

Center for Strategic and International Studies

TRANSCRIPT  
Event

**“A Conversation with Ambassador Katherine Tai, U.S. Trade Representative”**

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FEATURING  
**Ambassador Katherine Tai**  
*United States Trade Representative*

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John J. Hamre      Good morning, everybody. Welcome. My name is John Hamre. There's a stand here, but I'll – welcome to all of you. We're delighted to have you here. It's so nice to see real people at a conference again. (Laughs.) And so just a word of precaution for everybody. If we do have an emergency – we've not had any of this ever here – but if we do have an emergency, I'd ask people to use this door, right, that we came in on. That's the one that's closest to take us downstairs. And we'll go downstairs, take two left-hand turns. We'll go over to National Geographic and tell them to open up their cafeteria and turn on the ice cream machine, OK? (Laughter.) It could be fine, but please follow instructions if we have to.

I'm so pleased that we have this opportunity. I teased Bill Reinsch this morning saying I thought this was going to be another boring Bill Reinsch trade conference, and then I open The Washington Post and see this is going to be quite an interesting session. But I would expect that from Ambassador Tai. She has been one of those secret, quiet midwives of success, you know, in Washington in trade policy. And I hope the book is being written by how USMCA came about. And if you do read that book, you're going to see Katherine Tai on every page. She was instrumental in pulling it together and weaving it all together in a complex, challenging time. And we're so fortunate.

Of course, you know she was the chief counsel for the Trade Subcommittee in Ways and Means. And, you know, if any of you think you know politics, you ought to be on the Ways and Means Committee, especially the Trade Subcommittee, to realize what a remarkable intellect and personality that Ambassador Tai brings to this job. She's the 19th U.S. trade representative and is going to share with us today some very important news about how the Biden administration is thinking about trade with China. And so with your warm applause, everybody in this room – and all of you in cyber land, you can clap too – but please welcome Ambassador Katherine Tai. (Applause.)

Ambassador  
Katherine Tai      Hello, everyone. And thank you, John, for that really generous introduction. Thank you all for being here. I want to thank John Hamre, Bill Reinsch, and the Center for Strategic and International Studies for hosting me today.

CSIS plays a vital role in our foreign policy discourse, and it is fitting that I am here speaking to you about one of the most important global issues. I've said this before and I will continue to say it – the US-China trade and economic relationship is one of profound consequence. As the two largest economies in the world, how we relate to each other does not just affect our two countries. It impacts the entire world and billions of workers.

This bilateral relationship is complex and competitive. President Biden welcomes that competition to support American workers, grow our economy, and create jobs at home. He believes we need to manage the competition responsibly and ensure that it is fair.

For too long, China's lack of adherence to global trading norms has undercut the prosperity of Americans and others around the world. In recent years, Beijing has doubled down on its state-centered economic system. It is increasingly clear that China's plans do not include meaningful reforms to address the concerns that have been shared by the United States and many other countries.

We have a lot of work to do. To be successful, we must be direct and honest about the challenges we face and the grave risk from leaving them unaddressed. We must explore all options to chart the most effective path forward.

When it comes to our relationship with China, what's best for American workers is growing the American economy to create more opportunity and more jobs with better wages here in the United States.

As the United States trade representative, I intend to deliver on President Biden's vision for a worker-centered trade policy in the U.S.-China trade dynamic. We need to show that trade policy can be a force for good in the lives of everyday people. We will create durable trade policy that benefits a broad range of stakeholders by rebuilding trust with our workers and aligning our domestic and foreign policies.

President Biden has been clear. The key to our global competitiveness and creating shared prosperity begins at home. We have to make smart domestic investments to increase our own competitiveness.

We must invest in research and development and clean energy technology, strengthen our manufacturing base, and incentivize companies to buy American up and down the supply chain. We already accomplished some of that work with the American Rescue Plan, the administration's focus on supply chain resilience, and our investments in our technological leadership. The administration is working closely with Congress to build on those actions with the bipartisan infrastructure deal and the build back better agenda.

In terms of U.S.-China trade, in recent months the Biden-Harris administration has conducted a comprehensive review, and today I will lay out the starting point of our administration's strategic vision for realigning our trade policies towards China to defend the interests of America's workers, businesses, farmers, and producers and strengthen our middle class.

First, we will discuss with China its performance under the phase-one agreement. China made commitments that benefit certain American industries, including agriculture, that we must enforce. President Biden will continue to promote our economic interests and build confidence for American industry.

Second, we will start a targeted tariff exclusion process. We will ensure that the existing enforcement structure optimally serves our economic interests. We will keep open the potential for additional exclusion processes as warranted.

Third, we continue to have serious concerns with China's state-centered and nonmarket trade practices that were not addressed in the phase-one deal. As we work to enforce the terms of phase one, we will raise these broader policy concerns with Beijing. And we will use the full range of tools we have, and develop new tools as needed, to defend American economic interests from harmful policies and practices.

