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What's Been Happening

1 — Deepening Competition Despite Biden-Xi Call & Yellen's China Trip — 1

[In One Sentence]

- During Secretary of Treasury Janet L. Yellen's trip to China from April 4-7, the U.S. and China agreed to establish a bilateral exchange to discuss "global balanced economic growth" and facilitate Treasury-People's Bank of China Cooperation on anti-money laundering and financial stability.
- However, Secretary Yellen failed to convince China to cut back on the flood of exports of electric vehicles, lithium-ion batteries, and solar panels to global markets.
- In response to the Biden administration's argument that China's industrial overcapacity is caused by Beijing's unfair subsidy practices, Chinese officials described it as a "manifestation of the market mechanism."
- Before Secretary Yellen's trip to China, U.S. President Biden and Chinese President Xi held a phone call to exchange views, including on China's "unfair trade policies and non-market economic practices" and the United States' "endless" sanctions and restrictive measures to "suppress China's trade and technology development."
- The U.S. has agreed to enter into consultation procedures with China at the World Trade Organization (WTO) over a complaint filed by the latter over the allegedly WTO non-compliant electric vehicle and renewable energy tax credits under the U.S. Inflation Reduction Act.

[Mark the Essentials]

- Although Secretary Yellen's communication with Chinese officials is largely categorized by the Biden administration as cordial, commentators argued that her visit failed to convince China to adjust its policies and address U.S. concerns on topics such as overcapacity in green products manufacturing. Many argued that high-level official talks are necessary to prevent unintended risks in the bilateral relationship, but that the negotiations seem unlikely to change either U.S. economic policy on China or China's economic and industrial practices.
- U.S. policymakers and stakeholders are meanwhile pushing the Biden administration to initiate Section 301 investigations and eventually impose tariffs on Chinese imports of electric vehicles, solar panels and other green energy products and technologies. They argue that a new U.S.-China dialogue on trade, such as during the Trump administration, might need to happen alongside more U.S. tariffs or other trade actions on China.

- Beijing recently clarified its cross-border data transfer rules and exempted certain types of data from the requirement to undertake a security assessment before transferring the said data abroad. Analysts argue that the move is part of Beijing's efforts to ease compliance costs for foreign companies in China and incentivize foreign investment in China.

[**Keeping an Eye On...**]

- The 'new normal' in U.S.-China relations continues to take shape, one piece at a time. The 'new normal' is not a 'new Cold War' as some have posited—although there is a palpable Cold War-style, zero-sum equation settling into their competition to dominate the high-technology and advanced manufacturing industries of tomorrow. Nor is the 'new normal', on the other hand, merely a more contentious version of the mix of engagement and competition that characterized their four-decade-long post-normalization relationship. Strategic competition between the U.S. and China is for real and, if mismanaged, could easily drift into outright across-the-board rivalry and conflict—both hot and cold. That said, there is no one typology of interaction that cuts across the 'baskets' of U.S.-China issues; the two countries' interactions, rather, span the range from the icy to the lukewarm. Positioned towards the latter end of this spectrum is Washington's and Beijing's engagement on macroeconomic and financial issues, helmed by their Economic and Financial Working Groups. Over the course of four meetings since their establishment last fall, the EWG and the FWG have touched on matters as varied as each jurisdiction's approach to financial stability oversight, the financial stability implications from their respective insurance sector's exposure to climate risk, supervision and regulation of cross-border supply of financial services, and aligning anti-money laundering rules on crypto assets and beneficial ownership, among others. The two countries also co-chair the G20 Sustainable Finance Working Group, which supports low-carbon development through renewable energy expansion, capacity building and adaptation financing in the developing world. Capping this ample agenda was the deepening of discussions on China's industrial overcapacity issue within an Intensive Exchange on Balanced Growth in the Domestic and Global Economies framework during Treasury Secretary Yellen's visit to Guangzhou and Beijing earlier this month. The framework appears modeled on the Strategic Impediments Initiative (SII) that the United States and Japan devised three-and-a-half decades earlier to deal with the structural drivers that Washington believed was behind the large trade imbalance between the two nations. These drivers concerned not border measures such as tariffs and import quotas but matters wholly in the realm of domestic policy and regulation, including Japan's excess savings as well as the oligopolistic and interlocked nature of its corporate structures which Washington argued excluded outside parties from transactions. Substitute (Chinese) state-owned enterprises for (Japanese) oligopolistic corporate structures today, and the makings of a new SII should be readily apparent. One way or the other, this new SII framework in current or altered form is here to stay, regardless of whether the Biden administration is returned to office or not. Donald Trump's past—and likely future—trade czar, Robert Lighthizer, was one of the architects, after all, of the trade wars of the 1980s that had led to the establishment of the Strategic Impediments Initiative.

