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What's Been Happening

1 — The IPEF Ship Sets Sail — 1

[In One Sentence]

- The Indo-Pacific Economic Framework (IPEF) concluded its first in-person ministerial meeting on September 9, 2022.
- 13 of the 14 IPEF countries committed to joining all four pillars of the framework while India chose to opt out of the trade pillar.
- Ministers from the IPEF member states announced negotiating objectives for the four pillars: trade, supply chain, clean energy and fair economy.
- Before the IPEF meeting, U.S. lawmakers again called for more transparency and congressional consultation regarding the negotiations.

[Mark the Essentials]

- Regarding the trade pillar, the ministers said they seek “new and creative approaches to trade and technology policies,” underlining priorities on labor, environment, the digital economy, agriculture, transparency and good regulatory practices.
- According to U.S. Trade Representative Katherine Tai, IPEF countries also seek to develop standards on cross-border data flows and data localization.
- U.S. Secretary of Commerce Gina Raimondo, who leads the U.S. negotiations in three of the four pillars, said that “early harvest opportunities” will likely lie in the supply chain pillar.
- Deputy U.S. Trade Representative Sarah Bianchi said that IPEF countries are “supportive” of arranging IPEF as an executive agreement, adding that such an agreement will be “durable and lasting.”
- In a letter dated September 6, 44 Democratic lawmakers and one independent criticized the launch of IPEF for the lack of prior “robust stakeholder and congressional consultation” or “a mandate from Congress,” echoing similar calls from Republican lawmakers and others.
- Some commentators have questioned the enforceability and endurance of IPEF, while others marked it as an important first step to be followed by further, stronger regional economic efforts.

[Keeping an Eye On...]

- The first in-person ministerial meeting of the member states of the Indo-Pacific Economic Framework (IPEF) appears to have gone off without a hitch. Participation in the four pillars is wide-ranging and the hope is that

certain deliverables can be harvested early. While the four-pillar framework might—or might not—be a “new and creative approach” to trade policy liberalization and standards-setting, it does ring the death knell on the single undertaking approach of trade negotiation; at least insofar as the U.S.-led plurilateral trade agreement-related negotiations are concerned. Now, the hard part of IPEF begins in earnest. How the parties reconcile the competing priorities of ambition and inclusivity, liberalization without meaningful market access, enforceability without binding dispute settlement, and transparency without meaningful accountability will go a long way towards determining whether IPEF is truly the “new and creative” approach that it is advertised to be or just a journeyman effort to mark time at a moment when trade liberalization enjoys ever-fewer advocates on either side of the aisle on Capitol Hill. The proof of the pudding will be in its eating. Let the negotiations begin.

[Expanded Reading]

- [India stays out of ‘trade pillar’ at Indo-Pacific meet](#), *The Hindu*, September 10, 2022
- [United States and Indo-Pacific Economic Framework Partners Announce Negotiation Objectives](#), Office of the United States Trade Representative, September 9, 2022
- [Biden Administration Outlines Scope of Asian Economic Pact](#), *The New York Times*, September 9, 2022 [Paywall]
- [Commerce Department Launches the Indo-Pacific Economic Framework for Prosperity \(IPEF\) Upskilling Initiative](#), U.S. Department of Commerce, September 8, 2022
- [Remarks by Ambassador Katherine Tai at the Indo-Pacific Economic Framework Ministerial Welcome Event](#), Office of the United States Trade Representative, September 8, 2022
- [U.S. business leader outlines hopes for IPEF ministerial](#), *Politico*, September 6, 2022

2 — The Dismal Near-Term U.S.-China Trade Outlook— 2

[In One Sentence]

- U.S. Trade Representative Katherine Tai reiterated plans for an “alternative model” of trade policy, particularly with a view to China, and has for the time being extended out the Section 301 tariffs.
- The U.S. International Trade Commission (ITC) has finished seeking public comments on Section 232 and Section 301 tariffs.
- Surveys show that U.S.-China tensions are hurting American business sentiment with regard to China.

[Mark the Essentials]

- According to Tai, the USTR Office is working to move beyond “just” trade liberalization and market access. Instead, trade should be a “force for good,” such as rebuilding “confidence,” “resilience” and sustainable standards in the global economy, countering Chinese economic dominance, and facilitating U.S. innovation.
- Stakeholders hold conflicting views on the impact of the Section 232 and Section 301 tariffs on the U.S. economy. Labor and manufacturing organizations said the tariffs were necessary to “level the playing field” for U.S. industry, while customer-facing industries argue that the tariffs are harming U.S. businesses by raising costs and prices.
- An annual member survey of the U.S.-China Business Council indicates that U.S. companies are suffering from lost sales due to uncertainty in supply and the impact of nationalism on consumer decisions. While a majority of businesses said they will wait and see whether to change their level of commitment to China, China remains vital to American business revenues and business competitiveness.

[Keeping an Eye On...]

