Welcome back to another edition of Sticky Notes, the IIF's review of this week's events in international economics and politics.

We love to hear from our readers, so send us your thoughts or questions. You can reach us here.

This week:

- Our China team, Gene Ma, Greer Meisels, Yuanliu Hu, and Phoebe Feng, put together a helpful guide to China's trade negotiators.
- I update on Russia sanctions hearings in Washington and possible sanctions against SWIFT.
- Scott Farnham updates on the status of the U.S.-Canada trade negotiations.
- Gene Ma looks at China's announcement of a major investment package for Africa.
- Dylan Riddle gives a preview of the Bob Woodward's new book, Fear.

Thanks for reading,

Kristen

A Closer Look at China's Trade Negotiators

Thursday marked the end of the public comment period on the proposed U.S. tariffs on $200 billion worth of Chinese imports. We could see an announcement of new tariffs any day now, though we wouldn’t expect implementation until mid to late September. China is expected to retaliate with tariffs on $60 billion worth of U.S. imports.

Should this tit-for-tat evolve at some point into actual negotiations, China’s strategy will be led by the following senior officials:

LIU He
Vice-Premier and Chief of Central Financial and Economic Affairs Commission (CFEAC)

YI Gang
Governor and Deputy Party Secretary, People's Bank of China (PBOC)

LIU Kun
Minister, Ministry of Finance (MOF)

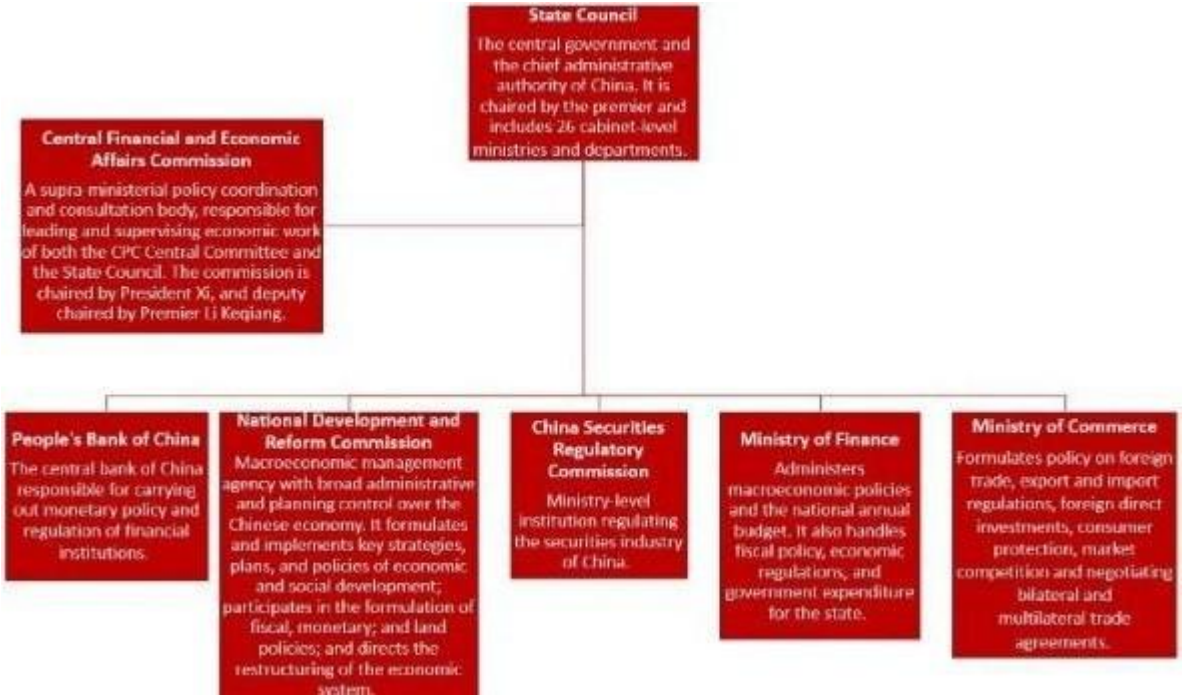
LIAO Min
Vice Minister, Ministry of Finance (MOF)

ZHONG Shan
Minister, Ministry of Commerce (MOFCOM)

WANG Shouwen
Vice Minister, Ministry of Commerce (MOFCOM)

NING Jizhe
Vice Chairman, National Development and Reform Commission (NDRC)

FANG Xinghai
Vice Chairman, China Securities Regulatory Commission (CSRC)



LIU He
Vice-Premier and Chief of Central Financial and Economic Affairs Commission (CFEAC)

Liu He, China’s top economic advisor, is a trusted ally of President Xi Jinping and was made Vice-Premier of the State Council in March 2018. He also heads the CFEAC, formerly known as the Central Leading Group for Financial and Economic Affairs. In addition to leading trade talks with the United States, he heads the Financial Stability and Development Committee that manages China’s financial and economic risks and is leading the reform of state-owned corporate enterprises.

