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What's Been Happening

1 — Is Huawei's New Phone Bringing Back Old Competition? — 1

[In One Sentence]

- The Chinese embassy in the U.S. said that China opposes using “competition” to define the China-U.S. relationship, arguing that “going all-out to ‘compete and win’” is “detrimental on both sides.”
- Members of the U.S. House Select Committee on China have called for a number of measures to further tighten restrictions on U.S. outbound investment in China.
- The U.S. Trade Representative has extended two exclusion processes related to Section 301 tariffs on Chinese goods to allow for “further consideration” on whether to extend the Section 301 tariffs in general.
- Responding to Huawei's release of a new smartphone model, a number of Republican lawmakers have questioned the effectiveness of the Biden administration's technology restrictions and called for tighter implementation of sanctions.

[Mark the Essentials]

- Noting the “transformative impact” of generative artificial intelligence (AI) on “free expression and economic opportunities,” a coalition of global think tanks are calling on “democratic countries” to commit to “free and open” AI and to avoid restrictions on the export of AI models and training data “beyond those necessary for legitimate security concerns.” At the same time, senior U.S. and EU officials have also highlighted the need to address the risks and benefits of AI and to “join forces” with allies and partners to coordinate AI policy through transatlantic partnerships or at the G7.
- In a report released on September 11, the U.S.-based Information Technology and Innovation Foundation (ITIF) argued for an expansion of the Information Technology Agreement (ITA) under the World Trade Organization framework. According to ITIF, if ITA-III further liberalizes global trade in leading and emerging technologies such as 3D printers, industrial robots, commercial-use drones, lithium-ion batteries and solar cells, the change could boost the global economy by \$766 billion and grow U.S. GDP by \$208 billion over the next decade.
- The latest model of Huawei's smartphone, Mate 60 Pro, is believed to contain a chip that supports 5G functions and is manufactured by China's Semiconductor Manufacturing International Corporation (SMIC) under a 7 nanometer process. The breakthrough has sparked calls for even tighter export controls on China so

as to prevent SMIC and Huawei from being able to design, manufacture and utilize advanced chips. Huawei is reportedly planning to launch a 5G version of its mid-ranged model Nova in October or November.

- The Office of the U.S. Trade Representative has also extended the deadline for public comments to help inform the administration's development of an "inclusive" "trade and investment policy" that would "expand the benefits of trade to underserved and marginalized communities in the United States and trading partners that share concerns about rising inequality."

[Keeping an Eye On...]

- On August 17, 2020, the Commerce Department's Bureau of Industry and Security (BIS) kneecapped Huawei—or so it thought—by extending its draconian foreign direct product (FDP) rule to the firm. Any 'essential' U.S. technology embodied in equipment related to any production stage of a Huawei product—even if that equipment was sold to Huawei by a foreign manufacturer—was to be denied to the firm. At that time, Huawei's CFO Wanzhou Meng was also facing U.S. Justice Department-initiated bank fraud charges and detained in Canadian custody. Fast forward three years later and HiSilicon, Huawei's in-house chip design unit, has designed an advanced chip for one of Huawei's topline smartphones that features central processing units and graphics processing units that are indigenously designed or adapted from Arm's chip architecture. Apple, too, had polished its edge by building on Arm's architecture for its iPhone and Macs. China's Semiconductor Manufacturing International Corporation (SMIC), the chip's fabricator and Huawei's compatriot in BIS' Entity List, has meanwhile replicated the chip's miniaturization at the 7-nanometer node, which effectively is also Intel's best process technology in the marketplace today (Intel is due to release a 4nm chip later this year). And as for Wanzhou Meng, her indictment was dismissed with prejudice in December 2022, meaning it cannot be brought again by the Justice Department (she admitted to making false statements only). Clearly, matters have transpired in ways not entirely foreseen, much less desired, by the United States. Washington was forewarned that choking China's access to advanced chip technology would force China to get off the lazy path of purchasing these technologies off-the-top-shelf at a premium and incentivize it to recreate them in-house; even if they were recreated a technological generation or two behind. This is, in fact, what has come to pass. Huawei has essentially leapfrogged the export controls by replicating and replacing in-house or in-country the most vulnerable aspects that were the subject of the controls. And in the process, it has 'designed out' multi-billion dollars' worth of U.S. inputs as well as future license payments. The United States and other select countries continue to remain major players for China's semiconductor ecosystem, be it in terms of key gasses, chemicals, or chip producing tools which are sold as licensed exceptions to Chinese end-users. Going forward, the dilemma for policymakers in the United States and select Western countries is therefore this: do they wish to enable their manufacturers to hold on to the handsome profits that they earn in the Chinese market for a few more years before their Chinese counterparts reinvent these inputs and tools in-country (which they will over time, except at the leading edge of chipmaking technology, with unremitting government backing)? Or do they wish to kiss goodbye to the fat bottom lines enjoyed by these manufacturers tomorrow by denying their license applications to sell into the Chinese market—in a bid to temporarily steepen the learning curve for the Chinese. In retrospect, keeping China's technology incubation ecosystem lazy by providing top-shelf technologies at a premium (except those clearly intended for military end uses), might have been the smarter way forward. When Huawei builds the computing backbone for China's AI companies during this "decisive decade," as described by National Security Advisor Jake Sullivan, ahead, future administrations will come to rue the Trump and Biden administrations' punitive technology denial actions against the company and the incarceration of its top executive under flimsy pretexts.

