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What's Been Happening

1 — Assessing Xi Jinping's First Trip to Europe in Five Years — 1

[**In One Sentence**]

- From May 5-10, Chinese President Xi Jinping paid a three-country visit to Europe, touching down in France, Serbia, and Hungary.
- France and China reached several new bilateral agreements such as advancing global governance on artificial intelligence (AI), deepening cooperation in green sectors, and facilitating French agricultural exports to China.
- During a trilateral meeting in France, European Union (EU) Commission President Ursula von der Leyen urged China to ensure "balanced trade" with Europe, failing which the EU would be compelled to implement "tough decisions" to protect its market from subsidized Chinese imports.
- China and Serbia plan to advance the China-Serbia Free Trade Agreement and initiate new bilateral cooperation in critical minerals and green energy sectors.
- China and Hungary agreed to expand Beijing's involvement in Hungary's infrastructure development and Belt and Road Initiative (BRI) projects, such as the Hungary-Serbia railroad project, as well as promote the presence of Hungarian enterprises at China's Import-Export Expo.

[**Mark the Essentials**]

- In deepening their bilateral cooperation in artificial intelligence, China and France agreed to jointly promote secure, reliable and trustworthy AI systems, adhere to the principle of "AI for good," advance the global governance of AI, ensure the inclusiveness of AI technology for all individuals, and support China's AI Global Summit in 2024 and France's AI summit in 2025.
- French President Emmanuel Macron, President Xi Jinping and EU Commission President Ursula von der Leyen made only limited progress on trade concerns during their trilateral meeting. The EU Commission President expressed her concern with regard to China's massive exports of EV and wind turbines and underlined the need to protect the EU market against China's subsidized imports. President Xi, on the other hand, rejected the charge of China's "overcapacity," stating that it does not exist whether viewed from the perspective of "comparative advantage" or "global demand."
- In Serbia, President Xi and President Vucic vowed to advance the Medium-term Action Plan for the Joint Construction of BRI between China and Serbia (2023-2025), upgrade the China-Serbia infrastructure

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cooperation agreement, and establish new bilateral collaboration in Serbia's mineral, renewable energy, and digital commerce sector. In Budapest, China and Hungary elevated their current comprehensive strategic partnership to an "all-weather comprehensive strategic partnership for the new era."

- Regarding the Russia-Ukraine conflict, President Macron and EU Commission President von der Leyen encouraged China to use "all its influence" to "end Russia's war of aggression against Ukraine" and limit its "dual-use material" support for Russia's defense industrial base.
- Commentators argued that President Xi traveled to Europe to move individual European countries away from the European Union's "de-risking," "decoupling" and even "trade war" policy on China and, by extension, on EU unity on its China policy. Analysts generally contended that the trip was relatively unproductive, arguing that President Xi made few genuine concessions to address EU's trade-related concerns and that the majority of the EU countries continue to see China as an economic and security threat.

[**Keeping an Eye On…**]

- It has been a common refrain of the Chinese side of late that so long as Europe and China remain engaged in mutually beneficial cooperation, no attempt to create bloc confrontation can succeed; likewise, so long as Europe and China stay committed to openness and win-win, there will be no deglobalization. All fair and good. The only problem, though, is that mutually beneficial cooperation and win-win exchanges are not self-implementing. Xi Jinping's mass movement-style exhortations in their regard will not deliver China and Europe any closer to the promised land. Only genuine structural reform will ensure that China accedes to advanced economy standards in terms of market oversight and intervention, and Europe and China can thereafter inhabit and mutually enjoy the benefits of a free, fair, open and globalized economic order. On this count, the Chinese government has much to answer for. Seventeen years after ex-premier Wen Jiabao had labeled China's economy as being "unstable, unbalanced, uncoordinated and unsustainable," the excess savings-led investment-consumption imbalances continue to persist and manifest itself in the form of substantial trade surpluses. It is inevitable that these surpluses will come under the EU's scanner or, for the matter, elsewhere too. Ten years after repeated urgings by EU (and U.S.) leaders to level the commercial playing field, especially with regard to its tilted domestic industrial subsidies regime, the application of industrial policy remains almost as interventionist and discriminatory. Fed up with this stasis, the European Commission has begun to hurl its Foreign Subsidies Regulation (FSR) rulebook at Beijing (the regulation, itself, is barely a year old and should not be confused with the EU's trade defense instruments), opening four investigations against EU-based Chinese operators for receiving foreign subsidies that could distort the EU's internal market. In three of the four cases, the Chinese company subsequently opted to drop out of the relevant procurement tender it was bidding on rather than open its books to inspection. If China will not rein-in its skewed subsidies regime and play by the EU's state aid rules, then China will just have to take its subsidized products elsewhere—so goes the EU's thinking. We will have to see how the FSR holds up when it meets its match in the form of a torrent of Chinese greenfield EV investment that has already begun to wash up on the EU's shores. A level playing field is nevertheless coming one way or the other, by persuasion or coercion, and Beijing would be wise to inscribe two key reform principles in its industrial and investment policies and practices going forward. First, non-discrimination (i.e., disallowing discrimination between foreign and local producers) must reside at the heart of every policy action—be it procurement, investment incentives, innovation incentives, license issuances, competition law or judicial enforcement. Objective market regulation, rather than conditioning establishment rights and access on local product use, must

