

April 3, 2018

Today's Driving Events

Trade Negotiations in Play as China Tariffs Readied: The financial markets responded well yesterday to news that President Trump's administration has opened negotiations with China that could potentially head off the prospects for a trade war. The negotiations come in the wake of Trump's announcement last week that he will levy tariffs of 25 percent on products worth as much as \$60 billion per year. US officials have a wide range of demands for the Chinese in exchange for halting the tariffs, including increasing market access for US companies, reducing tariffs on autos, and easing rules that require US companies to enter joint ventures to manufacture in China. The process to enact Trump's tariffs is continuing forward on a parallel path with the negotiations, and the administration has made it clear they will be implemented if the president is not satisfied with China's concessions. **A list of imports from China targeted by the office of the US Trade Representative (USTR) -- which is expected to include as many as 1,300 products -- is due to be published by next Friday, but could come as early as today.** Once the list is published in the Federal Register, impacted industries, companies, and other stakeholders will have 30 days to comment, and the USTR will hold a public hearing. The USTR will then have time to review the new information before publishing a final list of targeted products. **This means that US and Chinese officials can continue to negotiate for a few months at least before the tariffs are even set to take place.** This weekend's revelation that China and the US are attempting to reach an agreement on trade is not the only conciliatory move the Trump administration made this week. **As tensions have been cooling with US allies on steel and aluminum, the US and South Korea appear to have reached a deal to amend the US - Korea Free Trade Agreement (KORUS), with South Korea making concessions to limit its steel exports to the US and to accept more US auto imports.** Last August, Trump nearly withdrew from KORUS, and was only prevented from doing so by the intervention of former NEC Director Gary Cohn and National Security Advisor H. R. McMaster, both of whom are now on their way out of the White House.

FCC Joins Efforts to Counter China: Federal Communications Commission (FCC) Chairman Ajit Pai will release a proposal today to bar the use of FCC telecom subsidies for purchasing equipment or services from companies that could pose a national security threat. A senior FCC official told reporters that

the proposal would target telecom equipment and services from China and Russia, affecting companies like Huawei, ZTE, and Kaspersky Lab. It is expected to receive a vote at the commission's next open meeting, on April 17th. We expect the proposal will likely receive bipartisan support. Democratic FCC Commissioner Jessica Rosenworcel supported strong action to prevent foreign companies from interfering with US 5G development at an FCC meeting last week. "That means developing a real plan rather than relying on opaque decisions issued from behind the closed doors of the Committee on Foreign Investment in the United States," she said, referring to the committee that recently rejected Broadcom's (**AVGO**) proposed takeover of Qualcomm (**QCOM**) over concerns that the acquisition would slow 5G technological development, putting the US behind China. The FCC plan indicates broader government action to prevent Chinese investments and technology from entering the US -- although still stopping far short of the leaked White House proposal that suggested nationalizing the 5G network. The author of that plan left the White House soon after the leak and it is unclear if it is still under consideration in any form.

House GOP's Midterm Woes Continue with Another Retirement: Pennsylvania continues to be ground zero for House Republicans' midterm election challenges, as Rep. Ryan Costello (R-PA) this weekend announced that he would not run for reelection in PA-06, leaving [the Cook Political Report](#) to move the race rating from "Toss Up" to "Likely Democratic." With Democrat Conor Lamb winning the PA-18 special election in a Trump +20 district this month, **Democrats now need to flip just 23 seats in order to take control of the House, well within the historical average loss since WWII of 28 seats for the president's party in the first midterm.** [The New York Times indicated](#) that there are 48 congressional seats considered competitive, and 41 of these competitive seats are held by **Republicans.** Costello, who was seen as a moderate Republican and a rising star within the party, faced running in a newly redrawn PA-06 district that moved from Clinton +1 to Clinton +10. Still, Costello had the advantages of being an incumbent, including name recognition and a \$1.3 million war chest. In announcing his retirement, an exasperated Costello said, "Whether it's [President Trump's rumored affair with porn star] Stormy Daniels, or passing an omnibus spending bill that the president threatens to veto after promising to sign, it's very difficult to move forward in a constructive way today. ...Plus I think there is a lot of hate out there, from the left especially, and it's a very angry environment. It is a sad commentary on the state of our culture and political environment. It's not me doing it, but I am the one who gets the brunt of it." **Costello's retirement -- the 38th among Republicans compared to 16 for Democrats -- is a signal of the struggle House Republicans face in retaining incumbents in what both Republicans and Democrats view as a likely wave election year. While Republicans have a strong economy and a meaningful [structural advantage](#) of many gerrymandered maps across the country, Democrats are riding a wave of voter enthusiasm and major special election victories that have stemmed from the unpopularity of President Trump.** In order to counteract the Trump chaos narrative, Republican leaders have focused messaging on the December 2017 tax cuts. National Republican

Congressional Committee (NRCC) spokesman Matt Gorman said, "It's very clear that tax reform was going to be the biggest legislative crown jewel of this Congress. That is a massive centerpiece of our campaign." But such a focus has proven ill-advised as the tax cuts do not carry much emotional weight among voters. Rep. Charlie Dent (R-PA) said, "I think the bigger challenge for members is defining themselves. Members must develop their own brand for their district, if they haven't already, and then go out and sell it. Tax reform might be part of that brand, but boy, you better have a brand this year. If your brand is just generic Republican, that's going to be a problem." **Given the lackluster enthusiasm for tax reform, House Republicans may seek to bolster their conservative bona fides in order to drive out their base of supporters.** This includes releasing a part two of tax cuts and seeking to do welfare reform by increasing the work requirements for the Supplemental Nutrition Assistance Program (SNAP) in the farm bill. **However, such measures would purely be messaging ploys and not serious legislative proposals (at least for this Congress).**

Congress

The House and Senate are on Spring recess. The House will reconvene Tuesday, April 10th. The Senate will reconvene Monday, April 9th.

White House

Today, President Trump will sign a proclamation for "Education and Sharing Day." The president will then meet with Treasury Secretary Steven Mnuchin. In the evening, the president will have dinner with supporters at a private residence in Washington, DC.

Macroeconomic

At 11:00 a.m., Atlanta Federal Reserve Bank President Raphael Bostic will participate in a "Conversation with John Hope Bryant" at the HOPE Global Forums 2018 Annual Meeting in Atlanta, GA.

Energy

At 9:00 a.m., the Inter-American Dialogue will hold a discussion titled "Unconventional Oil and Gas in Argentina."

At 12:00 p.m., Americans for a Clean Energy Grid will hold a webinar titled "Transmission Needed to Meet Corporate America's Growing Demand for Renewable Power." [More information here.](#)

Geopolitical

At 11:00 a.m., the Johns Hopkins University Paul H. Nitze School of Advanced International Studies will hold a forum titled "The State of US-Russia Relations." [More information here.](#)

At 1:00 p.m., the Institute for Korean-American Studies will hold its Spring symposium titled "Korean Peninsula Issues and US National Security." [More information here.](#)

Healthcare

Today, the Department of Health and Human Services will hold a meeting of the Physician-Focused Payment Model Technical Advisory Committee to vote and deliberate on proposals for physician-focused payment models. [More information here.](#)

Tech-Media-Telecom

At 8:30 a.m., the Free State Foundation will hold its 10th annual Telecom Policy Conference. [More information here.](#) Expected participants include:

- Ajit Pai, chairman, Federal Communications Commission
- Brendan Carr, commissioner, Federal Communications Commission
- Michael O'Reilly, commissioner, Federal Communications Commission
- David Redl, administrator, National Telecommunications and Information Administration

