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What's Been Happening

1 — IPEF Moving Forward with Members Calling for Flexibility— 1

[In One Sentence]

- The next Indo-Pacific Economic Framework for Prosperity (IPEF) ministerial meeting could pave the way for additional members.
- Many IPEF member states, including Singapore, are calling for flexibility in the Framework to allow members to adapt.
- The U.S. plans to launch the formal negotiation at the IPEF ministerial meeting set for early September.

[Mark the Essentials]

- Earlier in August, Secretary of State Blinken said that he was confident more countries would seek to join IPEF, hinting at South and Southeast Asian countries including Bangladesh, Cambodia, and Laos.
- The Australian Trade Minister Don Farrell said that the next IPEF ministerial meeting will provide a clearer picture and encouraged the U.S. to “be as forward-leaning as they can to re-engage.”
- Deputy U.S. Trade Representative Sarah Bianchi met with the vice minister for foreign affairs of Thailand, another vocal IPEF member calling for more flexibility for developing countries, to discuss the ambitious economic framework.

[Keeping an Eye On...]

- The veritable ‘starting gun’ to formally launch the Indo-Pacific Economic Framework (IPEF) negotiations will be fired on September 8th in Los Angeles, California. Following a months-long scoping exercise, the expectation at the ministerial meeting is two-fold: first, that the various parties will at least lay out the various pillars in which they will participate; and second, that the Biden administration, the key driver of the initiative, will chart out what it considers to be a high-standards pathway for each of the four pillars. With market access off the table, the bait of private sector financing of clean(er) technologies is being dangled by Washington to gin up the membership—particularly within the supply chain resilience and the infrastructure, clean energy, and decarbonization pillars. Whether actual financing will materialize is another matter. The U.S. International Development Finance Corporation’s record of crowding-in private investors is not a promising one. And whether such financing can re-wire supply chains in the Indo-Pacific, except those pertaining to a narrow list of advanced manufacturing products, is even more tenuous. The IPEF negotiations come at a time when the chief structural tension in the Indo-Pacific region is the disconnection between the U.S.-centered hub-and-spokes security system and the regional economic order that is organizing along community lines and

in which the United States is ever less a driving force. As Beijing becomes a prodigious exporter of capital to its extended neighborhood as well as the primary final market for the region's production-shared output more gradually, this disconnect will only get starker. Does IPEF have an answer to this inexorable dilemma? We shall have to wait and see in early September.

[Expanded Reading]

- [United States to Host Indo-Pacific Economic Framework Ministerial](#), Office of the United States Trade Representative, August 23, 2022
- [Singapore's trade minister: 'Workable' IPEF designed to be flexible](#), *Inside U.S. Trade*, August 17, 2022 [Paywall]
- [Readout of Ambassador Sarah Bianchi's Meeting with Thailand Vice Minister for Foreign Affairs Vijavat Isarabhakdi](#), Office of the United States Trade Representative, August 11, 2022
- [Readout of Secretary Raimondo's Meeting with Australian Minister for Trade and Tourism Don Farrell](#), U.S. Department of Commerce, August 10, 2022

2 — Taiwan, Trade, and CHIPS— 2

[In One Sentence]

- Representatives from the U.S. and Taiwan have agreed to begin formal negotiations on a trade agreement.
- Secretary of Commerce Gina Raimondo said that the Pelosi visit to Taiwan has “complicated” U.S.-China dialogue.
- House Speaker Pelosi suggested Congress should consider new trade legislation following her trip to the Indo-Pacific.
- The International Trade Administration is seeking public input on the barriers to U.S. exports of artificial intelligence (AI), which could become an issue of future trade negotiations with EU and Asian partners.
- United States Trade Representative (USTR) Katherine Tai suggested that the U.S. should “keep replicating” CHIPS Act efforts for other industries.

