

December 15, 2022

Volume 2, Issue 24

What's Been Happening

1 — The U.S.-EU Stalemate and (Marginal) Progress at TTC — 1

[In One Sentence]

- The U.S.-EU Trade and Technology Council (TTC) held its third ministerial meeting on December 5, 2022, to enhance transatlantic cooperation on emerging technology, semiconductor and sustainable trade.
- The U.S. and EU remain divided on the United States' allegedly "discriminatory" electric vehicle (EV) subsidy that is only eligible to North American-assembled vehicles.
- The new EU-U.S. Data Privacy Framework is awaiting internal EU approval.
- The U.S. and EU are reportedly considering a carbon emission tariff on steel products from China.

[Mark the Essentials]

- The U.S. and EU issued a Joint Artificial Intelligence (AI) Roadmap to inform their shared approaches to risk management, agreed to strengthen coordination of semiconductor supply chains through information sharing of subsidy programs, and made plans to launch a Transatlantic Initiative for Sustainable Trade.
- After analyzing the existing and prospective policy around AI in the EU, U.S. and China, analysts noted the possibility of increasing transatlantic alignment of regulatory regimes as well as a trajectory of digital fragmentation between EU and U.S. on the one side and China on the other.
- While acknowledging shared transatlantic concerns on China, European External Action Service Secretary General Stefano Sannino cautioned against responding to China in ways that are also "discriminatory" against the EU, alluding to the electric vehicle subsidies.
- A number of EU officials and leaders—including President of France Emmanuel Macron and European Commission President Ursula von der Leyen—have been critical of the EV subsidies, arguing that it could "fragment the West" or begin a transatlantic subsidy war. Meanwhile, European Parliament President Roberta Metsola warned against "the slippery road" towards "the very bottom of the protectionist race."
- The U.S. and EU said they made "preliminary progress" on the EV subsidy during the TTC meeting. European Commission Executive Vice-President for Trade Valdis Dombrovskis said the TTC meeting made him "slightly more optimistic" about the subsidy negotiation, but said there is still "a lot of work to do."
- Trade associations are urging the EU to swiftly approve the new data privacy framework, arguing that it will bring certainty to transatlantic data flows.

- According to an earlier fact sheet that the White House released in October 2021, the U.S. and EU have plans to “work to restrict access to their markets for dirty steels.” EU officials have internally looked into the legality of such a carbon tariff as well as the internal carbon pricing in the U.S. and the EU.

[Keeping an Eye On...]

- In mid-2013, at the start of the U.S.-EU Transatlantic Trade and Investment Partnership (T-TIP) negotiations during the second Obama administration, the then-USTR Michael Froman had observed that the negotiations would not be allowed to drift on interminably with no end in sight. The trade deal needed to be—and would be—swiftly negotiated on “one tank of gas.” In fact, the T-TIP negotiations consumed many a tank of gas, yet ended up in the ditch nevertheless three years later. Judging by its low octane outcomes, the U.S.-EU Trade and Technology Council (TTC) discussions appear to be trending in a similar direction. The most productive trade outcomes so far—on civil aircraft, the U.S.’ Section 232 steel and aluminum tariffs, and data flows and successor to Privacy Shield—have all occurred outside the TTC framework. Meanwhile, within the TTC framework, the energies have been diverted to addressing the discriminatory local content requirements attached to the renewable energy subsidies in the U.S.’ Inflation Reduction Act (IRA). The EU quite reasonably has taken umbrage to their WTO-inconsistent nature. The electric vehicle (EV) subsidy in particular will be a hard nut to crack. Despite the impression given by some within the administration that creative workarounds could be at hand, the blunt truth of the matter is that the administration has very little political interest in conjuring up the necessary definitional reinterpretations of the IRA language to allow European and East Asian-produced EV’s to enjoy the benefits of the subsidy. The U.S. is not about to exchange a mammoth trade deficit in internal combustion engine-powered automotive vehicles for an emerging series of deficits in electric-powered automotive vehicles. And Candidate Biden understands that his failure to sway the votes of non-college educated males (and particularly those with a persuasion for unionization) in the swing states of Michigan, Pennsylvania and Wisconsin could well doom his 2024 election chances *a la* Hillary Clinton-style. The EV subsidies in the IRA have less to do with revitalizing manufacturing in the Rust Belt and more to do with manufacturing employment in these critical swing states, regardless of the consequences for the long-term competitiveness of the industry or the integrity of the rules-based trading order that the U.S. itself did so much to inscribe in the wake of World War II.

