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What's Been Happening

1 — Tough Talk Ahead of Yellen's Trip to Beijing — 1

[**In One Sentence**]

- U.S. Secretary of the Treasury Janet Yellen is traveling to China from April 5-9 to visit the commercial and manufacturing hub of Guangzhou and then continue discussions with officials in Beijing.
- In the run-up to Yellen's visit, Chinese officials emphasized that the U.S. needs to cooperate with China to create mutually beneficial economic and trade ties and provide "fair, transparent, and non-discriminatory" circumstances for Chinese firms.
- During public remarks made on March 27, Secretary Yellen said that she plans to make China's overcapacity in solar, electric vehicle (EV) and lithium-ion batteries sectors "a key issue" in her discussions.
- Secretary Yellen previously assured U.S. lawmakers that U.S. tax credits and subsidies for the solar, EV and battery industries will only support manufacturing in the U.S. and "accomplish" supply chain onshoring.

[**Mark the Essentials**]

- Secretary Yellen's planned visit to China follows several high-level visits by U.S. officials as well as a phone call between U.S. President Joe Biden and Chinese President Xi Jinping, as the Biden administration seeks to stabilize the bilateral relationship. Secretary Yellen's previous visit to Beijing in July 2023 led to the launch of the Economic and Financial Working Groups, which aims to facilitate "exchange of information on macroeconomic and financial developments."
- Secretary Yellen said she plans to "press" China on "unfair trade practices" and China's "industrial overcapacity," engage in works to "bolster financial stability," address transparency concerns in Beijing's "foreign exchange practices," expand cooperation on countering illicit finance, and address climate change and debt distress issues.
- Before her visit to Beijing, Secretary Yellen will first visit Guangzhou for two days and meet with representatives of the American business community in China.
- Meanwhile, Chinese senior officials have hosted several meetings with CEOs and heads of American companies to discuss the state of the business sector's confidence in China's economy. Specifically, Chinese Premier Li Qiang suggested that some stakeholders and commentators might have placed excessive emphasis

on China's difficulties and challenges. Premier Li highlighted the various structural advantages of China's economy and expressed "full confidence" that China will resolve the difficulties and achieve new progress.

- Secretary Yellen said she is "concerned" about "global spillovers" from China's overcapacity and that China's overcapacity "distorts global prices and production patterns, hurts American firms and workers," and leads to "concentrated supply chains." Secretary Yellen specifically highlighted the solar, EV and lithium-ion battery industries and said that she will "press [her] Chinese counterparts to take necessary steps to address this issue."
- Secretary Yellen also argued that tax credits and subsidies under the U.S. Inflation Reduction Act (IRA) helps provide resources for "producing and investing in clean energy" and helps ensure that the transition to clean energy in the United States makes sense economically. According to Secretary Yellen, IRA-related investments will provide the U.S. clean energy industry time and space to "reach their full potential" which is why the Biden administration is keeping a close eye on "pressures abroad."

[**Keeping an Eye On…**]

- China's industrial subsidies are back in the news yet again—this time in the context of accusations of overproduction of green goods (solar, EVs, lithium-ion batteries) and their potential dumping subsequently in international markets. This was essentially the gist of Treasury Secretary Janet Yellen's charge during her speech at an American solar cell manufacturing plant in Norcross, Georgia on March 27. Across the Atlantic, on April 3, the European Commission launched two investigations into Chinese manufacturers of solar panels suspected of benefiting from state subsidies to obtain an unfair advantage while bidding for a solar park procurement tender in Romania. These accusations are not unfounded. China's excess investment-led growth model was the product of high domestic savings. China is moving away from that overinvestment model but the level of domestic savings remains excessively and uncomfortably high. As such, the fear that these savings (and domestic under-consumption) will macroeconomically manifest itself in the form of domestic overproduction that is dumped overseas in export markets is understandable. And because a component of this overproduction is the product of industrial subsidies, this would amount to unfair trade-distorting competition in international markets. Balanced against this argument, of course, is the fact that China enjoys real comparative as well as competitive advantages in many of the product groups which it is now being accused of dumping. EVs and batteries are not primary sector goods like steel and aluminum, which China was accused of dumping on global markets in the 2010s. China's lead in EVs and in the battery sector is due to genuine product and process innovation and red-hot competitive capabilities. Besides, if the Biden administration feels so strongly about China's trade distorting subsidies, it is welcome to bring a case against these subsidies at the WTO. Which is exactly, in fact, what China did on March 28 when it initiated pre-case consultations with the U.S. at the WTO regarding the latter's non-compliant clean vehicle credit contained in the Inflation Reduction Act (IRA). Three years down the line, it will be China and not the U.S. that can point to a third-party legal finding of impeccable authority—that being a WTO panel report—to back its case. Setting aside the legalities, the more important discussion point here pertains to the design of industrial policy. China's industrial policy succeeds (on occasion) spectacularly because it is premised on the production of sophisticated tradable goods by innovative domestic firms backed by an entrepreneurial state that possesses the resolve to stand behind and support the creation of such markets at scale. After larding subsidies on market participants initially, it ruthlessly winnows down the list of players using the disciplining function of the market such that the final survivors are primed for success in global markets. Importantly, the government does not pick winners or protect incumbents. To the contrary, it is only too willing to cut loose

