

May 31, 2024

Volume 4, Issue 11

Online ISSN 2837-3863
Print ISSN 2837-3855

What's Been Happening

1 — U.S. and China Hold First Talks on AI; Congress Rushes to Control AI Model Exports — 1

[In One Sentence]

- On May 14, the U.S. and China held their first artificial intelligence (AI) talks in Geneva, Switzerland where the two countries exchanged perspectives on their respective approaches to AI safety and on building common rules for AI.
- The House Foreign Affairs Committee advanced a bipartisan bill to expand the President's ability to restrict exports of certain "artificial intelligence systems" and related technologies and pave the way for future export bans on individuals working abroad, including Americans who might participate in the design, development or maintenance of AI systems or related emerging technologies.
- Separately, a bipartisan Senate working group has called on lawmakers to develop a framework to determine the national security implications of various AI systems and identify trigger points for imposing export control measures.

[Mark the Essentials]

- During the talks in Geneva, the U.S. and China reached a consensus that the conversation regarding AI between the two countries would be a "continued commitment" with the existence of both "opportunities and risks" related to the development of AI.
- On AI governance, the two countries expressed differing views. The U.S. underlined the importance of ensuring AI systems are "safe, secure, and trustworthy" and thereafter building a global consensus on this basis. China, on the other hand, advocated for expanding the role of the United Nations in AI governance and emphasized that "all countries regardless of size, strength or social system" should have equal access to AI technology.
- In early January, the Commerce Department had proposed a rule that requires providers of IaaS—a type of cloud computing that allows users to access infrastructure remotely—to institute "know-your-customer" procedures and report the identity of foreign users to the U.S. government. Critics believe this rule is a precursor to cloud-computing export controls, and have commented that the rule would "impose high costs on privacy," which might drive foreign customers to seek non-U.S. service providers.

[Keeping an Eye On...]

- Move over, chips; AI is the new frontline in the United States' export control and technology denial obsession regarding China. Indeed, 2024 promises to be a bumper year in this regard. By year-end, the 'yard' will be a lot wider and the 'fence' a lot taller. This may not be apparent from the cordial U.S.-China discussions in Geneva in mid-May, where the two sides exchanged views on guiding principles, emerging practices and risk management related to the regulation of generative AI. But the cordiality in store is deceiving. Discussions are currently underway at the Commerce Department to draft a rule that would restrict the sale of powerful closed source AI models to China. It is not clear yet when this proposed rule will drop; it is expected later in the year. The discussions mirror those underway on the Hill to ban the export of powerful AI systems by U.S. companies to China, as well as implement security checks when American AI labs seek to collaborate with counterparts in China. For added measure, a bipartisan working group of senators led by Majority Leader Chuck Schumer released a report earlier this month with a laundry list of recommendations that includes shielding advanced AI technologies from foreign adversaries. Also, underway at the Commerce Department is the drafting of a rule that would compel U.S. cloud infrastructure providers to alert the government when foreign clients use their compute power to train their AI models. Foreign customers that train large AI models with potential capabilities that could be used in "malicious cyber-enabled activity" will likely have their accounts blocked—essentially, a blanket means to decouple Chinese entities from the U.S. cloud. This 'know-your-customer' rule should be ready sometime this summer. Over at the Treasury Department, the tedious drafting of an interim final rule on outbound investments is underway, which will mandate prior notification for U.S. investments in Chinese entities related to software incorporated in AI systems and designed for military end use. The rule should be finalized by year's end. And just earlier this month, the Commerce Department revoked special licenses that had let U.S. chip suppliers Qualcomm and Intel ship neural processors supporting AI functions to Huawei for use in its laptops and handsets. The revocation is a postscript to the hard-hitting October 2022 and (updated) October 2023 Advanced Computing and Semiconductor Rule, finalized just this March, which chokes off China's access to high-end AI chips as well as blocks Chinese AI chip design companies from accessing U.S.-made chip design software and semiconductor manufacturing equipment globally. A number of Chinese AI players were also placed on the dreaded Entity List. On review, the various AI-related strategic trade controls will probably not come as a surprise to Beijing. The very State Department that had sought the cordial meeting in Geneva also blocked China from participating in the AI Seoul Summit a week later. China had been an invitee at the first United Kingdom-organized AI Safety Summit held at Bletchley Park in November 2022. Its presence, along with a host of other non-'like minded nations', was not welcome at this second summit in Seoul; one summit is all that it took to begin dividing the AI universe into a 'us v. them' configuration. The "candid and constructive" U.S.-China conversation on AI promises to get testy pretty soon in 2024.

