremacy over China than others, and its policies should generally reflect the hierarchization of restrictive measures.

Nvidia: Fabless chip firm

- Strategy to maintain presence in China
  - Loosely control illicit chip re-exports and continuously modify chips to meet current regulations.
- Pursued opportunities
  - Modified low-value GPU chips (H20) to continue its business in China
  - Increase R&D in electric vehicles and self-driving cars
  - Revenue reliance on China: medium
- US Policy Concerns
  - China can advance its AI frontier through high-performance chips.
- Policy Changes
  - October 22: Biden administration banned the export of high-end AI chips, including Nvidia's A100 and H100 chips, to mainland China and Hong Kong
  - January 2025: Biden administration established the Diffusion Rule to further restrict China from accessing Nvidia chips through other states.
  - April 2025: Trump administration banned Nvidia from selling H20 chips to China.

Nvidia

Nvidia, known for designing and manufacturing graphics processing units (GPUs), has been one of the most pivotal companies in the race for AI sovereignty. It is one of the few companies that can produce chips capable of handling massive computational power to train AI systems. Although the other M7 companies are competing with Nvidia by developing their own chips, for now they remain its largest customers as they rely on Nvidia’s products to run their data centers, support their cloud computing services, and train large language models. Through its recent policy decisions, the US government has signaled a clear priority on protecting

semiconductor chips, recognizing their foundational role in powering all other AI technologies (“Nvidia is fighting”, 2025). Thus Nvidia has received the most targeted and stringent restrictions out of all the M7 companies. Nvidia’s recent 10ks provides helpful insight into the escalating geopolitical tensions, and how much that has impacted its business. In its 2022 10k, Nvidia only mentioned “China” 3 times (Nvidia 10k, 2022). Fast forward to the 2025 10k, Nvidia mentioned “China” 61 times, far outnumbering the discussions around geopolitical risk and domestic restrictions than the rest of the M7 companies (Nvidia 10k, 2025). The company asserts that domestic regulations are hurting the company’s competitive positioning in China, as well as disrupting its manufacturing and supply chain networks in the Asia-Pacific region, referencing its chip foundry TSMC based in Taiwan (Nvidia 10k, 2024). To put it into perspective, Nvidia holds over 90% market share of the country’s $7B and growing AI chip market, and China comprises 15% of the company’s global revenue, (“Nvidia is fighting”, 2025).

The Biden administration began systematically restricting exports of US semiconductors and related equipment used to train frontier AI systems to China. On October 7th, 2022, the administration launched its first round of comprehensive set of export controls, which restricted semiconductor exports based on technical specifications and end-use control. For instance, exports of chips that are either powerful parallel processors capable of +300 tera operations per second, or have fast interconnect speed of +600 gigabytes per second, were restricted (Richardson, 2025). This preliminary restriction reflected the government’s budding understanding in semiconductors’ computing capacity. In response, Nvidia immediately adjusted its flagship product H100 and launched customized chips for the Chinese market - the H800 - that have a slower interconnect speed to comply with US regulations (“Nvidia is fighting”, 2025). But the Biden administration continuously updated these controls to include more chips

and semiconductor manufacturing equipment. One of the key modifications introduced in later rounds was forgoing the former criteria of evaluating chips based on interconnect speed, and instead focusing on performance density (Richards, 2024). In October 2023, the Biden administration barred the H800 chips (Kaur, 2024). This led to the cancellation of hundreds of thousands of Nvidia orders worth at least $5B (Huang, 2024). In response, Nvidia had already started preparing for a new alternative of H20 chips that offer significantly less computing power than H800 and its flagship H100 chips but fulfilled the amended requirements (Kaur, 2024). In the meantime, a global network of underground brokers, distributors and resellers have been circumventing US restrictions by providing Chinese research institutions and AI startups with limited amounts of H100 and H800 Nvidia chips from foreign countries that aren't legally required to impose US controls (Huang, 2024). In the October 2023 round, the BIS already established a list of countries that they would monitor to prevent illegal re-exporting of chips to China (Richardson, 2025). One of the most important steps to ensuring that China does not access semiconductors and related equipment is the coordinated efforts by other chip producing countries and regions. But other countries are generally unwilling to compromise their business transactions with China simply to uphold US interests. To combat weak coordination among its allies, the Biden administration established the aforementioned Foreign Direct Product Rule (FDPR) to better regulate foreign countries that have been re-selling chips and AI technologies to China.

Recently, the Trump administration broadened the scope of the Entity List by adding 54 new companies, many of which are Chinese buyers of Nvidia's chips (Swanson, 2025). But whether Nvidia will strictly comply with these regulations remains questionable. Back when the Biden administration added a Chinese tech company called Inspur to the Entity list in 2023, US

companies continued to find ways to transact with Inspur's subsidiaries (Swanson, 2025). Nvidia has spoken out against the export controls, arguing that this would "weaken America's global competitiveness, undermining the innovation that has kept the US ahead" (Zhang, 2025). Furthermore, Nvidia's distribution network serves as a way to remove the company's responsibility in monitoring how its chips end up in the hands of Chinese consumers. As primarily a B2B business, Nvidia does not sell individual GPUs or directly provide them to their customers. Instead, it ships them to third parties, such as Dell Technologies and Super Micro Computer, who then deliver fully-built AI servers or systems (Huang, 2024). Equipment providers often order more Nvidia chips than they need as they anticipate surging demands or manufacturing hiccups (Huang, 2024). Therefore Nvidia has little visibility into where the end buyer chooses to route the servers containing Nvidia's chips (Huang, 2024). This reinforces Fishman's argument in *Chokepoints*, where he notes that the US government has long understood that simply blocking the most critical company in the supply chain is insufficient to restrict China's access to US technology. To truly impede China's progress, the US would need to halt every player across the semiconductor supply chain - an effort that, at least for now, remains virtually impossible (Fishman, p. 278, 2025).

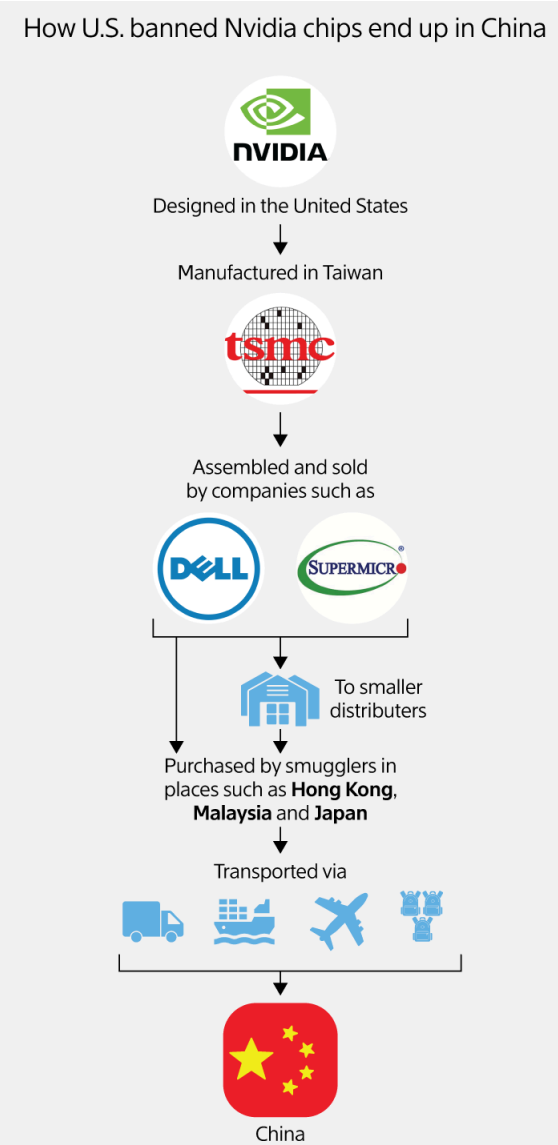


Figure III. A simplified explanation of how despite US law enforcements, Nvidia chips can still enter China by virtue of its lengthy and complex distribution and supply channels across the world (Source: Liu, 2024).

