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What's Been Happening

1 — G7 Touts Collective Approach, Aims at Tech Cooperation Beyond TTC — 1

[In One Sentence]

- From June 26-28, leaders of the Group of Seven (G7) met in Germany to discuss Russia, economic security and stability, digitalization and global infrastructure investment.
- The G7 leaders committed to continue developing “collective approaches” that were “also beyond the G7” to address China’s non-market policies.
- The leaders hoped to build on the standards-setting works by other multilateral frameworks, such as the Trade and Technology Council (TTC) and the Quadrilateral Security Dialogue (the Quad).

[Mark the Essentials]

- G7 leaders said they would continue “severe and enduring” sanctions on Russia, address economic stability and security amidst rising costs, support global infrastructure and investment as well as form an international Climate Club by the end of 2022.
- In a joint communique, G7 leaders committed to building a shared understanding of China’s “non-transparent and market-distorting intervention” and developing a coordinated action to “foster diversification and resilience to economic coercion, and to reduce strategic dependencies.” They also committed to removing forced labor from global supply chains.
- The leaders supported international cooperation “within the G7 and with like-minded partners” to deliver democratic and market-oriented standards in technology, trade and innovation, highlighting existing works of the TTC and the Quad.

[Keeping an Eye On...]

- For a precious few weeks in March and April, the G7 countries showed they were capable of swift and decisive action when they imposed ‘shock and awe’ financial, trade and export control sanctions on Russia. With the passage of time, though, the G7 has once again reverted to form—as in, being long on talk and short on action. The White House’s G7 fact sheet highlighting the membership’s supposedly unified approach on confronting China’s unfair economic practices is typical in this regard. The talk of a unified approach has been a recurring theme of G7 and trilateral (U.S.-EU-Japan) joint statements going back to the middle years of the Trump administration. Yet, after almost half-a-decade of talking up the issue, there is still no concrete negotiating proposal on industrial subsidies on the table; be it at the WTO in Geneva, within the G7 framework, or within the trilateral framework. A trilateral joint statement in January 2020 is the best that the

parties have been able to summon so far. On the other hand, detailed disciplines on China's industrial subsidy policies and practices are memorialized in the EU-China Comprehensive Agreement on Investment (CAI) and in the Phase Two U.S.-China draft text. If the U.S. and EU really mean what they say on holding China's feet to the fire on non-market industrial subsidy practices, all they have to do is take the Phase Two draft text and the already-finalized CAI out of the deep freezer and shepherd them to their logical destination points (i.e., a bilateral agreement with China on Phase Two issues and passage of the CAI in the European Parliament). The time has come for less talk and more action.

[Expanded Reading]

- [G7 Leaders' Communiqué - Executive summary](#), European Council, June 28, 2022
- [FACT SHEET: The United States Continues to Strengthen Cooperation with G7 on 21st Century Challenges, including those Posed by the People's Republic of China \(PRC\)](#), White House, June 28, 2022
- [G7 aims to raise \\$600 billion to counter China's Belt and Road](#), Reuters, June 27, 2022 [Paywall]

2 — Waving the Export Control Stick? — 2

[In One Sentence]

- The Bureau of Industry and Security (BIS) plans to prioritize “the most serious” export control violations, increasing penalties in “egregious” cases while putting minor cases on a processing fast track.
- The BIS recently added 36 entities to the Entity List, including 29 Chinese companies and six companies, five of them Chinese, “specifically for their continued support of Russia’s military efforts.”
- The Department also publicly identified two Chinese entities already on the Entity List as supporting Russia’s military.

[Mark the Essentials]

- Announcing a new “prioritization strategy,” BIS head Matthew Axelrod said the agency will now apply “existing aggravating penalty factors” more uniformly to “properly” identify “egregious” violations of export controls and “escalate penalty amounts where appropriate”.
- According to Commerce Secretary Gina Raimondo, the Entity List additions show that the U.S. and its allies and partners will “act swiftly to hold parties accountable who attempt to circumvent our controls.” She added that China is “watching our response closely”.
- Raimondo previously said that the Biden administration is “constantly” working to identify “bad actors in China” and add them to the Entity List.