YI Gang
Governor and Deputy Party Secretary, People’s Bank of China (PBOC)

Mr. Yi was appointed Governor of the PBOC in March 2018 having served previously in a variety of positions within the Bank, including as Deputy Governor. He is also deputy chief of the general office of the CFEAC.

When talking about the trade conflict, Mr. Yi said “It is a structural problem. China is at the end of the Asia value chain, so the U.S.-China trade deficit actually reflects the trade imbalance between U.S. and the whole of East Asia.”

China’s central bankers vowed to keep their nation’s currency stable and to not deploy it as a weapon in the trade conflict with the United States. Governor Yi said China will "keep the yuan exchange rate basically stable at a reasonable and balanced level."

LIU Kun
Minister, Ministry of Finance (MOF)

Mr. Liu was appointed Minister of the MOF in March 2018 and is also Vice Chairman of the Financial and Economic Affairs Committee of the National People’s Congress. Previously he served as Vice Minister at MOF from 2013 to 2016, although he wasn’t one of the main interlocutors with the United States at that time.

In an interview with Reuters last month Mr. Liu said: "China doesn't wish to engage in a trade war, but we will resolutely respond to the unreasonable measures taken by the United States.” During July’s G20 meeting, he rallied the support of the biggest developing economies to push back against protectionism. He said that the BRICS should “firmly support economic globalization and multilateralism and unequivocally oppose unilateralism and protectionism in any form.’’

LIAO Min
Vice Minister, Ministry of Finance (MOF)

Mr. Liao was appointed Vice Minister of MOF and deputy chief of the general

office of CFEAC in May 2018. He oversees the U.S.-China Comprehensive Economic Dialogue for MOF, the successor to what used to be the U.S.-China Strategic and Economic Dialogue.

As Liu He's deputy in the CFEAC, Mr. Liao first appeared as a member of China's trade delegation in the 2nd round of negotiations and succeeded Mr. Zhu Guangyao as Vice Minister of MOF right before the trade talks in June. He plays a key role in drafting China's policies and tactics in dealing with U.S. trade issues.

ZHONG Shan
Minister, Ministry of Commerce (MOFCOM)

Mr. Zhong became Minister of MOFCOM in February 2017. Previously he served as the China International Trade Representative, a minister-level position.

During a press briefing earlier this year, Mr. Zhong noted: "There are no winners in a trade war, and it would bring disaster to our two countries as well as the rest of the world…China does not wish to fight a trade war, nor will China initiate a trade war, but we can handle any challenge and will resolutely defend the interests of our country and our people."

WANG Shouwen
Vice Minister, Ministry of Commerce (MOFCOM)

Mr. Wang was appointed Vice Minister at MOFCOM in April 2015 and as Deputy China International Trade Representative in January 2018. Mr. Wang led the Chinese delegation to the United States for the latest round of trade negotiations.

He has been outspoken about the current state of affairs between the United States and China. For example, when asked what conditions would be necessary for negotiations on easing the conflict, he said: "For any talk to be successful, one party needs to take the gun off the head of the other party… and for any talk to be useful, one party needs to be keeping its word. If one

side keeps chopping and changing all the time the talk would be pointless."

NING Jizhe
Vice Chairman, National Development and Reform Commission (NDRC)

Mr. Ning was appointed as the Vice Chairman of the National NDRC in February 2016 and is responsible for the departments of policy study, FDI and ODI, the Belt and Road Initiative, and U.S.-China trade negotiations.

According to the NDRC, statistical data shows the trade conflict between the United States and China has limited influence on China's economy, employment, and inflation. "The tariffs applied on China's enterprises will transfer along the global value chain and finally be shared by exporters, suppliers, and purchasers globally." Mr. Ning said, "China will promote more deals of free trade agreements to stabilize foreign trade."

FANG Xinghai
Vice Chairman, China Securities Regulatory Commission (CSRC)

Mr. Fang was appointed Vice Chairman of the CSRC in 2015. He previously worked at the Central Leading Group for Financial and Economic Affairs, now the CFEAC. Mr. Fang is a protégée of Liu He's.

"Trump's trade policy and foreign policy have strong domestic political reasons," Mr. Fang said during a forum in July. "From my perspective, the imposition of higher tariffs is only the first step by the United States. Some people in the U.S. want to destroy such systems as WTO. But the questions are: how much will the U.S. economy suffer from the trade war, and how long can it stay strong."

