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What's Been Happening

1 — U.S.-China Return To Trade Truce Following Leaders' Call — 1

[**In One Sentence**]

- A second round of trade talks was concluded with apparent success in London this week, with the U.S. signaling openness to pulling back some of its recent tech export controls in exchange for Chinese rare earth supply commitments.
- The latest round of talks was held following a 90-minute call between President Trump and President Xi on June 5, in which they reaffirmed the Geneva trade truce and agreed to exchange presidential visits.
- Before the two leaders spoke, the U.S. and China had traded a fresh round of accusations against each other, with U.S. Trade Representative Jamieson Greer accusing China of "slow-rolling" its compliance on the rare earths front with the terms of the Geneva deal.
- On the other hand, Chinese state media claimed Beijing had faithfully implemented the Geneva agreement, while urging the U.S. to lift its export control restrictions and resume broader diplomatic exchanges.

[**Mark the Essentials**]

- Earlier, as the Geneva trade truce began to break down, the U.S. Commerce Department's Bureau of Industry and Security issued new license requirements for ethane exports to China, halting over half a dozen U.S.-loaded tankers and raising concerns about energy trade and supply chain weaponization.
- The Trump administration also suspended some sales of jet engine components, chip design software, and machinery to China, raising risks of escalation in tech and aerospace decoupling.
- Despite ramping up tech export controls, USTR has quietly extended 301 tariff exemptions on 164 Chinese imports, including COVID-related and solar manufacturing equipment, signaling a degree of tactical flexibility in managing economic pressure.
- National Economic Council Director Kevin Hassett confirmed the administration would double Section 232 tariffs on Chinese steel to 50% starting June 4, with few exemptions, citing a surge in Chinese overcapacity and subsidies deemed threatening to U.S. industrial resilience.

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

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A month after their May 12th trade truce framework in Geneva, the U.S. and China are almost exactly where they were a month back. Ergo, they have made no forward progress towards a comprehensive or consequential trade agreement that would see China make significant managed purchases of U.S. goods in exchange for a lowering of some of the U.S.' tariffs on Chinese exports. With an August 12th deadline looming, it is highly unlikely that they will be able to finalize such an agreement (although in which case the deadline will probably be extended so long as each side sees the other as operating in good faith). That said, the return to square one in London earlier this week, i.e. to the Geneva trade truce framework, is better than a return to square zero and the exchange of blows, sanctions and countersanctions.

So, what had the two sides agreed upon in Geneva? On May 12th, the U.S. and China agreed to reduce their sky-high tariffs on each other for 90 days and desist from implementing new tariff and non-tariff measures for the duration of the truce. Additionally, China agreed to suspend or remove the non-tariff countermeasures – most notably the adding of a string of rare-earth minerals to its export control lists – that it had imposed following Trump's 'Liberation Day' announcement. In Beijing's view, the terms of the Geneva trade truce were violated from the get-go when the U.S. Commerce Department issued advisories *the very next day* (May 13th), cautioning industry against the use of American AI chips for training and inference of Chinese AI models as well as the use worldwide in any form of Huawei's Ascend series of chips. The Trump administration rationalized the advisories as a continuation of existing export control measures, not new ones. In response, Beijing began slow-walking its approval of rare-earth minerals, including permanent magnets. In counter-response, the U.S.: (a) suspended licenses for transfer of the LEAP-1C jet engine components to China's aerospace national champion COMAC and its C919 airliner. The LEAP-1C engine is the only Western engine cleared for sale to China; (b) ordered U.S. companies specializing in chip design software tools to suspend their services to Chinese groups. U.S. EDA (electronic design automation) players account for 80% of China's EDA market; (c) denied export licenses for a number of ethane cargoes (which is used in the manufacture of plastics) destined for China. Denial of these cargoes was essentially just a pinprick; and (d) threatened to revoke visas for Chinese students, including those with Party connections or studying in critical fields.