Finally, and critically, we will continue to work with allies to shape the rules for fair trade in the 21st century and facilitate a race to the top for market economies and democracies. Before I get into further details around our plans, I would like to reflect on how the U.S.-China trade relationship has evolved in recent decades and how we got to where we are today. From the late 1970s to mid-1980s, China went from the world's 11th-largest economy to the eighth largest. U.S. exports to China increased approximately fourfold, while imports grew 14 times in less than 10 years. This economic growth set the stage for China's efforts to join the WTO.

The world faced an important challenge at that time, how to integrate a state-led economy into a trade institution created by those dedicated to open market-oriented principles. In grappling with this dilemma, some believed there would be huge boosts in industrial and agricultural exports to China and its growing middle class. Others argued that accelerated and massive job losses would result instead. In the end, China officially joined the WTO in December of 2001. And over the next decade and a half, the United States pursued a dual-track approach with Beijing.

One track involved in annual high-level dialogues between U.S. and Chinese officials over three successive presidential administrations. These talks were intended to push China towards complying with and internalizing WTO rules and norms and making other market-oriented changes. But those commitments became more difficult to secure over the years, and China's follow-through was inconsistent and impossible to enforce. The other track focused on dispute settlement cases at the WTO. We brought 27 cases against China, including some I litigated myself, and through collaboration with our allies. We secured victories in every case that was decided. Still, even when China changed the specific practices we challenged, it did not change the underlying policies, and meaningful reforms by China remained elusive.

In recent years, China's leaders have doubled down on their state-centric economic model. Faced with reality that neither the dialogue nor the enforcement tracks were producing meaningful changes, the previous administration decided to use a different paradigm – unilateral U.S. pressure – to try to change Beijing's practices. It launched an investigation focused on

China's forced IP and technology transfer policies, longstanding and serious problems. This led to substantial U.S. tariffs on imports from China, and retaliation by China. Against this backdrop of rising tensions, in January 2020 the previous administration and China agreed to what is commonly referred to as the phase-one agreement.

This agreement includes a limited set of commitments. These cover China's obligations regarding intellectual property and technology transfer, purchases of American products, and improved market access for the agriculture and financial services sectors. It has stabilized the market, especially for U.S. agricultural exports. But our analysis indicates that while commitments in certain areas have been met, that certain business interests have seen benefits, there have also been shortfalls in others. But the reality is, this agreement did not meaningfully address the fundamental concerns that we have with China's trade practices and their harmful impacts on the U.S. economy.

Even with the phase-one agreement in place, China's government continues to pour billions of dollars into targeted industries and continues to shape its economy to the will of the state, hurting the interests of workers here in the U.S. and around the world. Let's look at the steel industry. In 2000, there were more than 100 U.S. steel companies. We produced 100 million metric tons of steel annually. And the industry employed 136,000 people in communities across the country. Soon after, China started building its own steel plants. Its production capacity ballooned, depriving U.S. steel companies of valuable market opportunities. Low priced Chinese steel flooded the global market, driving out businesses in the United States and around the world.

Every steel plant that shuttered left hundreds of workers without livelihoods. It also left communities reeling as small businesses dependent on plants also closed their doors, and blighted buildings brought down real estate values.

Today China produces over 1 billion metric tons annually and accounts for nearly 60 percent of global steel production. China produces more steel in a single month than the United States and most other countries in the world produce in an entire year. In the U.S., employment in the steel industry has dropped 40 percent since 2000. We see the impact of China's unfair policies in the production of photovoltaic solar cells. The United States was once a global leader in what was then an emerging industry, but as China built out its own industry, our companies were forced to close their doors. Today China represents 80 percent of global production, and large parts of the solar supply chain don't even exist in the United States.

U.S. agriculture has not been spared either. While we have seen more exports to China in recent years, market share is shrinking and agriculture remains an unpredictable sector for U.S. farmers and ranchers who have come to rely heavily on this market. China's regulatory authorities continue to deploy

measures that limit or threaten the market access for our producers and their bottom line.

We also see troubling dynamics playing out today with the semiconductor industry. In 2014, China issued an industrial plan to announce the goal of establishing a world-leading semiconductor industry by 2030. Reportedly, China has already spent at least \$150 billion on this effort, with more on the way. Its intentions are clear, just as they were with steel and solar.

These policies have reinforced a zero-sum dynamic in the world economy where China's growth and prosperity come at the expense of workers and economic opportunity here in the U.S. and other market-based democratic economies. And that is why we need to take a new, holistic, and pragmatic approach in our relationship with China that can actually further our strategic and economic objectives for the near term and the long term. As our economic relationship with China evolves, so too must our tactics to defend our interests. As the years go by, the stakes keep getting higher, and boosting American competitiveness becomes all the more important. Our strategy must address these concerns while also being flexible and agile to confront future challenges from China that may arise.

