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What's Been Happening

1 — Hope for U.S.-China Trade Persists Amid Apprehension Over Vulnerabilities — 1

[In One Sentence]

- China issued a series of measures to stabilize trade volume, “optimize” foreign trade structures, and expand imports and exports of key products.
- A top Chinese trade official reiterated that China is willing and able to join the CPTPP.
- U.S. Treasury Secretary Janet Yellen said that the Biden administration “seek[s] a healthy economic relationship with China” but will not compromise on national security, human rights or China’s “unfair economic practices.”
- This national security focus was manifested recently with the announcement of a 90-day “sprint” review of Chinese influence in U.S. supply chains and firms by the Department of Homeland Security.
- Nine Republican Senators called on the Biden administration to pursue further measures against Chinese cloud-computing service providers such as sanctions, export restrictions and investment bans.
- National Security Advisor Jake Sullivan said the administration’s pursuit of “modern trade agreements” with “like-minded partners” is about “a different set of fundamental priorities” such as supply chain resilience and sustainability, rather than “simply bringing down tariffs.”

[Mark the Essentials]

- According to a recent survey conducted by the American Chamber of Commerce, companies have become more optimistic about the short-term and long-term prospects of China’s economy. Meanwhile, rising tensions between the U.S. and China remained the top challenge and concern for businesses, especially those in the services, research, and innovation sectors.
- In reviewing public comments to the USTR regarding the Section 301 tariffs on Chinese goods, researchers at the Council on Foreign Relations found that an “overwhelming majority” of comments seek an end to the tariffs. Businesses said that the tariffs drove up consumer costs, decreased wages and employment, and reduced investment in domestic research and development.

- At the same time, an analysis by the U.S.-China Economic and Security Review Commission argued that Chinese “fast fashion” platforms are “exploiting” loopholes in U.S. tariffs and customs procedures and “disproportionately” benefiting from U.S. de minimis import exemptions.
- At a hearing of the House Ways and Means Committee’s subcommittee on trade, former officials and lawmakers debated the possibility of revoking China’s permanent normal trade relations status, or subject the status to annual congressional review.

[Keeping an Eye On...]

- Two weeks ago, it was Treasury Secretary Janet Yellen’s turn to speak. At the School of Advanced International Studies (SAIS), host to one of the oldest and most extensive China studies programs in the country, Secretary Yellen laid out what was by most accounts one of the most constructive and conciliatory China speeches of the Biden administration so far. Last week, it was National Security Advisor Jake Sullivan’s turn at the Brookings Institution. He was far less charitable in his remarks. Beijing, he noted, had become neither “more responsible or cooperative, and ignoring economic dependencies that had built up over decades of liberalization had become really perilous.” NSA Sullivan’s prepared remarks were a notch down in intensity, though, compared to his September 2022 remarks where he had listed a “family of technologies” (computing-related technologies; biotechnologies and biomanufacturing; clean energy technologies) that were to be denied to Beijing. His remarks rather were a panoramic overview of the administration’s “foreign [and economic] policy for the middle class”—an eclectic mix of Donald Trump and Peter Navarro-style economic populism, Janet Yellen-popularized supply chain resilience-related “friendshoring”, and Katherine Tai-proposed worker-centered international economic partnerships (contrasted with traditional trade deals). The remarks were primarily directed at the U.S.’ favored set of ‘like-minded’ friendshoring partners in the developed and developing world; it was not meant so much as an outreach to China. While the remarks were unremarkable for the most part, they invite two larger questions. First, why did Mr. Sullivan and not Ms. Brainard deliver the remarks? She is, after all, the head of the Biden National Economic Council, has been a past undersecretary for international affairs at the Treasury Department, and this was a speech related to the administration’s international economic agenda; the topic was more ‘up her alley’ than his. Then second, and more importantly, what was NSA Sullivan trying to signal or accomplish? His remarks were less hawkish on China than previous ones but were clearly some distance removed in tone and approach from Secretary Yellen’s speech a week earlier. It is also known that in the time since his hawkish “family of technologies” speech of September 2022, he has been at the losing end of the internal White House debate on a China-related outbound investment screening mechanism. The Treasury Department’s view of a slimmed-down instrument appears to have carried the day, and an Executive Order is anticipated in terms of days, not weeks. Perhaps Mr. Sullivan wanted to dial down some of the pro-engagement optics of Secretary Yellen’s remarks? Or perhaps complement them by situating Secretary Yellen’s remarks on China within the administration’s larger economic policy approach—especially at a time when restrictive executive and legislative branch actions on outbound investment screening, social media applications (TikTok), and even perhaps trade policy are on the anvil? Time will tell, given that no new ground was broken as such in Sullivan’s remarks.