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become the norm. Second, China's industrial policy interventions must metamorphose from a direct to an indirect, fiscal incentives-based subsidization model. This will require reformulating the matrix of the state's support measures, given the state's role currently as both producer and subsidizer at every level of government, as well as clarifying its neutral stance regarding the commercial operations of SOE's in all but a handful of strategic sectors. The Third Plenum, scheduled for July, would be an excellent place to entrench these reformist principles.

[**Expanded Reading**]

- Xi's European tour exposed the EU's persisting divisions, *Al Jazeera*, May 13, 2024
- International: France and China issue joint declaration on AI, *DataGuidance*, May 10, 2024
- Joint Statement Between the People's Republic of China and Hungary on the Establishment of An All-Weather Comprehensive Strategic Partnership for the New Era, Ministry of Foreign Affairs of the People's Republic of China, May 10, 2024
- Aiming for Rosier Ties, Xi Wraps Up Europe Visit, *The New York Times*, May 10, 2024
- Xi Ends Europe Tour With Plenty of Pomp and Few Concessions, *The Wall Street Journal*, May 10, 2024
- Xi Jinping's unproductive European tour, *Financial Times*, May 9, 2024
- In Europe, China's Xi Jinping Underscores Bilateral Benefits Over Collective Blues, *Time*, May 8, 2024
- Xi's European tour: where is Chinese leader going and what are visit's aims?, *The Guardian*, May 6, 2024
- President Xi Jinping Holds China-France-EU Trilateral Leaders' Meeting with French President Emmanuel Macron and European Commission President Ursula von der Leyen, Ministry of Foreign Affairs of the People's Republic of China, May 6, 2024

2 — Biden's Quadrupled Chinese EV Tariffs Threaten Aggravated Trade Frictions — 2

[**In One Sentence**]

- The Office of the U.S. Trade Representative (USTR) raised tariffs on electric vehicles, batteries, critical minerals, semiconductors, solar cells, cranes and steel, and aluminum products from China, following the conclusion of a statutory four-year review of the Trump administration-introduced Section 301 China tariffs.
- China criticized the move, saying that it will take "all necessary measures to defend its rights and interests."
- Some industrial representatives have expressed concerns that the tariff increases were primarily driven by political needs and would invite retaliation from China, possibly triggering a new or escalated trade war.
- Meanwhile, Senator Sherrod Brown, Senator Marco Rubio and other lawmakers have argued that even more drastic trade enforcement measures are needed, such as a complete ban on all Chinese EV imports.
- Earlier, the Department of Treasury released a final rule on the EV tax credits under the Inflation Reduction Act, which denies tax credits to EVs using certain percentages of critical minerals and battery components sourced from China.

[**Mark the Essentials**]

- The U.S. tariff rate on electric vehicles under Section 301 will increase from 25% to 100% in 2024; the tariff rate on lithium-ion EV batteries will increase from 7.5% to 25% in 2024; the tariff rate on lithium-ion non-EV batteries will increase from 7.5% to 25% in 2026; and the tariff rate on battery parts will increase from 7.5% to 25% in 2024. Current fact sheets and press releases do not specify whether the tariffs would extend to EVs that are not manufactured in or not shipped from China.