So, what did they now restore in London? China is to ease its rare earth mineral exports for a *temporary six-month period* for U.S. non-defense sector companies. Beijing had already hinted at such after the Trump-Xi phone call on June 5 when it issued temporary rare earth export licenses for three U.S. auto manufacturers. More such restoration of temporary licenses is expected to follow. Once Chinese rare earths start flowing, the U.S. will withdraw its suspension of transfer of jet engines as well as EDA software tools and allow ethane cargoes to resume. As Trump also noted, Chinese student visas will not be revoked, although the State Department will probably pay a more critical eye to Chinese visa applications for study in critical S&T fields. And, finally, both sides will continue to desist from imposing additional tariffs during the remainder of the truce period which runs until August 12. **It is just as important to note what was not withdrawn.** The U.S. Commerce Department's advisories against the use of American AI chips for training and inference of Chinese AI models as well as the use worldwide of Huawei's Ascend series of chips are to

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stay. They are not being revoked. **U.S. AI chips will not flow to China.** The Commerce Department advisories had been the proximate cause of the immediate spiral downward after the Geneva meeting.

Make no mistake, the U.S. and China are still far, far away from anything resembling a materially useful deal. The U.S.-China negotiation train had jumped the tracks within a few yards of departing the Geneva station. In London, the two sides appear to have fixed the derailment. Still, the train is lodged at or near Geneva station; basically, at square one. There is still a long distance to go. Going forward, one hopes that with the two commerce ministers present in London, there is better awareness of the almost unbridgeable gap on the export control front, and that a *modus vivendi* will need to be crafted to manage this difference. The export control cloud will, after all, continue to hover over the trade negotiation and, unless better managed, could dampen any chances of success.

[**Expanded Reading**]

- China's latest trade truce with US leaves investors none the wiser, *Reuters*, June 11, 2025
- The US and China are holding trade talks in London after Trump's phone call with Xi, *Associated Press News*, June 9, 2025
- Trump says after Xi call that US and China will resume trade talks, *Associated Press News*, June 9, 2025
- US ethane vessels stall amid curbs on exports to China, *Reuters*, June 6, 2025
- Hassett: Expect 'Few' Exceptions to Section 232 Steel Duties, *Inside U.S. Trade*, June 4, 2025
- China Rejects Trump's Accusation that it Breached Geneva Trade Deal, *Reuters*, June 2, 2025
- USTR Extends Certain Exclusions from China Section 301 Tariffs, Office of the United States Trade Representative, May 31, 2025
- Trump Accuses China of Violating Trade Deal, Doubles Steel and Aluminum Tariffs, *Reuters*, May 30, 2025
- U.S. Pauses Exports of Airplane and Semiconductor Technology to China, *The New York Times*, May 28, 2025
- Fact Sheet: President Donald J. Trump Ensures National Security and Economic Resilience Through Section 232 Actions on Processed Critical Minerals and Derivative Products, *The White House*, April 15, 2025

2 — Currency Manipulation Talk Eases … for Now — 2

[**In One Sentence**]

- The U.S. Treasury's latest currency report expands the scope of analysis beyond FX interventions and warns of the use of tariffs to counter "unfair currency practices" by trading partners, including state-backed capital flow interventions.
- China and a host of other countries (Japan, Korea, Taiwan, Singapore, Vietnam, Germany, Ireland and Singapore) avoided the "currency manipulator" label and were instead placed on the "monitoring list" but China was singled out for its persistent opacity and limited transparency regarding its exchange rate mechanism.
- The recent global retreat from the U.S. dollar has driven emerging market currency appreciation, particularly in high-yielding economies, while the yuan has remained range-bound due to Beijing's active stabilization measures.

[**Mark the Essentials**]

- The Treasury Department's semiannual currency report continues to emphasize the broadening of surveillance to include macroprudential and capital flow tools used by governments—such as sovereign wealth funds and state-owned banks—to influence exchange rates outside of traditional FX intervention channels..

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- China was retained on the "monitoring list" primarily for the size of its mammoth bilateral trade surplus. The U.S. Treasury has also suggested that even in the absence of statutory violations, Beijing's use of indirect market tools and non-central bank actors to guide the RMB could justify future retaliatory action under Section 301 or new tariff powers.
- Hong Kong's Chief Executive John Lee recently reaffirmed the Hong Kong dollar's U.S. dollar peg, despite volatility and growing calls to shift towards a yuan-linked regime, citing the peg's strategic importance for global financial stability.
- Trump administration officials have indicated that countries found manipulating currencies could face retaliatory tariffs, reviving precedents from the first Trump term involving Vietnam and Switzerland.
- Switzerland and Ireland were added to the Treasury's "monitoring list" due to significant trade and current account surpluses; the Swiss National Bank denied manipulation but pledged to continue interventions to manage inflation.

