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## What's Been Happening

### 1 — U.S. and China Resume Economic and Trade Talks, What Now? — 1

#### [In One Sentence]

- U.S. President Biden and Chinese President Xi agreed to resume high-level exchanges, previously put on hold following Speaker Pelosi's visit to Taiwan.
- Commerce Secretary Raimondo said the U.S. is "not seeking the decoupling from China."
- USTR Katherine Tai met with China's Commerce Minister Wang Wentao but neither side revealed much detail of the conversation.
- Analysts have suggested that China will maintain state interventionism while pursuing "high-quality opening" of its economy.
- Over 240 solar companies have urged the U.S. Commerce Department not to expand import restrictions on solar components from Southeast Asia.
- Noting the U.S. as the EU's most important ally and China as the EU's largest trading partner, top EU officials argued for an update on the EU's China policy.
- The U.S. and EU held a joint outreach event with stakeholders on export controls on dual use technologies.

#### [Mark the Essentials]

- The U.S.-China Business Council welcomed the restoration of U.S.-China high-level discussions, noting that "regular and close bilateral contact is indispensable for responsibly managing competition, lowering the temperature of the relationship, and working together to address issues of shared interest."
- According to analysts at the Brookings Institution, China will continue to focus on economic development but make national security and social and political stability top priorities, pursue "high-quality opening" of the Chinese market, and maintain the current trajectory on industrial policies and state-owned enterprises. If such approaches are to be taken, the analysts expect to see more tensions in China's relationship with not only the U.S. but also other trading partners and, thus, a less friendly environment for China's economic development.
- Top EU diplomat Josep Borrell observed that the EU must reduce its dependence on China concerning strategic vulnerabilities by coordinating with allies such as the U.S., highlighting areas of cooperation such as semiconductors and export control. Some EU officials also expressed concerns about China's involvement in critical infrastructure. Others warned against completely aligning with the United States' China policy and cutting ties with China pointing to the volume of China-EU trade.

- A WTO report called on G20 countries to reduce export restrictions on food and fertilizer, warning that existing export restrictions are exacerbating global food insecurity.

### [Keeping an Eye On...]

- The Biden-Xi meeting in Bali achieved its ‘3R’ bottom line—it *reestablished* a baseline of in-person, leader-led communications, it *restarted* senior official level dialogue channels, and it (attempted to) *reassure* the other side of one’s strategic intentions and thereby lower the level of mistrust. Following the Biden-Xi meeting, Treasury Secretary Janet Yellen and USTR Katherine Tai held meetings with the People’s Bank governor and the Chinese commerce minister, respectively. The restart of the economic working groups holds out the promise of a more engaged relationship in 2023. Of course, the proof of the pudding will be in its eating and we shall have to wait and see if the meetings translate into greater stabilization of the bilateral relationship and its economic component. The problem, after all, is not a lack of comforting intentions (past readouts of Biden-Xi virtual meetings have an abundance of them) but the inability or unwillingness to translate these intentions during the policy implementation process, mostly at the U.S. end. Too often, the Biden administration has diverged from the script, with the President himself—advertently—injecting questionable ‘gray zone’ tactics when discussing the Taiwan question. In this vein, and looking ahead on the economic front, an executive order establishing an outbound investment screening mechanism is expected to be issued later this month and a decision on the China-specific tariffs is due in Spring 2023. So, we will have to wait and see how the intentions expressed in Bali play out on the economic front over the next few months. That said, there is an evident desire on the part of the administration to draw a line and seek a somewhat more cooperative economic relationship with Beijing. Specifics are vague at this time and will be keenly awaited. For its part, China would be well served by signaling an ambitious commitment to structural reform at its first post-20<sup>th</sup> Party Congress Central Economic Work Conference (CEWC) later this month. Following President Xi Jinping’s successful diplomatic foray in November, it would send an unequivocal signal that China remains committed to an internationally engaged strategy of reform and opening up. That signal has not always been spelt out clearly over the past three COVID-infected years, and implementation in its regard has been even slower to arrive.