[Keeping an Eye On...]

- The breakdown of U.S.-China economic relations during the Trump administration might have started as a trade and tariff war but it is the technology denial element that added the undeniable sting. Export controls have become the U.S. government’s *de facto* number one tool of choice to slow down China’s secular climb up the technology ladder. And why not? The controls are proving their worth in ways that the tariffs never could. Russia is providing a further proving ground for the sharpening of this dreaded tool. For the first time, the Foreign-Produced Direct Product (FDP) Rule has been applied to a whole country; previously, the rule was applied to individual entities only, such as Huawei, and the rule is expected to substantially limit the availability of key microeconomic parts and components and degrade Russia’s technological base. Back-filling Moscow’s chip requirements could invite a heap of trouble on Chinese producers. That said, export controls are not an entirely cost-free tool either. Its excessively unilateral use could lead to the ‘designing out’ of U.S.

parts and components from certain technology value chains who learn to operate without these U.S. supply chains. And technology embargo decisions, such as the one to curtail critical American technology support for China's homegrown wide-body civil aircraft manufacturing ambitions, has now led three major Chinese airlines to reject Boeing in favor of Airbus from a US\$37 billion aircraft order. There are zero unilateral technology denial sanctions imposed by the European Union on China for a reason. Some think this might have had something to do with the choice of Airbus. Using a 'stick' instead of a 'carrot' can lead to unexpected sacrifices if it is left unbalanced and waved for too long.

[Expanded Reading]

- [U.S. Aims to Expand Export Bans on China Over Security and Human Rights](#), *The New York Times*, July 5, 2022 [Paywall]
- [BIS Hammers 36 Russian Military Suppliers; Chinese Military Suppliers Get A Pass](#), *Forbes*, July 1, 2022 [Paywall]
- [Addition of Entities, Revision and Correction of Entries, and Removal of Entities From the Entity List](#), Bureau of Industry and Security, Federal Registry, June 30, 2022
- [US starts sanctioning China for supporting Russia](#), *Asia Times*, June 30, 2022 [Paywall]
- [US Says Five Chinese Companies Support Russia's Military](#), *Asia Financial*, June 29, 2022 [Paywall]
- [Export Controls 'Matter More Than Ever,' US Commerce Chief Raimondo Says](#), *Bloomberg*, June 29, 2022 [Paywall]
- [Remarks by U.S. Secretary of Commerce Gina Raimondo at the Bureau of Industry and Security \(BIS\) Update Conference](#), U.S. Department of Commerce, June 29, 2022

3 — A Few Tariffs may Go, but Decoupling Continues— 3

[In One Sentence]

- President Biden is yet to make a decision on whether to remove or reduce the Section 301 tariffs on China.
- U.S. Secretary of the Treasury Janet Yellen and China's Vice Premier Liu He discussed economic developments as well as the U.S. tariffs on China during a virtual meeting.
- Senator Tim Kaine urged the Biden administration to reduce tariffs on Chinese goods to combat inflation.
- U.S. intelligence agencies are warning companies and local governments of China's economic influence.

[Mark the Essentials]

- According to China's readout of Premier Liu He's meeting with Secretary Yellen, the Chinese side expressed concerns and called for the lifting of additional tariffs on China as well as the U.S.' sanctions, and also called for the fair treatment of Chinese enterprises.
- Calling the Section 301 tariffs on Chinese goods a "Trump tax," the Senator said that removal of the tariffs would allow the administration and Congress to fight inflation and increase U.S. competitiveness through legislation like the Infrastructure Act and the Innovation Act.
- According to the agencies, China is using partnerships and business deals and investments between Chinese and U.S. localities to create dependency and "press its agenda," "including improved U.S. economic cooperation with China and reduced U.S. criticism of China's policies towards Taiwan".

[Keeping an Eye On...]

