

What's Been Happening

1 — When a Rising China and Revisionist (on trade) America Clash — 1

[In One Sentence]

- After the United States rejected two rulings in the World Trade Organization (WTO) against its tariffs on China, citing the national security exception, Washington and Beijing accused each other of undermining the WTO system and disrupting global trade.
- Industry groups are asking the Biden administration to clarify its semiconductor export control measures and say that the “complex,” “novel” and “ambiguous” measures hinder the competitiveness of the U.S. industry.
- The Biden administration is considering prohibiting any U.S. exports to Chinese tech company Huawei.
- The United States concluded an agreement with Japan and the Netherlands to restrict the exports of certain advanced semiconductors and chip-making equipment to China.

[Mark the Essentials]

- The U.S. has also opposed China’s “economic coercion” in cases such as China’s restrictions on Lithuanian goods. China is being hauled to the WTO dispute resolution process by the European Union over the matter but has rejected the U.S.’s request to join the dispute as a third party.
- On the sidelines of the World Economic Forum in Davos, trade ministers from 23 WTO members said they would prioritize the restoration of “a fully functioning dispute settlement mechanism” in future meetings of the WTO.
- Lam Research Corp., a U.S. company specializing in semiconductor manufacturing equipment, reported a shrinkage of revenue by 17% in the fourth quarter of 2022, in part due to declining demand in China and other Asian markets over concerns of Washington’s export control restrictions.
- Criticizing the United States’ “sneering indifference towards trade and in particular the WTO,” former WTO spokesperson Keith Rockwell argued that the United States has left the global multilateral trade system without “leadership” and left U.S. trade partners “unsure about Washington’s strategic vision.”

[Keeping an Eye On...]

- The Trump and the Biden administration’s argument for imposing unilateral, sky-high and now-judged-to-be illegal tariffs on China has not aged well. U.S.-China goods trade reached \$680 billion in 2022, surpassing the prior record of \$663.5 billion in 2018—the year the initial tranche of Sections 232 and Section 301 tariffs was imposed. Meanwhile, the bilateral trade deficit clocked in at \$382.9 billion—the second largest on record after the \$418 billion racked up in 2018. Much like the fate of the Trump-Biden

tariffs, trade ‘friendshoring’ in the name of supply chain resilience may be chic today but it will not age well either. In the currency arena, the U.S. and key allies are capable of maintaining a lock on the plumbing of the global payments and settlement infrastructure. Given the dollar's dominance, currency weaponization is a workable option. In the core technologies area, the U.S. and western partners enjoy significant pockets of advantage. As such, controls can be advantageously deployed—so long as they are restricted to truly ‘core’ technologies and cartelized smartly. In the trade arena, however, the horse has already bolted. China trades more intensively with a larger number of Indo-Pacific countries than the U.S. does, and this gap will only get larger. Indeed, as China transitions from being the world champion in intermediate goods production to also becoming a final consumer of the Indo-Pacific’s regionally produced goods, the siren call to divert trade flows within a ‘friendshored’ circle—beyond that related to a narrow sliver of ‘strategic goods’ with security implications—will be shown up to be what it truly is: an exercise in delusions that pays ever fewer dividends going forward. The blunt truth about populism and protectionism today is that it is essentially about protectionism in one major country. The other key actors are all more-or-less committed to the rules-based trading system and conventional forms of liberalization, and the gravitational market pull of the latter far exceeds the pull of the former.

None of this should breed complacency in Beijing though. ‘Economic coercion’-related policy instruments are being readied on both sides of the Atlantic (the European version is at the penultimate stage). Beijing’s formal and informal bans, boycotts, and trade sanctions against the likes of Australia, Norway, Lithuania, Canada, South Korea, Taiwan, etc. must be eschewed decisively. Like its recent balloon caper, such measures casually and nakedly violate international law. One rogue superpower trader is enough; the multilateral trading system does not need a second such rogue trader. Besides, if Beijing harbors any hope of acceding to the CPTPP and signing the CAI (Comprehensive Agreement on Investment) to anchor its new reform and opening up agenda, elementary sense would dictate that it should not be illegally sanctioning the gatekeepers of those agreements.