As US policymakers tighten their grip on Nvidia, the company also faces pressure from Chinese companies and consumers who are increasingly unwilling to pay for Nvidia's inferior H20 chips. Ever since 2022, China has expedited efforts to grow its home-grown chip industry. It spent around $37B on chip making in 2023 and launched a $48B national semiconductor fund in

2024 (Zhang, 2025). China is also actively developing AI cloud computing technologies by relying on domestic companies like Alibaba, Tencent and Huawei (Zhang, 2025). Although DeepSeek's computing capabilities and low cost operations stunned the world, US policymakers quickly pointed out that the startup ran on Nvidia chips. Biden's AI Diffusion Rule is implemented to prevent incidents like DeepSeek from happening again, where Chinese firms can access chips and related AI infrastructure through other countries' server farms ("Nvidia is fighting", 2025). Even as Huawei expedites its semiconductor production to undercut Nvidia's presence in China, Chinese companies like Bytedance, Tencent and Alibaba continued to hoard millions of H20 chips before the ban recently went into effect (Burga et al., 2025). Thus before China develops its domestic alternatives to be on par with Nvidia, its reliance on US infrastructure is a critical weakness that US policymakers will continue to close in on.

Nvidia has tried to diversify its operations by expanding into China's autonomous driving space and gaming market. China's growing export volume of new energy vehicles offers Nvidia an opportunity to leverage its in-vehicle computing platform technology, DRIVE Thor, which is powered by its automotive-grade chips, which is separate from industrial AI chips (Zhang, 2025). In early 2024, Huang announced that Chinese EV company Li Auto has agreed to purchase Nidia's DRIVE Thor, and other Chinese tech companies like Great Wall Motors, Xiaomi Auto, and Zeekr have adopted the less-advanced version of DRIVE Orin platform (Zhang, 2025). Nvidia has also partnered with industry leader BYD, offering its centralized computing technology products, to better compete with Tesla. After the US government banned Nvidia's gaming graphics card RTX4090 D due to its potential to enhance AI performance, Nvidia announced it would introduce a modified version of the gaming graphics card with fewer processing cores (Zhang, 2025). However, if the chip ban extends to include automotive-grade

system-level chips and more gaming graphic cards, this would be a severe blow to Nvidia's future operations in China. Therefore it's unclear whether Nvidia's bet on the Chinese EV and gaming market will pay off.

In the last year, Nvidia co-founder and CEO Jensen Huang has paid multiple visits to China, each time being more explicit about the company's long-term commitment to the Chinese market. At the beginning of 2025, Huang made a low-profile visit to China and emphasized the irreplaceability of the Chinese market and lamented that the company is "helpless" (Zhang, 2025). Last month, Huang attended Trump's CEO-filled, super PAC dinner to persuade Trump to refrain from issuing export controls on H20 chips (Feng and Allyn, 2025). Concurrently, Nvidia demonstrated its willingness to comply with US regulations by pledging it would produce $500B worth of AI infrastructure in the US (Swanson and Romm, 2025). For a moment, these gestures seem to have paid off. But shortly after Liberation Day, Trump announced that his administration would require Nvidia to obtain licensing for exporting the currently approved H20 GPUs to the Chinese market, which effectively prohibits Nvidia from exporting these low value chips (Mickle, 2025). This announcement sent Nvidia's shares tumbling down by 7%, as Nvidia revised its guidance to reflect the $5.5B loss due to existing H20 inventory and purchase commitments that cannot be fulfilled anywhere else (Mickle, 2025).

As Trump sharpens his focus on choking off the chip supply towards China, Nvidia must be willing to pay greater costs if it wishes to maintain diplomatic ties with China. Huang's most recent visit to Beijing - where he noticeably shed his trademark leather jacket for a formal suit and tie - is nothing short of a desperate plea for the government to keep its doors open. At the meeting, Huang explicitly stated that despite domestic restrictions, Nvidia will not give up on China: "[...]We're going to make significant effort to optimize our products that are compliant

with the regulations and continue to serve the Chinese market" (Gonzalez, 2025). Reports are already surfacing about Nvidia's newest modification process to meet the H20 ban (Liu, 2025). Faced with intense competition from Chinese firms producing better chips to substitute for Nvidia's downgraded products, and US policymakers tightening restrictions to cut off China's access to US tech, it's difficult to see how Nvidia can continue to sustain its operation to meet these diametrically opposed demands. It's clear that the company needs to configure a more viable strategy to adapt to the Chinese market while continuing to flexibly respond to domestic regulations.

Microsoft: Fabless non-chip firm[2], productivity tools and cloud service provider

- Strategy to maintain presence in China
  - Complying with Chinese data regulation through a separate cloud service entity.
  - Expand services given loose controls on open models and cloud services.
- Pursued Opportunities
  - Modify Microsoft Azure and Microsoft 365 - two of Microsoft's most profitable software products - to meet Chinese regulatory demands.
  - Continues to operate AI research lab in Beijing.
  - Revenue reliance on China: medium
- US policy concerns
  - Microsoft has been a longstanding technology partner for federal agencies, making it a salient target for Chinese cybersecurity hacks.
- Policy Changes
  - Following a major security breach, President Brad Smith testified in front of Congress, questioned about Microsoft's allegiance to the US government.
  - In September 2024, Congress passed the Remote Security Access Act that aims to restrict China's access to cloud services offered by US companies.
  - Microsoft has recently suspended some of its productivity tools for Chinese universities and biotech companies.

[2] Fabless, non-chip firms are non-chip companies that design in-house chips customized to their products, which includes all the M7 companies besides Nvidia.

Microsoft

As a leading cloud service provider and PC manufacturer, Microsoft has established itself as one of the key players in the semiconductor value chain. Even though China consists of only 1.5% of Microsoft's global revenue, roughly 80% of the Chinese market relies on Microsoft (Microsoft 10k, 2024). Compared to the rest of M7, Microsoft adopts a much more discreet approach in engaging with Chinese authorities and has maintained a relatively low profile on its plans in China. CEO Satya Nadella has explicitly said the company isn't focused on the Chinese domestic market, and is more concerned with how supply disruptions could impact PC production. Although Nadella downplays the company's presence in China, Microsoft's China strategy has been actively evolving to adapt to geopolitical tensions. In 2014, Microsoft launched its Windows operating system and cloud computing application Azure to Chinese corporate users through a joint venture with 21Vianet. Since then, 21Vianet exclusively operates Microsoft Azure and Microsoft 365 service, and is the largest private, carrier-neutral internet and data center service provider in China (Microsoft Azure, 2014). Introduced in 2017, China's Cybersecurity Law requires foreign companies who want to establish data centers in China to either build their own facility under a joint venture, or they can lease data center services and co-locate (Gautel, 2017). Physically separated from Microsoft, 21Vianet is able to form partnerships with Chinese technology companies such as Haier, Lenovo, and Huawei (Sverdlik, 2017; Microsoft Azure, 2018).