[Mark the Essentials]

- The issue areas of the U.S.-Taiwan trade negotiations mimic those found in IPEF, although the latter's pillar-based approach has been dropped from the former.
- Secretary Raimondo contended that back-channel communications with China are limited and the House Speaker's visit made these communications “a little more challenging.”
- Taiwanese media reported that Pelosi held a separate conversation with giant chipmaker TSMC to discuss the semiconductor industry and the CHIPS Act during her visit to Taiwan.
- While USTR Tai and other Washington officials applaud the CHIPS Act success, analysts cautioned those involved to not “out China” China.

[Keeping an Eye On...]

- Taiwan originally sought to be a founding member of the Indo-Pacific Economic Framework (IPEF). With other prospective Asian member countries balking at this prospect, given Beijing's exclusion from IPEF, the Biden administration dropped Taiwan's candidature. Instead, the two sides drew up a U.S.-Taiwan Initiative on 21st Century Trade within ten days of the unveiling of IPEF in late-May in Tokyo. In an early sign of how quickly the Washington-Taipei track is expected to proceed, the two sides then released their Negotiating Mandate on August 17th—three weeks prior to the anticipated September 8th launch of the IPEF negotiations in Los Angeles. The U.S.-Taiwan Initiative is not an unmixed blessing for Taipei. At one level, it is obviously a

coup for the self-governing island to be part of a preferential economic and trade arrangement in the Indo-Pacific ahead of its cross-strait counterpart. On the other hand, one of key purposes of the Biden administration's trade and economic focus in the Indo-Pacific, including in IPEF, is to lower its "untenable" supply chain exposure to the 'China risk'. Just to be clear, that 'China risk' also extends to the manufacturing of sophisticated parts, components and technologies on the Republic of China's soil. Thus, managed decoupling is sought not just from China but from Taiwan-based production too. On a happier note for Taipei, the Negotiating Mandate contains no reference to—and presumably no disciplines to be imposed on—its exchange rate practices. Both the December 2019 U.S.-Mexico-Canada (USMCA) Agreement and the January 2020 U.S.-China Phase One Agreement contained exchange rate commitments. For context, Taiwan has been Asia's leading currency manipulator, racking up overall current account surpluses in excess of 10% of its GDP annually since 2014. Recently, it has also consistently been featured in the U.S. Treasury Department's monitoring list for currency undervaluation in spite of the criteria to account for undervaluation being gamed in the relevant 2015 Act to quietly give Taipei a pass.

[Expanded Reading]

- [United States and Taiwan Commence Formal Negotiations on U.S. – Taiwan Initiative on 21st Century Trade](#), Office of the United States Trade Representative, August 17, 2022
- [US-Taiwan Trade Talks Kick Off in Long-Planned Counter to China](#), *Bloomberg*, August 17, 2022 [Paywall]
- [Pelosi dined with Taiwan computer chip executives during her brief visit](#), *The Washington Post*, August 3, 2022 [Paywall]
- [China Is the Wrong Industrial Policy Model for the United States](#), Scott Kennedy, Center for Strategic International Studies, August 9, 2022

Midterm Outlook

Given the importance of the upcoming midterm elections this Fall and their potential impact on U.S. trade and technology relations with China, instead of a 'On the Hill' focus section, the next few issues of the ICAS TnT Dispatch will conclude with a 'Midterm Outlook' focus section to highlight the key incumbents and candidates, their views and statements made on China, and their prospects in the midterms.

[Key Incumbents]

- Sen. Marco Rubio (R-FL)
 - Marco Rubio is running for re-election this November for a third term in the Senate.
 - Senator Rubio is one of the most outspoken members of Congress on issues concerning China. As a member of the Senate Committee on Foreign Relations, Rubio has centered much of his rhetoric on general appeals against China's rise and the dangers posed by the 'Chinese Communist Party.'
 - Nevertheless, the Senator has perennially introduced amendments that substantially affect trade and technology issues vis-à-vis China. Most recently, Senator Rubio attempted to amend the now-signed CHIPS and Science Act to address an absence of counterespionage provisions on semiconductor research and development and its lack of guardrails to prohibit funding recipients from using federal grants to expand production of older chip types in overseas markets like China. Senator Rubio has

also joined calls for the Department of Commerce to expand export controls on critical technologies bound for China, and has consistently voted against easing Section 301 tariffs on Chinese goods.

