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## What's Been Happening

## 1 — Little Sign of U.S.-China Economic Détente Amid National Security

## Concerns — 1

**[In One Sentence]**

- U.S. Secretary of State Antony Blinken and his EU counterpart Josep Borrell expressed shared concerns over China's position in the Ukraine conflict, highlighting China's "moral duty to contribute to a fair peace" and to not "sid[e] with the aggressor."
- The two also discussed challenges posed by economic coercion, the weaponization of economic dependencies, and non-market practices, "including [those] by the PRC."
- At the World Trade Organization (WTO), Beijing continued to criticize the U.S. for "[d]isruptive and restrictive measures" and "extreme unfairness" such as U.S. export controls and Section 301 tariffs.
- Meanwhile, Washington said the WTO is not the appropriate forum for national security discussions and reiterated "numerous" concerns over the transparency of China's industrial subsidy regime.
- In an important policy speech on U.S.-China economic relations, U.S. Treasury Secretary Janet Yellen sought to restart "healthy economic engagement that benefits both countries."
- Commerce officials are reportedly "lay[ing] groundwork" for a possible visit to China by U.S. Commerce Secretary Gina Raimondo.
- With recent trips to Japan and the Philippines, U.S. Trade Representative Katherine Tai is working to strengthen economic security ties among the three countries, but reiterated that the U.S. had no interest in negotiating a traditional free trade agreement with the Philippines—or, for the matter, any other country.

**[Mark the Essentials]**

- China has accelerated its timeline to build a technologically self-reliant, innovation-driven economy by re-organizing the country's Ministry of Science and Technology and increasing the Party's oversight over the ministry. Analysts and scholars said that the acceleration is partly prompted by U.S. efforts to restrict China's access to critical technologies.
- Secretary Yellen also observed—somewhat questionably—that the national security actions against China are not designed to stifle China's economic and technological modernization or accord a competitive economic advantage to the United States.

- According to a recent OECD report, export control measures on raw materials critical for the green transition increased more than fivefold over the past decade. China was among the countries instituting the largest number of measures and the Biden administration, more lately, has been seeking ways to bring critical mineral supply chains to America and reduce reliance on China.
- Japan said that it will impose new export restrictions on advanced semiconductor manufacturing equipment but stressed that the export controls measures are narrowly intended to prevent military use, in contrast to U.S. restrictions that are more broad-based.
- According to data announced by the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, the trade of U.S. goods with China increased in February by a mere US\$400 million, while the U.S. trade deficit with China increased from US\$3.2 billion to US\$25.2 billion.

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

- Call it a case of the shoe being on the other foot. After two years of sanctions and export control orders intended to suppress China's technological advancement as well as decouple critical supply chains, the Biden administration wants to play nice(r) with Beijing. On April 20, almost exactly a year to the day that she delivered an 'important' speech on "favoring the 'friend-shoring' of supply chains to a large number of trusted countries," Treasury Secretary Janet Yellen stepped on the podium and called this time for a "healthy economic engagement that benefits both [the United States and China]." The "world is big enough for both of us," she declared, and Beijing and Washington needs to "find a way to live together and share in global prosperity." Like her fellow cabinet secretary, Gina Raimondo, she looked forward to traveling to China "at the appropriate time," she observed. Whatever be the cause of the administration's changed tone on China—be it to open Chinese markets to U.S. exports on the lines of the Phase One agreement as Biden seeks reelection; seek a truce during the impending period of U.S. debt ceiling brinkmanship; or just stabilize overall bilateral ties—the problem is that the Chinese do not appear terribly enthusiastic to 'play ball.' In fact, after having patiently absorbed many 'blows to the chin,' Beijing appears to be gradually moving towards its own set of retaliatory countermeasures. Within the past few weeks, China has opened a cybersecurity review of the U.S. chip firm Micron, let it be known that TikTok's algorithm is covered by China's export control laws and hence unprocurable through foreign acquisition, sanctioned U.S. politicians, defense contractors and institutes for facilitating "Taiwan independence" separatist activities, and is in the process of adding high-performance rare earth magnets to its revised Catalog of Technologies Prohibited and Restricted from Export to protect "national security" and the "public interest of society." Surely, there will be more countermeasures in the pipeline. The United States and China, at this time, seem to be operating on incompatible timelines. The Biden administration has had two years to institute its economic security measures (action on an outbound investment screening mechanism and on TikTok is still awaited though) and most of these measures are now at the implementation stage; by contrast, the new Chinese government having taken office last month, is just getting started with its targeted actions. Looking ahead, U.S.-China economic rapprochement will, willy-nilly, move forward in fits-and-starts at best. Which means that Secretary Yellen, perhaps, and Secretary Raimondo, almost-certainly, may have to cool their heels awhile before boarding a flight to Beijing.