- The White House's National Economic Council Director (NEC) Lael Brainard argued that the tariff increases aim to ensure that President Biden's "historic investment in jobs" are not "undercut by a flood of unfairly underpriced exports from China." Meanwhile, the White House announced that the 100% tariffs on Chinese electric vehicles will "protect American manufacturers" and ensure "the future of the auto industry will be made in America by American workers."
- In an effort to electrify its auto lineup and quickly build competitiveness in the electric vehicle market, Stellantis N.V., which owns the Jeep, Chrysler, Maserati and Peugeot brands, has purchased stocks in Chinese EV company Zhejiang Leapmotor Technology Co. The deal gives Stellantis exclusive rights to sell Leapmotor's EVs outside of China, initially in Europe through its dealership and distribution network, and potentially participate in Leapmotor's manufacturing operations.
- Hesai Technology Co., a Shanghai-based, Nasdaq-traded company that develops sensor technologies for self-driving cars, is currently suing the United States government for listing Hesai as a company that aids China's military. Hesai says that its products are designed and made for commercial and civilian use only and argues that the U.S. government listing has disrupted its plans to build manufacturing plants in the U.S.
- Commentators argued that given China's sheer scale and competitiveness in renewables manufacturing, it is necessary to work with the Chinese EV manufacturing base and thereby hasten the electrification and greening of the transportation sector.

[**Keeping an Eye On…**]

- Almost twenty-four months to the week that it initiated a review of the Section 301 tariffs on China, the Biden administration released the review's findings and its follow-on tariff measures. (By comparison, the Trump administration had taken just nine months to get from the initiation of a probe to an announcement of tariffs in April 2018.) Per the administration's telling, the decision to raise a selective few Section 301 tariffs on China is no big deal. The amounts involved are small ($18 billion of raises) and relate to sectors where historic investments are underway, by way of the Inflation Reduction Act's and the Bilateral Infrastructure Act's domestic preference-based subsidies. The tariffs will prevent an undercutting of these investments—although the argument marshaled by the administration to justify the remedy to this undercutting (namely, that China is producing at a rate that is in excess of any plausible estimate of global demand for that good) is in fact identical to the one being trotted out by Beijing to defend its case regarding EVs (namely, that global capacity for EVs is still far below market demand). Besides, the new tariff raises are not broad-based, the administration says, unlike the across-the board imposition being under threat of application by Donald Trump. The administration's economic case for its tariffs is utterly wrong-headed—although perhaps not its underlying electoral case. First, the Section 301 tariffs should have been substantially pared down, and some even eliminated; tariffs are and remain a tax on the American consumer, and a few tariff lines are in fact even being raised. Next, the select dozen or so Chinese imports which are sought to be further priced out of the U.S. market (batteries, semiconductors, solar cells, steel, EVs, etc.) are, in fact, already barred for the most part via executive orders, anti-dumping orders, content requirements, foreign adversary rules, and suchlike. Third, the Section 301 tariffs has been the least potent tool within the armory that has been deployed against China by the Trump and Biden administrations. Their negatives outweigh the marginal supply chain resiliency gains achieved. Finally, the lawless nature of the measure—most notably how the tariffs fly in the face of the United States' basic obligations at the WTO—reflects poorly on the Biden administration's adherence to international law-bound means. It is

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particularly disheartening that the administration has chosen to double-down on the Trump team's forced technology argument—that Beijing coercively pressures U.S. companies to transfer technologies on non-market terms as a condition for entry into the Chinese market—to peddle its case for the continuation of the tariffs. Conditioning the approval of foreign inward investment in exchange for mandated performance requirements, such as technology transfer, local content, offsets, and export performance, is a violation of the terms of China's WTO Accession Protocol. If the administration believes this to be the case, it should have pursued a legal challenge at the WTO. It is telling that when the Trump administration was confronted on this question within the WTO's dispute settlement system, it confessed that it had no case to submit (it defended the Section 301 tariffs as being "necessary to protect public morals"), and that its legal challenge was limited to two smaller intellectual property rights claims, which were subsequently by resolved by Washington and Beijing during the consultation phase. That a more internationalist-minded Democratic administration would now continue this charade is a further blow to the global trading order. One step at a time, the U.S. is reverting to its pre-WTO era 'might-is-right' dictum. Forty years ago, in his incessant trade battles with Japan, Robert Lighthizer—Reagan's Deputy USTR and Trump's once and future USTR—shifted away from using the GATT's (at the time, toothless) dispute settlement provisions and rely solely on the Section 301 tool. Whereas all but one of the Section 301 investigations against Japan from the late-1970s to the mid-1980s was accompanied with the bringing of a formal GATT dispute, none of the Section 301 investigations initiated thereafter resulted in the bringing of a formal GATT case. Unilateralism trumped third-party dispute resolution measures, then, and is once again coming to dominate U.S. trade enforcement policy today. The main problem, though, forty years on, is that the U.S. no longer strides the international trading order like a colossus. It isn't even the largest global trader anymore. And while it is true that the American consumer still towers over its peers and therefore makes trade sanctioning an inviting policy tool, the days of serving as the global primary consumer of last resort are numbered too. Which begs the question: is it not in the longer-term interest of the U.S. and its producers to abide by—and not freeride on—multilateral trade rules? Protectionism can cut both ways, after all.