[Expanded Reading]

- [The US Plan to Block China on Chips Will Backfire](#), *Bloomberg*, February 1, 2023 [Paywall]
- [Postcard from a disintegration: Inside the WTO’s fraying seams](#), Hinrich Foundation, January 31, 2023
- [U.S. Chamber wants more trade deals, but caution on China](#), U.S. Chamber of Commerce, January 31, 2023
- [Factbox: Chinese chipmakers caught in U.S.-China tech spat](#), *Reuters*, January 31, 2023 [Paywall]
- [Biden Team Weighs Fully Cutting Off Huawei From US Suppliers](#), *Bloomberg*, January 30, 2023 [Paywall]
- [US appeals against WTO verdicts on steel tariffs on China and other countries](#), *South China Morning Post*, January 28, 2023 [Paywall]
- [Biden wins deal with Japan and Netherlands on China chip export limit](#), *The Japan Times*, January 28, 2023 [Paywall]
- [China, U.S. spar at WTO meeting over disputes](#), *Reuters*, January 27, 2023 [Paywall]
- [China Weighs on U.S. Chipmaking Gear Specialist Lam Research](#), *Caixin*, January 27, 2023 [Paywall]
- [Trade turns chilly: Chip embargo symbolizes deeper US-China strains](#), *The Christian Science Monitor*, January 24, 2023 [Paywall]
- [Davos: initial preparations for 13th WTO Ministerial Conference in 2024](#), Switzerland State Secretariat for Economic Affairs, January 20, 2023
- [USCBC Comments Regarding Implementation of Additional Export Controls](#), US-China Business Council, January 13, 2023

2 — U.S.' (Re-)Tailored Trade Partnerships: Leadership by Diktat — 2

[In One Sentence]

- The Biden administration is proposing to negotiate new, “tailored” trade deals with the European Union and Japan to prevent the two from being disadvantaged by certain electric vehicle (EV) benefits under the Inflation Reduction Act (IRA).
- EU top officials told Brussels that the United States might be open to resolve some but not all of the EU’s concerns about the IRA, while Japan is yet to publicly comment on the latest updates.
- Reacting to the IRA, the European Commission is drafting and discussing policy approaches to incentivize and advance its own clean technology industry, including through subsidies and state aid.

[Mark the Essentials]

- According to U.S. Treasury Secretary Janet Yellen, critical minerals extracted or processed in the EU and Japan do not help fulfill certain sourcing requirements for EV tax credits under the IRA. To prevent EU and Japanese products from being disadvantaged, Yellen proposed new agreements with the two to establish a “free-trade area” in critical minerals.
- The U.S.-EU Trade and Technology Council (TTC) plans to hold a roundtable discussion on due diligence in global supply chains on March 3, 2023, as part of their efforts to promote stakeholder engagement and share best practices.
- While Japan has agreed to join the United States and restrict its exports of advanced chip manufacturing equipment to China, an influential Japanese lawmaker said that Japan might choose to impose more lenient restrictions, adding that Japan merely shared with the U.S. “a recognition of the concern over the equipment.”
- Mark Gitenstein, Ambassador of the U.S. to EU, told Brussels that “difficult issues” concerning IRA and clean tech industrial policy needs to be resolved “at the leadership level,” proposing a U.S.-EU summit this year.
- Japan’s proposal to establish a permanent international data governance body at the G7 reportedly overlaps with some digital principles under discussion within the Indo-Pacific Economic Framework (IPEF). Industry sources said G7 and IPEF offer “two pathways to the same idea” and will not take momentum away from either.

[Keeping an Eye On...]