### [Expanded Reading]

- [US trade rep seeks close economic security ties in Asia](#), *The Washington Post*, April 19, 2023 [Paywall]
- [US not keen on PHL free trade deal](#), *BusinessWorld*, April 19, 2023 [Paywall]
- [Yellen to Deliver Major Speech on US-China Economic Ties](#), *Bloomberg*, April 18, 2023 [Paywall]
- [Thailand, Indonesia emerge as bigger links in EV supply chain](#), *Nikkei Asia*, April 18, 2023 [Paywall]

- [Increasing Export Restrictions on Critical Minerals Threaten Energy Transition, OECD Says](#), *The Wall Street Journal*, April 11, 2023 [Paywall]
- [Raw materials critical for the green transition](#), OECD Trade Policy Working Paper, April 11, 2023
- ["Made in America" puts the brakes on electric vehicles Biden hopes to push](#), *Peterson Institute for International Economics*, April 10, 2023
- [Japan and the Netherlands Announce Plans for New Export Controls on Semiconductor Equipment](#), Center for Strategic and International Studies, April 10, 2023
- [Commerce officials heading to China to lay groundwork for possible Raimondo trip later this year, sources say](#), *CNBC*, April 7, 2023
- [Chinese government restructures science, tech agency with U.S. in mind](#), *Inside U.S. Trade*, April 6, 2023
- [U.S. trade deficit widens in February as goods exports fall](#), *Reuters*, April 5, 2023 [Paywall]
- [Secretary Antony J. Blinken And EU High Representative for Foreign Affairs and Security Policy Josep Borrell Remarks to the Press](#), U.S. Department of State, April 4, 2023
- [Even as U.S. Beckons, European Leaders Head to Beijing](#), *The New York Times*, March 29, 2023
- [China Shakes Up Bureaucracy With Eye on Technological Edge](#), *Newsweek*, March 22, 2023 [Paywall]
- [U.S. manufacturers say 'no' to more WTO IP waivers](#), *Politico*, March 20, 2023

## 2 — America's New Trade Story: Many Talks but Limited Delivery — 2

### [In One Sentence]

- USTR Katherine Tai said that the Biden administration is advancing a “new story” on trade, reiterating the administration’s “vision” of a resilient, inclusive and sustainable trade agenda.
- A major element of this approach is that “industrial policy and trade policy must work hand-in-hand” to address supply chain issues spurred by the COVID-19 pandemic and geopolitical tensions.
- USTR Tai also expressed a need for flexibility and regionalization, with “different outcomes...in different contexts,” rather than a ‘one size fits all’ approach.
- Undergirding this trade agenda is a sensitivity to sustainability and workers’ rights.
- USTR Tai also touted the Biden administration’s consistent preference for multilateral approaches to complex trade problems through fora like the Indo-Pacific Economic Framework (IPEF), the Asia-Pacific Economic Partnership (APEC), and the World Trade Organization (WTO).
- On the Indo-Pacific Economic Framework (IPEF), the next negotiating round is set to take place from May 8-15 in Singapore.
- The U.S. Chamber of Commerce expressed its “profound concern” to the White House regarding the Department of Justice and the Federal Trade Commission’s objections to the competition and digital trade texts tabled by the USTR within the IPEF talks.
- The U.S.-EU Trade and Technology Council, meanwhile, has an upcoming meeting scheduled in Sweden from May 30-31.
- The European Union passed the European Chips Act to mobilize 43 billion euro of public and private investments to bolster Europe’s semiconductor industry.

### [Mark the Essentials]

- Commenting on transatlantic economic engagement so far via the Trade and Technology Council (TTC), European Commission Executive Vice President and Trade Commissioner Valdis Dombrovskis said that the

U.S. and EU must “deliver more on the trade side” and that the TTC should “be even bolder in its ambitions.” He pointed to the need for more efforts on digital and sustainable trade and for “clear trade deliverables” coming out of the next TTC meeting.