Russia Sanctions in Focus on Capitol Hill

Earlier this week, the Senate Banking Committee convened another hearing on Russia and announced yet another Russia hearing for Sept. 12th. The flurry of activity on the Hill reflects the political interest of Congressional leadership in demonstrating attention to the issue prior to the mid-terms, as well as a genuine concern that existing U.S. sanctions have not been sufficient to deter future interference. The State Department and Treasury share the view that more action may be needed, but are concerned that rushed legislation may have unintended consequences, particularly sanctions directed at Russian energy exports and sanctions of Russian sovereign debt. Senators Rubio and Van Hollen have circulated a new, more moderate version of their Russia sanctions legislation, the Deter Act, to try to garner more support.

But, despite the flurry of activity, we remain skeptical that Congress will pass any new Russia sanctions legislation before the mid-terms. As we have reported (here and here), there is little appetite for new legislation among House Republicans, who don't want to risk a fight with President Trump just before the mid-terms. In the Senate, there is support among both Republicans and Democrats, but the legislative calendar is tight, particularly with the need to confirm a Supreme Court Justice and avoid a government shutdown. Absent some new earthshaking event (such as a presidential pardon of Manafort or a decision to fire Robert Mueller) we think the adoption of new Congressional sanctions before the mid-term remains unlikely.

New Administrative sanctions, however, remain a high possibility. State Department is under particular pressure from the Hill to adopt sanctions under section 231 of the Countering America's Adversaries Through Sanctions Act ("CAATSA") which requires the President to sanction persons who have engaged in a significant transaction with the Russian defense or intelligence sectors. The Administration is also reportedly debating whether to adopt an Executive Order to preempt the need for new, broader legislation. At a minimum, the Administration will adopt a second round of sanctions against Russia in November under 306(a) of the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991, which the U.S. invoked following the Skripal poisoning.

Meanwhile, Russian Central Bank Governor Elvira Nabiullina was in Washington for the 2018 Michel Camdessus Central Banking Lecture at the IMF. Though she was careful to avoid any overtly political points, she noted the risk geopolitics poses to the Russian economy including sanctions, trade wars, and potential currency wars, saying that these actions are "much less predictable, and subject to contagion and spillover effects which are often not clear ahead of time." Back in Moscow, Deputy Finance Minister Kolychev noted that the government would be willing to step in to the market to buy sovereign bonds in case sanctions hit: "In a very stressful scenario when we see the conditions of a market failure…the central bank and the government

have the tools to intervene on the open market to cushion the adjustment period."

Iran Sanctions and SWIFT

The U.S. Treasury and State Departments continue to work toward the reimposition of Iran sanctions on November 6th. In the immediate term, a serious fight is brewing between the U.S. and Europe on the access of Iranian banks to SWIFT. In 2012, a European Council decision prohibited SWIFT from providing messaging services to EU-sanctioned Iranian banks, resulting in the loss of access of Iranian banks to the system. As part of the JCPOA, the European Council decision was reversed, and the U.S. committed to refrain from imposing sanctions under section 220(c) of the Iran Threat Reduction and Syria Human Rights Act of 2012 (TRA) on non-U.S. persons who provide financial messaging services to the Central Bank of Iran or any Iranian financial institution not sanctioned for proliferation of WMD or international terrorism. Most Iranian banks regained access to SWIFT under the JCPOA.

Following withdrawal of the U.S. from the JCPOA, the U.S. is attempting to persuade SWIFT to expel Iranian banks once again, and some outside experts have suggested that SWIFT Board members could be sanctioned under the TRA for facilitating SWIFT's decision to allow access to Iranian banks. The State Department seems to be actively exploring implications of this move.

Europe updated its Blocking Statute, effective today. The Blocking Statute allows EU entities to recover damages arising from U.S. sanctions and forbids EU persons from complying with U.S. secondary sanctions unless authorized by the Commission. However, the Commission Vice President, Valdis Dombrovskis, noted earlier in the year that it could be of "limited effectiveness, given the international nature of [the] banking system and especially the exposure of large systemic banks to [the] U.S. financial system

and U.S. dollar transactions."

NAFTA 2.0: "Nothing is done until everything is done"

The last two weeks have seen a roller coaster of headlines surrounding the renegotiation of NAFTA. Last Monday President Trump announced a tentative U.S.-Mexico trade agreement in which key bilateral issues, such as auto sector rules of origin, were agreed on (see last week's Sticky Notes). Despite not reaching a definitive deal with Canada, on Friday, August 31st, President Trump notified Congress of his intent to sign an agreement "with Mexico – and Canada if it is willing." The letter of intent starts a 90-day notice period under the U.S. Trade Promotion Authority, allowing the deal to be signed by the current Mexican President, Enrique Peña Nieto, before he leaves office at the end of November. Holding to that timeline, all three parties now have the month of September to finalize remaining issues before making the agreement text public.

