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What's Been Happening

1 — The Multifaceted Multilateralism Game Again in Full Swing — 1**[In One Sentence]**

- U.S. Commerce Secretary Gina Raimondo reiterated the goal of advancing sustainability, resilience and standards while negotiating the Indo-Pacific Economic Framework (IPEF).
- Asia-Pacific Economic Cooperation (APEC) is looking to chart out a role as an “incubator of ideas” through capacity building on sustainable and inclusive trade.
- The first U.S.-Pacific Island Country Summit is scheduled to take place for two days in Washington, DC starting September 28.
- The European Union opened an office in San Francisco to support digital policies and work related to the Trade and Technology Council (TTC).
- The U.S.-Japan Partnership on Trade initiated a second round of discussions on the digital economy and trade.

[Mark the Essentials]

- U.S. officials have framed IPEF as an “alternative” way—to China’s approach—of engaging with Indo-Pacific countries, while simultaneously highlighting the need for a new “paradigm” to address “new” trade issues such as standards setting, a clean economy, supply chain resilience and the digital market.
- India said it refrained from joining IPEF’s trade pillar due to concerns over its environment, labor, digital trade and public procurement provisions.
- APEC aims to build on the outcomes from the WTO’s 12th ministerial conference this June and advance discussion on issues such as fisheries subsidies, trade facilitation, agriculture, digitalization, sustainability and the customs duties moratorium.
- According to the White House, the upcoming U.S.-Pacific Island Country Summit will reflect the participant parties’ deepening cooperation on climate change, pandemic response, economic recovery, maritime security, environmental protection and united efforts to advance a free and open Indo-Pacific.
- The EU’s new office in San Francisco aims to promote EU standards and digital policies, strengthen cooperation with U.S. stakeholders, and advance the work of the TTC. American businesses have urged the Biden administration to increase transparency and engagement with industry stakeholders regarding the TTC’s agenda.

- Officials from the U.S. and Japan discussed ways to both coordinate a response to “several third-country regulations” of concern regarding the digital economy as well as jointly advance a “robust agenda in trade-related multilateral fora” such as APEC 2023.
- Japan recently hosted a delegation of American executives from the energy, infrastructure, healthcare, finance, technology and semiconductor sectors to discuss trade and investment opportunities.

[Keeping an Eye On...]

- Compared to his ‘America First’ predecessor, President Joe Biden cannot be faulted for his commitment to multilateralism, even if that multilateralism is of the ‘like-minded countries’ variant and seeks to exclude a particular country. (No prizes for guessing which that particular country is.) That said, multilateralism can devolve into process over product, and 20 months into the Biden administration’s term, the voluminous statements of intent—the September 2021 U.S.-EU TTC joint statement and annexes, for example, clocks in at almost 6,000 words—have only translated into meager on-the-ground deliverables. The momentum of forward progress appears to be stalling as well. Worse, there is a premonition among allies that, in the Biden administration’s view, they are not so much co-equals making economic policy decisions for the greater good as much as they are appendages being leashed to the immediate American domestic manufacturing and supply chain resilience-related self-interest. The Koreans certainly seem to think so with regard to the Chip 4 Alliance and the electric vehicle subsidy provisions in the Inflation Reduction Act, and so too do the Europeans with regard to the latter. Nurturing ‘like-minded’ multilateralist relationships requires good faith sacrifice. But such sacrifice means little when partners are not mutually supportive. In this regard, the forthcoming negotiations of the Indo-Pacific Economic Framework (IPEF) will be instructive to watch. The extent to which IPEF is a common endeavor to open markets and set standards as opposed to being a one party-driven exercise bent on trade diversion—euphemistically labeled as supply chain resilience—and pluralization of its domestic regulatory prerogatives over genuine liberalization, will go a long way in determining its appeal and durability in the region. It would be helpful, too, if the business community was offered a front row seat during stakeholder consultations. This has not been the case so far. IPEF does, after all, aim to expand cross-border commerce and commercial exchanges.

[Expanded Reading]

- [Commerce Department Launches the Indo-Pacific Economic Framework for Prosperity \(IPEF\) Upskilling Initiative](#), U.S. Department of Commerce, September 8, 2022
- [Biden’s U.S.-Pacific island summit targets China’s growing influence](#), *Politico*, September 2, 2022
- [Statement by Press Secretary Karine Jean-Pierre on the First U.S.-Pacific Island Country Summit](#), The White House, September 2, 2022
- [US/Digital: EU opens new Office in San Francisco to reinforce its Digital Diplomacy](#), Delegation of the European Union to the United States of America, September 1, 2022
- [APEC Cultivates Common Goals Ahead of November’s Meeting](#), Asia-Pacific Economic Cooperation, August 31, 2022
- [Readout of the Second Meeting of the U.S.-Japan Partnership on Trade](#), Office of the United States Trade Representative, August 25, 2022

2 — The Good, the Bad, and the Ugly of U.S.-China Trade and Tech — 2

[In One Sentence]

- President Biden has signed an Executive Order on Ensuring Robust Consideration of Evolving National Security Risks by the Committee on Foreign Investment in the United States.