### [Expanded Reading]

- [U.S. Not Seeking Decoupling From China, Commerce Chief Says](#), *The Wall Street Journal*, November 30, 2022 [Paywall]
- [EU will not follow US’ China policy, top diplomat says in fiery debate with lawmaker](#), *South China Morning Post*, November 23, 2022 [Paywall]
- [3rd Joint EU-US Stakeholders Outreach Event - Dual Use Research](#), EU Directorate-General for Trade, November 21, 2022
- [US and China trade officials meet in Thailand, resuming dialogue on economic policies](#), *South China Morning Post*, November 19, 2022 [Paywall]
- [Letter to the Honorable Gina Raimundo, Secretary, U.S. Department of Commerce](#), Solar Energy Industries Association, November 16, 2022
- [Readout of President Joe Biden’s Meeting with President Xi Jinping of the People’s Republic of China](#), The White House, November 14, 2022
- [Biden, Xi Chart Path to Warmer Ties With Blinken China Visit](#), *Bloomberg*, November 14, 2022 [Paywall]
- [Xi’s sweep: Beyond China’s 20th Party Congress](#), Brookings Institution, November 9, 2022

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## 2 — Will 2023 be a Big Year for U.S. Economics and Trade? — 2

### [In One Sentence]

- USTR Katherine Tai expressed optimism about prospects for U.S. trade in 2023, including in her assessment APEC, WTO reform and IPEF, among other initiatives and partnerships.
- The U.S. and Japan have agreed to push for an “ambitious negotiating schedule” for the upcoming IPEF negotiations.
- Business groups in the U.S. and the European Union are urging the EU to approve the new data privacy framework on transatlantic data flows.
- The U.S. and EU plan to focus on sustainable trade issues during the Trade and Technology Council’s next meeting on December 5, 2022.

### [Mark the Essentials]

- According to USTR Tai, IPEF is gaining “momentum” to deliver “timely results” next year, and members are particularly interested in making new rules and norms for the digital economy. Tai said that IPEF is meant to address current challenges faced by its members while being flexible enough to accommodate new and emerging issues.
- Tai said that the APEC forum, which the United States will host in 2023, is “uniquely positioned” to catalyze cooperation and build a sustainable and resilient global economy. Tai also noted that trade policies should improve access to lower emission goods and services, promote investment in climate-friendly technologies, and help incentivize environmental protection.
- The Biden administration has issued an executive order and regulations to implement commitments related to the political agreement between the U.S. and the EU this March on establishing a new EU-U.S. Data Privacy Framework. The EU is undergoing its internal decision-making process to determine whether to approve the new framework.
- While specific topics related to the U.S.-EU sustainable trade initiative have not been finalized, possible areas of focus include green technology standards, supply chain resilience concerning solar and critical raw materials, and coordination of green subsidies and carbon taxes, especially with an eye on the localization requirements in the Inflation Reduction Act’s EV tax credit which has triggered concerns in Brussels.

### [Keeping an Eye On...]

- 2023 needs to be a big year for both the Indo-Pacific Economic Framework (IPEF) negotiations in particular and U.S. trade in general. With the 2024 election cycle likely to kick-in early, the space for smart trade policy decision-making will begin to taper by the latter part of 2023. The first nine months of 2023 will be crucial, as such. If material progress is not made within the IPEF negotiations during this timeframe, expect the can to be kicked down the road beyond the mid-2025 timeframe. The U.S.-chaired Asia-Pacific Economic Cooperation (APEC) ministerial in May 2023 will provide an important platform to firm up an ‘early harvest’ package, with the digital economy chapter of IPEF’s Connected Economy (trade) pillar likely to be a key focus area. By that time, it will also become clear whether or not the EU-U.S. Data Privacy Framework has passed muster at the European Commission’s end in terms of sufficiency of safeguards *vis-à-vis* the United States’ intelligence operations. That said, it is important to stay realistic about the prospects for ambitious and timely results in the trade policy arena in 2023. In 2011, the Obama administration had played APEC host in order to infuse momentum into the, at-the-time, desultory Trans-Pacific Partnership (TPP) negotiations. By the time of the