[Expanded Reading]

- [Microsoft's UAE deal could transfer key U.S. chips and AI technology abroad](#), *Reuters*, May 24, 2024
- [Seven hours in Geneva hotel highlight U.S.-China struggle on AI](#), *The Japan Times*, May 23, 2024
- [US, China can work together on AI despite the barriers, expert tells forum](#), *South China Morning Post*, May 22, 2024
- [China Pushes For Global AI Governance In Talks With U.S.](#), *Forbes*, May 20, 2024
- [National Security Commission on Emerging Biotechnology Applauds Bipartisan "Driving U.S. Innovation in Artificial Intelligence" Roadmap](#), National Security Commission on Emerging Technology, May 20, 2024

- [China, U.S. hold first meeting of inter-governmental dialogue on AI](#), the State Council of People's Republic of China, May 16, 2024.
- [In first AI dialogue, US cites 'misuse' of AI by China, Beijing protests Washington's restrictions](#), AP news, May 15, 2024
- [Following Historic AI Insight Forums Over The Past Year, Leader Schumer, Senators Rounds, Heinrich, & Young Reveal Bipartisan Roadmap For Artificial Intelligence Policy In The United States Senate](#), Office of Sen. Chuck Schumer, May 15, 2024

2 — Latest 301 Tariffs Continue to Test Nerves All Around — 2

[In One Sentence]

- In response to the Biden administration's continuation and enhancement of the Trump administration-imposed Section 301 tariffs, China reiterated that it "firmly opposes and lodges solemn representations" and vowed to "take resolute measures."
- Following the proposed U.S. tariff increases on China, U.S. Secretary of the Treasury Janet Yellen urged European officials to respond to China's "industrial policy" "strategically and in a united way," warning that failure thereof would risk "the viability of businesses" in the U.S., Europe and beyond.
- European Commission President Ursula von der Leyen said that the EU shares "some of the concerns of our [US] counterparts" but prefers "a different approach, a much more tailored approach."
- The G7 Finance Ministers and Central Bank Governors issued a communique at their meeting in Stresa, Italy expressing "concerns about China's comprehensive use of non-market policies and practices" and vowed to "ensure a level playing field in line with WTO principles."
- WTO Director-General Ngozi Okonjo-Iweala said that the WTO is "very concerned" about Washington's protectionist policies towards China, cautioning against further escalation of protectionist measures and further deterioration of the U.S.-China relationship.
- U.S. Deputy Secretary of Commerce Don Graves told industrial representatives from the U.S. renewable energy sector that the administration seeks to be "very responsive and...very thoughtful" to support the sector through its current "evolution" and against "coercive" actions that are happening "abroad."

[Mark the Essentials]

- Criticizing the Biden administration's 102.5% tariff on Chinese electric vehicles as a "misguided half-solution," U.S. Senator Marco Rubio (R-FL) argued that a "comparable tariff increase" should also be placed on Chinese internal combustion engine vehicles to "adequately address the [overall] extinction-level threat that Chinese vehicles...pose to American automakers."
- Along with the decision to maintain and expand the Trump-imposed Section 301 tariffs on Chinese goods, the Office of the U.S. Trade Representative (USTR) has proposed the establishment of an exclusion process "targeting machinery used in domestic manufacturing," including solar manufacturing equipment.
- Amidst a range of efforts to "strengthen American solar manufacturing," the Biden administration has announced that it will no longer exempt bifacial solar panels from the U.S.' Section 201 safeguards tariffs.
- During a mid-May USTR hearing on promoting supply chain resilience, witnesses argued that efforts to "rebuild U.S. production capacity" has unique and irreplaceable importance which cannot be substituted by nearshoring. Accordingly, industrial representatives at the hearing proposed measures such as expansion of labor rights and enforcement in trade treaties, tightening of rules-of-origin rules, additional U.S. trade enforcement tools, and preferential government procurement policy.