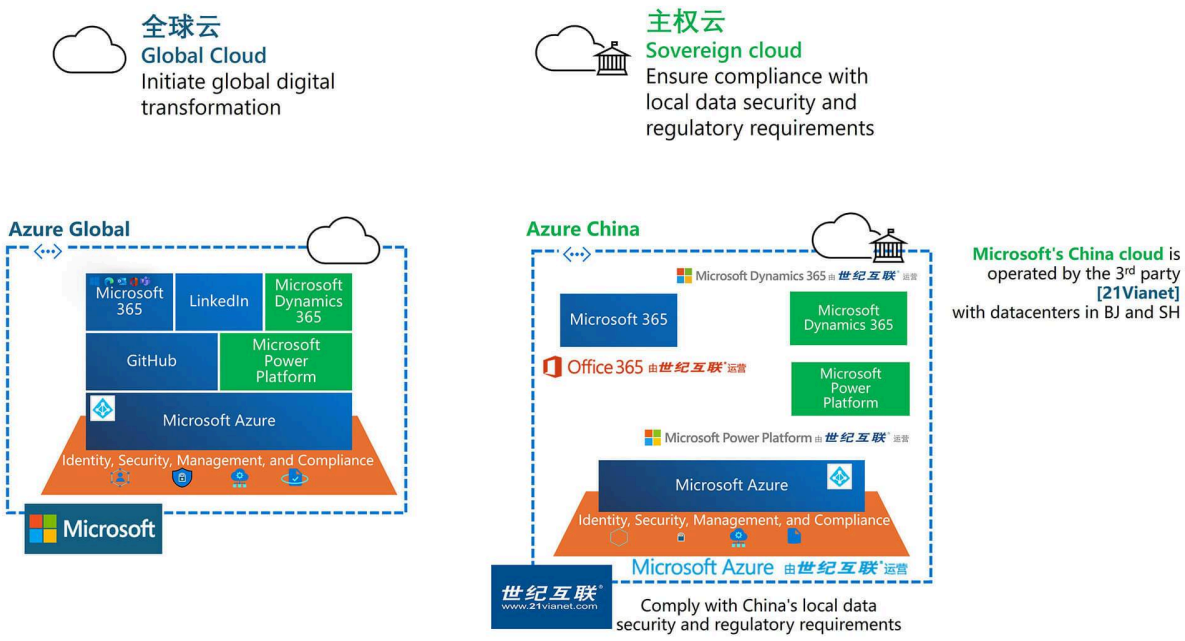


Figure IV. Foreign cloud service providers are not allowed to own and operate their own data centers. For example, 21Vianet ensures all data is stored within China, offers similar functionalities to the global Azure service, and directly interfaces with Chinese customers. In return, Microsoft retains their IP and trademarks (Source: Tectura, 2024).

While Microsoft has yet to receive any targeted restrictions that would severely hinder its operations in China, US policymakers have repeatedly warned how Microsoft's operations in China risks exposing US infrastructure and government data to the CCP. In March 2024, a Chinese espionage group hacked into Microsoft's email systems and downloaded more than 60,000 emails and email addresses of senior US government officials (Starks, 2024). 4 months later, Microsoft's President Brad Smith testified before Congress, defending Microsoft's operational sovereignty in China (Starks, 2024). Frustrated policymakers drilled into Smith, questioning how he could reconcile Microsoft's allegiance to serving federal agencies as their customers while continuing to operate in China and obey their cybersecurity laws (Starks, 2024). Some have also pointed out how Microsoft continues to operate Microsoft Research Asia, an

advanced technologies lab in Beijing that currently has 200 employees. Although the idea of shutting down or moving the lab has come up, Microsoft leaders remain supportive of its operations in China (Weise et al., 2024). In an effort to comply with US policymakers while maintaining its critical research lab, Microsoft has started selectively shutting down services in certain Chinese universities and companies while encouraging its researchers to relocate elsewhere. Recently BGI - a leading Chinese genomic firm - and Guangzhou-based Sun Yat-sen University lost access to Microsoft 365 Services without any former warning from the company (Chen, 2025). This reflects how Microsoft has been heeding to the increased scrutiny from US policymakers.

Despite scaling back its productivity suite offerings and research presence, Microsoft continues to leverage its cloud services to expand across China. Recently Microsoft introduced Intune to meet cloud service demands in China, which continues to be operated by 21Vianet (Microsoft Azure, 2024). In 2022, Azure opened its 5th data center in China, signaling Microsoft's move to consolidate various cloud data centers in China to tap into the surging demand for public cloud services (Global times, 2022). Alongside Amazon Web Services (AWS) and Google Cloud, Azure provides some of the most scalable and efficient software solutions for enterprises as it allows users to easily synergize with Microsoft 365 and other productivity tools ("What's the difference", 2025). Since advanced AI models and cloud computing rely on chips, US policymakers primarily focused on restricting chips in hopes that this would effectively thwart China's advances into other technology areas. However, Chinese companies have been discreetly using Azure and other Microsoft products to access chips and advanced AI models. In China, Microsoft offers over two dozen AI products, including OpenAI (Thompson, 2023). Even though OpenAI announced its departure from China last summer, Microsoft Azure still allows

Chinese businesses to continue accessing OpenAI's models (Butts, 2024). Although OpenAI has cracked down on illicit access to its products, Microsoft China has tactically encouraged its Chinese developers to relocate their work to Azure OpenAI (Butts, 2024). Sichuan University - who is on the Entity List - said it would purchase 40 million Microsoft Azure OpenAI tokens to develop its AI platform (Saxena, 2024). In March 2024, the Biden administration attempted to suppress these infrastructure laundering activities by restricting access to cloud services offered by US-headquartered companies (Horowitz, 2025). In many ways, Deep Seek's efficiency breakthrough validated and intensified US lawmakers' fears that Big Tech is both purposely and inadvertently hiding China in developing advanced technologies. For example, US policymakers suspect that DeepSeek possibly trained its model using data illegally obtained from Open AI's outputs (Shilov, 2025). Furthermore, it was recently discovered that four DeepSeek employees used to work at Microsoft Research (Barrabi, 2025). Many of Alibaba, Baidu and Tencent's top tier researchers, some having created startups for China's surveillance system, also used to work at Microsoft (Weise et al., 2025). Even though Microsoft is complying with US policymakers by launching an investigation into whether Deep Seek bypassed regulations via Microsoft to train its model on Open AI, the company has been quietly incorporating Deep Seek into its suite of products as it seeks to embrace a more efficient, distributed infrastructure (Dujmovic, 2025). Although the Trump Administration has not explicitly prevented any US companies from selling cloud computing technologies to Chinese consumers, DeepSeek's market disruption has cast a limelight on Microsoft, subjecting it to further scrutiny as it continues to balance between complying with regulators while maintaining its leading edge in AI research and cloud computing services in China.

Amazon: Online retailer, fabless non-chip firm, cloud service provider

- Strategy to re-enter China
  - Offering end-to-end supply chain solutions to Chinese sellers.
  - Expand cloud service given loose controls on cloud computing.
- Pursued opportunities
  - Introduced "Direct from China" model to promote Chinese sellers and goods.
  - Providing access to advanced AI models and AWS cloud servers.
  - Revenue reliance on China: High
- US Policy Concerns
  - Chinese platforms are undermining domestic markets and could gain US consumer data through competitive cross border e-commerce.
  - Potential backlash over censorship and data localization efforts.
- Policy Changes
  - Closing the de-minis rule undercuts Amazon's reliance on top Chinese sellers.
  - Biden's AI Diffusion Policy curbs AWS from providing closed-source AI models, such as Anthropic Claude 3, to Chinese consumers.
  - In September 2024, Congress passed the Remote Security Access Act that aims to restrict China's access to cloud services offered by US companies like Microsoft and Amazon.

Amazon

Although it began as an online book market, Amazon has since transformed into the world's largest Internet-based retailer by total sales and market capitalization (Lee, 2018). After analyzing 451 service industries, Kenney et al., found that over 70% of these industries were directly or indirectly impacted by Amazon in terms of direct transaction and passive value creation on the platform (Kenny et al., 2021). Like other resourceful M7 companies, Amazon has diversified its business to become a provider of physical logistics, cloud computing services (AWS), entertainment services and physical devices, as well as operator of a contract work platform (AMT) (Kenny et al., 2021). Thus when Amazon entered China, it had hoped to replicate its value creation process by tapping into China's e-commerce potential. In the early 2000s, China experienced a surge of mass internet adoption and e-commerce growth led by

companies JD and Alibaba. In 2004, Amazon strategically acquired Joyo, the biggest online bookseller in China, and later rebranded it as Amazon China. Yet leading up to 2015, Amazon was averaging annual losses of sound $600M in China (Lee, 2018). They struggled with various operational challenges, such as failing to tailor their business model to align with Chinese consumer preferences, fluctuating logistic networks across different tiered cities, and intense competition from local e-commerce giants, Amazon reluctantly closed its operations in 2019 (Lee, 2018). Similar to what other US MNCs struggled with while operating in China, Amazon grappled with lending its Chinese management more autonomy than its American headquarters (Lee, 2018). However, Amazon never fully exited; instead it shifted towards helping Chinese vendors sell their products overseas, as well as steadily increasing AWS's footprint in China.