- U.S. Trade Representative Katherine Tai observed that the Section 301 tariffs on Chinese goods will remain in place as the office continues its review of the tariffs.
- Analysts say that tariff reduction has a limited effect on controlling inflation.
- USTR Katherine Tai said a new model of globalization and trade will also benefit U.S. partners and allies.
- U.S. lawmakers called for stronger economic and trade ties between the U.S. and Taiwan.

[Mark the Essentials]

- As per the September 15 CFIUS-related Executive Order, it is the policy of the United States to ensure that the foreign investment review process remains responsive to evolving national economic security risks arising from investments that fall outside the defense industrial base and involve “a country of special concern.”
- According to the USTR, a subset of U.S. industry representatives reported that the Section 301 tariffs have created “leverage” to “induce” China to eliminate “harmful policies and practices that are the target of the tariff action.” The representatives also said that the tariffs helped them to compete against Chinese imports and address unfair competition practices.
- According to some analysts, reducing or eliminating the tariffs would have some effect on inflation, but the effect is neither long-term nor substantial. Instead, adjustment of interest rates and taxation are much more effective and would constitute “real” responses to inflation.
- Listing initiatives such as IPEF and the “green” steel negotiation between the U.S. and EU, USTR Tai advocated for a more resilient version of globalization where the U.S. and its allies and partners jointly figure out ways to address climate change and ensure high labor standards.
- At a recent hearing on “the future of U.S.-Taiwan trade,” House Ways & Means Committee members supported stronger trade ties between the two, potentially through a trade agreement. Meanwhile, the Senate Foreign Relations Committee approved the Taiwan Policy Act, which contains “sense of Congress” provisions that advocate for resumed meetings under the U.S-Taiwan Trade and Investment Framework Agreement leading to a bilateral free trade agreement.

[Keeping an Eye On...]

- The Biden administration is getting its trade and technology policies on China both right and wrong. Exactly 40 months to the day that the Trump administration had issued a shockingly broad executive order (EO) on securing the U.S. information and telecommunications supply chain (and thereupon initiated the process of kneecapping Huawei), the Biden administration, on September 15, issued a more precisely-crafted executive order. This EO provides a bird’s-eye view of the key national economic security risk factors, sectors, technologies, and types of data that are to effectively be kept beyond the acquisitory reach of Chinese entities. It amounts to an enumeration of sectors, materials and technologies that are shortlisted for ‘selective decoupling’ including microelectronics, artificial intelligence, biotechnology and biomanufacturing, quantum computing, advanced clean energy (such as battery storage and hydrogen), climate adaptation technologies, critical materials (such as lithium and rare earth elements), and elements of the agriculture industrial base that have implications for food security. Whatever one’s view may be regarding the merits of ‘selective decoupling,’ there is merit in the EO’s conciseness and clarity, especially when compared to the haphazard issuance of sector-by-sector EOs with their laundry list of accompanying risk factors. On the other hand, United States Trade Representative (USTR) Katherine Tai continues to indulge her delusion that the Section 301 tariffs create leverage to induce China to eliminate its harmful policies and practices. Her predecessor, Robert Lighthizer, had in fact leveraged the tariffs to induce China to root out its coercive technology transfer practices, both in law and fact, and qualitatively

enhance its intellectual property protections. Both were memorialized in the U.S.-China Phase One agreement and, in exchange, the U.S. dropped its Section 301-based case against Beijing at the World Trade Organization. At this time, the tariffs no longer instill fear or pressure at the Chinese end; rather, they elicit a mix of anger and disgust. They also hurt American consumers and businesses, except those of the protectionist inclination that USTR Tai appears to share. And a WTO panel has found them to be illegal, too. Hopefully, USTR Tai's views on the Section 301 tariffs will evolve once the midterms are done and dusted.