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

- For an administration that has reveled in detonating improvised explosive devices under the international economic system, its first currency report to Congress is an atypically staid affair. The administration has been arguing all along, after all, that the root cause of the economic imbalances in the international economic and trade system stems in large part from the dollar's overvaluation, owing to the greenback anchor currency status, which has in turn hollowed out the U.S. manufacturing base and brought misery to industrial cities and small towns across America. Currency policy aimed at remediating this overvaluation and correcting the significant undervaluation of surplus countries' currencies is thus necessary. Exotic ideas have been floated in this regard, such as a proposed Mar-a-Lago Accord developed by one of Trump's economic advisors (prior to joining the administration). And tariffs too are a weapon in the armory to equalize imbalances and deficits, and the administration has not shied away from deploying this weaponry.

  How illuminating, then, that as per the currency report, the dollar's overvaluation on a real effective basis was a mere 6.5% in 2024 and has been on a downward path since. In its latest (July 2024) external sector report, the IMF had judged the dollar to be overvalued by 5.8% on a real effective exchange rate basis. These are relatively small numbers when judged against the dollar's overvaluation in the mid-1980s or even as recently as the early-2000s. More to the point, this marginal overvaluation shines an even brighter light on the sheer frivolousness and contempt with which the administration has gone about tearing down the international trading system. In the last 100 years, there have been three great periods of U.S. tariff raises, or the immense pressure to do so - the Smoot-Hawley tariffs in the early 1930s, the Nixon Shock of the early 1970s, and the Japanese import surge and deployment of the Section 301 tool in the 1980s. A fundamentally overvalued dollar was an accelerant of the pressure to raise the U.S. tariff level during each of the episodes. In the first two instances, dollar overvaluation was accompanied by a breakdown of the international monetary order of the day too, in turn, precipitating structural misalignments in currency rates and 'beggar thy neighbor' trade policies. **Nevertheless, following a devaluation of the U.S. dollar by the sitting administration of the day – be it unilaterally or via a coordinated process, that very same administration proceeded thereafter in each instance to liberalize bilateral and multilateral trade.** Roosevelt did so with the *Reciprocal Trade Agreement Act of 1934* and the Tripartite Agreement of 1936, after

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suspending the gold standard and devaluing the dollar in 1933. Nixon did so with the *Trade Act of 1974* and the launch of the GATT's Tokyo Round of trade talks, after shutting down the Bretton Woods gold window in 1971. And Reagan did so by releasing his Trade Policy Action Plan (in fact on the very day after the announcement of the Plaza Accord), which produced the *Omnibus Trade and Competitiveness Act of 1988* and the launch of the Uruguay Round of GATT negotiations. Today, by contrast, at a time when the dollar is just marginally overvalued and the international monetary and financial system operating on a more-or-less stable track, President Donald Trump is doing his mightiest to tear down the edifice of the international trading order. What are the chances that he will liberalize bilateral and multilateral trade after plumbing down the dollar? History will judge him harshly, but by which time the damage will already have been done.

[**Expanded Reading**]

- Hong Kong's leader says to maintain US dollar peg, despite geopolitical tensions, *Reuters*, June 9, 2025
- Swiss National Bank denies currency manipulation after being put on US watch list, *ARN News Centre*, June 6, 2025
- US finds no currency manipulation in 2024; Ireland, Switzerland added to monitoring list, *Reuters*, June 6, 2025
- Treasury Releases Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, *U.S. Department of the Treasury*, June 5, 2025
- US declines to label China a currency manipulator, but blasts its transparency policies, *Associated Press News*, June 5, 2025
- Most emerging market currencies set to hold on to gains - Reuters poll, *Reuters*, June 4, 2025

On the Hill

[**Legislative Developments**]