APEC Leaders Meeting in Honolulu in November that year, it was clear that the strategy had failed to deliver-and in no small part due to the administration's eye on the electoral calendar and ensuing diffidence in tabling ambitious negotiating proposals. Not until the mid-part of the second Obama administration did the TPP negotiations gather steam under the able leadership of USTR Michael Froman. It is similarly foreseeable that the Biden administration's attempt to utilize its APEC 2023 chairpersonship as a forcing mechanism notwithstanding, substantive progress in the IPEF negotiations may have to wait until after the 2024 presidential election cycle. And for this to be the case furthermore, the Democrats will need to hold the White House.

### [Expanded Reading]

- [EU demands rapid fix from U.S. to green subsidy law](#), *Reuters*, November 25, 2022 [Paywall]
- [Readout of Ambassador Katherine Tai's Meeting With Japan's Minister for Economy, Trade and Industry Nishimura Yasutoshi](#), Office of the U.S. Trade Representative, November 17, 2022
- [Readout of Ambassador Tai's Meetings With Government Officials in Singapore](#), Office of the U.S. Trade Representative, November 17, 2022
- [The U.S.-EU Trade and Technology Council: Assessments and Recommendations](#), Center for Strategic and International Studies, November 16, 2022
- [U.S. and Europe trade agendas diverge on energy, China](#), *Politico*, November 7, 2022
- [Spotlight on Trade](#), *Bloomberg*, November 5, 2022 [Paywall]
- [Top US trade official urges EU to join forces on subsidies amid green deal tensions](#), *Financial Times*, November 2, 2022 [Paywall]
- [FACT SHEET: President Biden Signs Executive Order to Implement the European Union-U.S. Data Privacy Framework](#), The White House, October 7, 2022

## On the Hill



### [Highlights of the U.S.-China Economic and Security Review Commission Annual Report]

- In 2022, the U.S.-China Economic and Security Review Commission (USCC) looked into a number of issues and topics related to U.S.-China economic and trade relations, including:
  - U.S. supply chain vulnerability arising from reliance on China for rare earth elements, casting and forgings, active pharmaceutical ingredients and others;
  - alleged Chinese practices that subvert the global trading system (e.g. subsidies, overcapacity, intellectual property theft, and protectionist non-market policies) as well as possible actions that the U.S. can take to compel changes;
  - China's energy consumption, demand and import needs, as well as relevant carbon footprint; and
  - the decision-making process and internal politics of the Chinese Communist Party.
- Recommendations by the Commission to Congress include:
  - enacting new legislation to suspend China's Permanent Normal Trade Relations (PNTR) treatment if USTR finds that China has failed to comply with its WTO commitments;

- direct the Biden administration to strengthen the U.S. export controls regime, including by demanding regular reports on export control implementation and export license applications and developing a process to self-initiate and expedite the introduction of retaliatory import restrictions on China;
- direct the Biden administration to set up an office that oversees and coordinates cross-agency efforts on U.S. supply chain resilience, including by collecting more data on critical supply chains with a special focus on defense-related supply chain needs;
- direct the Biden administration to ensure that IPEF members are prohibited from using transportation and logistics public information platforms provided by Chinese state-affiliated entities at their ports;
- enact new legislation to establish a permanent agency that will develop plans for sanctions and other economic measures to respond to China's possible hostile action against Taiwan; and
- enact new legislation to improve the collection and translation of open source materials on China and Chinese senior officials.