- Dombrovskis added that a U.S.-EU deal on the U.S. electric vehicle tax credits is a “necessary step” to demonstrate the United States’ “seriousness about removing unnecessary trade obstacles.” According to the Vice-Chair of the American Chamber of Commerce to the European Union (AmCham EU), Kaarli Eichhorn, the U.S. tax credits could be viewed as “distortive” under the EU’s Foreign Subsidy Regulation and lead to “structural or non-structural” countermeasures.
- U.S. businesses have again called for more transparency and deeper stakeholder engagement with regard to the on-going IPEF negotiations. Industry representatives have expressed concerns on the lack of clear benefits to justify U.S. private investment in IPEF member states as well as the Biden administration’s refusal to negotiate market-access provisions despite calls from other IPEF participants.
- *The Wall Street Journal* characterized the Department of Justice and the Federal Trade Commission’s intervention in the IPEF talks as an attempt by the Biden administration to lean on foreign governments to implement its “anti-business” antitrust agenda, given that the administration is falling short on this count on the Hill and in the courts.
- Meanwhile, U.S. officials “applauded” a new biofuel policy by Japan, which expands U.S. biofuel producers’ access to the Japanese market. The U.S. and Japan also concluded a deal on critical minerals in the same week, which the U.S. Department of Treasury cited as an “example” of a “free trade” deal that would allow industries in a U.S. ally state to benefit from U.S. electric vehicle tax credits.
- Under the recently passed European Chips Act, the EU plans to mobilize more than 43 billion Euro of “policy-driven,” public and private investment until 2030 to strengthen Europe’s technological leadership and bolster competitiveness and resilience in the EU’s semiconductor industry.

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

- May 2023 promises to be a busy and critical month for U.S. Trade Representative Katherine Tai. She will host both the APEC and IPEF ministerial meetings in mid-May, followed by a trip to Sweden in late-May to engage her European Union counterparts within the Trade and Technology Council. To lay the groundwork for progress at these meetings, she has been racking up the air miles, visiting Japan and the Philippines this week. Three weeks earlier, she was in South Korea. Her most serious IPEF and TTC-related challenges might be closer to home, though. Within the past week, it has come to light that the Department of Justice (DOJ) and the Federal Trade Commission (FTC) have leant on the Office of the USTR and enjoined it to revise the digital economy and competition enforcement provisions in the United States’ IPEF texts. The specifics are not known. With prior digital economy chapters in trade agreements being a veritable *laissez-faire* giveaway to U.S. corporate interests, presumably the view of the Biden administration is that the time has now come to carve out wider policy space—in terms of worker-centric as well as consumer protections—to regulate dynamic and fast-paced digital markets. Presumably, the DOJ and FTC missive is also the reason why USTR has failed to release even a plain-vanilla summary of IPEF’s second negotiating round in Bali; a full month after its conclusion. Bali is, after all, where USTR had tabled the digital economy text. Critics have castigated the DOJ and FTC intervention as a backdoor attempt to foist the administration’s anti-trust agenda via international agreements, given the roadblocks on this front in the domestic court system and on Capitol Hill. Be that as it may, the DOJ and the FTC’s unseemly intervention has shone a spotlight on a cardinal truth: that

it is difficult to lock down international trade rules in fast-evolving policy areas where underlying domestic regulation is itself in flux. Without regulatory certainty at home, it is hard to negotiate purposefully abroad. That the U.S. is at the back of the queue among the major economic actors in terms of digital economy regulation—be in terms of anti-monopoly protections, privacy and data protections, fintech-related financial stability risk management, review of liability protection for intermediary service providers, development of rules for artificial intelligence (AI) applications or, for the matter, requiring the transparency of the structure, use, and impacts of algorithmic systems—is an added and untimely complication for the USTR. Stay prepared for further twists and turns in the digital economy and competition policy negotiations within IPEF’s trade pillar.