- The GENIUS Act led by Sen. Bill Hagerty (R-TN) moved closer to final passage in the Senate with a 68-30 vote on one of its amendments with significant support from Democrats.
- Rep. Josh Gottheimer (D-NJ) has announced plans to introduce a *Tariff Impact Act* to require economic review and congressional approval of tariffs, and a *COOL Act* for similar procedures on *de minimis* rule changes, aiming to curb President Trump's trade policies.
- Republicans led by Rep. Jodey Arrington (R-TX) and Sen. Jim Banks (R-IN) have introduced the *Axing Nonmarket Tariff Evasion Act* that would allow the Office of the U.S. Trade Representative to extend Section 301 tariffs to third-country facilities used to evade duties.
- The *One Big Beautiful Bill Act* that passed the House seeks to impose escalating retaliatory taxes on countries with digital services taxes and similar levies, aiming at countering what is viewed as discriminatory policies targeting U.S. companies.
- U.S. Senators Jim Risch (R-Idaho) and others have introduced the *International Nuclear Energy Act* to support the U.S. domestic nuclear energy industry and to ensure the country's leading role in the international market.

[**Hearings and Statements**]

- Reps. Linda Sánchez (D-CA), Ilhan Omar (D-MN), Hillary Scholten (D-MI), Steven Horsford (D-NV), and more than 70 other Democratic lawmakers supported the Labor Department's International Labor Affairs Bureau in a May 22 letter amid proposed budget cuts and the expiration of prior funding, arguing that it is essential for enforcing U.S. trade agreements, especially USMCA, and protecting worker rights globally.

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- Ron Wyden (D-OR) and Elizabeth Warren (D-MA) stated in their letter to Trump administration officials that President Trump's tariff policies and a weakening Social Security Administration are harming America's seniors, citing the increased withdrawals from 401(k) accounts amid the stock market crash due to financial stress from the tariff disruption.
- Democratic senators pressed President Trump's nominee for WTO ambassador, Joseph Barloon, to commit to upholding U.S. laws and the rules-based trading system amid concerns over the administration's trade practices, while also questioning his past advisory role with a foreign state-owned company during a June 3 Senate Finance Committee hearing.
- Rep. Greg Casar (D-TX) and over 30 other congressional Democrats have urged the State Department inspector general to investigate the potential conflicts of interest in trade talks and raised concerns that Elon Musk and Trump officials may be using negotiations for personal financial gain following reports that countries were being pressured to buy Starlink contracts.

[**Expanded Reading**]

- Landmark Crypto Bill Moves Closer to Passage in Senate, Politico, June 11, 2025
- Warren, Wyden Press Trump Officials on Seniors' Economic Pain As Result of Trump's Chaotic Tariffs, Social Security Takeover, *Elizabeth Warren*, June 06, 2025
- Release: Gottheimer Fights Back Against Trump's "Summer Fun Tax" — Tariffs Jacking Up Prices on Summer Essentials, *Josh Gottheimer*, Jun 3, 2025
- Hearing to Consider the Nominations of Joseph Barloon, of Maryland, to be a Deputy United States Trade Representative (Geneva Office), with the Rank of Ambassador, Vice Maria Pagan, Resigned; Janet Dhillon, of Virginia, to be Director of the Pension Benefit Guaranty Corporation for a Ferm of Five Years, Vice Gordon Hartogensis, Term Expired; and Brian Morrissey, Jr., of Virginia, to be General Counsel for the Department of the Treasury, Vice Neil Harvey MacBride, *United States Senate Committee of Finance*, June 3, 2025
- U.S. foreign tax bill sends jitters across Wall Street, *CNBC*, May 30, 2025
- Democratic Members call on Appropriators to protect ILAB funding, American workers, *Ilhan Omar*, May 27, 2025
- Arrington Introduces Legislation to Counter Nonmarket Tariff Evasion, *Jodey Arrington*, May 23, 2025
- NEWS: Congressmen Greg Casar, Gabe Amo, Senator Murphy Lead Call For Acting Inspector General Review of Elon Musk's Starlink Push in Countries Facing Tariffs, *Greg Casar*, May 22, 2025
- Risch, Colleagues Lead Legislation to Counter Adversary Nuclear Energy Programs, *Foreign Relations Committee*, May 19, 2025

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