So how do we accomplish this? Unlike the past, this administration will engage from a position of strength because we are investing in our workers and our infrastructure. Repairing our roads and bridges, modernizing our ports, and delivering expanded broadband are the kinds of investments that will begin to give American workers and businesses the boost needed to embrace their global competitiveness. And we must harness and leverage the talent of our people by investing in education and worker training, investments that are included in the president's build back better plan. We also need to redouble our own efforts to be the most innovative country in the world by researching, developing, and creating new and emerging technology. China and other countries have been investing in their infrastructure for decades. If we are going to compete in the global market, we need to make equal or greater investments here at home. That continuous investment ensures we can maintain our competitive edge throughout the 21st century.

Beyond our domestic investments, in the coming days I intend to have frank conversations with my counterpart in China. That will include discussion over China's performance under the phase-one agreement, and we will also directly engage with China on its industrial policies. Our objective is not to inflame trade tensions with China. Durable coexistence requires accountability and respect for the enormous consequences of our actions. I am committed to working through the many challenges ahead in this bilateral process in order to deliver meaningful results.

But above all else, we must defend to the hilt our economic interests. And that means taking all steps necessary to protect ourselves against the waves of damage inflicted over the years through unfair competition. We need to be

prepared to deploy all tools and explore the development of new ones, including through collaboration with other economies and countries. And we must chart a new course to change the trajectory of our bilateral trade dynamic. And vitally, we will work closely with our allies and likeminded partners towards building truly fair international trade that enables healthy competition.

I have been working to strengthen our alliances through bilateral, regional, and multilateral engagement, and I will continue to do so. The agreements we reached in June with the EU and the U.K. to resolve the large civil aircraft disputes at the WTO demonstrate President Biden's commitment to work with our partners to create a more level playing field for our workers.

Just last week I co-chaired the first meeting of the U.S.-EU Trade and Technology Council. As Europe strengthens its own defenses against non-market practices, we will work with them to ensure that our collective policies deliver.

In the G-7, G-20, and at the WTO, we are discussing market distortions and other unfair trade practices such as the use of forced labor in the fishery sector and in global supply chains, including Xinjiang.

In the coming months and years, we will build off of this work. Our goal is to bring deliberative, stable, long-term thinking to our approach, and to work through bilateral and multilateral channels. The core of our strategy is a commitment to ensuring we work with our allies to create fair and open markets.

There is a future in which all of us in the global economy can grow and succeed, where prosperity is inclusive within our own borders and across those borders too. The path we have been on did not take us there. President Biden's priorities that I've laid out today are aimed at achieving a shared prosperity that is good for our workers, producers, and businesses; good for our allies; and good for the global economy. Thank you. (Applause.)

William Alan  
Reinsch

Six feet, right? Is that the rule?

Amb. Tai

(Laughs.)

Mr. Reinsch

Well, welcome, Katherine. It's a pleasure to have you here.

Let me also welcome Sarah Bianchi, newly sworn in deputy USTR, whose, I think, first official act is here. And it's a great honor to have you with us, and I hope to get you back in your own right subsequently, probably to talk more about this since China is your portfolio.

And thank you to the live audience for coming and also for those of you that are watching remotely. Katherine and I are going to have a conversation for a little while and then we're going to have – take some questions from the live audience, as well as questions from the online audience if they have any. And I should alert everybody that she has a firm stop at 11 because you have to go to Paris, I guess, is that right –

Amb. Tai            That's right.

Mr. Reinsch        – for the OECD meeting, and we don't want to get in the way of that. So we'll be stopping on time.

Let me begin with kind of the overriding question, I think, based on what you said, which – you know, you alluded to Trump's efforts to try to force China to change its economic policies that were unilateral and which you characterized as failed, which I think most people would agree to. I guess the fundamental question is: Is it possible to succeed? Can China be changed? Or are we going to just spend the next decade trying to do the impossible?

Amb. Tai            Well, Bill, let me – thank you very much. Let me just back up one moment. I don't think it's fair to say that I've characterized the previous administration's efforts as failed. What I would say is that that hasn't gotten us to where we need to go.

And so that brings me to, I think, the main thrust of your question, which is: How do we know that this is the path to get us there? I think, like with anything else in life, you've got to look at where you've come from to figure out, if you've not gotten to where you want to go, how you correct course. And I think that in terms of the approach that the Biden administration is taking, it is very much about being thoughtful, examining what we have done in the past, what it has accomplished, what it has not accomplished, and having that inform how we adjust and look for ways to be more effective and, you know, look to building out a strategy that addresses not just near term, but the long term.

Mr. Reinsch        Well, I think we've – part of it is build back better, as you've pointed out in detail. And I think that we – I, at least, think that makes a lot of sense. It's the running faster part of the strategy. Let's focus on the other part of the strategy, which is how we deal with what they're doing, which is what most of your comments are about. So you're saying that if – you think that further discussions with the Chinese – I don't want to say negotiations because you didn't use that word – but further discussions with the Chinese might actually produce some change in their policies?

Amb. Tai            Well, I think that China is a participant in the global economy. And it is the one that we have unresolved issues with. I don't – I don't think there is a path to addressing those issues without having a direct conversation with China and direct communication with China.