[Expanded Reading]

- [US and EU reach stalemate on green subsidies](#), *DW*, December 8, 2022
- [The geopolitics of AI and the rise of digital sovereignty](#), Brookings Institute, December 8, 2022 [Analysis]
- [Parliament chief Metsola: I fear a Europe-first trade war with US](#), *Politico*, December 7, 2022
- [U.S. Proposes Green Steel Club That Would Levy Tariffs On Outliers](#), *The New York Times*, December 7, 2022 [Paywall]
- [US, EU Weigh Climate-Based Tariffs on Chinese Steel and Aluminum](#), *Bloomberg*, December 6, 2022 [Paywall]
- [US-EU Talks ‘Moved the Needle’ on Inflation Reduction Act Issues, Vestager Says](#), *Bloomberg*, December 6, 2022 [Paywall]
- [‘Not how you treat friends.’ Biden’s climate plan strains trade ties with Europe](#), *CNN*, December 6, 2022
- [US, EU agree to intensify talks on ‘green subsidies’ dispute](#), *Associated Press*, December 5, 2022
- [U.S., EU Agree to Coordinate Semiconductor Subsidy Programs](#), *The Wall Street Journal*, December 5, 2022 [Paywall]
- [U.S.-EU Joint Statement of the Trade and Technology Council](#), The White House, December 5, 2022
- [FACT SHEET: U.S.-EU Trade and Technology Council Advances Concrete Action on Transatlantic Cooperation](#), The White House, December 5, 2022

- [EU-US Trade and Technology Council addresses common challenges and responds to global crises](#), European Commission, December 5, 2022
- [Secretary Antony J. Blinken U.S.-EU Trade and Technology Council Ministerial Co-Chairs Joint Press Availability](#), U.S. Department of State, December 5, 2022
- [Tax credits for EU electric vehicles dominate U.S. trade talks](#), *Reuters*, December 5, 2022 [Paywall]
- [U.S. and EU positions on China are converging, top official says](#), *Axios*, December 5, 2022
- [Trade Associations Urge Support For The New EU-U.S. Data Privacy Framework](#), *mondaq*, December 5, 2022
- [How the EU and the US should overcome their trade and supply chain disputes](#), European Policy Centre, December 5, 2022 [Analysis]
- [The US and EU need a sturdier structure to resolve their trade squabbles](#), Atlantic Council, December 5, 2022 [Analysis]
- [The Trade and Tech Council is a way to unify against China — unless Europe derails it](#), *The Hill*, December 4, 2022 [Analysis]
- [European officials object to Biden’s green subsidies as protectionist](#), *The Washington Post*, December 4, 2022 [Paywall]
- [EU Chief Says Bloc Must Act Over US Climate Plan ‘Distortions’](#), *Voice of America*, December 4, 2022
- [The big problems you won’t hear about at the EU-US Trade and Technology Council](#), Atlantic Council, December 2, 2022 [Analysis]
- [The U.S. wants the EU to be strict with China. But Europe can’t afford it](#), *CNBC*, December 2, 2022 [Analysis]
- [Top EU Official Pulls Out of US Summit Over Climate Law Dispute](#), *Bloomberg*, December 1, 2022 [Paywall]

2 — IPEF Gets Down to the Grind in Brisbane— 2

[In One Sentence]

- The first in-person negotiations between the fourteen members of the Indo-Pacific Economic Forum (IPEF) kicked off in Brisbane, Australia on Saturday, December 10 and is set to run until the middle of this week.
- IPEF is the Biden administration’s flagship vehicle for economic engagement across the Pacific with an overarching aim of offering an alternative to China’s economic statecraft in the region.
- The meeting follows a formal summit in September where member states set out a timeline for negotiating the specifics of IPEF’s four ‘pillars’: trade, supply chains, clean economy, and fair economy.
- Trade ministers of the participating countries have welcomed Canada’s proposed announcement of intent to join the framework.
- In a December 1 letter to the White House on IPEF, the chairman and the ranking member of the Senate Finance Committee raised constitutional concerns regarding USTR’s procedural bypassing of congressional authority on trade.