[Expanded Reading]

- [Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution](#), The White House, April 27, 2023
- [White House's Sullivan: US not looking to decouple from China economy](#), Reuters, April 27, 2023

- [US official says Chinese cloud companies like Huawei could pose threat](#), Reuters, April 26, 2023
- [Senate Republicans call on Biden administration to clamp down on cloud companies with ties to China](#), CNN Business, April 25, 2023
- [China's CPTPP trade aspirations still hinge on bloc's support as external pressures mount](#), South China Morning Post, April 24, 2023 [Paywall]
- [90-day People's Republic of China Threats Sprint](#), U.S. Department of Homeland Security, April 20, 2023
- [Remarks by Secretary of the Treasury Janet L. Yellen on the U.S. - China Economic Relationship at Johns Hopkins School of Advanced International Studies](#), U.S. Department of the Treasury, April 20, 2023
- [Yellen Calls for 'Constructive' China Relationship](#), The New York Times, April 20, 2023 [Paywall]
- [Katherine Tai, United States Trade Representative](#), The Foreign Correspondents' Club of Japan, April 20, 2023
- [The Cost of Trump's Trade War with China Is Still Adding Up](#), Council on Foreign Relations, April 18, 2023

2 — U.S. Trade Partners Frustrated by Differential Treatment on Subsidies — 2

[In One Sentence]

- A new negotiating round for the Indo-Pacific Economic Framework (IPEF) will be held in Singapore from May 8-15.
- The U.S.-EU Trade and Technology Council is also scheduled to meet in Sweden from May 30-31.
- A preliminary stakeholder meeting was held on May 4 to gather inputs on potential TTC digital trade initiatives (e.g., the use of digital technologies for Transatlantic trade facilitation).
- Viewing the U.S.-Japan critical mineral deal as “a good basis,” the EU expects to be treated no worse than Japan in pursuing a similar deal to gain access to U.S. electric vehicle tax credits.
- South Korean President Yoon Suk-yeol's admiration for the U.S. was fully on display during his state visit to Washington on April 26, but he left with a soft commitment from the White House to provide “special support and considerations” to Korean firms seeking to benefit from Inflation Reduction Act and CHIPS Act tax incentives.
- Some commentators, however, have decried the lack of detail and timeframe surrounding this supposed U.S. support for Korean manufacturers.

[Mark the Essentials]

- After the U.S. Department of Justice and the Federal Trade Commission announced plans to “assist with” the implementation of the European Union's Digital Markets Act, the U.S. Chamber of Commerce expressed “profound concerns” that U.S. agencies might help with what the Chamber called a “protectionist” policy to target select U.S. firms. Instead, the Chamber emphasized that the Biden administration is supporting efforts to “promote the EU's ‘tech sovereignty’ agenda.”
- A group of major U.S. trade associations are calling on the Group of 7 (G7) to take actions and strengthen “the ability to transfer data across transnational digital networks,” noting “unsustainable” increase in cross-border data restrictions. The G7 trade ministers have previously expressed “united” opposition to “digital protectionism and digital authoritarianism.”
- As the U.S. and EU continue their talks on transatlantic steel and aluminum trade, the EU is reportedly asking for a U.S. commitment to “permanently” remove all Section 232 tariffs and “any additional duties beyond MFN/BOUND tariffs” on EU steel and aluminum.