Mr. Reinsch But it sounds like the main thing you're going to be talking about is how to enforce what Trump negotiated, right?

Amb. Tai So that is the starting point because that is the structure and that is the architecture of the trade relationship that we have right now. But you have to start somewhere if you want to get somewhere else.

Mr. Reinsch Yeah, but what's the – after you do that, what's the next thing?

Amb. Tai Well, it will depend on how the conversation goes. What I've said in my speech is we will engage on phase one, examine China's performance, have that full conversation with China, while raising our concerns about the larger industrial policy mismatch and the impacts on our economies.

Mr. Reinsch Can you go into a little bit more detail about where they are on phase one? Do you buy the – Chad Bown's scorekeeping on that? Your predecessor did not. Do you think he's right about where they – how far along are they? Can they meet the goals this year? Is that possible?

Amb. Tai So, no disrespect to Chad Bown but I haven't seen his scorecard, so can't comment on it. But let me just say this: The phase-one agreement has a lot of parts to it. The part that attracts the most attention is the purchase commitments, because there are a numbers and metrics that are naturally involved. There's trade data that's publicly available here in the U.S. and Chinese trade data. We are looking – we are all looking at the same data. I think that the questions are going to be in the conversations with China, in the performance and maintenance of this phase-one agreement – which is useful and has had value in stabilizing the relationship – how can we address the concerns that we have around China's performance?

Mr. Reinsch Are there particular points you want to – things they have not done that you want to focus on?

Amb. Tai I think that the question is there are things that appear that they have not done.

Mr. Reinsch Such as?

Amb. Tai I have not – I have not had the conversation with them around whether they have tried to do it or what's come – what the intervening concerns are. So let me – let me put it this way: I think that we are going to have an intent – have to have really honest conversations with China about all of the elements of the phase-one agreement. These are commitments that China made. They are commitments that our businesses and workers in certain sectors have looked to. And we will have to address where this relationship goes from this starting point.

Mr. Reinsch I have to say, in passing, about four months ago I did a little project trying to figure out where they had met their commitments and where they had not. And I discovered that nobody at USTR wanted to tell me. (Laughs.) I gather that somebody was keeping score somewhere, but nobody was talking. Are you going to make that public at some point?

Amb. Tai Well, I like to – I like to pride myself with the current team that I have and carrying out President Biden’s spirit that we have brought a new level of transparency to USTR. But, you know, in terms of these analyses, it’s not the type of thing that USTR – (laughs) – likes to – likes to – likes to put out there. I would say this. I think that our assessment is something, most importantly, that we have to take up with China and that’s why these conversations are so important.

Mr. Reinsch And, OK, let me ask – move on to something else slightly. There have been rumors that you’re going to initiate a new Section 301 investigation. Are you?

Amb. Tai It depends. I have all kinds of tools available to us. You know more than most people about the 1974 act and Section 301.

Mr. Reinsch I recall it, yes. (Laughter.) The person who wrote it is a good friend of mine, so yes.

Amb. Tai So, Section 301 is a trade enforcement tool. It is a very, very important tool. We will look at all available tools in addressing our concerns and ensuring that we are able to defend the interests of the American economy.

Mr. Reinsch As a legal matter, if you want to make changes in the tariffs that the president has imposed pursuant to 301 – not exclusions, but material changes in the tariffs – wouldn’t you have to initiate a new investigation at this point?

Amb. Tai I’ll defer to my lawyers on the ins and outs of Section 301.

Mr. Reinsch But you’re one of them.

Amb. Tai But I’m not my own lawyer. (Laughter.)

Mr. Reinsch Well, and they say that he who represents himself has a fool for a client. (Laughter.) So I can’t complain about that.

OK. I understand that or I’m told, actually, that phase one, among other things, included targets for Chinese purchases 2022 through 2025. Are you going to continue those? Are you going to hold them to those? It sounds like you’re not going to do phase two – that with phase two. What happens after phase one as far as purchasing is concerned? Are they on their own at that point?

Amb. Tai So I’m going to take a little bit of a detour and just express my own personal disinclination for the term “phase-one agreement.” The actual name of the

agreement is the U.S.-China Trade and Economic Agreement, I believe. But it's kind of a mouthful, so phase one it is.

I'm not quite sure. You'll have to ask my predecessor and the previous administration in setting this up as phase one what they were thinking about as a phase two. So, you know, there's an expectations issue there.

But let me just say this. I think that the structure, the architecture of this agreement, is where we have to start, and in terms of how we proceed from here is going to involve the principles that I've just laid out in my speech around what will be in the interests of the American economy, our workers, our businesses, our producers, and how much traction we get with China and to what degree we have to take our own measures to defend our interests.

Mr. Reinsch OK. I guess the question would be – I guess I'm not supposed to use phase one. But the current commitments expire, as far as purchases are concerned, at the end of the calendar year. The agreement expires on – I guess on Valentine's Day, as I recall, or thereabouts. So that means, really, after this year they don't have any obligations to purchase – to buy anything from us, right?