[Expanded Reading]

- [Executive Order on Ensuring Robust Consideration of Evolving National Security Risks by the Committee on Foreign Investment in the United States - The White House](#), Presidential Actions, The White House, September 15, 2022
- [The Future of U.S.-Taiwan Trade](#), Hearing by the House Ways and Means Committee, September 14, 2022
- [U.S.-Taiwan bill sails through Senate panel despite White House misgivings](#), *Politico*, September 14, 2022
- [S.4428 - Taiwan Policy Act of 2022](#)
- [Carnegie Connects: The Biden Administration and Trade With Katherine Tai](#), Event by the Carnegie Endowment for International Peace, September 7, 2022
- [USTR Receives Requests for Continuation of China 301 Tariffs](#), Office of the United States Trade Representative, September 1, 2022
- [What is Priority Number 1? Inflation, Jobs, or Trade Policy – a Look at Tariff and Trade Policy](#), Event by Washington International Trade Association, September 1, 2022

Midterm Outlook

[Lay of the Land]

- As of September 22, the United States is now just 45 days away from the 2022 midterm elections.
- China's unfavorability rating has drastically increased across party lines since the last U.S. midterm elections were held in 2018. Almost 9 in 10 Americans (89%) consider China as an 'enemy' or 'competitor' while 67% feel 'cold' towards China, a sentiment that has expanded from 46% of the polled population in 2018.
- In an otherwise polarized election year, as perceptions of China have shifted in the eyes of voters, both parties are in rare agreement that there is a need to be 'tough on China.'
- In races where China has become an issue, the sincerity of the candidates' anti-China bona fides are debated more so than their substantive contrast in approaches on the underlying issue at stake. For instance, differences have cropped up where Democratic and Republican candidates disagree on how to balance free trade with protectionism, but this spectrum does not necessarily match up on party lines in every case.
- While the Democratic Party is currently favored to hold the Senate, the Republican Party is slightly favored to win the House.

[Key Races for Technology & Trade Issues]

- Wisconsin Senate
 - In the last Midterm Outlook edition, incumbent Senator Ron Johnson of the GOP was slightly trailing his Democratic challenger, lieutenant governor Mandela Barnes, in the polls. This trend has largely

continued with both candidates staying within 2 percentage points of each other while Barnes maintains his slight edge.

- This race, in a state with a large but struggling manufacturing sector, is one of the clearest examples of diverging views on trade with China. Sen. Johnson continues to oppose trade barriers on China and was one of the strongest critics of Presidents' Trump and Biden's trade agendas. In contrast, Barnes is staking much of his campaign on a manufacturing plan which calls for an end to "bad trade deals and anti-competitive practices."
- While the trade relationship with China has largely taken a backseat to issues like crime and abortion, the Barnes campaign has recently been pushing reports that Johnson's support for free trade across the Pacific could be informed by his personal benefit from business with China rather than concern for local enterprises.
- Ohio Senate
 - The Ohio Senate race has maintained itself as a neck-in-neck contest between the populist candidate J.D. Vance of the GOP and the pro-labor candidate Tim Ryan of the Democratic Party.
 - Unlike Wisconsin, little divides the two candidates substantially on trade with China with both supporting protectionist measures.
 - Ryan took the lead in this charge by centering a revival of manufacturing in the state as a key issue in his campaign, leading Vance to shift his own critiques of China to a more economic direction rather than sticking to traditional GOP rhetoric about national security and COVID-19 origins.

[Keeping an Eye On...]

- Rather than a strictly partisan divide on trade and technology relations with China in the leadup to the midterm elections, there exist parallel divides within each party between free trade advocates and protectionists. The protectionist views in each party have emerged from similarly perceived issues in the American economy (such as the declining manufacturing sector) but they manifest in different ways due to the diverging voter bases of each party. Democrats who support more protectionist measures tend to have deeper ties to organized labor, while Democratic candidates whose bases come from other voting groups tend to be less adamant about trade barriers. On the Republican side, support for protectionist measures tends to correlate with candidates who rely on support from the Trump base while candidates who rely more on business owners and 'main street' republicans tend to be more classically liberal—favoring free trade while countering China in other areas.

[Expanded Reading]

- [POLITICO Playbook: What two new polls tell us about the midterms](#), *Politico*, September 19, 2022
- [China and the Lore of American Manufacturing](#), *The New Yorker*, September 15, 2022 [Paywall]
- [How the left and J.D. Vance learnt to despise each other](#), *The Economist*, September 15, 2022 [Paywall]
- [Biden highlights investment in electric vehicles, test drives car in Detroit visit](#), *The Washington Post*, September 14 [Paywall]
- [Indo-Pacific Economic Framework's fate could hinge on U.S. midterm elections](#), *Japan Times*, September 10, 2022 [Paywall]
- [Biden sets up post-election 'fight' as he drags out China tariffs decision](#), *The Washington Examiner*, September 10, 2022 [Paywall]
- [Yellen Embarks on Economic Victory Tour as Midterm Elections Approach](#), *The New York Times*, September 8, 2022 [Paywall]