- Beware of the new and alternative approaches to trade. Eleven months ago, US Trade Representative Katherine Tai stood on a podium and unveiled the outlines of a “new approach” on trade policy to China. The approach was neither a “new” one or an “alternative” one; it was similar in substance—although not in tone—to her predecessor’s approach. That said, her predecessor, Robert Lighthizer, had the gumption to at least challenge the Chinese bilaterally on trade and further prise open the market by way of the Phase One trade agreement. Truth be told, one way of seeing it is that USTR Tai has failed not only to open the Chinese market by a small margin but has even ducked the challenge of sitting across from her Chinese counterpart. It is as clear as it can be that the Biden administration has little intent to reduce—let alone remove—the illegal Section 301 tariffs before the midterm elections. China’s zero-Covid restrictions are not helping the case for business sentiment and commercial exchanges either. The near-term U.S.-China trade outlook is about as bad as it gets. Hopefully, after the completion of the 20th Party Congress and the midterm elections, each side will do the responsible action at their end and the two sides will bilaterally create a pathway thereafter to restarting their trade and commercial policy dialogue.

[Expanded Reading]

- [Carnegie Connects: The Biden Administration and Trade With Katherine Tai](#), event by the Carnegie Endowment for International Peace, September 7, 2022
- [Most Say Sections 301 and 232 Tariffs Hurting America, but ITC Hears From Defenders, Too](#), *International Trade Today*, August 26, 2022 [Paywall]
- [USCBC 2022 Member Survey](#), U.S.-China Business Council, 2022
- [Economic Impact of Section 232 and 301 Tariffs on U.S. Industries](#), Federal Register, May 10, 2022

3 — Chips 4 Alliance and Rewiring Supply Chains — 3

[In One Sentence]

- The United States has proposed a “Chips 4 Alliance” among the U.S., Japan, South Korea and Taiwan.
- China released an “action plan” to improve the nation’s innovation capabilities and technological self-reliance.
- House Speaker Nancy Pelosi held an event to laud the passage of the CHIPS and Science Act.

[Mark the Essentials]

- The “Chips 4 Alliance” could facilitate discussions and coordination on issues such as industrial policy initiatives, manufacturing incentives, export controls, supply chain diversification and foreign investment practices.
- In a plan published by China’s Finance, Science and Technology ministries, provincial and local governments are instructed to strengthen core technology research and scientific innovation by incentivizing and supporting private enterprises, accelerating the reorganization of key national laboratories, and expanding talent recruitment efforts.
- Pelosi said that the bill “turbocharges” U.S. manufacturing, adding that the U.S. has to recommit to its innovative and technological “pre-eminence” in the world.

- Chinese semiconductor groups have criticized the CHIPS and Science Act, arguing that the law will create “chaos in the global semiconductor industry.”

[Keeping an Eye On...]

- Say hello to the newest export controls cartel in the multilateral system: the ‘Chips 4 Alliance’. The goal of this Alliance is to strangle the flow of advanced semiconductor inputs and technologies—be it of chip design, chip production, or chip production toolmaking—from entering the Chinese advanced manufacturing ecosystem. In the short-to-medium term, the ‘Chips 4 Alliance’ will constrict China’s semiconductor production capabilities across-the-board. And China is not in a position to assert its chips-related supply chain demands, given that it occupies a lower position in the value chain compared to all the Chips 4 countries. But for Seoul and Taipei, the ‘Chips 4 Alliance’ is not an unmixed blessing either. Korean semiconductor companies depend on the China market to fatten their revenues and profits, which is recycled back into advanced R&D at home. These bottom lines will shrink as local Chinese competitors gradually rise and elbow their way into the market spaces vacated by the Samsungs and SK Hynixs. As for Taiwan, the ‘Chip 4 Alliance’ cannot be seen in isolation from Washington’s Chips and Science Act, and it bears remembering that the Chips and Science Act was passed with a view to reduce America’s exposure to the ‘China risk’. That ‘China risk’ includes the risk of exposure to Taiwanese-based production as well. The logic of the ‘Chips 4 Alliance’ is therefore likely to lead to some degree of hollowing out of domestic chip production on the island, which will be ‘friend-shored’ overseas. So, a new era in advanced manufacturing supply chains is upon us. On the ground, all will not go as planned. Be prepared to expect the unexpected.

[Expanded Reading]

- [Korea to attend 'Chip 4' meeting as global doubts mounts over US initiative](#), *The Register*, August 22, 2022
- [Taiwan says it has not been informed of 'Chip 4' meeting](#), *The Hindu*, August 19, 2022
- [Speaker Pelosi Holds San Francisco Event on the CHIPS and Science Act](#), Speaker of the House Nancy Pelosi Press Release, August 18, 2022
- [Tech war: China semiconductor group slams US Chips and Science Act as violation of fair trade, warns of supply chain chaos](#), *South China Morning Post*, August 17, 2022 [Paywall]