Amb. Tai Well, I think you reference that there are further year – there is language on further years –

Mr. Reinsch Yes.

Amb. Tai – in the agreement that's not as specific as these past two years. As I'm looking at this agreement, not having been a part of the negotiating team, I think what that says to me is that further conversations have to happen between the two sides to provide for care and maintenance for this relationship.

Mr. Reinsch Well, with respect to those conversations, can you be a little more specific other than saying soon? You got any plans?

Amb. Tai We are working on plans. I can tell you that.

Mr. Reinsch OK. Well, that's good. (Laughter.) You had also mentioned, as has the president on several occasions, about working together with partners and allies and how important that is, which I think everyone here would agree to. Can you say a little bit more about which partners and allies in particular you've been working with on China?

Amb. Tai Well, again, referencing the new level of transparency and openness that we have at USTR, for those of you who have signed up for our readouts and press statements, I think that we generate quite a lot of inbox activity. Almost every conversation that I have with a foreign counterpart I am looking to explore where our shared interests are.

To your specific question on who we've been working with on China, I think that this has been out in the open this entire time and is actually maybe the least anticipated part of the discussion around our strategy. If you look at the settlement of the large civil aircraft disputes earlier this year in June with the U.K. and the EU, that was about finding a way to manage our own differences between us and converting a relationship of litigation into one of collaboration on shared challenges, and in that sector the shared challenge certainly coming from Chinese industrial policies.

Mr. Reinsch Well, the next one up is steel and aluminum. Is that going to get in the way of cooperation with the EU on China?

Amb. Tai I don't think so. I think that with respect to steel and aluminum and the work that USTR has been doing with the Department of Commerce, the engagement with the EU follows the same line of thinking and spirit as the approach that we took to large civil aircraft, which is, how do you take a situation of tension and work through it to convert it into a partnership and collaboration? And that is certainly what we are working on in our goal in that exercise.

Mr. Reinsch Is increasing market access to China one of your goals? And if so, what sectors are you targeting?

Amb. Tai I think that part of the story of the U.S.-China trade relationship over these recent few decades has been about this thirst on the part of our business sector in particular for increased market access to China. In business sector I include our agriculture sector, obviously. You know, I think along the traditional lines of the way we've thought about trade and how benefits come from trade, it has been very focused on securing market access. I think that what we've seen is our traditional approach to trade has run into a lot of realities that are today causing us to open our eyes and think about, is what we're looking for more liberalized trade and just more trade or are we looking for smarter and more resilient trade?

Mr. Reinsch That's sort of a very elegant no.

Amb. Tai Well, Bill, I think that is up for interpretation.

Mr. Reinsch OK. Well, that's my interpretation. We'll see. I think that - I've had other conversations like this and I end up always remembering that there are people actually that want to sell more stuff out there.

Amb. Tai Absolutely. Absolutely.

Mr. Reinsch And we're for that, right?

Amb. Tai There are people who are selling a lot of stuff. Yes. So, you know, this is a good clarification to make, which is, in the U.S.-China trade relationship, there have been sectors that have done quite well. What we're seeking to do is to ensure

that, if there are things that are working, they should continue to work. But in terms of China's scale, the direction of its industrial policies in particular, and in terms of the speed with which we've seen China accomplish many of its goals, there are a number of sectors and areas in our economy where we can no longer just wish for the best. We've actually got to do something and address it.

Mr. Reinsch Is decoupling of supply chains with China a Biden administration priority?

Amb. Tai I know there's a lot of talk about decoupling. I think at the end of the day I still don't have, necessarily, good understanding of what everybody means, if we've got a common definition of decoupling. I think that the concern, maybe the question is whether or not the United States and China need to stop trading with each other. I don't think that's a realistic outcome in terms of our global economy. I think that the issue perhaps is, what are the goals we're looking for in a kind of re-coupling? How can we have a trade relationship with China where we are occupying strong and robust positions within the supply chain and that there is a trade that's happening as opposed to a dependency?

Mr. Reinsch Well, related to decoupling is the question of – and this is sort of related to build back better, because a good bit of build back better seems to be about reshoring, not just with respect to China but bringing jobs back to the United States. Do you think that made in America laws or buy American laws are sufficient leverage to localize sourcing of goods currently made in China?

Amb. Tai Bill, I don't know the answer to that and I don't know if anybody does, but I'm glad you asked this question because it gives me an opportunity to talk a bit about this notion of revitalizing our manufacturing base.

I think that in a lot of people's minds manufacturing is something that comes from an earlier era, that it's something that if we lose it over time it's OK. I think what a lot of people don't appreciate is that manufacturing, the act of making things, first of all is critical to our resilience as an economy. And I'll just point to the COVID-19 pandemic that we continue to struggle through and that scramble for basic goods like masks, gloves, gowns, even ventilators in the early months of the pandemic for us. With a critical level of manufacturing activity, an economy has more adaptability and pivotability than without, first of all.