[**Expanded Reading**]

- FACT SHEET: President Biden Takes Action to Protect American Workers and Businesses from China's Unfair Trade Practices, The White House, May 14, 2024
- U.S. Trade Representative Katherine Tai to Take Further Action on China Tariffs After Releasing Statutory Four-Year Review, Office of the United State Trade Representative, May 14, 2024
- US trade chief recommends higher tariffs to address China's 'unfair' practices, *Reuters*, May 14, 2024
- Will Biden's Trade War With China Get Results?, *The New York Times*, May 14, 2024
- The White House's Green Trade War Is Just Getting Started, *Bloomberg*, May 14, 2024
- Biden hits Chinese electric cars and solar cells with higher tariffs, *BBC*, May 14, 2024
- White House unveils new protectionist tariffs on Chinese-made EVs, *Xinhua News*, May 14, 2024
- Chinese Clean Tech Is Not the Enemy, *Bloomberg*, May 14, 2024
- Robocar Supplier Sues US, Disputes Alleged Chinese Military Ties, *Bloomberg*, May 13, 2024
- Foreign Ministry Spokesperson Lin Jian's Regular Press Conference, Ministry of Foreign Affairs of the People's Republic of China, May 10, 2024
- U.S. to Announce New Tariffs on Chinese Electric Vehicles, *The New York Times*, May 10, 2024
- Jeep's China EV Partner Could Drag It Into a Trade War, *Bloomberg*, May 8, 2024

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[**Legislative Developments**]

- U.S. Senator John Barrasso (R-WY) introduced a bill to repeal tax credits for electric vehicles (EVs) and prevent China from "exploiting loopholes" and benefitting from the EV tax credits.
- A bipartisan group of leading House lawmakers from the Foreign Affairs Committee and the China Committee introduced a bill to authorize the use of export controls to "safeguard" artificial intelligence technologies from China and other "adversaries."
- The House Committee on Oversight and Accountability voted overwhelmingly to advance the Biosecure Act, which would restrict business with China's leading biotech companies on national security grounds, to the full House for consideration.

[**Hearings and Statements**]

- A bipartisan, bicameral group of U.S. lawmakers jointly released a report outlining a "comprehensive vision" to "revitalize [the U.S.] maritime sector," including through government funding and policy support to expand the domestic shipbuilding industry.
- U.S. Senator Sherrod Brown (D-OH) called on the Biden administration to ban all internet-connected and smart vehicles that are designed, developed, manufactured or supplied from China.
- In a joint letter to U.S. Trade Representative (USTR) Katherine Tai, Republican leaders of the House Ways & Means Committee and its trade subcommittee said they "expect" USTR to release "significant and substantive proposals" to address U.S.-China trade "challenges" following USTR's four-year review of Section 301 tariffs on Chinese imports.
- In a joint letter to President Biden, Senate Majority Leader Chuck Schumer and other six Senate Democrats underlined the "critical need to maintain or increase" tariffs on Chinese or China-related imports to address unfair trade practices and national security concerns.
- The House Oversight Committee has reportedly asked USTR officials to conduct a "transcribed interview" on its change of stance in U.S. position on digital trade and cross-border data flows at the World Trade Organization and beyond.

[**Expanded Reading**]

- US House committee advances bill to restrict BGI, WuXi AppTec, *Reuters*, May 15, 2024
- Majority Leader Schumer Floor Remarks On President Biden's Announcement Of New Tariffs To Protect US Workers And Confront The CCP's History Of Trade Abuses, Office of the Senate Democrats, May 14, 2024
- Chairman Smith: "Only the Biden Administration would need over two years to figure out that the Trump tariffs combatting China's unfair trade practices were, in fact, a good thing," House Ways and Means Committee, May 14, 2024
- Bipartisan Coalition Introduces Monumental Bill Giving Admin Authority to Export Control Advanced AI Systems, House Foreign Affairs Committee, May 10, 2024
- Rep. Waltz Co-leads National Maritime Strategy Report, Office of Rep. Mike Waltz, May 8, 2024
- Brown pushes Biden Administration to ban all connected vehicles from China and vehicles using Chinese smart technology, Office of Sherrod Brown, May 8, 2024
- Barrasso Legislation Stops Lavish Electric Tax Credits, Office of Senator John Barrasso, May 2, 2024

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