[Mark the Essentials]

- The U.S. is co-empowered to set the agenda and approve any agreements reached during the Brisbane round of negotiations. According to senior administration officials, American negotiators intend to get the ball rolling by presenting draft texts covering each pillar. Save for India, which chose not to sign on to the trade pillar, the remaining thirteen IPEF members are involved in all four pillars.
- The draft text of the trade pillar negotiating agenda includes matters of trade facilitation, agriculture, good regulatory practices, and services domestic regulation. “Knock[ing] down barriers” in the trade of agricultural products appears to be the main thrust of this round of negotiations, but administration officials noted that negotiations will “touch on important digital issues” as well.

- Texts are also being tabled covering decarbonization, labor rights, and anti-corruption, though officials noted that these matters are also “embedded” in negotiating aims across all pillars of the framework.
- U.S. negotiators were bolstered by Japan and Australia, both of which issued statements in favor of U.S. negotiating objectives before the meeting began.
- Australia and Singapore intend to use the negotiations to pitch elements of their bilateral Green Energy Agreement (GEA) to the gathered IPEF participants. The pact, signed in October, reduces trade barriers for environmental goods and facilitates carbon emissions trading.

[Keeping an Eye On...]

- In the week that senior trade officials from fourteen member states kicked-off their first in-person negotiating round towards an IPEF agreement, it is worth recalling an earlier U.S. trade policy strategy that was wholly welcomed in the region. Twenty years ago, the Bush administration’s USTR at the time, Robert Zoellick, unveiled his strategy of ‘competitive liberalization.’ The logic of ‘competitive liberalization’ was predicated on the belief that since multilateral liberalization at the WTO was difficult at best, preferential regional and bilateral deals should be adopted as a second-best route to achieve broader liberalization. Uneasiness about the possibilities of trade diversion notwithstanding, these bilateral and regional trading arrangements (in conjunction with negotiations at the WTO) would thereafter create momentum for global trade liberalization. ‘Competitive liberalization’ spawned thereafter the U.S.-Australia FTA, the KORUS FTA, and culminated in the finalized text of the Trans-Pacific Partnership (TPP) negotiations in the Indo-Pacific region. With the scuttling of the TPP pact by the Trump administration, it has been downhill ever since. Enter, then, the Indo-Pacific Economic Framework (IPEF) which is billed as the new approach to trade and economic engagement in Asia. Much rides now on the (narrow) shoulders of this (questionable) initiative. Like the strategy of ‘competitive liberalization’, IPEF aims to enhance the U.S.’ competitive capability. Unlike ‘competitive liberalization’, IPEF makes no aspiration to achieve a fundamental premise of competitiveness or liberalization; reciprocal market access. Like the strategy of ‘competitive liberalization’, IPEF aims to set next-generation standards and entrench the U.S. in trade policy rulemaking in Asia. In contrast to the era of ‘competitive liberalization’, the U.S. seeks to bind itself to these rules only at its own convenience—and as exemplified last week by its rejection of a WTO dispute settlement panel ruling on the illegality of its Section 232 steel and aluminum tariffs. Prior to the unveiling of his strategy of ‘competitive liberalization,’ USTR Robert Zoellick fought hard and obtained trade promotion authority (TPA) on a narrow 215-212 vote in the House. By contrast, USTR Katherine Tai plans to disregard Congress’ prerogative “to regulate commerce with foreign nations” by using the ‘sole executive agreement’ mechanism to finalize IPEF and bind the United States on what is frankly a broad matter of international trade. The Biden administration’s trade policy approach on IPEF will likely underwhelm for many of the same reasons that the Bush administration’s approach to bilateral and regional trade liberalization succeeded in Asia. It is not too late for the Biden team to make the necessary amendments to its trade policy approach to Asia and the world.