- Across the Atlantic, European Commission President Ursula von der Leyen observed that Europe fundamentally seeks both competition and trade with China, albeit in a fair way and according to established rules. According to von der Leyen, the EU has concerns over issues such as China’s “artificially cheap products,” “excessive production subsidies,” and difficulties for European companies to access the Chinese market “under fair conditions.”

[Keeping an Eye On...]

- Another week, another round of skirmishing on ‘overcapacity’ at the podium and over the airwaves. U.S. National Economic Advisor Lael Brainard led off the latest round of this tussle by admonishing Beijing for facilitating excess global supply by unfairly depressing domestic capital, labor and energy costs, during a speech on May 16. This industrial overcapacity disrupts market-based demand signals and undermines innovation and competition, she said. Carrying the baton forward, Treasury Secretary Janet Yellen sounded the alarm on the “threat to the development of clean energy industries around the world” posed by Chinese ‘overcapacity’ and called for a united response during a speech in Frankfurt ahead of the G7 Finance Ministers Meeting. The G7 Finance Ministers statement has vowed to “ensure a level playing field, in line with WTO principles” to counter China’s “comprehensive use of non-market policies and practices.” This has, in turn, drawn a rebuke from Beijing which observed that the G7’s China overcapacity hype is “completely against the facts and laws of economics” and that protectionism serves nobody’s interest. Across the Atlantic, meanwhile, Josep Borrell, the EU’s High Representative for Foreign Affairs and Security Policy, cautioned that with the U.S. market becoming progressively closed to Chinese goods, including with the imposition of tariffs on Chinese-made EV’s, the threat of diversion of China’s ‘excess capacity’ to Europe was real and needed to be countered. It is the terms of this countering that merit watching closely in the weeks ahead. Will the EU resort to the use of conventional trade defense instruments (safeguards; anti-dumping/countervailing duties) that are judicable in third-party settings (both the EU and China are parties to the Multi-Party Interim Appeal Arbitration Arrangement) to slow down the ingress of Chinese green and other industrial goods into the bloc? Will it perhaps substitute Chinese-invested local production for China-originating imports? Or will the EU resort to foreign adversary-based national security arguments to arrest entirely the entry or local production of Chinese-made green goods? Most indicators point to the former, especially with the EU’s imports of Chinese-made industrial and transport equipment having fallen for six consecutive quarters. That said, it is the bloc’s use of its newest non-trade defense instruments (the Foreign Subsidies Regulation, or FSR, and the International Procurement Instrument, or IPI) that will bear watching closely. China’s ‘gray zone’ industrial subsidies may have met their match in these instruments. But applied indiscriminately, the FSR and IPI could also touch off a trade war with China, placing the bloc’s US\$275 billion of agricultural and goods exports at threat of reprisals. Brussels and Beijing have much to think through over these busy and heated summer months.

[Expanded Reading]

- [G7 Finance Ministers and Central Bank Governors’ Communiqué](#), The U.S. Department of the Treasury, May 25, 2024
- [USTR extends some Chinese tariff exclusions, but many to fall away](#), Reuters, May 24, 2024
- [Yellen wants G7 ‘wall of opposition’ to China’s excess industrial capacity](#), Reuters, May 23, 2024
- [The U.S. Raised Tariffs on China. Now It Wants Europe’s Support](#), The Wall Street Journal, May 21, 2024
- [Why von der Leyen doesn’t want to join the US in a trade war with China](#), Financial Times, May 21, 2024
- [Janet Yellen urges Europe to join US in Chinese exports crackdown](#), Financial Times, May 21, 2024
- [FACT SHEET: Biden-Harris Administration Takes Action to Strengthen American Solar Manufacturing and Protect Manufacturers and Workers from China’s Unfair Trade Practices](#), The White House, May 16, 2024