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the weaker players by shutting off their subsidy tap. Can the same be said of the emerging outlines of the United States' industrial policy, especially in the EV and batteries sectors? Is the cultivation of globally competitive industry players the purpose of the IRA's clean vehicle credit? Or is it to protect incumbents, the Big Three auto companies in particular backed by their multi-million dollar lobbying operations, during the transition from internal combustion engine vehicles to battery-run ones? Can barriers to market entry be lowered to facilitate ferocious competition in the marketplace? Or is Chinese oversupply being used as an excuse for protectionist policies aimed at advancing decoupling between the two economies? Is U.S. industrial policy aimed at sharpening U.S. manufacturing competitiveness to break into global markets or is its purpose to manufacture employment in electorally salient swing states? At the end of the day, the longer-term success or failure of U.S. industrial policy will hinge on the answers to these questions.

[**Expanded Reading**]

- Yellen Heads to China This Week to Press Beijing on Overcapacity, *Bloomberg*, April 2, 2024
- Secretary of the Treasury Janet L. Yellen to Travel to the People's Republic of China, U.S. Department of the Treasury, April 2, 2024
- Biden and Xi Jinping hold phone call ahead of Yellen's trip to China, *CNBC*, April 2, 2024
- China's EV sector a live wire for US, with war of words over excess capacity casting shadow over Janet Yellen visit, *South China Morning Post*, March 28, 2024
- China's Xi meets American CEOs to boost confidence in world's second largest economy, *CNN*, March 27, 2024
- Foreign Ministry Spokesperson Lin Jian's Regular Press Conference on March 25, 2024, Ministry of Foreign Affairs of the People's Republic of China, March 25, 2024

2 — Battle for Electric Vehicle Supply Chain Localization Heats Up — 2

[**In One Sentence**]

- China is challenging five U.S. tax credits made available by the Inflation Reduction Act (IRA) at the World Trade Organization (WTO), including ones on renewable energy and electric vehicles.
- In response, U.S. Trade Representative Katherine Tai noted that the United States is "carefully reviewing" the challenge but defended the IRA as a "groundbreaking tool" to address global climate crisis and bolster the competency of the U.S. economy.
- Separately, Rep. Jim Banks, a member of the House China Committee, has called on the Department of Commerce to initiate procedures and consider imposing Section 232 tariffs on Chinese electric vehicle (EV) imports, citing national security concerns.

[**Mark the Essentials**]

- According to China, the U.S. tax credits on electric vehicles violate WTO rules because they provide preferential treatment to domestic products over imports and because they unreasonably discriminate against goods of Chinese origin.
- The legal basis of the Chinese complaint cites Article I:1 and Article III:4 of the GATT, Article 2.1 and Article 2.2 of the TRIMs (Trade-Related Investment Measures) Agreement, and Articles 3.1(b) and 3.2 of the SCM (Subsidies and Countervailing Measures) Agreement.
- USTR officials have argued that the inflow of Chinese electric vehicles into the North American market is especially concerning during an election year, given the "political environment." Furthermore, there are concerns that existing U.S. tax credits are not sufficient to ensure the U.S. EV industry can "evolve and remain competitive."

