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Fallout from the U.S. Midterm Elections: As the dust continues to settle around the midterms, it's at least clear that the expected red wave of Republican victories was more of a pink-tinged ripple with Republicans underperforming expectations or Democrats overperforming them depending on one's outlook. As for trade and international economics, most everything will be as it was before November 2. In terms of incoming and outgoing members who were free traders or protectionists it was probably a wash and most candidates to lead the House Ways & Means Committee with jurisdiction over trade hold mostly the same preferences on trade policy. With Democrats keeping control of the Senate, Ron Wyden, a Democrat from Oregon who is mostly a trade skeptic, will retain chairmanship of the Senate Finance Committee along with Idaho Republican Mike Crapo who will remain as ranking member.

Transatlantic Trade Trouble: Electric vehicles are becoming a source of tension between the EU and United States. At the center of the dispute are the Inflation Reduction Act's \$369 billion in subsidies and tax breaks to U.S. and North American EV and renewable energy firms but not to European competitors. [German officials were reported to be open to the idea of increasing their own EV subsidies](#), and France has threatened tariffs or other trade restrictions if the provisions in the IRA were not addressed. During a joint press conference with French President Emmanuel Macron, President Biden seemed open seemed confident that the issue could be addressed satisfactorily and the tone was positive following the meeting, but it's unclear how the issue could be solved. Theoretically, it could be fixed either through congressional legislation to amend the IRA or through the Treasury Department issuing a waiver, but both options are seen as unlikely since Congress is unlikely to reopen the bill's language and a Treasury Department waiver may not survive a court challenge.

All Aboard? As of the time of writing (December 9), [Bloomberg has reported that the Netherlands is poised to additional controls on its electronics trade with China](#), with a formal agreement with the United States on export control rules may possibly be reached in January. Dutch Foreign Trade Minister Lesje Schrenemacher said that [it may be an "uphill battle" for the United States to get the Netherlands to join its export control regime](#) on semiconductor trade with China. ASML, a Dutch company, [plays a significant role in the semiconductor trade](#), particularly with China, and Dutch participation (along with that of Japan) will be vital for the new U.S. rules on semiconductor exports to be successful. While [the United States is urging the Netherlands and others to join its export control regime](#), the prospect of trade restrictions is already revising earnings forecasts downwards.

Japan is another partner that will need to sign on to the export control rules for them to be effective. Dutch Prime Minister Mark Rutte has said that the Netherlands is coordinating the issue with Japan and South Korea. [The attitude in Japan towards U.S. efforts is reportedly one of](#)

“[bemusement](#)” that the United States could go forward without first consulting allies, according to an official with the Japanese government. While Japan’s semiconductor trade with China is massive and would take a serious hit if Japan joined the U.S. export control program, that’s not to say that Japan is unconcerned about the vulnerability of its semiconductor supply chains, [investing billions in efforts to localize semiconductor manufacturing in Japan](#).

Changing Course on China? The German Foreign Ministry is preparing a report on Germany’s China strategy which is expected to be adopted early next year [according to Politico](#). The report’s language is notable because it appears to take a tougher line with China’s trade practices and human rights abuses. Historically, Germany’s manufacturing investments in China led the country to take a more conciliatory tone towards potential disputes. A draft of the report is described as warning that China is willing to leverage its market to extract concessions and criticizes China’s human rights violations in Tibet and Xinjiang. The draft also suggests creating disclosure requirements for German companies with significant interests in China, the possibility of creating a legal basis (either national or EU-level) for scrutinizing investments in security-critical areas, and possibly the creation of EU buyers’ cartels for minerals such as rare earths to improve their negotiating position vis-à-vis China, as well as enhancing relations with Taiwan. At the same time, [observers are skeptical of a full-blown confrontation](#) given economic and energy pressures in Germany over the coming winter and continuing confrontation with Russia.

