

# Smugglers reportedly supply China with banned Nvidia AI chips worth millions of dollars as US looks to tighten trade embargo

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Nvidia is banned from selling H100 datacenter GPU to Chinese customers. (Image source: Nvidia, ridvan-selli on Pixabay, edited)

China firms, including state-affiliated institutes, have been getting a steady supply of Nvidia's AI chips the sale of which have been banned by the United States. A whole economy surrounding the procurement of Nvidia chips has reportedly sprung up in China with smugglers and private companies sourcing Nvidia chips for Chinese buyers.

Ever since the US trade ban on the export of sophisticated AI accelerators to China came into effect in October 2022, Chinese buyers have sought alternative ways to procure Nvidia's powerful AI chips. While the quantities remain small, [Reuters reported](#) in January 2024 that Chinese firms, universities, and government entities have been able to procure Nvidia A100, A800, H800, and [H100 chips](#).

The information reported by Reuters came from tender documents which also revealed that the suppliers of said Nvidia chips were not directly associated with Nvidia and were "largely unknown". Now, according to an [investigation led by The New York Times](#), it has come to light that the business of procuring banned Nvidia chips is flourishing in mainland China,

Talking to one vendor operating out of an electronics market in Shenzhen, NYT reports the vendor claiming that they could arrange for the delivery of embargoed Nvidia AI chips in two weeks. The said vendor even showed proof of a \$103 million trade for "more than 2,000 of the most advanced chips made by Nvidia" which was executed in April. The chips allegedly made their way to China from Hong Kong.

NYT claims that the business of procuring banned [AI chips](#) for Chinese firms, including the Chinese military, operates by way of "smugglers, backroom deals and fraudulent shipping labels". As an example, the outlet reveals that Chinese executives of an embargoed firm created a new company to circumvent the trade restrictions. This is in line with the Reuters' investigation cited above which suggests that, among other ways, suppliers of Nvidia AI chips use companies registered offshore in places like Singapore as a front to import AI accelerators.

## A new US trade rule is on the horizon

While stopping China from accessing advanced AI chips is important in the eyes of the U.S. policymakers, it is also important for them to restrict China's ability to develop advanced semiconductors locally. The U.S. already has a trade ban on the sale of advanced chipmaking equipment and the Biden Administration is reportedly looking to tighten the *Foreign Direct Product* rule by introducing a new rule.

The new rule will reportedly further restrict the sale of chipmaking equipment to China from countries like Malaysia. But, importantly, close allies like South Korea, Japan, and the Netherlands are getting a pass.

While the US trade ban does have a seriously detrimental effect on China's ability to procure large quantities of AI chips and the new US rule on the sale of semiconductor manufacturing equipment will further stifle Chinese innovation, it is unlikely to completely halt China's AI advancement.

As mentioned above, though limited, China has ways to ensure a steady supply of AI chips. Coupled with continued [improvement in process technology](#) which will allow the country to develop its own capable AI accelerators in due time, China will remain an active participant in the AI arms race for the foreseeable future.

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I am Fawad, a fellow tech nerd. As a tech junkie, my relationship with technology goes back to my childhood years. Getting my first Intel Pentium 4 PC was the start of journey that would eventually bring me to Notebookcheck. Finally, I have been writing for tech media since 2018. From small no-name projects to industry leaders, I have worked with a number of tech publications.