- Rep. Banks' request joins a significant and rising number of concerns in Washington regarding electric vehicle imports from China. Lawmakers, policymakers and stakeholders have long expressed concerns about the impact of Chinese electric vehicle imports on the U.S. market and on domestic U.S. industries, especially given ongoing efforts in the U.S. to transition to a more sustainable and cleaner economic model. U.S. Trade Representative (USTR) Katherine Tai has previously called for "additional responses" to address China's "state-directed" practices in the EV industry.

[**Expanded Reading**]

- China initiates dispute regarding US tax credits for electric vehicles, renewable energy, World Trade Organization, March 28, 2024
- China wins WTO dispute with Australia over steel products, *AP News*, March 27, 2024
- China opens WTO dispute against US subsidies to protect its EV industry, *Reuters*, March 26, 2024
- Statement from Ambassador Katherine Tai on the People's Republic of China's Request for WTO Consultations Regarding the Inflation Reduction Act, Office of the United States Trade Representative, March 26, 2024
- Rep. Banks calls on White House to impose section 232 tariffs on Chinese EVs, Office of the Rep. Jim Banks (R-IN), March 18, 2024

3 — U.S. and the EU Aiming for Progress at TTC6 — 3

[**In One Sentence**]

- The Sixth Trade and Technology Council's ministerial meeting (TTC6) is being held from April 4-6 in Leuven, Belgium.
- The European Union (EU) and U.S. are expected to reach several lesser-order agreements at TTC6, including on a common framework for evaluating generative AI models, extension of two administrative arrangements on semiconductor supply chains, and principles for clean energy incentives transparency.
- The two sides are not expected to reach a final agreement or even an 'agreement in principle' on a Critical Minerals Agreement (CMA) despite a push to conclude one in the months leading into the ministerial.

[**Mark the Essentials**]

- Following the U.S. Trade Representative's decision to name the European Union's Digital Markets Act as an issue of concern with regard to barriers to foreign trade, European Commission Executive Vice President Margrethe Vestager assured reporters that the "working relationship" between U.S. and EU officials is "as good as it has been for a very long time." Some stakeholders and commentators have expressed concerns for the future of transatlantic trade and technology policy engagement given the upcoming U.S. elections.
- European Commission officials have expressed "conviction" that the U.S. and EU can "advance" "joint cooperation" on a number of issues, including on critical minerals so that EU EVs could benefit from U.S. tax credits under the Inflation Reduction Act.
- EU officials also reiterated that the Carbon Border Adjustment Mechanism (CBAM)—which aims to charge carbon tariffs on certain imports from high-carbon emission producers—complies with World Trade Organization rules and argued that the EU will continue to work with other countries on CBAM measures. The United States has sought to negotiate a bilateral agreement on steel and aluminum to potentially obtain certain exemptions from the CBAM but the proposal was eventually rejected by the EU, and negotiations on a steel and aluminum arrangement have now been suspended until Spring 2025.
- Additionally, a group of German machinery and equipment manufacturers have called on the U.S. and the EU to reduce the regulatory burden on the trade of capital goods including machinery and industrial equipment.

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Stakeholders argue that a reduction of technical and conformity assessment barriers can reduce wait times for exporters and help decrease manufacturing costs for clean technologies.

[Keeping an Eye On...]

