



MONUMENT ADVOCACY TRADE UPDATE JULY 17, 2020

U.S./China

While it remained a stated goal of the administration until recently, trade observers held out very little hope for a robust 'phase-two' trade deal between the U.S. and China this year. Now, as the bilateral relationship continues to deteriorate, President Trump appears to have formally closed the book on such a possibility.

Late last Friday, President Trump told reporters on Air Force One that the U.S. relationship with China has been "severely damaged" due to the Coronavirus, claiming that China "could have stopped" the pandemic before adding that he has "other things in mind" than a second trade agreement.

This was followed by the president's executive order on Tuesday, formally revoking Hong Kong's "special status" and ensuring that the U.S. will treat the city as part of mainland China, including for trade, export control and visa purposes. He stated: "Hong Kong will now be treated the same...no special privileges, no special economic treatment and no special support of sensitive technologies. In addition to that as you know we're placing massive tariffs and have placed very large tariffs on China." More can be found [HERE](#)

The president this week also signed the "Hong Kong Autonomy Act," a bill that passed both Houses of Congress by unanimous consent. The legislation authorizes the State and Treasury departments to impose sanctions on officials or institutions, including banks, that were found to have undermined Hong Kong's autonomy. More can be found [HERE](#)

Unsurprisingly, officials in Beijing have reacted harshly, with the Ministry of Foreign Affairs stating: "It is gross interference in Hong Kong affairs and China's internal affairs" and that it "gravely violates international law and basic rules of international relations."

While the impact of these actions remains uncertain, relations continue to deteriorate and further threats are levied regularly- such as a potential ban on the social media app TikTok, to further restrictions on telecommunications company Huawei. The questions now is whether either side pulls out of the original 'phase one' deal, or if additional tariffs are soon put in place.

Meanwhile, Democratic presidential nominee Joe Biden outlined his [economic agenda](#) during a speech last week that took aim at both Trump and China. Biden stated: "To ensure the future is made in America, we need to win not just the jobs of today -- but the jobs and industries of tomorrow. That means fighting unfair trade practices and curbing the theft of American intellectual property by countries like China." Biden also outlined the need for "Buy American" government procurement and investment provisions and bringing back supply chains to reduce dependence on the Chinese.

Digital Services Taxes

Last Friday USTR issued a list of French goods worth \$1.3 billion that will be levied with 25 percent tariffs if France begins collecting digital services taxes from U.S. companies next year.

[The list](#) targets French handbags, soaps and cosmetics -though other sensitive products like wine and cheese were excluded- but will not impose them for up to six months.

The U.S. believes the French tax unfairly targets large U.S. internet companies- though multiple other countries are increasingly determined to advance ways to collect revenue from firms that earn billions of dollars in their markets.

This action was met largely with bipartisan support. Finance Committee leaders Chuck Grassley (R-IA) and Ron Wyden (D-OR) jointly stated: “Retaliatory tariffs aren’t ideal but the French government’s refusal to back down from its unilateral imposition of unfair and punitive taxes on U.S. companies leaves our government with no choice.”

Meanwhile, the public comment periods for ten other Digital Service Tax [investigations](#) closed this week; USTR will publish its investigation report -and possibly proposed lists of foreign goods it intends to hit with additional duties- soon.

Digital Trade

On 7/16, a European court struck down one of the major mechanisms that companies rely on to move data between the US and the EU. This regime, called Privacy Shield, was put into place relatively recently – and many companies are now facing real uncertainty. Still, the EU decision provided some clarity that a separate mechanism, called Standard Contractual Clauses, can still be relied on (at least for the time being). It’s not at all clear how this can be resolved, and may require a debate in Congress about U.S. government surveillance policy- and could ultimately prompt a host of transatlantic trade disruptions.

U.S./Kenya

The U.S. and Kenya continued this week with their first round of trade talks for a comprehensive agreement. The countries last week agreed on a framework for U.S. technical assistance and capacity-building efforts in Kenya.

Hearings/Nominations

The Senate Finance Committee will hold a hearing on Tuesday, July 21 to assess Michael Nemelka’s nomination to be the next Deputy U.S. Trade Representative for investment, services, labor, environment, Africa, China and the Western Hemisphere (succeeding C.J. Mahoney)

The Senate Foreign Relations Committee will hold a hearing that same day to discuss the confirmation of C.J. Mahoney to become the State Department’s legal advisor.

The Ways and Means Trade Subcommittee will also hold a hearing on “trade, manufacturing, and critical supply chains” on Thursday, July 23. We will provide more details as they come.