Second of all, I don't think enough people appreciate the degree to which manufacturing activity is a vital part of the innovation ecosystem. We talk a lot about research and development, but if you're just doing research and development and you're not also in the process of translating that into the actual doing and making, you have left out of the cycle a very important feedback loop in terms of how you can continue to make your processes better, how you can make your designs better. And that is something – if we

want to be a leader and we want to maintain our status as the world's innovation hotbed, that manufacturing activity is absolutely critical.

Mr. Reinsch      Yeah, I used to give speeches about that. You know, if you don't – if you don't make anything, eventually you don't invent anything. You can use that line if you want.

Amb. Tai          I like it. I will.

Mr. Reinsch      I think it's true. But the question really is about how you get there, and a lot of what the administration's proposing is in the incentives category: Let's restore our innovative capabilities. And you already have – we've already talked about that. That's not the controversial part. The controversial part is: Are we going to – what are we going to do about companies that have embedded other – imports into their supply chains? And what are we going to do about pushing them to not do that anymore?

Amb. Tai          Well, I think that still is about incentives. I think that, at least with respect to what we do in trade, the rules that we have in our system don't go out there and make things happen. In general, they're setting up a structure within which our economic participants make their own decisions. And I think that it is actually critical to be looking at the incentive structure to incentivize resilience as opposed to just efficiency.

Mr. Reinsch      OK. Let me do one or two more and then we're going to go to the audience. And this one is the obvious, which is U.S. engagement in the Indo-Pacific region, which coincides with China's application to join the CPTPP. What is the administration going to do about that? Are we planning to join CPTPP? Are you getting warmer to the idea? Are you going to try to block China's joining the CPTPP?

Amb. Tai          So when you say U.S. engagement coincides with China's application, China just applied a week or two ago. The United States has been engaged, has been deeply invested in the Asia-Pacific/Indo-Pacific for a very long time. So, you know, what I would say is we care deeply about the partners in that region of the world, in particular because I think that competitive pressures on them are, because of geography, particularly acute.

In terms of CPTPP, I guess I would say this. The TPP, which is the basis for the CPTPP, was something that was negotiated several years ago now. It concluded, I think, six years ago almost exactly. And the world economy has shown us realities in the intervening years that I think we really have to pay attention to. So, you know, in terms of our continued investment and engagement with our partners and allies in the Indo-Pacific, I think what we need to do is to fully engage and address the realities and challenges that we see today.

Mr. Reinsch OK. I have an opinion about that, but I'm going to – I'll save it for the podcast. Tune in later on for our next podcast. (Laughter.)

Let's go to the audience. Scott Kennedy, I think you have a question. I saw a hand up. Wait for the microphone and please tell us who you are before you ask a question.

Question Ambassador Tai, thanks so much for being here. It's great to have you at CSIS to unveil your bilateral China policy.

I wanted to ask about the phase one – sorry for using that term – about the U.S.-China trade agreement from January – from 2020. It sounds like, from what you described, that it may not be your first choice, but given where we've come from you're comfortable enough with employing the strategy or approached of managed trade that you're not about to abandon it. So I was curious your thoughts about sort of conceptually managed trade, so governments setting targets and trying to achieve them. With regard to the deal itself, are you going to formally invoke the appeals process that's laid out in chapter seven of the agreement to launch these conversations with the Chinese? And who is your counterpart in China? Is the Liu He or – just curious who we expect to have on the other side of the table. Thanks.

Amb. Tai So, Scott, if I'm not mistaken, you're the other half of the Trade Guys podcast, yes?

Question Unfortunately, Scott Miller.

Mr. Reinsch No, another Scott.

Amb. Tai Oh, that's Scott Miller. Oh, OK. Sorry, sorry.

Mr. Reinsch We're not double-teaming.

Amb. Tai Understood. Understood. I think you might have asked me three or four questions. So if I could exercise the privilege, could you – could you just kind of highlight for me the ones that you really want me to respond to?

Question Just your thoughts about managed trade and then the appeals process.

Amb. Tai OK. Let's see. I guess managed trade is one where you could describe the purchase commitments. What are my views on it? I'm a tremendously practical person. There are commitments that have been made. That means that there are commitments that we have to seek follow through on. I think that when you talk about managed trade, just to break it down, it is a different model for managing a trade relationship than the model that we've pursued before, which has been, you know, let's seek market access and then, you know, let the chips fall where they may.

I guess what I would say is, you know, channeling my inner pragmatism, this is the arrangement that we have now. It is an arrangement that has evolved out of a frustration with the previous model. And so the question that I bring to this issue that you've presented is not ideologically how do I feel about it, but what is actually going to present results and what is actually going to be effective. And I think that this conversation around the purchase commitments that we are preparing to have is going to be directly informative to determining how effective this is at this point in time for the challenges that we have in this relationship.

Mr. Reinsch OK. John Marino (sp).