While Amazon faces intense competition from other Chinese e-commerce companies, its global coverage attracts Chinese third-party sellers who are looking to compete internationally (Kaziukėnas, 2024). In 2023, nearly half of Amazon's top 10,000 sellers were based in China, and the number of items sold by Chinese sellers on its site grew more than 20% year over year (Kaziukėnas, 2024). At the end of 2023, the company opened up a new innovation hub in Shenzhen, a city that boasts one of the largest number of Amazon sellers in the world (Kaziukėnas, 2019). In 2024, Amazon planned on launching a Direct-From-China marketplace that will allow Chinese sellers to retain full pricing and selection control and give American consumers access to cheap and unbranded goods, mimicking Shein and Temu's operational strategies (Kaziukėnas, 2024). In the meantime, US policymakers have grown increasingly concerned about how Chinese platforms, backed by state support, could use cross-border e-commerce as a way to harness US consumer data as well as muscle out American sellers (Clemens, 2025). On Liberation Day, Trump announced that he was terminating the de minis

rule, which went into effect this month. This 100 year old loophole previously allowed foreign goods under $800 to enter the US without custom declarations, tariffs or duties, which facilitated high volumes of duty-free Chinese packages (Gottesdiener and Eisenhammer, 2025). While Amazon benefits from undercutting its Chinese rivals, it still relies on Chinese sellers and suppliers. Signs of the negative impacts have already begun to show; Amazon has been steadily cancelling some of its inventories from Chinese suppliers (Snider, 2025). But some suspect that the company planned these cancellations before the tariffs to cut down contracts with smaller vendors (Snider, 2025). Therefore it's unclear whether Amazon is fully prepared to pivot away from Chinese sellers and third parties and find substitute sellers.

Even though recent policies have dealt a severe blow to its online retail market, Amazon has been diversifying its operations in China through quietly building out AWS. AWS is currently the largest commercial cloud computing provider. Compared to Azure, which specializes in catering to Microsoft-centric enterprises, AWS offers a wider range of services to individual developers, small and large enterprises, and governments (Wickramasinghe, 2025). Similar to Azure, AWS's 2 regions in China are operated by certified local companies Beijing Sinnet Technology and Ningxia Western Cloud Data Technology (Sverdlik, 2017). Back in 2017, when AWS first partnered with these SOEs, 50 US lawmakers signed a letter to the Chinese ambassador in Washington, raising concerns over potential infrastructure laundering (Sverdlik, 2017). AWS and Azure's operations in China have complex configurations: even though they're largely siloed-off from their core operations, such as having different ownership structures, licensing requirements, separate partition, domain name and user accounts, they still offer many identical computing, storage, AI and machine learning services for their Chinese users (Yurov, 2020; Tectura, 2024). As more data and chips are being generated, cloud computing services

have scaled dramatically to increase their data storage while layering on more advanced analytical functions to turn more data into valuable insights (Edward, 2025).

Although lawmakers are generally uninformed about how US cloud service providers (CSP) operate in China, they've latched onto the digestible fact that CSPs incorporate advanced chips. As they continue to refine their understanding of how cloud computing can undermine national interests through severe data breaches and infrastructure laundering, recent events have bolstered their view that CSPs are the next critical domain that require more stringent regulations. For instance, Shenzhen University spent roughly $28k on an AWS account to gain access to cloud servers powered by Nvidia A100 and H100 chips (Swain, 2024). Zhejiang Lab, a research institute developing its own LLM, said it intended to spend $25k to purchase AWS cloud computing services to continue building its AI model (Swain, 2024). On top of cloud services, AWS also offers its own advanced, closed-source AI model Anthropic Claude 3 to the Chinese market. Given these recent developments, the Biden administration has outlined and modified its preliminary restrictions regarding Chinese access to US cloud computing technologies. In January 2024, the BIS began requiring US cloud service providers to submit reports when foreign customers use their cloud computing services to train large AI models (Egan et al., 2024). Then later in September, the BIS added a new rule that would require AI companies to periodically report to the US government on their development of dual-use AI foundation models (Egan et al., 2025). Then finally, in the 2025 AI Diffusion Rule controls, the Biden administration imposed stricter regulations by requiring US companies to get appropriate licenses to export closed-weight models (Horowitz, 2025). These policy amendments were introduced directly as a result of Chinese companies accessing critical technologies through Microsoft and Amazon's cloud services and closed-source models.

In the short-run, Amazon may be well positioned to temporarily absorb the costs associated with the tariffs on China. In its latest earnings report, Amazon beat expectations but issued softer guidance for future quarters to account for the uncertainty around tariffs (Palmer, 2025). In the short term, Amazon's AWS stands to benefit from both the momentum of China's rising demand for cloud services and the underdeveloped regulatory framework governing cloud services. Nonetheless, if more Chinese companies continue to access US chips and cloud technologies through AWS, US policymakers are bound to clamp down on Amazon and further restrict its presence in China.

Alphabet: Search engine technology, fabless non-chip firm and cloud computing

- Strategy to re-enter China
  - Investment in diversified projects and sectors to market cutting-edge AI capabilities.
- Pursued opportunities
  - Investments in distinct Chinese startups.
  - Ongoing partnerships with Chinese smartphone companies.
  - Revenue reliance on China: Low
- US Policy Concerns
  - Potential backlash over future investment and partnership with Chinese AI technologies.
- Policy Change
  - Following Alphabet and Google's investments into China, the Biden Administration issued outbound investment restrictions that would prevent US businesses from investing in Chinese companies related to AI and quantum computing.
  - Compared to the rest of the M7, Alphabet has limited presence in China and has avoided triggering more salient regulatory responses.

Alphabet

Google's infamous exit from China in 2010 appeared to signal a complete withdrawal of Alphabet's operations in the country—but that perception is far from being accurate. Although it

boasts the world's most popular search engine and popular streaming platform Youtube, Alphabet owns hundreds of other subsidiaries that span across life sciences, robotics, autonomous vehicles and healthcare (Yee, 2020). When it entered the Chinese market, Google found itself struggling to outcompete Baidu's ability to rapidly innovate and respond to the needs of Chinese consumers (Cookston, 2016). What ultimately broke Google off from China was their irreconcilable disagreements about censoring its search engine capacity, as well as China's implication in hacking into Google's corporate data (Yee, 2020). Former Google CEO Eric Schmidt firmly believed that Google could outlast Chinese censorship, arguing it was unsustainable for the long-term growth of China's internet sector. After more than a decade, China's domestic ecosystem has instead blossomed and thrived, completely undermining Schmidt's prediction (Sheehan, 2018). Over the next decade, Alphabet would discreetly re-invest into China, in hopes of gradually gaining access to the Chinese market (Kharpul, 2019). Although the company launched various experimental projects and investments across different sectors, Alphabet has struggled to develop a coherent strategy. For instance, Alphabet subsidiary Verily - a life science company - was making significant progress in carrying out Project Baseline focused on COVID19 antibody testing in China (Yee, 2020). But in 2020, Verily shut down after its fallout with Shanghai-based joint venture medical company WuXi. Another example includes Chushou - a Chinese mobile game live streaming platform - that received a $120M investment led by Google in 2018. Yet in 2020, after facing intense competition from Tencent, Chushou ultimately pulled the plug on its operations. To cap it off, Google was working on a censored-search engine called Dragonfly that would be operated by local Chinese partners. Before US policymakers could take action against this project, widespread employee protest led Google to scrapping it altogether.