### [Expanded Reading]

- [The FTC Is Working With the EU to Hamstring U.S. Companies](#), *The Wall Street Journal*, April 19, 2023 [Paywall]
- [EU takes on United States, Asia with chip subsidy plan](#), *Reuters*, April 18, 2023 [Paywall]
- [European Chips Act](#), European Commission, April 18, 2023
- [Stalled Chinese investment deal set to return to EU agenda next month](#), *South China Morning Post*, April 18, 2023 [Paywall]
- [EU's Dombrovskis sees some progress on steel, battery minerals talks with U.S.](#), *Reuters*, April 14, 2023 [Paywall]
- [Highlights from the Semafor World Economy Summit](#), *Semafor*, April 14, 2023
- [Indonesia to propose limited free trade deal with US on critical minerals](#), *Reuters*, April 10, 2023 [Paywall]
- [Remarks by Ambassador Katherine Tai at American University Washington College of Law](#), Office of the U.S. Trade Representative, April 5, 2023
- [Making the Foreign Subsidies Regulation work](#), AmCham EU, April 4, 2023
- [Factbox: Economic reliance on China that EU wants to 'rebalance'](#), *Reuters*, April 4, 2023 [Paywall]
- [Sweden to host Transatlantic Ministerial Meeting in May](#), Government Offices of Sweden, April 4, 2023
- [United States to Participate in Third Indo-Pacific Economic Framework \(IPEF\) Negotiating Round in Singapore](#), Office of the U.S. Trade Representative, April 3, 2023
- [U.S. grants free trade status for Japan under new EV tax credit rules](#), *Kyodo News*, April 1, 2023 [Paywall]
- [Japan's New Biofuels Policy Allows for Increased Exports of U.S. Ethanol](#), Office of the U.S. Trade Representative, March 31, 2023

## On the Hill

### [Legislative Development]

- A bipartisan, bicameral group of lawmakers introduced a congressional resolution calling for U.S. leadership in the rulemaking of digital trade and the global digital economy.
- U.S. lawmakers introduced several bills to develop a “comprehensive sanctions strategy” “in response to any coercive action” by China against Taiwan.

- A number of bills were also introduced recently to address concerns on China's purchase of U.S. real estate as well as U.S. portfolio investment in China and in Chinese companies. Other proposed bills urge the Biden administration to incorporate national security concerns in its annual trade agenda, strip China of its PNTR (permanent normal trade relations) status, and develop a whole-of-government approach to counter China.

### [Hearings and Statements]

- At a House's Ways and Means Committee hearing, U.S. legislators discussed concerns over China's "aggressive trade and investment agenda," covering issues such as economic coercion and the need to reform the *de minimis* "loophole" in U.S. import rules.
- House Ways & Means Committee's trade subcommittee Chair Adrian Smith accused the Biden administration of "blatant executive overreach" in planning to treat Japan and the European Union as "free trade partners" for the purpose of implementing the electric vehicle tax credits of the Inflation Reduction Act. The view was shared by subcommittee ranking member Earl Blumenauer, who said that the administration's proposed rules on the tax credits "contradicts congressional intent."
- House Ways & Means Committee member Carol Miller urged the Biden administration to "start prioritizing robust and meaningful trade and investment actions" in Central Asia to counter the influence of Russia and China.

### [Expanded Reading]

- [Hearing on Countering China's Trade and Investment Agenda: Opportunities for American Leadership](#), hearing in front of the House Ways and Means Committee, April 18, 2023
- [How we can counter the influence of Russia and China in Central Asia](#), *The Hill*, by Rep. Carol D. Miller (R-West Virginia), April 5, 2023
- [Smith: This is Unacceptable & Unconstitutional](#), Office of Rep. Adrian Smith (R-Nebraska), March 31, 2023
- [LaHood, DelBene, Smith, Bera Introduce Resolution to Promote the U.S. Digital Economy and Digital Trade](#), Office of Rep. Darin LaHood (R-Illinois), March 31, 2023
- [H.Res.270](#), Congress.gov
- [Cotton: No Chinese Citizen, Company Should Own American Land](#), Office of Senator Tom Cotton (R-Arkansas), March 30, 2023
- [S.1136 - Not One More Inch or Acre Act](#), Congress.gov
- [Sen. Rick Scott Introduces Bill Package to Combat Communist Chinese Influence in Financial Sector](#), Office of Senator Rick Scott (R-Florida), March 16, 2023
- [S.855 - TICKER Act](#), Congress.gov
- [King, Cornyn, Kaine Will Introduce Legislation to Create a China Strategy Commission to Confront Growing Competition](#), Office of Senator Angus King (I-Maine), March 16, 2023