Question Thank you, Ambassador Tai. Thank you for your remarks today. I wanted to ask if you could expand a little bit about the exclusion process that you envision. Not asking you to go into great detail about what will be forthcoming, as appropriate. But just, as you know, a lot of U.S. companies, downstream manufacturers, who use inputs from China, would be quite happy to source from countries domestic from – either domestically or other countries, but have had trouble getting those other sources. So I'm just curious as to what weight you expect you would place on requesters of these exclusions when they say they just cannot source this domestically or from other countries. Thank you.

Amb. Tai Thank you, John (sp). It's great to see you. And thank you for that extremely important question. I guess what I would say is we place a lot of weight in what we hear from our businesses, especially our small- and medium-sized businesses that certainly have been impacted by the tariffs. And that is why. That is certainly why we are restarting a tariff exclusion process.

Mr. Reinsch OK. Two over from Scott.

Question Thank you, Bill. Dan Rosen from Rhodium Group.

You said just a second ago that commitments were made and therefore they must be followed through. A lot of commitments were made in the Trump years. I wonder if that applies to all of them. But with regard to the phase one in particular, 100 percent of China's purchase commitments could be fulfilled by trade diversion from our allies. Take, for example, barley, which the Chinese canceled contracts with the Australians, moved those contracts over to the United States. I'm trying to reconcile the focus on working with allies with the centrality of the so-called phase-one agreement at the heart of your approach.

Amb. Tai So let me try to formulate what I heard in your question and you can let me know if I've missed something, which is how do you work with your allies at the same time as you raise concerns around purchase commitments with China because the allies are impacted by those commitments and may not like those commitments. Is that, essentially, your question?



Question Well, the question is that the phase one is inherently a bilateral agreement that has no regard for the multilateral consequences of how those Chinese commitments are fulfilled. So, is that compatible with the, you know, focus we have on making sure we start with allies and among market economies, or is there potentially a problem – tactical problem?

Amb. Tai Well, let's take two steps back from the phase-one agreement. The phase-one agreement wasn't concocted in a vacuum, right? And I go through – I go through the sequence of events in the speech that I just gave, which is: There was a 301 investigation. The 301 investigation led to several tranches of tariffs, which led to retaliation from China, which then led to this engagement and the negotiation of this agreement. So this agreement comes about in the midst of increased tensions and trade actions between our two economies.

As I see it, the commitments that have come out of the phase-one agreement operated, one, to stabilize these rising tensions, but also to address or to attempt to address this need to realign the relationship. It is important – and it is an important question which I think Scott asked earlier, which is whether or not this structure that we have is effective in addressing the interests that we have as an economy vis-à-vis the relationship we have with China. And I think that is the critical question, and that is – that is the one that we are going to have to assess in our conversations with China and with our allies.

Mr. Reinsch OK. Last row back there. Yeah.

Question On the – Denny Gulino from MaceNews.

On the outside chance that perhaps China would increase its purchases and somehow meet its commitments under phase one, would the U.S. then reciprocate and do something equally nice? (Laughter.)

Amb. Tai So would we reciprocate? Let me say this. Just, you know, I know – I know why. I know why everyone is fixated on the purchase commitments, but let me just say this. I think that the real essence of the engagement and these first steps in terms of resuming the bilateral contact with China is assessing and establishing the bases for this relationship – how we navigate it in the near term and where we can take it in the longer term. So I'm just going to, you know, kind of create a little bit of distance with respect to your particular hypothetical because I think that there are a lot of additional elements to these conversations that are coming up that are as important if not more important than the specific issue of purchase commitments.

Mr. Reinsch OK. Meredith (sp)? Wait for the microphone. Long wait, sorry.

Question Thank you, Ambassador Tai.

This question relates to the Digital Markets Act. It would crack – in the European Union. It would crack down on a lot of U.S. tech firms that are operating there through large-scale changes to their competition policy law. The DMA raises lots of WTO issues, including broad-scale discrimination of U.S. firms. Secretary Raimondo said yesterday or last week that she was going to express her reservations about the DMA to the Europeans at the Trade and Technology Council. Can you give us some insight into how the DMA was discussed with the Europeans at the TTC last week?

Amb. Tai Well, thank you, Meredith (sp), for that question.

I can confirm that it was discussed. And let me just reflect on, you know, your question in the context of the other questions that I've had today, and just observe how really complex the entire world economy is, and the degree to which, you know, our economic activity, our economic interactions are very complex. But also how they are impacted by the development of technology and the way that technology is changing, and changing the way we interact with our economy and with each other in different economies.

So I particularly appreciate you asking that question in the context of this session because I think it does go to how important it is to defend the interests of our economy, our workers, and our businesses with countries with whom we think we have a lot in common, and countries with whom we have a lot of tension. So, you know, to your specific question, I think I just confirmed that the issue was raised and that I am very confident that those of us on the administration team will continue to raise our concerns and ask questions with the Europeans. And because of the TTC, I am confident that we will be able to address these concerns and have the kind of robust and honest conversations with the Europeans that we need to have.

