ICAS TRADE N TECH DISPATCH

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What's Been Happening

1 — Are Export Controls the New Dragon Slayer? — 1

[**In One Sentence**]

- The Bureau of Industry and Security (BIS) is focused on negotiating a fifth multilateral export control regime aimed at the technological threat from China.
- BIS chief Alan Estevez suggested that the agency has "appropriate tools" available to deploy against Chinese technology transfers.
- The European Union is working closely with the U.S. to address export controls targeting China.

[**Mark the Essentials**]

- Estevez suggested that one of the purposes of a new multilateral export control regime would be to better equip the U.S. to handle future geopolitical challenges, including potential Chinese aggression directed at Taiwan.
- On the issue of whether or not the BIS is able to also conduct outbound investment screening on American venture capital firms investing in Chinese technology companies, Estevez contended that a technology transfer would need to be part of the investment deal to be under BIS' jurisdiction.
- Sabine Weyand, the European Commission's director-general for trade, said that the concerns about China's use of technology is focused on critical and emerging technologies that could be used by "authoritarian regimes" to set standards for future technologies.

[**Keeping an Eye On…**]

- During the final year of the Trump administration, a gruff diplomat and ex-businessman by the name of Keith Krach made the rounds of East Asia's capitals selling them the idea of a 'Clean Network'—a Clean Carrier, Clean Store, Clean Apps, Clean Cloud, Clean Cable, etc. Essentially, it would be a network cleansed of mainland China's "untrustworthy" digital fingerprints. There was hardly any buy-in with even ally Japan flat-out turning it down. 'America first' was indeed America alone, and a cardinal lesson was re-learnt along the way. If Washington insists on decoupling supply chains, given the sheer size of China's market, such a decoupling strategy must be crafted in a nuanced manner. An expansively drawn economic security perimeter that thwarts allies and partners' advanced technology exchanges with Beijing could well turn out to be the 21st century's geo-economic equivalent of the Maginot Line, leading potentially to the 'designing out' of U.S. parts and components from ensuing value chains. The technology controls to back up these economic security and strategic competition goals should also be designed collaboratively—ideally, multilaterally. This is a lesson that has been well-embraced by the Biden administration as it proceeds bottom-up, not top-down, with the construction of a new (fifth) multilateral export control regime to protect the West's leadership in the foundational technologies that will be key to the Fourth Industrial Revolution (FIR). The path to a fifth export control regime will be a long and complex one, given the size of China's economic footprint in the advanced manufacturing space. That said, the underlying principle that informs the administration's effort is the correct one.

[**Expanded Reading**]

- Hearing on Assessing the U.S. Economic Policy Response to Russia's Invasion of Ukraine, House Committee on Foreign Affairs, July 19. 2022
- US Official Sees Curbs on Exports to Russia as Template for China, *Bloomberg*, July 19, 2022 [Paywall]
- Hearing on Advancing National Security and Foreign Policy Through Export Controls: Oversight of the Bureau of Industry and Security, Senate Committee on Banking, Housing, and Urban Affairs, July 14, 2022
- Global crises pushing US and Europe into closer commercial partnership, top EU trade official says, *South China Morning Post*, July 14, 2022 [Paywall]
- Rethinking Trade In a Geopolitical Context: Trends and Transatlantic Cooperation, Center for Strategic International Studies, July 13, 2022

2 — A Shared Understanding (Sans Commitments) Among U.S. & Partners — 2

[**In One Sentence**]

- The U.S. and 17 partnering nations of the Supply Chain Ministerial Forum will increase transparency to strengthen global supply chains.
- A leaked draft joint statement on the trade pillar of the Indo-Pacific Economic Framework (IPEF) outlined only broad trade commitments.
- A ministerial meeting of the Indo-Pacific Economic Framework for Prosperity countries is being held on July 26-27.
- The U.S. and Thailand signed a memorandum of understanding on supply chain resiliency to boost ties in critical areas like electric vehicles and batteries.