[**Expanded Reading**]

- China Pushes Back Against Janet Yellen's Warnings on Overcapacity, *The Wall Street Journal*, April 9, 2024
- Yellen Sees 'More Work to Do' as China Talks End With No Breakthrough, *The New York Times*, April 8, 2024
- Russia, chopsticks, oversupply: Everything you want to know about Janet Yellen's China visit, *CNN*, April 8, 2024
- Biden-Xi phone call sparks clash on U.S. high tech export controls, *Politico*, April 2, 2024
- Biden and Xi seek to manage tensions in phone call as US officials head to China, *The Guardian,* April 2, 2024
- Readout of President Joe Biden's Call with President Xi Jinping of the People's Republic of China, The White House, April 2, 2024

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2 — TTC6 Concludes with More Work Remaining Amid Election Season — 2

[In One Sentence]

- The sixth U.S.-EU Trade and Technology Council (TTC) meeting concluded with a joint-statement which highlighted various outcomes such as advancing transatlantic leadership on critical and emerging technologies, promoting sustainability and new opportunities for trade and investment, strengthening economic security and prosperity, and facilitating the international standards-making for digital communication platforms and their integrity.
- The U.S. and European Union did not manage to reach a deal on critical minerals and relevant tax credits under the U.S. Inflation Reduction Act despite long talks during and before TTC6.
- EU officials expressed optimism about the TTC's future amidst concerns about the U.S. election results, but the European Commission said that it had also set up "a structured internal process to prepare for all possible outcomes."
- U.S. Secretary of Commerce Gina Raimondo and EU Commission Vice President for the Digital Age and Competition Margrethe Vestager specifically urged stakeholders to "continue the work" and "stay engaged" on 6G and AI, regardless of any change to the TTC format.
- The EU also noted that bloc-wide progress had been made on crafting legislation to address forced labor concerns in supply chains.

[Mark the Essentials]

- In reaffirming commitments to transatlantic collaboration on emerging technology and green trade, the United States and the European Union agreed to build new partnerships on artificial intelligence (AI) safety and evaluative technologies for AI, adopt a new "vision" for 6G technology based on shared values, and deepen collaboration on green supply chains to facilitate U.S.-EU flow of green technologies. The two sides were not able to conclude an agreement though to ease the regulatory burden of conformity assessment procedures between the U.S. and EU regarding products essential to the green transition.
- European Commission Executive Vice President Margrethe Vestager also argued that common, transatlantic standards for AI safety—which the U.S. and EU committed to jointly develop—will "enable a trans-Atlantic marketplace" on AI.
- According to industrial and labor stakeholders, the Biden administration's support for trade unions has helped close the gaps between the U.S. and EU on labor concerns and relevant business due diligence issues. However, actual outcomes from the U.S.-EU labor and sustainable steel talks appear to be much less ambitious.

[Expanded Reading]

- The US and Europe need a strategy for the geopolitical contest over AI, *Financial Times*, April 16, 2024
- EU anti-subsidy probe becomes more absurd, *China Daily*, April 12, 2024
- US and EU commit to links aimed at boosting AI safety and risk research, *Yahoo News*, April 5, 2024
- U.S-EU Joint Statement of the Trade and Technology Council, The White House, April 5, 2024
- EU and US vow to team up against China, but can't hide the cracks, *Politico*, April 5, 2024

[Legislative Developments]

- House lawmakers introduced a bill that directs the Biden administration to look into gender bias and the distributional effects of trade in the U.S. tariff system.
- The House voted to pass the Iran-China Energy Sanctions Act, which extends U.S. sanctions on Chinese financial institutions involved in the purchase of petroleum products from Iran.
- Rep. Carol Miller introduced a bill to tighten certain foreign origin requirements for electric vehicle (EV) tax credits, citing concerns for Chinese EV companies "accessing" U.S. tax dollars.