Mr. Reinsch OK. In the back. The gentleman with the white mask next to the camera. (Laughter.) I'm sorry, I – with masks I can't recognize anybody anymore.

Question It's Peter Rashish from AICGS, John Hopkins.

Ambassador Tai, you mentioned the importance of working with allies and likeminded countries. Do you think that a plurilateral agreement, perhaps starting with U.S., EU, and Japan, that aimed at high standards and stricter enforcement on subsidies and state-owned enterprises could help create leverage that would encourage China to mitigate any aspects of its economic behavior that are – that is harmful to U.S. workers and firms?

Amb. Tai So I like that question also, because, you know, it intersects a couple of the themes and principles that I laid out in the speech. One of them is working with allies, right, collaboration. And the other piece of it is the use of tools, right, and looking for how we can be effective. And, you know, I always want to make clear that we'll look at all available tools, we will look at developing new tools, and we will look at all of these elements through the lens of where

there is opportunity to work with others. So the specific example you raised is a potential opportunity to work with our allies and to develop new tools and new rules. But I'm particularly interested in new tools because the key is how can we be effective in changing the trajectory of this global competition model, and how we can do that with others.

Mr. Reinsch OK. I think the person next to Peter had a question too. Go ahead.

Question Thank you. Thank you, Ambassador Tai. This is Mary Lovely from the Peterson Institute.

You mentioned that you wanted to change the dynamic of the relationship. And I'm interested in your thoughts on that. In particular, right now we have a scatter approach with the tariffs. For example, we have tariffs on footwear. When we talk about industrial subsidies, we're really talking about the industries of the future. And so that suggests a pivot in focus in your office. And I'm just wondering if you might speak to how you see us moving from where we are today to a focus on industrial subsidies and what tools we might use. Thank you.

Amb. Tai So I have to confess I didn't quite understand the pivot, but I think that you mean you hear in – you heard in the speech a focus on both trade in goods, but then also a focus on trade in technology. Does that capture it? Well, you know, I think of it this way: As U.S. trade representative, right, and the Office of the U.S. Trade Representative, our job is to represent the interests of the U.S., the U.S. economy, and trade. That's the entire economy. And that is also the entire range of trade. So, you know, I don't see it as much as a pivot, but when we talk about bringing a holistic approach to how we're looking at U.S.-China trade, and more broadly our worker-centered trade policy, it is about looking at the comprehensive picture.

Mr. Reinsch Well, we have a couple online questions, which I think you can dispose of fairly quickly, and then we'll finish on time.

Amb. Tai OK. (Laughs.)

Mr. Reinsch Does the administration have a plan to discuss Chinese foreign exchange policies going forward?

Amb. Tai Oh, well, so foreign exchange is the – primarily the jurisdiction of the Treasury Department. (Laughter.)

Mr. Reinsch I knew you were going to say that. But I didn't want to stiff the online questioner. But OK.

Another – a macroeconomic question: With inflation a real concern in the U.S. right now, isn't there pressure to remove tariffs where possible, if only to relieve price pressures that risk broader macroeconomic consequences?

Amb. Tai Well, on this one I would say that inflation is a concern worldwide and that it has a lot to do, as well, with – this is my economic term – has more to do, a lot to do with the discombobulation in supply chains that come with the global pandemic. Both the lockdown from the pandemic and also this recovery process, we see mismatches in demand and supply and disruptions in supply chains. So yes, inflation is something that everyone is looking at carefully, and I think that, you know, on this you also have to look holistically.

Mr. Reinsch OK, one more because I forgot to ask it and it's embarrassing that I forgot. What role does the WTO play in all this?

Amb. Tai Oh. Well –

Mr. Reinsch On China in particular.

Amb. Tai Sure, on China in particular. Well, let me say this about the WTO, and I really want to take this opportunity because I say it to a lot of counterparts and a lot of audiences that are smaller perhaps than the one we have today, and I want to take the opportunity to make this clear in this context also: We at USTR and this administration support the WTO. We were founders of the WTO. We were there at the beginning. We were founders of the GATT that came before the WTO. The WTO absolutely has a very, very important role to play here. But as you've also heard in my narration of the course of events in the development of the U.S.-China trade relationship, we focused very heavily on the WTO, certainly in the first 15 years of China's membership at the WTO, and I think that as much as we will continue to invest and commit and try to innovate in terms of being a member at the WTO and seeking to bring reform to the WTO that we also need to be agile and to be open-minded and to think outside of the box with respect to how we can be more effective in addressing the concerns that we really have been struggling to address with China on trade.

Mr. Reinsch Well, we could spend 15 more minutes on that alone. We'll have to have you back to talk about the –

Amb. Tai I'd love to be back.

Mr. Reinsch – to talk about the WTO in greater detail; it's an issue of great interest, I think, here at CSIS in some of the work we do. But this time we're out of time. So thank you very much for coming to visit us. Thank you very much for your comments.

Thank you to the audience for some very thoughtful questions as well.

Amb. Tai Thank you so much, Bill. Thanks to all of you. (Applause.)

(END)