- The Biden administration's tariff reassessment debate is being guided by three factors. First, the administration is up against a four year statutory deadline, as inscribed in the Section 301 law, to either extend or repeal the tariffs. This is the most important driver of the debate internally within the administration. Had this deadline not been in place, the tariffs would not have been reviewed before the midterm elections. Second is the unexpectedly high inflation print over the past couple of months, which is due to both excess demand and supply chain snafus. The thinking is that the spiraling pocketbook expenses of the average American can be brought down by releasing the tariff valve. This is true up to a point, but there is a tendency to overestimate the degree of price containment that can be achieved through tariff reduction. The tariffs, after all, have already diverted production elsewhere, so the cost reductions that will occur will be muted. Third and final, there are a few committed free traders in the administration, like Janet Yellen, who understand that tariffs are a tax on both consumers as well as domestic producers using imported intermediate inputs. Over the medium and long term, such a tax sidetracks an economy from operating at a level of productivity that is commensurate with its growth potential. Overall, the first two factors are driving the administration's tariff-related decision-making. And given that the first factor and the second factor are essentially at odds with each other, the net result as we see today is a half-hearted measure to remove a subset of the Trump-era tariffs. That said, any removal or reduction should be welcomed. The material impact economically might be limited but from a political standpoint, it will be a salient moment in the bilateral relationship—given that the imposition of the Section 301 tariffs in July 2018 had marked the first major shot of the U.S.-China 'new cold war' of the 21st century.

[Expanded Reading]

- [Biden says he has not decided on China tariffs, reviewing them 'one at a time'](#), *Reuters*, July 8, 2022
- [US Intelligence Warns of Chinese Influence Effort Against States](#), *Bloomberg*, July 6, 2022 [Paywall]
- [Foreign Ministry Spokesperson Zhao Lijian's Regular Press Conference on July 5, 2022](#), Ministry of Foreign Affairs of the People's Republic of China, July 5, 2022
- [READOUT: Secretary of the Treasury Janet L. Yellen's Virtual Meeting with Vice Premier of the People's Republic of China \(PRC\) Liu He](#), U.S. Department of the Treasury, July 4, 2022
- [Opinion: Roll back the Trump tax on American households](#), *The Virginian-Pilot*, July 2, 2022 [Paywall]

On the Hill



[Legislative Development]

- Senate Minority Leader Mitch McConnell threatened to block the emerging China competition bill in the conferencing process if Democrats continue pursuing a partisan budget reconciliation bill.
- The White House criticized McConnell and Republican Senator John Cornyn for “holding hostage” the competition bill, but Cornyn said the White House was “confused”.
- As Congress continues to reconcile the competition bill, five Republican Senators are calling on support for the House version of the bill's trade provisions while other lawmakers anticipated the trade title to be cut out of the bill.
- A bipartisan group of Senators led by Finance Committee Chair Ron Wyden proposed to restrict the export of personal data of large numbers of users citing China and national security concerns.

- Two Democratic lawmakers proposed to give berthing preference to U.S. exporters at American ports, arguing that it will help reduce trade imbalance with China.
- A bipartisan pair of Senators called on Commerce to initiate anti-dumping and countervailing duty (AD/CVD) investigations into Chinese mask imports.

[Midterm Election Outlook]

- Democrat and Republican election hopefuls alike are leaning into rhetoric about U.S. competition with China in an effort to win over voters ahead of the midterm elections this fall.
- Sen. Marco Rubio (R-FL) is staking a course as a leading 'China hawk' within the GOP. In addition to headlining campaign emails with subjects like "Dems <3 China," he recently delivered a fiery speech at the Heritage Foundation titled "Putin's War and the Threat from Communist China" where he portrayed U.S.-China relations as a battle between liberalism and authoritarianism that the Democrats are not poised to win. He leads his Democratic challenger, Rep. Val Demings, by nine points in the polls.
- Sen. Raphael Warnock (D-GA), who won his seat in a 2021 special election, is pushing the message that the CHIPS Act could mitigate the ongoing semiconductor shortage and avoid future plant shutdowns like one which hit a KIA factory in his state last year. He is currently leading his Republican challenger, Herschel Walker, by ten points in the polls.
- Sen. Mark Kelly (D-AZ) penned an op-ed in the *Phoenix Business Journal* endorsing the semiconductor provisions of USICA and successfully introduced a motion instructing House and Senate conferees to include the CHIPS Act's domestic semiconductor funding in the final version of the China competition bill. The Republican primary for Sen. Kelly's seat will not take place until August 2, but GOP Super PACs are already latching on to the incumbent's stake in a Chinese tech firm and portraying it as a source of undue influence (which Kelly denies). While no comprehensive polls for the general election have been conducted yet, Sen. Kelly's race is expected to be one of the Democrats' most vulnerable.