[Keeping an Eye On...]

- The vast amount of subsidy money available via the CHIPS Act and the Inflation Reduction Act (IRA) has divided beneficiary countries into two groups. There are those that are more or less comfortable or have made peace with the legislation and are ready to take advantage of the sums on offer even if it is to the relative discomfort of their China operations. Japan and Taiwan fall in this category. And then there are those that are uncomfortable with the legislation—they are not consistent with WTO rules and have touched off a subsidy race, uncomfortable with its implications related to their companies' exposure to the China market, but are unable to look away given the vast sums on the table. The European Union countries and South Korea fall into this category. The EU is unhappy that it isn't being offered the same critical minerals 'free trade partner' deal as offered to the Japanese. Lack of this critical minerals-linked battery sourcing requirement could make EU cars unable to cash in on US\$3,750 worth of tax credits. The EU did win a reprieve last December though when the Biden administration ensured that EU-assembled electric vehicles leased to private customers could be considered as commercial vehicles under the IRA's EV subsidy purview. South Korea is unhappy that the CHIPS Act contains intrusive profit and loss information sharing requests and large upside gains to be surrendered back to the government. The tall guardrails that prevent CHIPS subsidy beneficiaries from materially expanding their footprint in the China market is a source of concern too, given that huge revenues earned in that market are plowed back into R&D chip-development at home. That no existing South Korean EV model qualifies for IRA money in 2023 (plenty of American brands do) despite the windfall investment in new auto-factory and battery capacity in the U.S. by South Korean players, is a source of gripe too. That said, Seoul won a reprieve in late March when the Treasury Department interpreted certain battery components (cathode active materials) as a critical mineral, and not as a battery component. Had it been considered a battery component, it would have had to be sourced from North America, and not locally in Korea; as a critical material, now, and with Korea enjoying a real free trade agreement with the U.S., it can be incorporated into a battery locally and yet be eligible for US\$3,750 of the IRA's EV tax credit. Besides, Seoul has also been able to grandfather its semiconductor foundries in China within the CHIPS Acts' guardrails, but a certification dance on an annual basis looms. Besides, the expansion capacity of these foundries is severely constrained. Two implications flow from this fiendishly complicated state of play on the various industrial subsidies programs. First, tracking the flow of money based on the various mandates is an auditor's dream (or maybe nightmare). And second, however unhappy foreign parties may be with the broad contours of the CHIPS Act and the IRA for a variety of reasons, there is enough money on the table for them to keep their attention firmly glued to that table. NSA Sullivan was not wrong in noting in his Brookings address last week that, at the end of the day, the vast industrial subsidies will help, not hurt, the U.S. relationships with allies and partners. Call it a more-or-less happy enough camp of the 'like minded.'

[Expanded Reading]

- [Joint EU-U.S. Stakeholder Event - Transatlantic Cooperation on Digital Initiatives to Enhance Trade](#), European Commission, May 4, 2023
- [Top Biden Aide Says U.S. Subsidies Will Help, Not Hurt, Relationships With Allies](#), *The Wall Street Journal*, April 27, 2023 [Paywall]
- [Summit fails to bear fruitful results for Korean chipmakers: experts](#), *The Korea Times*, April 27, 2023 [Paywall]
- [South Korea ponders the high cost of being America's friend](#), *The Financial Times*, April 27, 2023 [Paywall]