[Expanded Reading]

- [China's Huawei set to re-enter mid-range 5G phone market -report](#), Reuters, September 19, 2023
- [Huawei's chip breakthrough poses new threat to Apple in China — and questions for Washington](#), CNBC, September 19, 2023
- [Rubio Calls for Tougher Sanctions on Huawei](#), Office of U.S. Senator for Florida Marco Rubio, September 14, 2023
- [A Global Declaration on Free and Open AI](#), Information Technology & Innovation Foundation, September 13, 2023
- [NYC FIELD HEARING: Systemic Risk: The Chinese Communist Party's Threat to U.S. Financial Stability](#), The Select Committee on the CCP, September 12, 2023 [Video]
- [How Expanding the Information Technology Agreement to an “ITA-3” Would Bolster Nations’ Economic Growth](#), Information Technology & Innovation Foundation, September 11, 2023
- [China: Competition should not define relationship with the U.S.](#), *Inside U.S. Trade*, September 6, 2023 [Paywall]

2 — Balancing Security with Openness— 2

[In One Sentence]

- The European Union launched an anti-subsidy investigation into electric vehicle imports from China as a prelude to deciding whether punitive tariffs should be imposed.
- U.S. House Foreign Affairs Committee ranking member Gregory Meeks introduced a bill to upgrade the Quadrilateral Dialogue with a Quad Inter-parliamentary Working Group with Japan, Australia, and India.
- During a visit to Indonesia, U.S. Vice President Kamala Harris said that the U.S. looks forward to working with Indonesia to increase trade and build resilient supply chains, including for critical minerals.
- Noting issues such as climate change, pandemics, global tech race, supply chain resilience and Ukraine, European Internal Market Commissioner Thierry Breton said that Europe needs a “more sophisticated answer” than simply opposing “so-called protectionist” industrial policy and trade.

[Mark the Essentials]

- European Commission Executive Vice-President Maroš Šefčovič noted, however, that the European Union is “very far from imposing duties for Chinese vehicles,” adding that “fair” investigations “must be conducted properly,” but said that the European Union is committed to support its car industry including by working with the battery sector alongside car manufacturers.
- After the European Commission designated Alphabet, Amazon, Apple, ByteDance, Meta, Microsoft as digital platform “gatekeepers” under the Digital Markets Act to face specific obligations and requirements, U.S. Chamber of Commerce Vice President of International Digital Economy Policy Jordan Heiber argued that the decision to include five American companies “shows the intent behind the bill” as “targeting” U.S. businesses to benefit “their European competitors.” Heiber added that the designation should be “a wakeup call for the U.S. government about Europe's broader digital sovereignty agenda and the need for the U.S. government to push back.”
- In a letter to President Biden, activists argued that source code rules currently negotiated under the Indo-Pacific Economic Framework could grant tech corporations “broad new secrecy rights” to prohibit consumers, farmers and small businesses from accessing necessary tools and information to repair their electronics-based equipment.

- Ex-USTR senior trade negotiator Wendy Cutler and Akin Gump partner Clete Willems argued in a recent report that the United States must “intensify its economic and trade engagement” in the Indo-Pacific region “well beyond” the current IPEF negotiations to avoid “becoming spectators” as “partners work among themselves and with China to strengthen supply chain connectivity and regional economic integration.”
- Accepting both the “urgency” to use industrial policies to address “global challenges” and concerns related to the breaking of WTO rules and fostering unfair competition, two researchers at the Council on Foreign Relations argued that the United States should push for a “paradigm shift” towards more transparency, accountability and “guardrails” in industrial subsidies.

[Keeping an Eye On...]