- Rubio currently leads his Democratic challenger, Representative Val Demmings, by 9 points in the polls.
- Sen. Ron Johnson (R-WI)
 - Ron Johnson is running for re-election this November for a third term in the Senate.
 - Senator Johnson occupies the classical liberal wing of the GOP, consistently voting in favor of free trade agreements and tax cuts while opposing tariffs and federal subsidies. This means that the Senator has voted against several measures designed to confront China economically, such as the United States Innovation and Competition Act (USICA) and the CHIPS and Science Act, as well as called on the USTR to review the tariff exclusion process and reduce tariffs on China altogether.
 - However, the Senator has responded to claims that he is too 'soft' on China by pointing to his support of measures to counter China in areas other than bilateral trade. For example, in March he introduced the Protect America's Innovation and Economic Security from CCP Act, which would reestablish an office in the Department of Justice to prevent Chinese spying against U.S. intellectual property and academic institutions. Senator Johnson also defended his vote against USICA by saying it did not adequately take China to task for stealing intellectual property and dodging investigations into the origins of the COVID-19 pandemic.
 - Johnson is currently trailing in the polls behind his Democratic challenger, Lieutenant Governor Mandela Barnes, who has contrasted himself with Johnson by specifically addressing the U.S.-China trade relationship. For example, the Barnes campaign unveiled a plan to boost local manufacturing that calls for an end to "bad trade deals and anti-competitive practices" that he believes are stymieing Wisconsin businesses' ability to compete with China.
- Sen. Mark Kelly (D-AZ)
 - Mark Kelly is up for re-election this November after winning a partial term in the 2020 special election.
 - As a member of the Senate Energy Committee, Senator Kelly's main contribution to U.S.-China trade and relations was his introduction of the REEShore Act in January . If passed by the next Congress, the bill would create a strategic reserve of rare earth elements (the global production of which is 97% controlled by China), phase Chinese-sourced materials out of Department of Defense systems, and investigate China's unfair trading practices in the global market.
 - Senator Kelly also offered a motion to instruct conferees to increase semiconductor production incentives in the final China competition bill, which came to fruition in the recently passed CHIPS and Science Act. Arizona is a key state for semiconductor manufacturing with both Intel and TSMC operating chips plants in the Greater Phoenix area, to be joined by TSMC in the near future.
 - Kelly currently is leading his Republican challenger, the Trump-endorsed venture capitalist Blake Masters, by 9 points in the polls.
- Speaker of the House of Representatives Nancy Pelosi (D-CA)
 - Speaker Pelosi is poised to win a 19th term in the House of Representatives this November, holding her firmly-Democratic district.

- Speaker Pelosi has taken a stand against China’s human rights record for decades and recently dominated the headlines with a controversial trip to Taiwan. Geopolitically important, her Taiwan visit also has implications for trade with one of her stops being a meeting with TSMC Chairman Mark Liu. The two reportedly discussed the key role of Taiwan in the U.S. semiconductor supply chain given that the island accounts for over two thirds of global semiconductor production.
- Specifically, the two brainstormed possibilities for how the recently-passed CHIPS Act could be implemented to both U.S. government and Taiwanese industry stakeholders’ benefit. TSMC’s funding of the aforementioned semiconductor foundry in Arizona, dependent on CHIPS Act subsidies, is a business model which Pelosi would like to continue if she remains Speaker.

[Open Races and their Candidates]