[Hearings and Statements]

- At a hearing of the House Ways and Means Committee, U.S. Trade Representative Katherine Tai highlighted the administration's efforts to strengthen enforcement of trade agreements for American farmer and worker interests, collaborate with trade partners on promoting supply chain resilience, and counter China's unfair economic practices.
- During the same hearing, several bipartisan members of the House Ways and Means Committee criticized the Biden administration's trade agenda on China over issues including ignoring labor concerns, neglecting Congress' authority over and role in trade policy, and for allowing Japan, the EU, the UK and Indonesia to access electric vehicle tax credits offered by the Inflation Reduction Act.
- Six Senate Democrats urged USTR to launch a comprehensive Section 301 investigation and provide relief measures to address the damages that China's unfair trade practices have had in the American shipbuilding, transportation, and logistics sectors.
- A group of House Democrats has asked the Biden administration to protect American automotive manufacturers, job losses in the sector, and national security from the potential influx of low-cost, heavily subsidized Chinese autos by increasing tariffs on these autos.
- In a letter to President Biden, Sen. Sherrod Brown (D-OH) expressed strong opposition to Nippon Steel's proposed acquisition of American steel manufacturer U.S. Steel, emphasizing the Japanese company's ties with China and associated national security risks.
- A group of Republican Senators from the Senate Finance Committee criticized USTR Katherine Tai for disregarding Congress' objectives and priorities while altering the U.S. stance on digital policy, data localization, source code disclosure, and cross-border transfer rules.

[Keeping an Eye On...]

- It is not an exaggeration to say that the blue-collar vote will be not just on the ballot in November 2024 but that it will also make and break presidential fortunes. The blue-collar vote in the industrialized Rust Belt states has already done so in successive elections. In November 2016, Donald Trump eked out a narrow 77,736 combined vote edge in Michigan, Pennsylvania and Wisconsin to claim these states, and thereby the electoral college, and consign Hilary Clinton to political retirement, despite losing the popular vote. In November 2020, had a mere 257,025 votes changed hands in Michigan, Pennsylvania and Wisconsin (of the 155 million total ballots cast), Donald Trump rather than Joe Biden would have continued to sit in the Oval Office—despite a 7 million popular vote margin of defeat. It is little wonder, then, that President Biden was in Pennsylvania earlier this week peddling anti-China protectionism in the shape of elevated Section 301 tariffs

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on Chinese steel and aluminum (never mind that a WTO panel has already ruled that Trump's Section 232 steel and aluminum tariffs violated international trade law) and a probe into China's shipbuilding, maritime, and logistics practices. Both are dead-end U.S. industries with little future in terms of international competitiveness. Separately, U.S. Trade Representative Katherine Tai announced that her glacial review of the U.S.' Section 301 tariffs on China (found also to be illegal by a WTO panel) that began in September 2022 is finally nearing completion—timed to land, bang in the middle of election campaign season. It is not hard to foretell what the review's findings will look like. And across Pennsylvania Avenue, a raft of China-focused bills that would eliminate *de minimis* eligibility for Chinese shipments, investigate forced labor in critical minerals chains, tighten foreign entity of concern (FEOC) rules to minimize qualifying IRA (Inflation Reduction Act) tax credit-eligible Chinese content, and deny GSP (Generalized System of Preferences) benefits to countries that deepen military ties to China, among others, is winding its way through the committee process. The starting gun on the presidential election campaign *vis-à-vis* China has well-and-truly fired this week. The bill on the (continuing) damage to America's global trade leadership credentials will follow later in due course.

[**Expanded Reading**]

- USTR Initiates Section 301 Investigation of China's Targeting of the Maritime, Logistics, and Shipbuilding Sectors for Dominance, Office of the United States Trade Representative, April 17, 2024
- Testimony of Ambassador Katherine Tai Before the House Ways and Means Committee Hearing on the President's 2024 Trade Policy Agenda, Office of the United States Trade Representative, April 16, 2024
- US trade chief Tai says taking 'serious look' at tools to deal with China, *Reuters*, April 16, 2024
- House Passes Gottheimer-led Bipartisan Legislation Prohibiting China from Purchasing Iranian Petroleum Products, Office of the Rep. Josh Gottheimer, April 16, 2024
- U. S. Steel stockholders approve merger with Nippon Steel, *Pennsylvania Business Report*, April 16, 2024
- Republicans press Tai on digital trade ahead of hearings, *Politico*, April 15, 2024
- Miller Introduces the End Chinese Dominance of Electric Vehicles in America Act of 2024, Office of the Rep. Carol Miller, April 15, 2024
- US Steel and Nippon Steel Mull Pushing Back Date to Seal Deal, *Bloomberg*, April 12, 2024