- On September 13, on the back of a surge of Chinese electric vehicle (EV) imports into the bloc, European Commission President Ursula von der Leyen launched an anti-subsidy investigation into China’s electric vehicle sector. The probe is reminiscent of the surge in Chinese solar panel imports in the early-2010s that touched off a Commission probe in September 2012 and led to the imposition of definitive anti-dumping duties of 47% in December 2013. The measure expired in September 2018. President von der Layen’s investigation into China’s EV imports is to be welcomed. An anti-subsidy investigation is a rules-bound means to protect domestic producers from material injury arising from a surge in imports. Should China wish to challenge the EU’s (likely) countervailing duty measure, it could haul the latter to the Multi-Party Interim Appeal (MPIA) arbitration arrangement that a subset of WTO members, including the EU and China, have signed on to as a workaround to supersede the stalled WTO Appellate Body process. The act of investigating China’s alleged EV subsidies is not the important part. It is the rules-bound means being triggered by the EU that is far more important. So long as both the EU and China manage their dispute within the four corners of international trade law—in this case, countervailing duty law, the EV industries in both countries will both be better off. The pace of Chinese EV imports into the bloc will slow but overall sales will gradually increase as Chinese EV manufacturers relocate production to the EU, much like Japanese manufacturers had done forty years ago (the EU’s fundamental malaise is not Chinese EV imports; it is the foot-dragging by trade unions in key bloc countries with regard to the shift away from more labor-intensive internal combustion engine cars, as Detroit too is discovering). And European (German) EV producers will reciprocally be integrated into Chinese-led battery supply chains insofar as catering to final demand in these two large global markets: the EU market and the Chinese market. This is a far cry from the United States’ approach, which has been to write a WTO non-compliant law (the Inflation Reduction Act’s EV provisions) and thereafter compound this unlawfulness by blocking Chinese cars and content as being products of a “foreign entity of concern” under the guise of supply chain resilience. Even licensing Chinese EV-linked IP is sought to be barred. President von der Layen’s probe is to be welcomed, not feared. The road to ‘win-win’ on reciprocal China-EU electric vehicle production and trade exchanges runs through the commission’s anti-subsidy probe.

[Expanded Reading]

- [Europe is ‘very far’ from imposing new duties on Chinese EVs despite ongoing probe, top official says](#), CNBC, September 20, 2023
- [EU to investigate ‘flood’ of Chinese electric cars, weigh tariffs](#), Reuters, September 13, 2023
- [EU announces an investigation into Chinese subsidies for electric vehicles](#), Associated Press, September 13, 2023

- [Groups Leading “Right to Repair” Movement Urge Biden Administration to Reject Any Attempts to Derail their Gains Via “Trade” Agreement as Latest Round of Indo-Pacific Trade Negotiations Start](#), repair.org, September 12, 2023
- [Meeks Introduces Strengthening the Quad Act to Boost Indo-Pacific Cooperation](#), House Foreign Affairs Committee, September 11, 2023
- [Jump-starting U.S. Trade and Economic Engagement in the Indo-Pacific](#), Asia Society, September 11, 2023
- [Rethinking International Rules on Subsidies](#), Council on Foreign Relations, September, 2023
- [Digital Markets Act: Commission designates six gatekeepers](#), European Commission, September 6, 2023

On the Hill

[Legislative Development]

- U.S. Senator James Lankford introduced a bill to suspend permanent normal trade relations with China “if Beijing invades Taiwan.”
- To foster closer cooperation and dialogue with Japan, Australia, and India, House Foreign Affairs Committee ranking member Gregory Meeks has proposed a bill to upgrade the Quadrilateral Dialogue and establish a Quad Inter Parliamentary Working Group.

[Hearings and Statements]

- In a field committee hearing in New York, members of the House China Committee called for congressional efforts to “ensure American money isn’t financing the CCP’s top tech ambitions” including AI, quantum computing, semiconductors, biotechnology, directed energy and advanced manufacturing.
- House Ways & Means Committee Chair Jason Smith led a delegation of Republican lawmakers to Europe to denounce the global tax agreement that the Biden administration negotiated under the auspices of the Organization for Economic Co-operation and Development (OECD).
- The United Steelworkers is urging lawmakers to improve the Generalized System of Preferences program to better defend the interests of American workers and reduce international labor and environmental abuses before renewing the program.
- Several Democratic lawmakers, including House Democratic Leader Hakeem Jefferies and Senator John Fetterman (D-PA) traveled to Michigan to join UAW auto workers at the picket lines in support of their strike action against Detroit’s Big Three automakers.

[Expanded Reading]

- [Lankford Looks to Deter Communist China Aggression Against Taiwan](#), Office of U.S. Senator James Lankford, September 13, 2023
- [House committee targets crackdown on U.S. investment in Chinese tech, military development](#), CNBC, September 12, 2023
- [Strategic Importance of Digital Economic Engagement in the Indo-Pacific](#), Hearing in the House Foreign Affairs Committee, January 19, 2022