

January 26, 2023

Volume 3, Issue 2

What's Been Happening

1 — Closer Ties with Asian Partners Beyond Just Trade — 1

[In One Sentence]

- U.S. officials expect the Indo-Pacific Economic Framework (IPEF) to be “inclusive” and open to new members.
- U.S. President Joe Biden and Japanese Prime Minister Kishida Fumio have committed to “reaffirm our economic leadership” and to “sharpen our shared edge on economic security” during a joint visit in early January.
- The United States expects quick movement and a possible “early harvest agreement” from the U.S.-Taiwan Initiative on 21st-Century Trade negotiations.
- Despite calls from U.S. businesses and some lawmakers, the Biden administration is yet to include market access provisions in IPEF or negotiate new free trade deals.

[Mark the Essentials]

- Deputy U.S. Trade Representative Sarah Bianchi said that the United States plans to pursue “aggressive progress” in IPEF negotiations but has not established any “hard deadline” yet. Noting the “complexity” and amount of work in IPEF’s trade pillar, Bianchi added that “early harvests” might be more available in pillars such as digital trade, supply chain resilience, decarbonization and anti-corruption.
- As part of the bilateral effort to “advance a common trade agenda,” the U.S. and Japan recently launched a new task force to exchange information and promote best practices on human rights and international labor standards, as well as proscribe forced labor, in supply chains.
- According to a readout from the Office of the U.S. Trade Representative, officials from the United States and Taiwan “reached consensus in a number of areas and pledged to maintain an ambitious negotiating schedule.” The initiative plans to cover trade facilitation, small and medium-sized enterprises, good regulatory practices, and services domestic regulation.
- While delivering a speech in Washington, D.C., Japan’s Minister of Economy, Trade and Industry Nishimura Yasutoshi said that “some countries” have used “mutual economic interdependence” as a weapon and called for cooperation among “like-minded countries” to pursue “effective responses to economic coercion.”

[Keeping an Eye On...]

- The IPEF roadshow continues apace. Text-based discussions on the crucial labor, environment, and digital economy chapters of the trade pillar are due to commence at the next round of negotiations. Draft texts for the supply chain, clean economy, and fair economy pillars were earlier tabled at the first round in Brisbane. There is little doubt that one of the Biden administration's key goals going into IPEF is to reconfigure trade and investment flows in the Indo-Pacific region and, thereby, shrink China's relative economic footprint and influence. Reaching for this objective will turn out to be an exercise in futility. Aside from the fact that China is deeply tied to its neighbors economically via conventional trade agreements (i.e. RCEP, CPTPP and DEPA accession talks), trade policy is not the appropriate instrument to reconfigure—let alone decouple—economic flows. Indeed, Washington ought to know better. Almost five years after the Trump administration's slash-and-burn Section 301 tariffs on US\$370 billion worth of U.S. imports from China, the U.S. runs an even larger trade deficit with China today compared to the pre-Section 301 days. On the other hand, the Treasury Department's foreign investment screening rules and the Commerce Department's technology controls against Huawei as well as, more recently, against the broader Chinese semiconductor and advanced computing ecosystem have had an immediate and swinging effect on supply chain reconfiguration. The message is clear: deploy leverage where one enjoys a whip hand and be selective in choice of policy instrument. And with regard to the remaining universe of economic flows, observe the existing rules of the game rather than concoct half-baked initiatives that barely move the needle a tick but end up sully the nation's free trader par excellence credentials that have been laboriously earned over the many decades since the end of World War II.

[Expanded Reading]

- [U.S. to aggressively push for digital trade rules in Asia in 2023](#), *Nikkei Asia*, January 24, 2023 [Paywall]
- [U.S., Taiwan officials pledge ambitious trade negotiating schedule](#), *Reuters*, January 17, 2023 [Paywall]
- [Readout of January Negotiating Round Under the U.S.-Taiwan Initiative on 21st-Century Trade](#), Office of the United States Trade Representative, January 17, 2023
- [Joint Statement of the United States and Japan](#), The White House, January 13, 2023
- [Suzanne Clark's 2023 State of American Business Remarks](#), U.S. Chamber of Commerce, January 12, 2023
- [United States and Japan Launch Task Force to Promote Human Rights and International Labor Standards in Supply Chains](#), Office of the United States Trade Representative, January 6, 2023
- [U.S. and Japan to expand cooperation on key technologies beyond chips](#), *The Japan Times*, January 6, 2023
- [Japan minister calls for new world order to counter rise of authoritarian regimes](#), *Reuters*, January 5, 2023 [Paywall]
- [Japan's 2023 G7 Priorities and the Future Economic Order](#), event by Center for Strategic & International Studies, January 5, 2023