U.S. Timeline for Renegotiated NAFTA Agreement

Aug. 31, 2018	Congress notified of intent to sign agreement
Sep. 30, 2018	Release of agreement text
Nov. 29, 2018	Sign agreement
Jan. 28, 2019	List of required changes in law due
Mar. 14, 2019	USITC Report Due
2019 (TBD)	Congressional consideration, implementation

**Dates represent minimum statutory periods*
Source: Congressional Research Service, USTR, IIF.

Canada back in Washington. Although the Trump Administration has maintained that it is willing to sign a bilateral deal with Mexico, officials in Mexico, including Economy Secretary Guajardo, and members of U.S.

Congress have been vocal about the importance of Canada – granting Canada some leverage in the ongoing negotiations. Canada's negotiating team led by Foreign Minister Chrystia Freeland has been back in Washington this week to work out a deal with the U.S. side. The major roadblocks remain the Chapter 19 dispute settlement section and Canada's agricultural protections, while other issues such as patent protections for pharmaceutical drugs also remain. Prime Minister Trudeau reiterated the Canadian position on Chapter 19 this week, indicating that Canada won't sign a deal without the system. Differences aside, the mood surrounding the negotiations continues to be cautiously optimistic – with some suggestions that the U.S.-Canada discussions could conclude over this weekend, allowing Mexico's negotiators to come back to the table as soon as next week to work out the details in the trilateral agreement.

In other trade news, President Trump reignited his threat to withdraw the U.S. from the WTO if it doesn't "shape up". This threat has appeared from time to time since the early days of his campaign. It is more likely that this is still political rhetoric playing to his anti-globalization base than a substantive threat. There is no sign of anything brewing behind the scenes to actually pull out of the WTO. However, the relationship between the U.S. and WTO remains rocky. It was reported last Monday that the U.S. will block the reappointment of a judge from Mauritius to the appellate body. Barring a reversal in this decision, only 3 judges will remain after September 30th – the minimum number of judges to function on the body which holds 7 under regular circumstances. Without a reappointment, the appellate body will not be able to rule on any cases by the end of next year, with any recusals of remaining judges also strangling its ability to rule.

China's Big Investment in Africa

Earlier this week, Chinese President Xi Jinping committed a $60 billion package to Africa during the Forum on China-Africa Cooperation (FOCAC) in Beijing. The package, part of its Belt and Road initiative, consists of five parts: $15 billion in grants, interest-free loans and concessional loans; $20 billion in credit lines; $10 billion in equity funds; and $5 billion to buy imports from Africa. This latest package follows the 2015 announcement of a similar $60 billion initiative, which has been administered over the past three years.

The announcement reflects Beijing's continuing stake in African development – particularly focused on importing commodities and exporting surplus capacities. Both the China Development Bank and EXIM Bank have been busy on the continent, with the former lending $35.5 billion in loans to 500 projects in 42 countries, and the latter lending $56 billion to 600 projects in 48 countries. Likewise, the China-Africa Fund has committed $4.6 billion of equity investments in 92 projects in 36 African countries – with $23 billion in total investments leveraged on these equities. We will be including a special feature on China's investment in Africa in our upcoming October Capital Flows Report.

Influential academics and average onlookers on social media sites such as WeChat have questioned the decision in light of continuing domestic poverty, noting that $60 billion is equivalent to 0.5% of China's GDP, twice China's fiscal spending on elder care and two times the fiscal spending on healthcare.

P.S. Today is the 5th anniversary of President Xi's articulation of the Belt & Road initiative. To commemorate the special occasion, China's People's Daily created a music video set to the tune of "I'd like to buy the world a Coke".

Read of the Week: Fear

What DC Will Be Reading: DC is eagerly awaiting the release of Bob Woodward's *Fear*, available on Tuesday, September 11th. The esteemed investigative reporter has already drawn the ire of President Trump and the story is unlikely to die once the book is released.

An Alternate Universe: Reading an advanced copy of the book today, the Sticky Notes Team was struck by discussion in October of 2016 of a Mike Pence / Condoleezza Rice Republican ticket. Following the release of the Access Hollywood tapes, Woodward reports that then-RNC Chair Reince Priebus advised then-candidate Trump: "You either drop out right now or you're going to lose in the biggest landslide in American history and be humiliated for life.…I've got every leader, every congressman, every senator, everyone I care about on the Republican National Committee—they're going crazy. And they're telling me you're either going to lose big, in a massive way, or you need to drop out of the race." Priebus continued by saying that if Trump were to drop out, "Pence is prepared to step up, and Condi Rice will come in as his VP."