### [Legislative and Statements]

- A bipartisan group of House lawmakers introduced a resolution calling for more reshoring and nearshoring of supply chains in the Americas amid China's increasing economic engagement and influence in the Western Hemisphere.
- Senate Finance Committee Chair Ron Wyden (D-OR) warned that outgoing Sen. Rob Portman's (R-OH) hope for a bipartisan 'grand bargain' on trade policy—covering the reinstatement of the Generalized System of Preferences (GSP), the Trade Adjustment Assistance (TAA) program, Trade Promotion Authority (TPA), and a new Miscellaneous Tariff Bill (MTB)—was “a little ambitious for the lame-duck.” Instead, he plans to prioritize bringing back 'stand-alone TAA' without tying it to the primarily Republican-backed TPA, though possibly compromising by reauthorizing GSP or passing a new MTB.
- House Ways & Means Committee ranking member Kevin Brady (R-TX), who is retiring in January, commended Switzerland and Mexico for criticizing the White House's flexible approach to vaccine-related intellectual property at the WTO.
- Senate Foreign Relations Committee members Jim Risch (R-ID) and Mitt Romney (R-UT) called on Biden to promptly develop a “grand strategy” towards China as directed by the FY 2022 National Defense Authorization Act. Particularly, they insisted the president establish what the NDAA called an 'Advisory Board on United States Grand Strategy with Respect to China' where outside experts from “the private sector, academia, and think tanks” could provide input.

### [Keeping an Eye On...]

- With the exception of a few China-related amendments that are to be tacked on to the 2023 defense authorization bill, such as a semiconductors-related one and a Taiwan arms sales-related one, the 117<sup>th</sup> Congress is more-or-less done with legislating on the China front. And Congress has, indeed, been productive on this front, headlined by the passage of landmark bills such as the Chips and Science Act and the climate provisions of the Inflation Reduction Act. With the two chambers now due to be split between the two parties, the 118<sup>th</sup> Congress is expected to be a very different creature on China policy compared to its predecessor. Like the 116<sup>th</sup> Congress rather, where the Democrats held the House and the Republicans the Senate and effectively accomplished very little legislatively on China, the 118<sup>th</sup> Congress will similarly witness a Democrat-led Senate

disposing of much that is proposed by a Republican-led House. The gridlock may intuitively appear to be a stabilizing factor. That would not be a correct assessment. The China-related legislative fireworks unleashed by the Republican-led House will reverberate much beyond Capitol Hill and could potentially influence the complexion of the presidential race in 2024. The House Republican leadership has already trained its sights on a plethora of China-related investigations and activities, ranging from enforcement action on export controls and against TikTok's data and privacy practices to questioning Covid's origins, the strict implementation of the Uyghur Forced Labor Prevention Act, the new limits on sale of natural gas to China, restrictions to Chinese access to U.S. capital markets and establishing a Select Committee on China to conduct intensive oversight on all legislative matters that are China-related. The 118<sup>th</sup> Congress may turn out to be short on legislative achievement on the China front (aside from a mechanism to screen outbound investments on which a loose bipartisan consensus exists), but it will certainly not be lacking in sound and fury. The world must stay tuned.

### [Expanded Reading]

- [Brady: Why Are Switzerland and Mexico More Protective of American Medical Innovation than the Biden Admin?](#), U.S. House of Representatives Committee on Ways and Means, November 18, 2022
- [Risch, Romney Urge President Biden to Swiftly Implement Measure to Craft Grand Strategy to Counter China Threat](#), U.S. Senate Committee on Foreign Relations, November 17, 2022
- [Sires, Green Introduce Bipartisan Resolution to Secure Western Hemisphere Supply Chains Through Nearshoring](#), Office of Rep. Alberto Sires (D-NJ), November 16, 2022
- [H.Res.1480 - Promoting stronger economic relations between the United States and countries in Latin America and the Caribbean](#), Congress.gov, November 16, 2022
- [2022 midterm elections and outlook for the 118th Congress](#), Hogan Lovells, November 15, 2022
- [2022 Annual Report to Congress](#), U.S.-China Economic and Security Review Commission, November, 2022
- [Congress draws their lame-duck red lines](#), *Politico*, October 24, 2022