2 — U.S. and China's Duelling Views of Globalization — 2

[In One Sentence]

- Associating Davos with a “specific,” traditional kind of globalization that needs “evolving,” U.S. Trade Representative Katherine Tai argued for a “new economic world order” that is “worker-centric” and focuses on “who we want to benefit from our vision and from the economic opportunity.”
- Meanwhile, China's Vice Premier Liu He discussed China's economic development plans and affirmed China's commitment to “socialist market economy” and “all-round opening-up.”

- In response to China's challenge at the World Trade Organization (WTO), the United States argued that its semiconductor export controls protect U.S. national security and, accordingly, concern non-reviewable "political matters."
- German lawmakers are reportedly calling on the European Union to decrease tariffs between the United States and the EU through the U.S.-EU Trade and Technology Council.
- The U.S. Department of State has established a new office for Critical and Emerging Technology as part of a "wider modernization agenda" in light of "intensifying" "competition to develop and deploy foundational technologies."

[Mark the Essentials]

- At the annual State of American Business event, CEO of the U.S. Chamber of Commerce Suzanne Clark said that the U.S. is on a "downward trend on trade" and called on the Biden administration to resume negotiations on trade agreements, pursue "crucial" market access provisions in IPEF negotiations, and "go back to the negotiating table" with China on trade policy.
- Vice Premier Liu He also argued that the international community should "abandon the cold war mentality" and "uphold the right principles" to preserve an "equitable" and "effective" international economic order while calling for coordination of international macro policy and a global response to climate change.
- Japan is hoping to establish a permanent body on digital governance among "like-minded countries" to coordinate data governance practices, counter China's influence in the Global South, and allow African and Asian companies to more easily enter American, European and Japanese markets, according to Japan's minister for digital transformation Kono Taro.
- In support of the United States' Section 301 tariffs on Chinese goods, some U.S. manufacturers commented that the tariffs "level the playing field," "resuscitate America's industrial base," "counteract unfair competitive advantages" from China, and increase overall employment in the United States.
- When asked about Taiwan's decision to join Beijing's case challenging U.S. semiconductor export controls at the WTO as an interested third party, a senior U.S. trade official said they believe Taiwan supports the United States' position on the matter.

[Keeping an Eye On...]

- Kudos to USTR Katherine Tai for her "worker-centric" vision of a new economic world order. Someday we might even get a glimpse of it in practice, and hopefully it will be an improvement on the 'vision' of Marx and Engels. On the other hand, if the labor chapter of the U.S.-Mexico-Canada agreement (USMCA) is what USTR Tai has in mind, then this does not amount to much of a vision at all. That chapter, with its rapid response enforcement mechanism and rules prohibiting the imports of goods made by forced labor, among others, is an improvement on labor chapters in previous trade agreements. But Mexico's industrial relations and its overall macroeconomy post-USMCA have hardly become more "worker-centric," and neither will that be the case of IPEF member states economies if USTR is indeed successful in importing the USMCA labor provisions in IPEF. On the other hand, in his keynote address in Davos, the departing Chinese Vice Premier Liu He laid out a forceful vision of China's structural reform framework. Five years earlier, Vice Premier Liu had pithily framed China's policy objectives around a Key Necessity (transitioning to high-quality development), a Main Task (excess capacity reductions), and Three Critical Battles (against financial risk, pollution, and poverty) during an earlier Davos address. To varying degrees, these objectives—save the Key Necessity—have been successfully addressed. Going forward, the focus of China's modernization efforts is to center around a

three-pronged approach: high-level opening-up; economic re-balancing based on consumption-led growth pursued in an open economy context; and a new social development goal of achieving common prosperity. The last two will not be easy to come by. The East Asian growth model has been singularly ineffective in re-balancing economies towards a more consumption-led model. For China, a key determinant in this regard further will be the extent to which entrepreneurship is allowed to prevail as a factor for wealth creation in society. In this era of President Xi Jinping's domestic preeminence, this latter attribute can no longer be taken for granted—the effort by Liu He to dispel suspicions to the contrary in Davos, notwithstanding.