Analysis: Congressional Stalemate Is Not Just an American Problem

The main story of the U.S. midterm elections is the failure of a “red wave” of Republican victories to materialize, with the party underperforming against expectations and historical trends. While the results were mostly within the projected margins of error and Republicans still won control of the House of Representatives, recency bias and the sting of underperformance means the results will be analyzed and dissected in the coming months and years more than most midterm elections. In the meantime, the upcoming 118th Congress will be split between a Democratic Senate, a Republican House of Representatives, and Democratic White House, all working under the shadow of the looming presidential elections in 2024. This kind of situation often leads to political stalemate – and rather than just an domestic problem, it will have very meaningful implications for U.S. geoeconomic strategy.

It’s true that there could be opportunities for cooperation. For example, [Christopher Tuttle with the Council on Foreign Relations](#) points to the possibility of lifting some of the Trump-era tariffs on China as a potential area of agreement between the White House and congressional Republicans – competition with China is one of the few areas where Democrats and Republicans are believed to be in much agreement. Interestingly, it’s also possible that House Republicans may try to advance Trade Promotion Authority legislation in the next Congress. Also known as “fast track”, TPA is designed to give the White House the ability to put international trade agreements before Congress with an up-or-down vote and without possibility of congressional amendment. This authority expired in July 2021 and the Biden administration has not sought TPA’s renewal, a step that many have interpreted as a sign of disinterest from the White House in international trade agreements.

But the more likely scenario is that the congressional makeup just adds more noise to the system. Put another way, partisanship and political stalemate are practical issues of state capacity. While competition with China will certainly be a major issue and something potentially ripe for collaboration, it's probable that each side would rather distinguish themselves from the other as the 2024 presidential race begins to appear over the horizon. Stalemate usually means that even successful collaborations take the shape of the lowest-common-denominator, trying to find the barest agreeable minimum at the expense of something more ambitious or comprehensive. To name one example, rather than passing annual appropriations bills to set out funding and initiatives for government agencies for the next fiscal year, continuing resolutions are passed to keep funding in place when agreement can't be found on new initiatives.

The worthwhile new report from the National Bureau of Asian Research, [*Critical Minerals: Global Supply Chains and Indo-Pacific Geopolitics*](#), looks at the geoeconomic landscape for critical minerals for use in things like EV batteries and other high-tech applications. A consistent theme in the report, whether in looking towards past successes in this field or in recommending next steps, is the necessity of strong institutions. This might be where the United States is most lacking. When Rush Doshi, now director for China at the U.S. National Security Council, [*made the case for industrial policy in his testimony before Congress in 2020*](#), it's not an accident that industries like finance, automotives, and insurance were the examples he could turn to as examples of U.S. government intervention. These industries are, in each their own way, represented by powerful political constituencies that ensure that the federal government will respond when they're in trouble. In the absence of strong institutions that can arbitrate fairly among competing interests and coordination between government and the private sector, government attention is drawn to those with the most political salience. The hope is that there's congruence between strategic priorities and industry needs, but it's not guaranteed and rent-seeking is always a risk. It makes industrial policy, government intervention to boost the growth prospects of certain promising or vital economic sectors, much more tenuous in the United States than in more successful examples like in Japan, South Korea, or Thailand. Any industrial policy without the ability to form coalitions and – more importantly – align resources with priorities won't offer much potential.

Instead, if the parties chose to collaborate rather than confront each other in advance of 2024, they'll collaborate on easy wins and attainable goals – defense spending rather than semiconductors; tariffs rather than trade. And [*if Biden's practical steps towards economic liberalization in the Indo-Pacific look furtive*](#), this will be why. The Biden administration has set ambitious targets in its competition with China, but without the cooperation of Congress on the biggest steps, the question becomes whether the Biden administration can keep up with its own ambition with only the tools available to White House or whether it will be forced to scale back and where. Congressional stalemate might not be immediately catastrophic, but it will put a very low ceiling on U.S. geoeconomic strategy.