Alphabet's history of investing in Chinese tech startups and conglomerates likely contributed to the government decision to impose stricter outbound investment regulations. Between 2018 to 2019, Google's independent growth fund Capital G led multiple billion-dollar investments in Chinese startups, such as transportation startup Manbang and biotech startup XtalPi (Yee, 2020). Alphabet was also partnering up with critical Chinese technology companies. In 2018, Alphabet announced it would invest $550M in Chinese e-commerce company JD, allowing JD to join Alphabet's online merchant advertising platform (Yee, 2020). And before the Trump administration added Huawei to its trade blacklist, Alphabet used to share a longstanding partnership with Huawei that allowed its smartphones to carry Android operating systems (Yee, 2020). In 2023, the Biden Administration first sought public comment on an outbound investment review framework. In 2025, the administration finalized the outbound investment policy that would require US companies to conduct significant due diligence requirements for making investments in Chinese companies related to AI, semiconductors and microelectronics, and quantum computing (Chipman et al., 2024). Although the new rules capture a wide variety of investment activity, they do not outrightly prohibit investments into the Chinese tech sector (Chipman et al., 2024). Even though Alphabet and CapitalG have not made major investments in China since 2019, the new investment rules offer a degree of flexibility for resourceful firms like Google to continue finding ways to collaborate with Chinese companies. Last month, Google quietly partnered up with Chinese smartphone maker Honor ahead of its $10B pledge to invest in AI. Honor is using Google's AI system - Google Gemini - to develop AI features on its latest devices. Previously spun off from Huawei, Honor has remained exempt from US restrictions (Kharpal, 2025). Yet many policymakers remain suspicious of its remnant ties to Huawei, with some asking the Department of Commerce to consider adding Honor to the government's entity

blacklist (“US Republicans”, 2021). Furthermore, as a paramount figure in AI policymaking, Schmidt has been consistently hawkish against China, warning of the closing gap between the two powers’ technological progress. However, his public criticism contradicts his private interests. A recent report revealed that Schidmt’s private foundation invested $17M into an extensive portfolio of Chinese AI companies (“Featured Project”, 2024). Despite regulatory headwinds and political pressures to align with the national agenda, there are signs that many American investors - like Schmidt - and companies remain very interested in harnessing the growth and innovation achieved by Chinese companies.

While Alphabet has certainly irked US policymakers with its continuous projects in China, it has significantly dialed down its investments in China and complied with US regulators. But there continue to exist short and long-term challenges to Alphabets’ operations in China. Trump’s recent tariffs will indirectly impact Alphabet, as its subsidiary Youtube generates 10% of Alphabet’s yearly revenue through advertising (Spangler, 2025). While there isn’t data on how much Chinese sellers and businesses make up Youtube’s yearly advertising revenue, it’s likely to be a significant portion, which is bound to decline as tariffs will force Chinese businesses to look beyond the US consumer market (Spangler, 2025). Even though Google Cloud currently does not operate in China, the company is eyeing the explosive demand for cloud services in the Chinese market and considering whether it should take on AWS and Azure’s growing footprint in the future (Kharpul, 2019; Gallagher and Bergen, 2020). Furthermore, Alphabet may be configuring a long-term plan to leverage its frontier AI capabilities to cater towards Chinese consumers (Sheehan, 2018). By launching AI-powered “Guess the Sketch” game on WeChat, promoting Chinese use of TensorFlow - an AI software library developed by the Google Brain team, and publicizing the triumph of its AI-backed, Go

playing program AlphaGo over professional Chinese Go players, Alphabet is clearly crafting an AI lobbying strategy designed to court and compel Chinese leadership (Sheehan, 2018). But how Alphabet intends to move beyond trial-and-error investments while avoiding formal partnerships or significant investments in Chinese AI firms remains uncertain and increasingly difficult amid growing competition from Microsoft, Azure, Meta, and Chinese AI companies.

Tesla: Automaker, fabless non-chip firm

- Strategy to maintain presence in China
  - Leveraging government patronage and prioritizing localized supply chains.
  - Building a local data center and expanding into robotics.
- Pursued opportunities
  - Localizing over 95% of its supply chains and developing low-cost EV models like the Model 3 and Model Y to compete with local rivals like BYD.
  - Leveraging regulatory protection to suppress any criticism and enact legal action against civil lawsuits.
  - Revenue reliance on China: High
- US Policy Concerns
  - Musk has expressed open admiration for the Chinese government, catering to its national interests.
  - Tesla's data security practices, supply chain entrenchment and reliance on the Chinese regulatory environment.
  - Tesla's plans to incorporate NVIDIA chips to refine its Full Self-Driving (FSD) technologies.
- Policy Changes
  - Musk's outsized involvement in domestic politics has rendered Tesla's operations in China a secondary concern.
  - As Tesla continues to develop (FSD) technologies by aiming to integrate AI technologies into China, policymakers will likely respond with further restrictions.

Tesla

Backed by the CCP, China's Electric Vehicle industry has taken over the world by a storm. With over three quarters of the world's battery production capacity, China controls the

most critical position in EV production (Cyrill, “China’s Electric Vehicles”). Even though Tesla entered China later than most of the M7 companies, it has established itself as a top competitor in the domestic EV market. Tesla’s local-first, cost-efficient strategy through localizing supply chains and developing low-cost EV models has expedited its rise. Tesla’s Gigafactory in Shanghai, as well as a new battery factory currently being built, signals the company’s long term commitment to China (He and Hao, 2023). Founder Elon Musk’s open courtship of Chinese government officials has greatly bolstered Tesla’s presence in China, granting the company favorable tax breaks, $1.4B worth of below-market rate loans, and positive media coverage. (He and Hao, 2023). Tesla’s Shanghai Gigafactory is the first wholly foreign-owend car manufacturing enterprise in China. Chinese journalists have confessed that there is an unwritten rule to avoid criticizing Tesla Chen et al., 2025). The CCP’s patronage of Tesla emboldens the company to adopt aggressive legal strategies against its critics. As of February 2025, Tesla has won over 90% of civil cases over safety, quality or contract disputes brought forth by Chinese customers (Chen at al., 2025).

Notably, Musk appears to have shaped aspects of foreign policy in ways that align with Chinese national interests. Taiwan, a key flashpoint in US-China relations, is not covered by Musk’s Starlink satellite and internet system, leading to speculation that Chinese leaders may have pressured him to not bring it to the region (Keating, 2025). In December 2024, Musk publicly opposed a bipartisan spending bill that included measures to further regulate US investments in China (Kolodny, 2024). Congress eventually passed a separate stopgap bill that excluded the provision. CCP officials had high hopes of leveraging Musk’s close connections to President Trump as a way to bypass China hawks in his cabinet. However, Musk was clearly not successful in persuading Trump to recall the tariffs on China, which raises the question of

whether the CCP will continue to support Tesla's future in China. Although US policymakers have widely opposed Tesla's operations in China, this particular issue has paled in comparison to Musk's outsized role in domestic policymaking. Leading the Department of Government Efficiency (DOGE), Musk quickly slashed government jobs and froze federal funding, leaving bipartisan lawmakers scrambling to come up with a counterplan. He has faced relentless criticism for using his companies to expand ties with government agencies and obtain lucrative federal contracts (Robins-Early, 2025). A Democratic senator has recently introduced a bill that would prohibit awarding government contracts and grants to companies owned by special government employees like Musk (Robins-Early, 2025).

Tesla has been waiting for the Chinese government to approve its software feature update that would be similar to its Autopilot feature in the US (Stevenson, 2025). Because the Chinese government restricts foreign companies from exporting Chinese consumer data, Tesla is not allowed to use high-quality, local driving footage captured by its Chinese EVs. Instead it must rely on less accurate data to train its driving model. Therefore Musk is considering building a Chinese data center to train algorithms needed to advance FSD technologies, which means Tesla would have to partner up with a local Chinese firm (Stevenson, 2025; Reuters, 2025). Discussion around this potential data center, one which would require large amounts of advanced semiconductors, is being closely followed by US policymakers (Gitlin, 2024). And in an attempt to attract more foreign technology companies, the CCP has recently begun piloting programs that would allow foreign companies to retain full control over their data and better access Chinese computing resources (Interesse, 2024). Tesla is one of the many companies that have signed on to join the program (Interesse, 2024). This comes at a sensitive time when US policymakers are

increasingly more concerned over sensitive data being stored in local Chinese centers that could possibly serve as a backdoor to government access.

