

What does the takeover of a semiconductor firm say about the British government's approach to China, tech and foreign investment?

Blog post by Senior Associate Max von Thun, 8 April 2022

You might not have heard of Newport Wafer Fab (NWF) before reading this article. In global terms it is not a major player in the semiconductors sector, but the south Wales-located manufacturer now finds itself at the heart of a heated political debate about the UK's technological competitiveness, openness to foreign investment and relationship with China.

The controversy began in July of last year when Nexperia, a Netherland-based but Chinese-owned chipmaker, [announced that it was purchasing NWF](#). While concerns were raised in certain quarters about Nexperia's Chinese ownership, these were ultimately dismissed by the government minister responsible, Business Secretary Kwasi Kwarteng, who opted not to formally review the deal on national security grounds. Yet just days later, in response to pressure from prominent sino-sceptic Conservative MPs, the Prime Minister himself announced that the National Security Adviser, Stephen Lovegrove, [would investigate the deal](#).

This temporarily reduced the heat on the government until last week, [when it was reported in the media](#) - without an official announcement - that Lovegrove had also decided to approve the takeover in the absence of any identifiable security threat. A further eruption of fury ensued in response, with Foreign Affairs Committee Chair Tom Tugendhat MP lambasting the government for having "no clear strategy", and former Conservative Party leader Iain Duncan Smith calling the decision "ridiculous" and part of a "pathetic process of appeasing China". Matters were muddled further by [subsequent contradictory reports](#) in which government sources were quoted stating that "no decisions have been made". In attempt to capitalise on the political moment, on Tuesday Tugendhat's committee [released a report](#) accusing Lovegrove of failing to conduct any review whatsoever and calling for a public explanation.

Beyond providing further evidence of a chaotic approach to decision-making and communications that many have come to expect from the Johnson government, the confusion surrounding the NWF takeover is also instructive when it comes to understanding the political dynamics behind investment screening in the UK.

Firstly, the episode shows just how difficult it is to insulate supposedly technocratic decisions on screening from political pressure. Despite the Business Secretary's explicit decision not to review the NWF transaction, vociferous criticism from Parliamentarians was sufficient in getting the Prime Minister to override this in a clear departure from standard procedure. This was doubly true given

that it is not normally the role of the National Security Adviser to screen investments. The significant expansion in the government's screening powers under the National Security and Investment Act, which came into force this January, will only increase the incentive to apply political pressure in this way.

Secondly, it illustrates the practical challenge of separating security considerations from wider industrial policy concerns. The government's willingness to approve the acquisition reflects the fact that NWF is a minor player in the semiconductor supply chain producing chips that are far from cutting-edge. This makes it unlikely that it could be used by its Chinese owners to undermine the UK's national security. But from an industrial policy perspective, it is possible to argue that NWF could be more significant were it to receive the right public support. This is precisely the argument Tugendhat sought to make in an [opinion piece in The Times](#), in which he contended that NWF could be "the building block for our own industry".

Finally, the drama illustrates the government's vulnerability to its powerful sino-sceptic backbenchers, despite its large majority. Steered by the influential China Research Group (CRG), a group of Conservative MPs chaired by the ubiquitous Tugendhat, these MPs have had multiple successes in overturning government policy in recent years, most notably the ejection of Huawei and China General Nuclear (CGN) from the UK's 5G and nuclear infrastructure respectively. The CRG is likely to flex its muscles again should the government try and strengthen economic ties with China in other areas, as both the [Prime Minister](#) and [Chancellor](#) have recently hinted it is their intention to do.

Whether or not Nexperia's takeover of NWF is ultimately reversed, it is clear that acquisitions involving sensitive sectors or acquirers from perceived geopolitical rivals face an increasingly hostile environment. This isn't just about China however, as US-based Nvidia's aborted attempt to acquire British chip designer Arm - which was subjected to an in-depth national security review in the UK - demonstrates. While this mirrors to a large extent what is happening in other jurisdictions, it remains to be seen how compatible this trend is with the government's desire to make the UK a hub for global investment. Either way, corporates and investors will need to get smart quickly when it comes to navigating this brave new world.