- Later this week and weekend, the U.S. and the EU will host their sixth and final Trade and Technology Council (TTC) meeting in Leuven, Belgium, before breaking off for election season on both sides of the Atlantic. TTC6 was advertised as a 'capstone' ministerial that would tie together the many working groups and discussion threads under the aegis of the TTC format as well as provide a final action-forcing opportunity to hammer out a bilateral agreement on something tangible. The most likely candidate in this regard being a Critical Minerals Agreement (CMA) that would enable European companies to benefit from the sourcing requirements in the United States' Inflation Reduction Act-linked electric vehicle tax credits. In the event, TTC6 appears to be headed towards a familiar denouement—lots of talk but little by way of materially important outcomes. At TTC5 in October 2023, the two sides had failed to wrap up two years of negotiations and deliver an arrangement on sustainable steel and aluminum. The failure was compounded by the lack of even a joint statement; the two sides put out separate press releases. Similarly, at TTC6, the two sides are not expected to wrap up their negotiations on the CMA. At TTC5, the two sides declared that they had "made progress" towards a targeted CMA. From making progress, the two sides are expected to declare at TTC6 that they have "advanced negotiations" towards a CMA. An "agreement in principle," let alone an actual final agreement, still seems quite some distance away, however. To be fair, the difficulty in arriving at a final CMA has been compounded by the fact that certain sticking points in the negotiation are either not within the scope of EU law (that parties notify each other of specific investments in the context of their respective investment screening mechanisms) or EU competencies (working with the U.S. to address specific worker concerns affected by labor law violations; promotion of employer neutrality regarding labor unions). And furthermore, that important progress has indeed been made in bridging the gap between the two sides on the forced labor issue. In March, the EU Council and the EU Parliament reached a provisional agreement that would allow member states to investigate instances of forced labor in supply chains and ban the relevant good/s from the EU market. In the case of forced labor claims in third countries, the European Commission is tasked to take the investigatory lead. This having been said, it has been two-and-a-half years since the Uyghur Forced Labor Prevention Act came into being and almost two years since the passage of the Inflation Reduction Act. Thus, the two sides have had ample time to exchange notes and get on the same page as far as some of the CMA's labor rights-related provisions are concerned. This clearly has not been the case. Instead, the "capstone" TT6 will end with a mishmash of progress on conformity assessments, AI and 6G principles, e-invoicing, and suchlike. A bilateral framework that started with a bang in September 2021 is ending with a whimper. And if Donald Trump is elected president this November, the TTC format (and the CMA and perhaps also the IRA) will go out with a bang as well.

[Expanded Reading]

- EU's power sector emissions plummet as renewables surge, *Politico*, April 4, 2024
- US aiming to 'crack the code' on deploying geothermal energy at scale, *The Guardian*, April 2, 2024
- EU and US continue to cooperate on AI, including genAI, *Euractiv*, March 29, 2024
- The U.S. and its allies want to bring the entire chip supply chain in-house—and that could create an OPEC-style cartel for the digital age, *Yahoo Finance*, March 28, 2024
- A Make-or-Break Moment for the EU-U.S. Trade and Technology Council, IBM, March 27, 2024

On the Hill

[Legislative Developments]

- The House passed the Ocean Shipping Reform Implementation Act, which aims to build on the previous Ocean Shipping Reform Act and further expand the authority of the Federal Maritime Commission (FMC) to target "market manipulation or other anti-competitive practices" by Chinese shipping companies.
- The House passed a bill that would end the veto power of the Commerce Department's Bureau of Industry and Security within the Operating Committee for Export Policy, an interagency committee that coordinates and adjudicates the administration's export control licensing decisions.
- Senator Mark Warner (D-VA) and House Representative Raja Krishnamoorthi (D-IL) introduced a bill that would enable the intelligence community to cooperate with U.S. companies on curbing Chinese efforts to undermine U.S. investment in critical minerals.
- A bipartisan group of Senators introduced a bill to direct the President to conduct a "comprehensive threat analysis" regarding national security threats posed by U.S. economic integration with China, with particular attention paid to artificial intelligence and critical minerals.

[Hearings and Statements]

- Rep. John Moolenaar (R-MI) will be the new chair of the House's China Committee following Rep. Mike Gallagher (R-WI)'s resignation and departure from Congress.
- The House China Committee is calling on the U.S. Trade Representative and the Commerce Department to investigate the circumvention of U.S. tariffs targeting unmanned aerial vehicles (UAV) manufactured in China and to increase support for the domestic drone manufacturing industry.

[Expanded Reading]

- US Asks South Korea to Toughen Up Export Controls on China Chips, *Bloomberg*, April 2, 2024
- China opposes US abuse of national security as chip export restrictions extended, *Global Times*, March 31, 2024
- U.S. updates export curbs on AI chips and tools to China, *Reuters*, March 29, 2024
- Former Dow Chemical Scientist to Lead US House's China Committee, *Bloomberg*, March 25, 2024
- Lawmakers Call for Increasing Tariffs on Import of Chinese Drones, *Dronelife*, March 22, 2024
- Johnson, Garamendi's Ocean Shipping Reform 2.0 Passes U.S. House, Congressman Dusty Johnson (R-SD)'s statement about Ocean Shipping Reform 2.0, March 21, 2024

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