Due to its recent underperformance in the Chinese EV market, some argue that Tesla is undergoing a company rebrand to pivot towards China's robotics industry. Last month on a call with investors and journalists, Musk declared "We are an AI, robotics company; if you value us otherwise, the right answer is impossible to the questions being asked" (Gitlin, 2024). However, I argue that Tesla has always been an AI company, yet its core operations didn't reflect that ambition until lately. Musk has consistently over-promised and undelivered on Tesla's FSD abilities as fully autonomous vehicles are entirely dependent on AI innovations (Love, 2025). On an earnings call back in 2022, Musk admitted that "[...] To solve Full Self-Driving, you actually have to solve real-world artificial intelligence" (Isaacson, 2023). Recently Tesla acquired a significant number of GPUs not for its electric vehicles, but for developing its line of humanoid robots under the name Optimus (Speed, 2025). Optimus depends on China's supply of rare earth magnets, and Tesla is currently negotiating with the CCP to obtain the license required for accessing these resources (Speed, 2025). As Tesla looks to rival other M7 companies by advancing its AI system through FSD and robotics, Musk risks subjecting the company to more intense scrutiny from US policymakers. As lawmakers turn their attention to other critical technologies such as cloud computing and AI models, US policymakers may also consider tightening restrictions on vehicle intelligence systems and robotics-related AI technologies that Tesla is developing in China.

Apple: Consumer electronic, leading fabless non chip firm

- Strategy to maintain presence in China
    - Regulatory compliance coupled with reconfiguring supply chains.
- Pursued Opportunities

- Storing Chinese customer data on computer servers run by Chinese state-owned firms, removing apps that have been disapproved by the government.
- Partnering with Chinese Big Tech to integrate Apple Intelligence.
- Revenue reliance on China: High

- US Policy concerns
  - Apple rolling out its intelligence system in China could alert US policymakers since the company has been cooperating with Chinese Big Tech.
- Policy changes
  - 2022: Biden administration enacted sanctions on Chinese memory chip manufacturer YMTC, scrapping Apple's plans to partner with the Chinese firm.
  - April 2025: Trump administration temporarily exempts Apple products from Chinese tariffs, accelerating the relocation of low-value manufacturing to India.

Apple

Out of all the M7 companies, arguably Apple has had the greatest impact on the Chinese market. Since it opened its first store in Beijing in 2008, Apple has become one of the few widely successful Western brands ever to have captivated an entire generation of Chinese users. More importantly, when Apple first came to China in 2001, it chose its own crop of suppliers and helped nurture them into becoming manufacturing behemoths (Liang, 2025). Today, Taiwanese-manufacturer Foxconn, which operates significantly in China, runs the world's largest iPhone factory in Zhengzhou. For years, CEO Tim Cook has adopted a careful balancing act with the Chinese government to continuously reconfigure its supply chains in China. But Apple's presence in China has become an increasingly greater liability that the company can no longer avoid. During Trump's first term in the White House, he touted "We're going to get Apple to start building their damn computers and things in this country instead of in other countries" (Wagstaff, 2016). In both the 2017 Trade War and Liberation Day tariffs, Apple narrowly obtained exemptions from tariffs that would have severely underwritten its profitability.

Even before Trump took office in 2016, Apple has begun to recalibrate its disproportionate reliance on China's manufacturing pipeline. China is Apple's third-largest source of revenue, accounting for $18.5B in sales in its most recent quarter (Apple, 10k; Chan, 2024). Although Apple has been moving some of its production to outside of China, upon closer look reveals that the company has been moving the low value processes out of China, and in fact it has become *more* reliant on productive Chinese companies. For instance, while the majority of the iPhone 15 Pro Max's components are produced by foreign firms such as TSMC, Qualcomm and Broadcom, and Sony, most of these foreign suppliers do the bulk of their manufacturing in China. Out of Apple's 187 supplies, 87% have production facilities in China (Chan, 2024). To illustrate, in 2022 South Korean companies Samsung and SK hynix - two of Apple's main suppliers for memory chips - produced 19% of the global NAND flash memory outputs in China (Chan, 2024). In 2021, Cook discreetly signed a $275B deal with Chinese officials; in exchange for receiving legal exemptions to invest in R&D centers, renewable energy projects, building new retail stores, as well as retaining the encryption keys to protect the data of its Chinese customers, Apple promised to use more components from Chinese suppliers, invest in Chinese tech companies, and sign deals with Chinese software firms (Niewenhuis, 2021). Apple's Chinese suppliers have been steadily moving up the production process as high-value contributors. Chinese companies like YMTC, Sunny Optical, Foxcoon, and Lens technology, who are respectively China's most advanced NAND flash memory maker, camera lens manufacturing company, titanium casing producer, and world's largest supplier of touchscreens, are clear indicators that Chinese suppliers have already moved past basic manufacturing to include innovation, customization, and high-end features (Chan, 2024). To underscore this point,

Cook said in an interview last year "There's no supply chain in the world that's more critical to us than China" (Liang, 2025).

To protect its supply chain, Apple has made various concessions to the Chinese government, which has drawn much criticism from US policymakers. Complying with Chinese cybersecurity laws, Apple began storing consumer data on servers operated by Chinese company Guizhou-Cloud Big Data. Apple has also censored and removed thousands of apps from the Chinese app store that do not comply with CCP standards (Williams, 2024). During the 2017 Fortune Global Forum in China, Cook acknowledged Apple's strategic compliance by proclaiming "Your choice is: Do you participate, or do you stand on the sideline and yell at how things should be. My own view, very strongly, is you show up and you participate, you get in the arena because nothing ever changes from the sideline" (Williams, 2024). One reason I suspect why policymakers haven't escalated restrictions on Apple's data storage on Chinese servers is that any breach would primarily endanger Chinese consumer data and not US users. However, that could change with Apple's recent developments. Faced with stiff competition from Huawei and Vivo, Apple is thus counting on the Chinese regulatory approval of its in-house intelligence system - Apple Intelligence - to attract Chinese consumers who are seeking more AI-powered smart products (Liang, 2025). As Apple laid the groundwork for building out its intelligence system in China, it could receive more targeted restrictions. From cooperating with local partners, such as Baidu and Alibaba to integrate their models into Apple Intelligence, as well as openly endorsing DeepSeek's open AI model, Cook is committed to protecting Apple's reliance on both Chinese suppliers and consumers (Nguyen, 2025).

Although Apple has been repeatedly flagged for its supply chain dependence on China, the company does not boast equally critical technologies as its other M7 peers, thus evading

targeted restrictions for now. Apple primarily manufactures consumer electronics, and they produce chips that are focused on cutting down weight and power consumption, which is different from the high-performance GPUs made by Nvidia (Gilder, “Tit-for-Tat”). To train its AI model, Apple has historically relied on third party infrastructure, such as data center hardware provided by Nvidia and Google (Gilder, “Tit-for-Tat”). Additionally, Apple’s executive leaders and their strategic engagement with White House officials has helped the company evade detrimental policies. Back in 2020, Cook lobbied US trade representative Robert Lighthizer and persuaded President Trump to rein back the tariffs imposed on electronics. Remarkably, after Liberation Day, Cook managed to pull off a similar feat again. During the Biden Administration, Cook visited the White House at least 11 times, while other Apple executives and company-affiliated lobbyists frequently contacted lawmakers (Barrabi, 2024). However, as Apple constructs its AI system through partnerships with Chinese companies, US policymakers are bound to respond with more targeted restrictions. During the Biden administration, policymakers had already blocked Apple’s attempt to use NAND chips produced by Yangtze technologies in iPhones (Chan, 2024). This is a clear signal that the lawmakers are willing to take further steps to restrain Chinese companies from partaking in Apple’s developments of advanced AI technologies.