[Expanded Reading]

- [Negotiations kick off for U.S.-led Indo-Pacific Economic Framework](#), *Kyodo News*, December 10
- [Readout of Secretary Raimondo’s Meeting with Minister of Economy, Trade and Industry of Japan Yasutoshi Nishimura](#), U.S. Department of Commerce, December 9
- [No Higher Priority: Why IPEF Must Include Strong Digital Trade Rules](#), U.S. Chamber of Commerce, December 7

- [A Modern Alliance in a Changing Region: A Conversation with Penny Wong](#), Carnegie Endowment for International Peace, December 7
- [Caught in the Middle: How Asian Nations Are Navigating the U.S.-China Competition](#), Asia-Pacific Research Center, December 7
- [Imminent Negotiations For US-driven IPEF Look To Mirror The TPPA](#), *Scoop NZ*, December 7
- [Canada's IPEF bid has support from all members: trade minister](#), *Nikkei Asia*, December 6 [Paywall]
- [Joint Statement on Australia-U.S. Ministerial Consultations \(AUSMIN\) 2022](#), U.S. Department of State, December 6
- [Wyden, Crapo and Bipartisan Senate Finance Committee Members Raise Concerns about Process to Approve and Implement Indo-Pacific Trade Pact and Other Trade Agreements](#), Senate Finance Committee, December 1
- [Australia, Singapore to pitch green energy pact at regional talks](#), *Australian Financial Review*, November 29 [Paywall]

Keywords of the Year: 2022

[Strategic Competition with China]

- The Biden administration's industrial policy is framed in the context of its "extreme [strategic] competition" approach towards China. It is geared towards utilizing existing statutory authorities to encourage and expand the domestic advanced manufacturing base, especially for critical supply chain items (semiconductors, large-capacity batteries, critical minerals and materials, etc.).

[New Vision of Multilateralism]

- The Biden administration's new vision that pushes against traditional globalism and multilateralism could have a lasting impact in shaping America's view of the current world order as well as its assessment of the bilateral relationship with other great powers, especially that with China.

[Decoupling]

- In 2022, the White House has furthered the decoupling of key supply chains from China. Overall, the administration's supply chain focus has been to 'reshore', 'near-shore', and 'friend-shore' the production of critical items. From a U.S.-China strategic competition perspective, the desire to decouple key supply chains from China is understandable—even if it may not be the wisest decision. But is the logic of reshoring as compelling from a purely commercial perspective?

[Supply Chain Resilience]

- The emphasis on 'reshoring', near-shoring' and 'friend-shoring' of supply chains, it is feared, will begin to reverse the forces of globalization and place many Asia-Pacific nations that have hitherto been staunch advocates of globalization and 'open regionalism' in a dilemma: Do they join Washington's 'friend-shored' but 'Beijing-decoupled' supply chain or should they continue to place their regionally-integrated trade policy eggs in the China basket?

[Tariffs]

- The Biden administration champions itself as a guardian of the rules-bound liberal international order. On trade, the administration is not liberal; it is protectionist. And as for the Section 301 tariffs themselves, they are not rules-bound; a WTO panel has judged them to be illegal. It gets to the question whether the sun has begun to set on the role of the United States as a liberalizing force in the global economy.

[Chips and CHIPS]

- The White House pushed hard for strengthening and securing American chip-making capability through both domestic legislation and international cooperation. After a summer-long conference process of twists and turns, but little overall progress, the CHIPS and Science Act of 2022 passed the Senate and the House in quick succession on July 27 and July 28, respectively. On August 9, President Biden signed the bill into law. The U.S. also formed the newest export controls cartel—the “Chip 4” alliance—to constrict China’s semiconductor production capabilities across-the-board.

[Export Control]

- 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. 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. 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. U.S. actions have less to do with fair and efficient competition and more with thwarting China’s rise, which at the end of the day will leave both parties worse off. For the time being though, the listed technology embargoes will hurt China, and hurt it severely.

[Midterm Election]

- The establishment of a China Select Committee as a bipartisan executive oversight body in Congress has been a long-term goal of the recently re-elected House Republican Leader Kevin McCarthy (R-CA) and it is likely that the House GOP will move forward with these plans when McCarthy assumes the speakership. A Republican Speaker can also be expected to package numerous Republican amendments and provisions which were not included in the CHIPS and Science Act into another expansive China bill, primarily using mechanisms like foreign agent registration, supply chain compliance, and export controls as opposed to the Democrats’ emergent industrial policy approach.