- **Sen. Rob Portman (R-OH)**
 - Rob Portman has announced that he will not be running for re-election in 2022, leaving an open race in Ohio this November.
 - The term of Senator Portman’s Democratic counterpart in the state of Ohio, Senator Sherrod Brown, will not end with this election cycle. Both Ohio senators, while divided by party lines, have worked together to protect their state’s manufacturing sector through measures like introducing legislation to strengthen trade remedy laws last year and, more recently, jointly urging President Biden to maintain Section 301 tariffs on Chinese goods. Brown has not ruled out running for re-election to the Senate come 2024.
 - As a former House Member, U.S. Trade Representative, Director of the Office of Management and Budget—and a Finance, Energy, and Foreign Affairs committee member in the Senate—Rob Portman consistently opposed what he saw as unfair trade practices in Beijing, including a successful WTO suit in 2005 against China’s improper duties on auto parts imported from America.
 - The race for Portman’s open seat is between Republican author and commentator J.D. Vance and long-time Democratic House member Tim Ryan. Vance is a Trump-style populist who has aligned himself with the former President’s rhetoric on China. Representative Ryan, while having deep roots in organized labor, has also positioned himself as a conservative-friendly candidate saying he “agreed” with Trump on trade during his administration while the then-venture capitalist Vance was touting the importance of free-trade agreements at the expense of local manufacturing jobs. The race is currently neck-to-neck with Ryan leading by one point on aggregate in the polls.
- **Sen. Pat Toomey (R-PA)**
 - Pat Toomey has announced that he will not be running for re-election in 2022, leaving an open race in Pennsylvania this November.
 - Senator Toomey, while serving on the committees of Banking and Finance, consistently sought to prevent trade barriers with China while addressing imbalances in the relationship by other means. For instance, he reached an agreement with Senator Brown on a bipartisan amendment to USICA that would have provided for sanctions on Chinese organizations involved in money laundering and intellectual property theft. However, Toomey ultimately opposed USICA for its government-directed spending that “imitate[s] Chinese central planning.” Toomey also repeatedly called for Section 301 tariff relief and for a reform of the exclusion process to feature in the final China competition bill.

- Toomey's departure has given way to a race in Pennsylvania between Republican television personality Dr. Mehmet Oz and Democratic Lieutenant Governor John Fetterman. Both candidates have vowed to 'get tough' on China and preserve the state's critical manufacturing sector. While Oz cultivated his anti-China bona fides during his primary race, he has come under fire in the general from Fetterman over his past partnership with a Chinese healthcare company and conspicuously rapid change in tone. Fetterman began pulling away in the polls this month and currently leads Oz by 10 points on aggregate.

[Expanded Reading]

- [Mehmet Oz says he'll be 'tough on China' as a senator. But a 2013 announcement from a Chinese health tech company offers a different perspective.](#), *Insider*, August 23, 2022 [Paywall]
- [The China campaign cudgel meets the midterms](#), *Politico*, August 18, 2022
- [Rubio Calls for New Export Control Laws](#), Office of Senator Marco Rubio, August 18, 2022
- [TSMC Chose the US. Now It Must Handle China](#), *Bloomberg*, August 5, 2022 [Paywall]
- [Taking Stock of Pelosi's Taiwan Trip](#), *The New York Times*, August 3, 2022 [Paywall]
- [Democrats Unite on Challenger to Wisconsin GOP Senator Ron Johnson](#), *Bloomberg*, July 29, 2022 [Paywall]
- [Rubio test-drives a new attack on Demings: She's on TikTok](#), *NBC News*, July 20, 2022
- [Tim Ryan's Ohio ad play: Run to the right](#), *Axios*, July 17, 2022
- [U.S. midterm elections and China policy](#), *Sup China*, July 14, 2022
- [As chip-making business returns to US, Washington – and Arizona – dangle subsidies in race against China](#), *South China Morning Post*, June 29, 2022 [Paywall]
- [Portman, Bipartisan Group of Senators Urge President Biden to Keep Section 301 Tariffs in Place](#), Office of Senator Sherrod Brown, May 26, 2022
- [Toomey: Section 301 Tariff Reform Critical to Aiding American Manufacturers Competing with China](#), Office of Senator Pat Toomey, May 4, 2022
- [Midwest Democrats go all-in on tough-on-China approach](#), *The Hill*, April 4, 2022
- [Kelly, Cotton Introduce Bill to End Reliance on China for Rare-Earth Elements](#), Office of Senator Mark Kelly, January 14, 2022
- [Senator Johnson and Colleagues Call on President Biden to End Self-Inflicted Harm from Tariffs](#), Office of Senator Ron Johnson, June 30, 2021