[**Mark the Essentials**]

- At the conclusion of the virtual Supply Chain Ministerial Forum meeting, the U.S. and 17 other nations committed to cooperatively pursue four principles in supply chain operations: transparency, diversification, security and sustainability.
- The leaked draft of the forthcoming IPEF ministerial meeting showed that except the U.S., the other 14 participants of the IPEF have not yet agreed to join the four pillars of the framework, which covers supply chain resiliency, clean energy infrastructure as well as tax and anticorruption.
- The U.S. and Thailand will share information on "markets, disruptions, shortages, or restrictions related to critical supply chains" and focus on key areas "such as electronics and their components, medicines, pharmaceuticals, health products, medical devices, safety equipment, telecommunications equipment, energy products, and electric vehicles."

[**Keeping an Eye On...**]

- The May 23rd unveiling of the Indo-Pacific Economic Framework (IPEF) in Tokyo was a less-than-stirring moment in the history of regional trade liberalization. The sparse two-page joint statement amounted to a willingness to inaugurate collective discussions towards future negotiations—not actually launch negotiations.

As such, it should come as no surprise that the first post-launch ministerial meeting appears to have little to show by way of firm commitments. It bears remembering though that even after a dozen rounds of the Trans-Pacific Partnership (TPP) negotiations in the early-2010s, there were large gaps within the negotiation text. All of that changed in year two and year three of the second Obama administration as it raced to finalize the text and have it ratified under Trade Promotion Authority (TPA) rules before the clock ran out on its tenure in office. This, in turn, begs the operative question: What will be the forcing mechanism this time around that pushes the IPEF negotiations to the critical landing zone where many of the important reciprocal bargains are memorialized? The Obama administration more-or-less went through the TPP motions during its first term before ratcheting up the pace of negotiations during the second term. Judging by this short backstory, it is hard to see any driver that could instill urgency among the IPEF parties in the short or medium term. Aside from the Biden administration's interest in wrapping up detailed supply chain commitments with a selective list of interested East Asian partners, the rest of the IPEF discussions are likely to muddle along aimlessly for the time being.

[**Expanded Reading**]

- U.S. to host first IPEF ministerial meeting, *Politico*, July 25, 2022
- Joint Statement on Cooperation on Global Supply Chains, Department of State, July 20, 2022
- IPEF draft ministerial text - trade pillar (Jul 2022), ISDS Bilaterals, July, 18, 2022
- United States-Thailand Communiqué on Strategic Alliance and Partnership, U.S. Embassy Bangkok, July 11, 2022

3 — Renewed Attention on U.S.-China Trade and Tariffs — 3

[**In One Sentence**]

- New findings suggest that the Section 301 tariffs hurt U.S. tech jobs and production.
- The Commerce Department self-initiated an anticircumvention case to prevent the avoidance of anti-dumping and countervailing duties on Chinese foil.
- Wang Yi told Blinken that Beijing wants the U.S. to remove tariffs on Chinese goods "as quickly as possible."

[**Mark the Essentials**]

- The Consumer Technology Association released a new report and suggested that the Section 301 Tariffs "have not been effective in dealing with China and are instead hurting U.S. businesses and consumers" while calling for a removal of the tariffs to mitigate rampant and harmful inflation.
- The Department of Commerce will be looking into the level of Chinese investment in South Korea and Thailand, as well as other factors, to determine whether or not Chinese companies have been circumventing the anti-dumping duties placed on over 230 Chinese companies for 26 alleged subsidy programs.
- As part of his four "to-do" lists to improve U.S.-China relations, Chinese Foreign Minister Wang Yi told U.S. Secretary of State Anthony Blinken that the U.S. should cancel additional tariffs on China as well as technology sanctions on China.