- [China firmly opposes U.S. tariff hike on Chinese goods: commerce ministry](#), *People's Daily Online*, May 15, 2024
- [China strongly opposes U.S. tariff hikes, pledging measures to defend rights](#), *Reuters*, May 14, 2024
- [Rubio Grills Biden on EV-focused China Tariffs](#), Office of Sen. Marco Rubio, May 14, 2024

On the Hill

[Legislative Developments]

- To prevent Chinese companies “infiltrate the U.S. auto supply chain,” a group of bipartisan lawmakers led by Sens. Sherrod Brown (D-OH) and Joe Manchin (D-WV) have proposed to overturn the Treasury Department's Inflation Reduction Act's tax credit rules for electric vehicles.
- Senate Commerce Committee Chair Maria Cantwell (D-WA) and committee member Marsha Blackburn (R-TN) introduced the “Promoting Resilient Supply Chains Act” to “map, monitor and model” U.S. supply chains in critical industries and technologies, address gaps or vulnerabilities for critical goods, and establish a “early warning supply chain disruption system.” The companion Hill bill passed with a commanding 390-19 majority.
- Reps. Greg Stanton (D-AZ) and Dusty Johnson (R-SD) introduced the “Semiconductor Supply Chain Security and Diversification Act” to “complement” investments via the CHIPS and Science Act and “diversify” the U.S. semiconductor supply chain by developing a regional semiconductor ecosystem in Latin America.

[Hearings and Statements]

- On May 21, the Senate Finance Trade Subcommittee held a hearing which addressed enhancing Customs and Border Protection (CBP)'s trade enforcement at U.S. ports and increasing efforts to “alleviate port congestion and supply chain bottlenecks.”
- Senate Finance Committee Chair Ron Wyden (D-OR) said that U.S.-based automakers, including BMW, Jaguar Land Rover, and Volkswagen, have “critical blind spots” in their due diligence protocols required to comply with import bans linked to forced labor in supply chains, and that they continue to source components from proscribed suppliers.
- At the Anti-Monopoly summit on May 21, Rep. Rosa DeLauro (D-CT) cautioned that there is only a short window of opportunity for Congress to reclaim trade policymaking from corporate interests and make progress on issues such as workers rights and antitrust. Senator Elizabeth Warren (D-MA) echoed the opinion and referred to the Ocean Shipping Reform Act as a case in point.

[Expanded Reading]

- [Cantwell, Blackburn introduce Bill to prevent supply chain disruptions before they happen, protect American producers & pocketbooks](#), U.S. Senate Committee on Commerce, Science & Transportation, May 21, 2024
- [Stanton, Johnson Introduces Bipartisan Legislation to Invest in ‘Nearshoring’ of Semiconductor Supply Chain](#), Office of the Rep. Greg Stanton, May 21, 2024
- [Examining Trade Enforcement and Entry of Merchandise at U.S. Ports](#), United States Senate Committee on Finance, May 21, 2024
- [Automakers Shipped Cars and Parts Made by Chinese Company Banned for Forced Labor to the United States: Car Companies Are Failing to Police Their Supply Chains For Chinese Components Made with Forced Labor, Finance Committee Majority Staff Investigation Finds](#), United States Senate Committee on Finance, May 20, 2024
- [Senate report finds parts made with China's forced labor in cars by BMW, Jaguar Land Rover and VW](#), *ABC news*, May 20, 2024
- [Insufficient Diligence: Car Makers Complicit with CCP forced labor](#), United States Senate Committee on Finance, May 20, 2024
- [Anti-Monopoly Summit](#), May 20, 2024
- [Brown Joins Bipartisan, Bicameral Group to introduce resolution to overturn administration's EV Tax credit rule](#), Office of the Sen. Sherrod Brown, May 15, 2024