- As per Brian Deese, director of the White House National Economic Council, what is good for America is apparently good for its allies and partners. “The United States is now leading [on deploying next-generation energy technologies in the context of the Inflation Reduction Act (IRA)], and other like-minded countries should both recognize that and also seek ... opportunities to partner with us ... we have nothing to apologize for, and frankly everything to be proud about,” he averred. The Europeans would beg to differ. In late-January, the European Commission released a draft (IRA countermeasures) plan titled “A Green Deal Industrial Plan for the Net-Zero Age.” The plan is based on four pillars, its most notable provision being the re-casting of a Temporary Crisis and Transition Framework (TCTF) that is expected to loosen Union-wide state aid rules in order to facilitate enhanced investment support schemes and targeted aid for production of strategic net-zero technologies. The support for new investment in facilities, including via tax credits, is specifically targeted “to those sectors where such delocalization risk has been identified, and [is to be] proportionate in terms of [IRA] aid amounts.” On a related note, France has gone further and asked for the setting up of an emergency “sovereign fund” that would in the short term redirect existing EU funding to

strategic industrial projects. The trans-Atlantic industrial subsidy battle is well-and-truly being joined. Question now is this: will this be a race to the gutter? And in which case, the U.S. and the EU will find a familiar party already entrenched in that uncovered space. No rewards for guessing who that party is. But it does beg a tantalizing question: could these over-the-top industrial subsidies in the largest global economic jurisdictions vitalize a trilateral (U.S.-EU-China) conversation on rationalizing and enforcing disciplines of global subsidies at the multilateral level? The U.S.-EU-Japan conversations on this topic have seemingly gone nowhere, and wisdom would dictate that the largest state provider of distortive industrial subsidies in the world should be brought into the tent than left—to borrow President Lyndon Johnson’s infelicitous quote—“outside the tent pissing in.”

[Expanded Reading]

- [Japan may opt for milder chip-equipment curbs on China than U.S. says lawmaker](#), *Reuters*, February 8, 2023 [Paywall]
- [The continuing mystery of Biden’s trade policy](#), *The Hill*, February 3, 2023
- [EU Unveils a Green Investment Plan to Compete With US and China](#), *Bloomberg*, February 1, 2023 [Paywall]
- [The Green Deal Industrial Plan: putting Europe’s net-zero industry in the lead](#), European Commission, February 1, 2023
- [EU plans to relax curbs on tax credits in response to ‘toxic’ US subsidies](#), *Financial Times*, January 30, 2023 [Paywall]
- [Transatlantic Tech and Security: A Conversation with EU Commissioner Thierry Breton](#), Center for Strategic and International Studies, January 27, 2023
- [EU-US Trade & Technology Council: WG10 Roundtable on due diligence](#), European Commission, January 25, 2023
- [Janet Yellen Expects EV Subsidy Rules to Prompt New Trade Deals](#), *The Wall Street Journal*, January 24, 2023 [Paywall]
- [Scholz upbeat about trade truce with US in ‘first quarter of this year’](#), *Politico*, January 22, 2023
- [The destructive new logic that threatens globalisation](#), *The Economist*, January 12, 2023 [Paywall]
- [Japan government sounds alarm over U.S. EV tax credits](#), *Reuters*, November 5, 2022 [Paywall]

On the Hill

[Legislative Developments]

- Republican Senators proposed to end China’s permanent normal trade relations status over concerns of alleged human right abuses, reintroducing an idea presented in the previous Congress.
- Republican lawmakers in both chambers introduced a number of bills on Taiwan, covering ideas such as the ending of the United States’ “One China” policy, the calling for a free trade deal with Taiwan, the support of Taiwan’s membership in international organizations, and measures to deter “Chinese aggression towards Taiwan.”
- A bipartisan group of House Ways and Means Committee members introduced a bill to repeal the Commerce Department’s decision to suspend tariffs on solar panel imports from four Southeast Asian countries. The suspension was originally announced in response to anxiety within the industry as the Commerce Department investigated alleged evasion of U.S. tariffs on Chinese solar products.