Trump walks the fine line between rebuilding American manufacturing and protecting national security. Although Apple executives and investors welcomed the post–Liberation Day reprieve, the temporary nature of the relief dampens the company’s long-term outlook. As Apple plans to merge its in-house AI system into its Chinese hardware, US policymakers may have even stronger reasons to upend Apple’s reliance on Chinese suppliers and technology companies.

With mounting pressures on both fronts, Apple is confronted with a pivotal decision—one that will ultimately test the company's future in China.

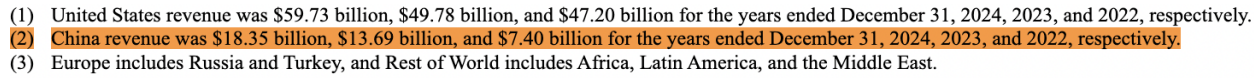
Meta: Social media platform, fabless non-chip firm

- Strategy to re-enter China
  - Draw Chinese sellers to its advertising platform.
  - Leveraging hardware to re-enter the Chinese consumer market.
- Pursued opportunities
  - Forming a preliminary partnership with Tencent to sell VR headset technology.
  - Revenue reliance on China: High
- US Policy Concerns
  - Scrutiny over Chinese advertisers' significant contribution to Meta's revenue.
  - The Chinese military reportedly used Meta's Llama 2 AI model to create a military-focused chatbot.
- Policy Changes
  - The termination of the de-minis rule destabilizes Meta's future reliance on Chinese e-commerce platforms and sellers.
  - Ongoing investigation into Meta's former engagement with the Chinese government will invoke further scrutiny into Meta's presence in China.

Meta

During a 2019 speech at Georgetown University, CEO Mark Zuckerberg spoke about Meta's operations in China: "I wanted our services in China because I believe in connecting the whole world and I thought we might help create a more open society[...] But we could never come to an agreement on what it would take for us to operate there[...]. And now we have more freedom to speak out and stand up for the values we believe in and fight for free expression around the world" (Lanum, 2025). While Zuckerberg was truthful about the clash between Meta and the Chinese government, he redacted important details about the company's efforts to return to China. Similar to Google, Meta was forced to shut down its operations in 2009 due to strict censorship enforced onto its platform. But Zuckerberg was determined to get the CCP to reverse

their course of action: From visiting students at prestigious Chinese universities, to courting senior CCP officials and even asking Xi Jinping to name his first unborn child, Zuckerberg was willing to go above and beyond to bring his company back. However, the CCP has yet to lift the ban on Meta's platform, and since then Zuckerberg has completely backpedaled his rhetoric by criticizing the Chinese government and upholding Meta's commitment to protecting free speech.



(1) United States revenue was $59.73 billion, $49.78 billion, and $47.20 billion for the years ended December 31, 2024, 2023, and 2022, respectively.
(2) China revenue was $18.35 billion, $13.69 billion, and $7.40 billion for the years ended December 31, 2024, 2023, and 2022, respectively.
(3) Europe includes Russia and Turkey, and Rest of World includes Africa, Latin America, and the Middle East.

Figure V: Embedded in the footnotes, Meta tries to draw attention away from the fact that it has a disproportionately high and growing revenue reliance on the Chinese market (Meta 10k, 2024).

Less so about promoting free speech, Zuckerberg saw China as a goldmine for advertising, which is its core, revenue-generating activity. Despite its platform ban in China, Meta's global presence has drawn in Chineses businesses looking to market their products towards an international audience. In the last few years, Chinese businesses faced slow demand from domestic consumers, which further drove them to using Meta to access foreign consumers (Deffenbaugh, 2025). In turn, Meta has been selling more instagram and Facebook ads to Chinese companies than ever. In fiscal year 2024, Meta's China revenue accounted for 11.2% of its total revenue, which grew from previous year's 10.1% (Meta 10k, 2023). The boom of ultra cheap e-commerce sellers like Shein and Temu has made China the fastest growing market for Meta in recent years (Brandom, 2023). However, Trump's recent tariffs and termination of the de-minis rule is projected to severely harm Meta's business. Analysts estimate that Meta may suffer a whopping $7 billion loss in Chinese advertising revenue by next year (Deffenbaugh, 2025). Unlike Amazon, Meta does not compete with Chinese e-commerce juggernauts and gains nothing from these tariffs. In its first earnings report, Meta beat revenue expectations, sending its

shares prices soaring. However, the company conspicuously avoided directly addressing how tariffs will impact its future earnings. While investors remain generally optimistic about Meta's ability to direct Chinese companies to advertise towards non-US markets, as well benefit from more advanced AI-driven advertising tools, many wonder if that'd be enough to make up for the inevitable advertising pullback from e-commerce companies like Shein and Temu (Deffenbaugh, 2025; Ortutay, 2025).

Given these headwinds, Meta is exploring other ways to navigate the Chinese market. In 2023, Meta struck a deal with Tencent to sell its VR headsets for a cheaper price. This was a strategic victory for Meta as Tencent commands the lion's share of China's gaming segment (Mann, 2023). Similar to what some other M7 companies have done, Meta quietly partnered up with Chinese Big Tech in hopes of wooing consumers with its hardware that has underperformed in the US market. While that business decision did not draw much attention from US policymakers, Meta's open-source AI models in China were met with heated criticism. Researchers with ties to the Chinese military demonstrated how they used Meta's Llama 13B large language model to build ChatBIT, an AI model designed for military applications (Pomfret and Pang, 2024). Within hours, members of Congress called for imposing restrictions on commercial exports of AI products (Mittelsteadt, 2024). In response, Meta claims that their open model used to develop ChatBIT was already outdated. Experts also point out that ChatBIT lags far behind any advanced model, and does not pose an immediate security risk (Udinmwen, 2024). However, US policymakers remain alarmed by the potential for future spillovers that could lead to more Chinese military technological advances. Since open source AI models are designed to be borderless and accessible, it's incredibly difficult to regulate them. Additionally, closed models offer significantly more advanced computational powers, which makes them more

critical than open source models towards the development of frontier capabilities (Wilson and Hine, 2025). However, Meta's Llama incident has prompted US policymakers to reconsider the lack of systematic controls on open source AI, and how publicly accessible technologies offered by other American technology companies can become potential national security risks (Wilson and Hine, 2025).

Recently Meta has been thrusted under the spotlight for its past engagement with the Chinese government. Last month, a US Senate investigative subcommittee opened a review into Meta, requesting documents of all company communications or records of meetings with Chinese government officials starting from 2014. This comes as a response to former Meta executive Sarah Wynn-Williams publishing her memoir *Careless People,* where she described her first-hand experience of witnessing Zuckberg's engagement with CCP officials. Wynn-Williams then testified before Congress, affirming that Meta leaders undermined national security by debriefing the Chinese government about AI developments since 2015 (Nix, 2025). Furthermore, she claimed Zuckerberg was responsible for leading "Project Aldrin" in 2014, where the team focused on developing services that could be legally offered in China, including a censorship system (Nix, 2025). Ravished and shocked by her testimony, US policymakers pledged to clamp down on Meta's future attempts to expand into China. While this investigation may temporarily impede Meta from offering its services in China, Meta has already established a sizable customer base of Chinese companies to continue its advertising business. Even with more cohesive and targeted restrictions on open-source modeling, US policymakers must determine whether limiting Meta's AI innovations sufficiently addresses national security concerns, or if more drastic measures are required to fully sever Meta's dependence on the Chinese market.

