



## THE REAL DEAL

### ALL OUR EYES ON U.S. POLITICS

Democratic presidential candidates faced off for the second round of debates in late July, with twenty candidates taking the stage over two nights. While June saw positive momentum for U.S.-China trade talks heading into the summer, as the mercury rose so did tensions and the future of the talks is in doubt. In an encouraging trade development, the EU agreed to open its beef market to American farmers, defusing one element in a yearlong trade dispute between the two sides. On Capitol Hill, lawmakers left for the summer but not before striking a two-year budget and borrowing agreement and hearing directly from Robert Mueller. Sanctions legislation on Russia is also moving on the Hill and the Trump administration applied a new round of sanctions in response to the March 2018 chemical attack in the UK. Finally, it is not a good time to be “Big Tech” in Washington—large firms are facing increased scrutiny on Capitol Hill and the U.S. Department of Justice has launched a formal anti-trust inquiry.

### SECOND ROUND OF DEMOCRATIC DEBATES

Twenty Democratic candidates for president took to the stage for a second round of debates on July 30 and 31. On July 30 Senators Amy Klobuchar, Bernie Sanders, Elizabeth Warren were on stage with former Congressmen Beto O’Rourke and John Delaney, Representative Tim Ryan, Montana Governor Steve Bullock, former Colorado Governor John Hickenlooper, Mayor Pete Buttigieg and author Marianne Williamson. Warren and Sanders were broadly viewed as having strong performances and were able to fend off attacks from challengers—but the conversation illustrated a liberal versus moderate tension within the Democratic Party. Author Marianne Williamson warned of [“dark psychic forces”](#) in American politics and received a spike of Google searches and Twitter commentary.

The second night featured former Vice President Joe Biden, Senators Michael Bennet, Cory Booker, Kirsten Gillibrand, and Kamala Harris, former HUD Secretary Julián Castro, business leader Andrew Yang, Washington Governor Jay Inslee, Congresswoman Tulsi Gabbard, and New York City Mayor Bill de Blasio. Biden, the current front-runner, was under attack from nearly all of his challengers but escaped largely unharmed. Senator Cory Booker stood out when the debate addressed criminal justice reform, an issue that Booker has focused on during much of his time in the Senate—this gave him a chance to draw a sharp contrast between himself and Biden.

The next round of debates will be on September 12 and 13. In order to qualify candidates must get 130,000 donors and at least 2 percent support in four polls by the end of August. As of this writing, here is who has qualified so far: Biden, Booker, Buttigieg, Harris, Klobuchar, O’Rourke, Sanders and Warren.

### U.S.-CHINA TRADE TENSIONS RISE

U.S.-China trade talks resumed at the end of July. Treasury Secretary Mnuchin and U.S. trade representative Lighthizer met with their Chinese counterparts in Shanghai, the 12<sup>th</sup> such round and the first face-to-face negotiations between the sides since President Trump and China’s president Xi Jinping agreed to a truce in their trade war at the G20 meeting in Osaka. While the senior officials were in China, Trump suggested officials in Beijing were not negotiating in good faith and threatened to impose a 10-

percent duty on products on so-called “List 4” imported from China, effective on September 1. [List 4](#) covers the remainder of substantially all Chinese imports to the United States and includes large swaths of consumer products, such as [clothing](#) and [iPhones](#). Tensions continued to escalate as Beijing let the [renminbi fall](#) in what may be an effort to help Chinese business cope with U.S. tariffs and a manufacturing slowdown. Treasury responded by labeling [China a currency manipulator](#) for the first time since 1994; analysts saw this as a symbolic move that would serve as a political justification for more tariffs. The designation also drew criticism within the United States—former Treasury Secretary Lawrence Summers stated, [“there is no credible manipulation claim here.”](#) and former Treasury official C. Fred Bergsten [predicted that the Trump administration would have difficulty](#) convincing the IMF to take action. The future of the trade negotiations is in doubt and [Chinese state media questions](#) whether trade talks should continue—therefore it is not clear if they will send a delegation to Washington in September for a 13<sup>th</sup> round of negotiations.