[Expanded Reading]

- [The Case for Trade](#), event by the World Economic Forum, January 18, 2023
- [Davos 2023: Special Address by Liu He, Vice-Premier of the People's Republic of China](#), World Economic Forum, January 17, 2023
- [United States - Measures on Certain Semiconductor and Other Products, and Related Services and Technologies - Communication from the United States](#), World Trade Organization, January 12, 2023
- [Suzanne Clark's 2023 State of American Business Remarks](#), U.S. Chamber of Commerce, January 12, 2023
- [Germany's Scholz Backs Joint EU Funding to Counter US Aid](#), *Bloomberg*, January 11, 2023 [Paywall]
- [Leading Japan's Digital Transformation: A Discussion with Kono Taro](#), event by Center for Strategic & International Studies, January 11, 2023
- [Readout of Deputy Secretary Graves' Meeting with Japan's Minister for Digital Transformation Taro Kono](#), U.S. Department of Commerce, January 11, 2023
- [Establishing the Office of the Special Envoy for Critical and Emerging Technology](#), U.S. Department of State, January 3, 2023
- [Public Docket - Request for Comments in Four-Year Review of Actions Taken in the Section 301 Investigation: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation](#), Executive Office of the President of the U.S., USTR Public Docket

On the Hill

[Legislative Development]

- The House passed a bill (331-97) to prohibit the sale and export of crude oil from the U.S. Strategic Petroleum Reserve to China. Rep. Mike Gallagher, Chairman of the House's Select Committee on China, openly supported the bill and criticized U.S. President Biden's earlier decision to "deplete our reserves to critically low levels" and "[sell] reserve petroleum to Chinese entities."
- U.S. legislators have also introduced bills to protect personal data from "unauthorized transmissions to servers located in China" or to prohibit the purchase of U.S. real estate "by members of the Chinese Communist Party and entities that are under the ownership, control, or influence of the Chinese Communist Party."

[Hearings and Statements]

- The House passed a resolution to establish a Select Committee on China. Republican lawmaker Mike Gallagher, the Chair of the new China Committee, argued that the Committee will "identify long overdue common sense approaches to counter CCP aggression," including on "reclaiming U.S. economic independence."

- The Republican party has picked Rep. Jason Smith to chair the House’s Ways and Means Committee, who subsequently vowed to “examine using both trade policy and our tax code to re-shore and strengthen our supply chains.” The Republican party has added 10 new members to sit on the Ways & Means Committee.
- Rep. Adrian Smith, the former ranking member of the Ways and Means Committee, has previously stated on record that a Republican majority in the House creates a “great opportunity” to renew trade programs such as the Generalized System of Preferences and the Miscellaneous Tariff Bill.
- Republican leaders of the Ways and Means Committee have announced plans to impose “rigorous oversight and investigation” into the Biden administration’s trade negotiations, including the WTO negotiation on intellectual property waiver related to COVID-19 vaccines.
- In a joint letter to U.S. Secretary of Commerce Gina Raimondo, Democratic Senators Sherrod Brown and Bob Casey again called for the Commerce Department to impose tariffs on grain-oriented electrical steel products to prevent the circumvention of existing Section 232 tariffs on steel.

[Expanded Reading]

- [Gallagher Votes to Prevent SPR Sales to China](#), Congressman Mike Gallagher Press Release, January 17, 2023
- [H.R.22 - Protecting America’s Strategic Petroleum Reserve from China Act](#), U.S. Congress
- [H.R.57 - Protecting Personal Data from Foreign Adversaries Act](#), U.S. Congress
- [Brown, Casey Urge Administration to Add Grain-Oriented Electrical Steel Derivative Products to Section 232 Steel Tariffs](#), U.S. Senator for Ohio Sherrod Brown Press Release, January 13, 2023
- [Rep. Roy introduces legislation to protect American land from Chinese Communist Party buyup](#), Representative Chip Roy Press Release, January 12, 2023
- [H.R.344 - Securing America’s Land from Foreign Interference Act](#)
- [Chairman Smith Welcomes New Republican Members of the House Ways and Means Committee for the 118th Congress](#), House Committee on Ways and Means, January 11, 2023
- [House easily passes resolution to create bipartisan China select committee](#), *The Hill*, January 10, 2023
- [Gallagher: Time to Push Back on CCP Aggression in Bipartisan Fashion](#), Congressman Mike Gallagher Press Release, January 10, 2023
- [J. Smith Statement on Selection as Next Chairman of the House Ways and Means Committee](#), House Committee on Ways and Means, January 9, 2023
- [Brady, A. Smith Warn USTR Against Destroying Documents on Biden Admin’s Decision to Surrender Key Medical Technology](#), House Committee on Ways and Means, October 20, 2022