Section VI: Discussion

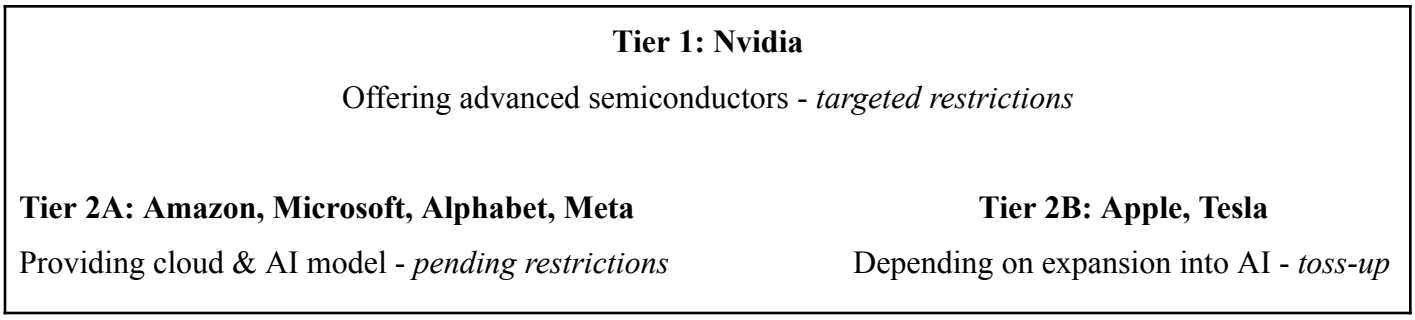


Figure VI. The tiered structure reflects the severity of US policy restrictions towards the M7 companies. As I hypothesized, Nvidia faces the most punitive measures due to its critical role in semiconductors. Amazon, Microsoft, Alphabet, and Meta are likely to encounter increasing restrictions as they expand advanced AI models and cloud technologies, while future actions against Apple and Tesla will likely depend on the progress of their in-house AI development.

Condensing the micro level analysis of each company strategy, I created a graph to demonstrate how the M7 companies are tiered according to the technologies they offer and the severity of restrictions they face from US policymakers. Nvidia is in tier 1 because it produces semiconductors that are essential for both commercial and defense sectors. Therefore it's no surprise that among the M7 companies, it has received the most punitive restrictions. Tier 2 contains 2 groups: in group A, Amazon, Microsoft and Alphabet are leading CSPs, and Meta offers open-source, advanced AI models. These companies are grouped together as the US government is actively learning about and assessing these emerging critical technologies, particularly if their products incorporate advanced semiconductors. In group B, Apple and Tesla are grouped together because they are both extremely reliant on Chinese suppliers and manufacturers. However, because they have yet to specialize in producing critical technologies, particularly AI and semiconductors, it's difficult to determine whether they will receive targeted restrictions in the future, thus making them toss-up companies.

Trump's recent tariffs continue to prioritize restricting China's access to semiconductors, with a growing emphasis on strengthening American manufacturing. Affirming my hypothesis, each M7 company has developed distinct operational strategies to expand or maintain their operations in China. Nvidia continues to modify its China-custom chips to meet domestic requirements; Microsoft and Amazon have partnered with local Chinese serves to offer their cloud technologies, with Alphabet weighing the possibility of expanding Google Cloud into China; Alphabet subsidiary Youtube and Meta continue to generate revenue from Chinese sellers; Apple and Tesla continue to manufacture in China while shifting into advancing their in-house AI systems.

Importantly, the results reflect how the US government has treated each M7 company with distinct restrictions based on their understanding of critical technologies, forming a precursory hierarchization of potential national security threats. Some companies like Alphabet have a significantly smaller presence in China than others, thereby receiving less scrutiny from US policymakers. In contrast, Amazon and Microsoft's expansion of their cloud services in China, in addition to Meta's recent investigation around its open source models, will likely give rise to more targeted restrictions. Finally, Apple and Tesla's fate in China remains undecided. But with Apple working to bring its AI system to China, and Tesla's FSD technologies and robotics production awaiting Chinese regulatory approval, both of these companies' developments are being closely monitored by US policymakers, which could evoke more targeted restrictions down the line.

Echoing key points from the discussion section, I argue that these case studies reiterate the need to independently analyze each M7 company. Their distinct operations in China have helped inform policymakers on what types of technologies does and does not constitute an urgent

national security threat. As each M7 company continues to innovate and strategically expand select products and services into China, they're providing lawmakers the opportunity to distinguish different critical technologies from each other. As federal and state lawmakers propose more restrictive measures, they're adjusting their assessments by learning about the real time developments from the M7's activities in China. And in response, the M7 continues to innovate their products and services to meet current regulations so that they can continue catering to the Chinese market. Thus the iterative cycle of innovation and regulation will contribute to an increasingly more robust regulatory framework.

Future research topics should include looking at how China is adjusting its institutional regime to provide more favorable conditions for foreign tech companies to operate there. As the US and Chinese governments compete for high tech, the CCP could offer the M7 companies with strong incentives to innovate alongside Chinese companies and gain access to developing technologies. While this paper does not focus on the Chinese government as a primary state actor, conducting more research on China's domestic tech ecosystem and relevant state policies are crucial to understanding how the M7's willingness to operate across both states will subject US-China relations to greater uncertainty. Another topic of interest would be to track the wealth accumulation of M7 companies over the last decade, and juxtapose it with the evolution of US-China rivalry. How has the US-China rivalry affected the ways the US government has traditionally balanced against its corporate giants? Finally, while this paper briefly touches on how the M7 are related to and compete with each other, there could be a greater focus on how their competition and collaboration shapes the speed and scope of AI and semiconductor innovation. Throughout my case studies, I briefly analyzed how these companies interact with

each other in China, revealing how their interdependence as well as competition determines how they manage to sustain themselves in China.

Section VII: Conclusion

Throughout the paper, I demonstrate how the M7's operations in China have created a feedback loop of informing policymakers to enact more targeted policy restrictions, which then triggers more operational changes from the M7. In the process of analyzing the oscillating relationship between the M7 and the US government, it's reasonable to entertain the question of whether the US government's AI and semiconductor policy framework is headed down a counterproductive path. While US policymakers have largely agreed that choking off China's access to chips and advanced AI is aligned with defending national security, there is a growing debate on whether this should only be a short-term strategy while policymakers configure a more sustainable, long-term approach. Throughout the previous sections, I've demonstrated how US policymakers continue to grapple with the implications of high tech development on national security. Export controls may offer an effective solution for now, but they may not be the primary policy measures going forward. Besides corporate leaders, many lawmakers have called for revising stringent export controls so as not to facilitate China's domestic chip production and infrastructure independence. On the other hand, there is a valid concern that if the M7 is not effectively constrained, they could produce far greater harm to national security through continuously exploiting future regulatory loopholes and collaborating with critical Chinese technology companies to offer advanced products and services to the Chinese government. Therefore the future for critical US technology and AI companies operating abroad among geopolitical rivals, particularly in China, remains increasingly ambiguous and contentious.

Future research should continue to follow how the M7 and other critical technology companies navigate geopolitical tensions through examining their operational strategies. As a handful of companies come to dominate the world's most critical technologies, interstate relations will become more focused on the corporate sphere, where governments are actively steering technological progress by exerting control over key private players and their business operations. Once having thrived in free trade, the M7 has been forced to adapt in order to maximize profits for their shareholders while still complying with national policies. In recent years, China's rapid ascent as a technology leader has pushed the limits of the US government's tolerance for allowing its most influential companies to operate abroad. Private innovation and public governance is hinged upon striking a balance between business leaders and US lawmakers. As lawmakers continue to impose more stringent regulations on the M7 companies, business leaders are bound to push back and defend access to critical markets. Faced with information asymmetry and misaligned incentives, the US government relies on the M7 companies' ability to advance the tech frontier while still being able to exert legitimate authority over them. By critically analyzing how US policymakers have developed a preliminary regulatory agenda for the M7's activities in China, this paper concludes that the ongoing evolution of all three actors—the M7, the US, and China—will further entangle the state-business relationship and intensify the US-China dominance for tech supremacy.

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