[**Keeping an Eye On...**]

- One way or the other, the Biden administration's decision on the Section 301 tariffs should be known soon. The deafening silence in the White House on this issue is a sign of its consideration, especially with the president due to sit down for his virtual meeting with President Xi tomorrow. That said, a final decision is not expected by the time of the meeting. As has been pointed out in previous editions of the *TnT Dispatch*, the administration is still having difficulty getting its story straight on this topic, given the vertical split within the administration on the issue. For those inclined to hope for the full removal of the tariffs, disappointment will be on the cards. A (small) subset of the Section 301 tariffs will be removed; i.e., the supposedly "irresponsible" ones, although truth be told all the Section 301 tariffs are "irresponsible" and illegal. And a larger subset of the tariffs might even be reduced. As for the extended Section 301 (and Section 232) tariff probe being conducted by the U.S. International Trade Commission (USITC), one should not be holding one's breath for its findings. The findings are not due until March 2023, although one can be quite certain that even at that late date political jockeying with regard to the Section 301 tariffs will be alive and well.

[**Expanded Reading**]

- Analysis of Section 301 Tariff Impacts on Imports of Consumer Technology Products, Consumer Technology Association, July 20, 2022
- Importers paid $32 bln in U.S. tariffs on China tech imports-industry report, *Reuters*, July 19, 2022 [Paywall]
- Certain Aluminum Foil From the People's Republic of China: Initiation of Circumvention Inquiries of the Antidumping Duty and Countervailing Duty Orders, Federal Register, July 18, 2022
- Blinken, China's Wang Yi hold talks covering Ukraine war and trade, *Reuters*, July 9, 2022 [Paywall]

On the Hill

[**Legislative Development**]

- On July 27, the long-debated CHIPS Act, this time as a CHIPS-plus framework, passed the Senate by 64-33. The final bill will not include the trade titles in USICA or the trade provisions in the House's America COMPETES Act.
- The "Countering Economic Coercion Act of 2022" was introduced in the Senate aiming at granting the president the authority to determine whether a U.S. trading partner is being subject to economic coercion, and to take steps to address it.
- Congressional efforts to reconcile the China competition bills are running into difficulties despite industry groups and Biden administration officials urging action.

[**Hearings and Statements**]

- Seven Democratic House members are pressing U.S. Customs and Border Protection to place Chinese solar companies on a new entity list which is linked to forced labor.
- Senate Finance Committee Chair Ron Wyden (D-OR) citing a new ITC report, says the U.S. must combat Chinese censorship.

[**Keeping an Eye On...**]

- A week is a long time in politics. It is an even longer time in CHIPS Act politics. Two weeks ago, the broad Bipartisan Innovation Act appeared to be in jeopardy with Democrats choosing to prioritize a climate change, prescription drug pricing and social spending package on a party-line vote. A week thereafter, the Bipartisan Innovation Act—specifically a skinny CHIPS Act bill—appeared to enjoy a respite with the Democrats' climate change and social spending package falling by the wayside. At this time of writing, a more robust 'CHIPS-plus' bill appears to be on the anvil after clearing the Senate on a bipartisan basis. Contrary to the received wisdom, the most transformative element in the package is not the multi-billion-dollar subsidies to be handed out to American, Korean and Taiwanese chip fabricators. Rather, it is the creation of a technology directorate within the National Science Foundation (NSF) which, by broadening the NSF's remit to applied research and commercialization, could qualitatively accelerate U.S. technology development. The 'CHIPS-plus' bill is not a done deal. It now goes back to the House for a vote stripped of its trade title which initially, at least, had been the magnet that drew many additional Democratic votes to the Bipartisan Innovation Act. How Speaker Pelosi and the Democrats choose to proceed on the fine print of 'CHIPS-plus' will be key to its swift passage—or not. The bill could yet go back to a conference committee to be hashed out in August and September. It ain't over till the fat lady sings. Watch this space.

[**Expanded Reading**]

- How Congress' dream of a China confrontation got gutted, *Politico*, July 20, 2022
- Senate advances more than $50 billion bill to boost U.S. semiconductor production, *CNBC*, July 20, 2022
- Schumer tees up vote on limited China competition bill, *AXIOS*, July 14, 2022
- Coons, Young introduce bill to counter economic coercion of allies, Office of Senator Chris Coons, July 13, 2022
- Foreign Censorship, Part 2, Trade and Economic Effects on U.S. Businesses, International Trade Commission, July 8, 2022