[Keeping an Eye On...]

- While competition with China is one of the few major areas of bipartisan consensus on the Hill, reconciling the House and Senate bills that tout this competition is turning out to be a much harder lift than anticipated. For this underwhelming state of affairs, much of the blame resides on the shoulders of the House Democrats. Given the Biden administration's mismanagement on the inflation front, fearful of the shellacking that they will receive in the midterms in November, and terrified of the amount of time they might have to sit in the opposition benches, the House Democrats have chosen to harvest partisan near-term legislative gains rather than hammer out a far-sighted consensus on the China competition bill, also known as the Bipartisan Innovation Act. A climate change, prescription drug pricing, and social spending package is sought to be passed by the Democrats on a party-line vote, more-or-less at the expense of the Bipartisan Innovation Act. Red meat, or maybe its vegetarian substitute, for partisan domestic constituencies is being readied for the national interest. As for the Bipartisan Innovation Act, expect it to be stripped down to its bare essentials (i.e., a funded CHIPS Act or a funded CHIPS Act-plus with its \$50 billion in semiconductor production-related investment tax credits) and passed on a bipartisan basis. In retrospect, if just the CHIPS Act funding is to be the final end-product in this 117th Congress, its passage on a bipartisan basis could have been achieved as early as Spring 2021. The mountain that was promised on the 'China competition' policy is in danger of delivering a molehill. Congress yet again is proving that in an election year, it is the place where good ideas come to die.

[Expanded Reading]

- [Rubio, Colleagues Voice Concerns with Provisions of the Senate's China Bill](#), Office of Sen. Marco Rubio, July 5, 2022
- [As China competition bill takes shape, Georgia lawmakers push for resources](#), *The Atlanta Journal-Constitution*, July 4, 2022
- [The \(new\) GOP plan to defeat Raphael Warnock and Mark Kelly](#), *Axios*, July 1, 2022
- [McConnell issues major warning to Democrats: GOP will walk away from China competition bill if they push party-line economic plan](#), *CNN*, June 30, 2022
- [Lawmakers Want To Favor Carriers That Prioritize US Exports](#), *Transport Magazine*, June 29, 2022
- [Wyden, Lummis, Whitehouse, Rubio and Hagerty Introduce Bipartisan Legislation to Protect Americans' Private Data from Hostile Foreign Governments](#), Office of Sen. Ron Wyden, June 23, 2022
- [Baldwin, Braun Defend Made in America Mask Manufacturers, Call on Commerce to Investigate Chinese Mask Dumping](#), Office of Sen. Tammy Baldwin, June 23, 2022
- [Is Time Running Out for Compromise on America COMPETES/USICA Act?](#), *HPC Wire*, June 22, 2022
- [How Good Bills Die in Committee](#), *The Wall Street Journal*, June 14, 2022 [Paywall]
- [Sen. Kelly Highlights His Bill to Boost Arizona Microchip Manufacturing in New Column](#), Office of Sen. Mark Kelly, May 16, 2022
- [My View: Bill to help Arizona lead in microchip production a step closer](#), *Phoenix Business Journal*, May 13, 2022 [Paywall]
- [Rubio Speaks on the Threat of Communist China at The Heritage Foundation](#), Office of Sen. Marco Rubio, March 29, 2022