[Hearings and Statements]

- In anticipation of U.S. Secretary of State Antony Blinken’s visit to China—now postponed, Senate and House Republicans urged the administration to hold China accountable for “human rights violation, unfair trade practices, and increasing aggression in the Indo-Pacific region and beyond,” while Senate Foreign Relations Committee Chair Bob Menendez highlighted the importance of establishing effective communication channels with Beijing as well as on key issues such as Taiwan, human rights and economic coercion.
- House Speaker Kevin McCarthy named 12 Republican lawmakers to join the House’s China Committee, including several members of the Taiwan Caucus and the former China Task Force. Several members will also serve concurrently on the Ways and Means Committee and the Armed Services Committee.
- Meanwhile, Democrat lawmaker and China Committee member Ro Khanna argued that the committee should focus on building U.S. innovation and manufacturing competitiveness through immigration and economic policy in addition to national security concerns.
- At a hearing on “winning the future versus China,” House Energy and Commerce Committee Chair Cathy McMorris Rodgers and Innovation, Data, and Commerce Subcommittee Ranking Member Jan Schakowsky both advocated for a federal data privacy law to ensure American tech leadership. U.S. President Joe Biden previously called on Congress to find common ground and protect the privacy of Americans from “big tech abuses.”

[Keeping an Eye On...]

- Well, that was quick. In early January, in a fit of bipartisan fervor, the Republican-led House of Representatives voted to establish the Select Committee on the Strategic Competition Between the U.S. and the Chinese Communist Party by a margin of 365-65. Committee chairman, Mike Gallagher, swore that bipartisanship would remain the order of the day. Meaningful intramural disagreements would be hashed out courteously. And then a Chinese spy balloon wafted across the continental U.S.’ airspace. An early bipartisan statement notwithstanding, Gallagher’s early instinct was to lash out at the Biden administration’s supposed (mis)handling of the situation—without so much as even a briefing or full knowledge of the facts. Other Republicans on the committee had even worse things to say about the president and the military which did not thrill their Democratic counterparts on the committee, to say the least. And this at a time when the Select Committee had not even held its first hearing. The balloon saga will soon be a blimp in the collective memory but make no mistake: the rank partisanship that Chairman Gallagher supposedly foreswore is very much present and here to stay. It will be a permanent backdrop to the Select Committee’s work in turn, raising questions about the purpose and productivity of the committee. For those in Beijing inclined to revel in this almost instantaneous but predictable breakdown in bipartisanship, take note: the difference on China between the Democrats and the Republicans is between a hardline and thoughtful—or at least thinking—view on China and a hardline and non-thinking view on China. So, pick your poison. Tough views on China are here to stay. And as hysterical as some Republican viewpoints on China might appear to be, they have the power to shape the political narrative entering the 2024 campaign season and hem the Biden administration’s space for stabilizing the bilateral relationship during the interim.

[Expanded Reading]

- [Innovation, Data, and Commerce Subcommittee Hearing: “Economic Danger Zone: How America Competes to Win the Future Versus China”](#), hearing in front of the House Energy Committee, February 1, 2023

- [Kildee Leads Bipartisan Effort to Repeal Biden Administration Rule Suspending Tariffs on Solar Imports from Southeast Asia](#), Congressman Dan Kildee Press Release, January 26, 2023
- [Cotton, Colleagues Introduce Bill to End China's Permanent Normal Trade Status](#), Senator for Arkansas Tom Cotton Press Release, January 26, 2023
- [S.125 - China Trade Relations Act of 2023](#)
- [Rep. Young Kim Leads Bill to Support Taiwan's Participation in the International Monetary Fund](#), Young Kim Press Release, January 26, 2023
- [H.R.540 - To require the Secretary of the Treasury to pursue more equitable treatment of Taiwan at the international financial institutions, and for other purposes.](#)
- [EXCLUSIVE: Rep. Tiffany Introduces Resolution Calling for US to Recognize Taiwan Independence](#), Congressman Tom Tiffany Media, January 25, 2023
- [H.Con.Res.10 - Expressing the sense of Congress that the United States should resume normal diplomatic relations with Taiwan, negotiate a bilateral free trade agreement with Taiwan, and support Taiwan's membership in international organizations.](#)
- [H.R.554 - To deter Chinese aggression towards Taiwan by requiring the Secretary of the Treasury to publish a report on financial institutions and accounts connected to senior officials of the People's Republic of China, to restrict financial services for certain immediate family of such officials, and for other purposes.](#)
- [Republicans and Democrats, Unite Against Big Tech Abuses](#), by Joe Biden, *The Wall Street Journal*, January 11, 2023