- [Biden Sparks a \\$2 Trillion Arms Race Over Chips, Green Subsidies](#), *Bloomberg*, April 27, 2023 [Paywall]
- [Remarks by President Biden and President Yoon Suk Yeol of the Republic of Korea in Joint Press Conference](#), The White House, April 26, 2023
- [Europe approves its \\$47 billion answer to Biden's CHIPS Act — here's everything that's in it](#), *CNBC*, April 19, 2023
- [No deal yet on EU critical minerals](#), *Politico*, April 17, 2023
- [EU's Dombrovskis sees some progress on steel, battery minerals talks with U.S.](#), *Reuters*, April 14, 2023
- [Trump's tariff time bomb threatens to blow up transatlantic trade](#), *Politico*, April 5, 2023
- [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
- [Yoon asks U.S. Trade Representative to address S. Korean firms' concerns over IRA, Chips Act](#), *Yonhap News Agency*, March 30, 2023
- [G7 Trade Ministers' Digital Trade Principles](#), Government of the United Kingdom, October 22, 2021

On the Hill



[Legislative Development]

- The House Ways and Means Committee voted to approve a resolution that would revoke the Biden administration's decision to suspend solar tariffs from Southeast Asian manufacturers that some argue are helping Chinese companies circumvent U.S. trade tariffs.
- Only one Democratic lawmaker on the Committee voted to support the solar resolution. Rep. Bill Pascrell, a sponsor of the bill who missed the voting, said he would have voted for the bill if he had been present.
- A bipartisan group of Senators proposed a bill to “promote diplomacy and combat Communist China's increased aggression in the Pacific” by sending a special U.S. envoy to the Pacific Island Forum.

[Hearings and Statements]

- Arguing for a “constructive rebalancing” of the U.S.-China economic relationship, Rep. Ro Khanna emphasized the need for “economic patriotism” and investment to increase U.S. manufacturing capability in aluminum, steel, microelectronics, automobile and green technology, among others.
- The White House said it “strongly opposes” the solar resolution and will veto the bill if it passes both chambers of Congress.
- In a letter to USTR Tai and Secretary of Commerce Raimondo, seven progressive Democratic lawmakers expressed “concerns” with digital trade negotiations at IPEF, calling on Biden to ensure that the digital trade rules complement efforts to promote competition, especially when it comes to regulation of Big Tech platforms.
- All first-term Democratic House lawmakers called on the Biden administration to ensure that U.S. Trade policy, including IPEF and its digital trade provisions, are worker-centered. The lawmakers also urged the administration to “work with us and our constituents in a transparent and inclusive manner” on trade policy and trade deal negotiations.

- House Ways & Means Committee Chair Jason Smith questioned Ford whether “taxpayer dollars,” especially electric vehicle tax credits under the Inflation Reduction Act, may be directed to a Chinese company through a partnership with Ford.

[Expanded Reading]

- [Khanna Delivers Remarks on Rebalancing China with a New Economic Patriotism](#), Office of Rep. Ro Khanna (D-California), April 24, 2023
- [Exclusive: Biden would veto legislation to block solar tariff waivers](#), *Reuters*, April 24, 2023
- [Schakowsky, Lawmakers Reiterate Concern over Big Tech Pushing Digital Trade Rules That Conflict with Biden Competition Agenda and Pending Legislation](#), Office of Rep. Jan Schakowsky (D-Illinois), April 24, 2023
- [H. J. Res 39, Disapproving the rule submitted by the Department of Commerce relating to "Procedures Covering Suspension of Liquidation, Duties and Estimated Duties in Accord With Presidential Proclamation 10414"](#), Congress.gov
- [Kennedy introduces bipartisan U.S. and Pacific Islands Forum Partnership Act to counter communist aggression, strengthen diplomatic ties in Pacific](#), Office of Senator John Kennedy (R-Louisiana), April 19, 2023
- [S.1220 - U.S. and Pacific Islands Forum Partnership Act](#), Congress.gov
- [Automaker's Troubling Deal with Chinese Company Raises Questions About Democrats' Electric Vehicle Tax Credits](#), House Ways and Means Committee, April 17, 2023