## BUDGET DEAL STRUCK, LAWMAKERS DEPART FOR SUMMER

Members of the United States Senate and House of Representatives have departed Washington for the summer and are set to return in early September. Before departing, lawmakers struck a [two-year budget and borrowing agreement](#) that will increase government spending by \$320 billion and sets spending levels for House and Senate appropriators; the deal also suspends the [“debt ceiling”](#) through July 2021, thereby allowing the government to continue borrowing. The deal gives both Republicans and Democrats more money for their respective priorities, making it palatable to both—but the legislation was carried by Democrats, with about [two-thirds of House Republicans and 23 Senate Republicans](#) voting against the measure. While the deal averts a default on the debt, lawmakers must still pass roughly a dozen spending bills, or a package containing the various bills, by the end of the current fiscal year on September 30 in order to prevent a government shutdown.

## MUELLER TESTIFIES

Former Special Counsel Robert Mueller testified before the [House Judiciary Committee](#) and [House Permanent Select Committee in Intelligence](#) on July 24. In six hours of long-awaited testimony, Mueller mostly told committee members that answers to their questions were in his roughly [450-page report](#) or saying they were asking about matters he couldn’t, under Justice Department restrictions, discuss. House Democrats came into the hearings with a simple game plan: have Mueller confirm what he wrote in his report in an effort to make the case for impeaching Trump and chose a prosecutorial and straightforward style of inquiry. Republicans chose to attack Mueller personally and his investigation more broadly, occasionally reverting to conspiracy theory talking points, and trying to generate moments that would go viral. While the hearings were mostly political theater, Mueller used his testimony and sound the alarm over the threat posed by Russia, stating: [“Over the course of my career, I’ve seen a number of challenges to our democracy. The Russian government’s effort to interfere in our election is among the most serious.”](#)

## TRANSATLANTIC TRADE

The United States and Europe [reached an agreement](#) in early August to “lower trade barriers in Europe and expand access for American farmers and ranchers” according to Trump. Under the deal, the EU will accept 45,000 tons of hormone-free beef from foreign countries every year, and America will be allowed to fulfill 35,000 tons of that quota after seven years—roughly 80 percent of the total. Trump said in the first year duty-free U.S. beef exports to the EU will increase by 46% and over seven years will rise 90% further. While the beef deal is a positive development, the transatlantic trade picture is not entirely rosy—a WTO arbitrator will soon announce the amount of retaliation the U.S. can impose on the EU because of the case the U.S. won against EU subsidies for Airbus. This could certainly complicate relations as the [amount could be in the billions](#) and the EU may soon be authorized to retaliate in its parallel case about American subsidies for Boeing. Trump [also continues to threaten tariffs](#) on European automobiles.

## RUSSIA SANCTIONS

On August 2, the Trump administration [announced a new set of sanctions](#) against Russia in response to the March 2018 chemical attack inside the United Kingdom. The sanctions are required by the [Chemical and Biological Weapons Act of 1991](#) and include prohibition of U.S. banks from lending money to Russia (including purchasing Russian government bonds); opposition to the extension of any loan or financial or technical assistance to Russia by international financial institutions, such as the World Bank or the International Monetary Fund; and export licensing restrictions. In addition, on July 31, the Senate Foreign Relations Committee advanced the [“Protecting Europe’s Energy Security Act of 2019”](#), a measure that would impose sanctions on companies operating vessels that lay pipes for the Nord Stream 2 and TurkStream pipelines.

## DEPARTMENT OF JUSTICE LAUNCHES INQUIRY INTO BIG TECH

The U.S. Department of Justice opened a [wide-ranging antitrust inquiry](#) into whether large technology firms are unlawfully stifling competition. Justice will look into how the platforms achieved their market power, and whether they were “engaging in practices that have reduced competition, stifled innovation or otherwise harmed consumers”. While not mentioned by name, the statement said it would look into concerns about “search, social media and some retail services online”, suggesting the targets are Google, Facebook and Amazon. The Justice announcement comes just one week after members of Congress questioned representatives from tech companies—including Amazon, Apple, Google and Facebook—at an [antitrust hearing in the House Judiciary Committee](#).

## PERSONNEL MOVES

*Defense Department* – **Mark Esper** was confirmed as secretary, **General Mark Milley** was confirmed as chairman of the Joint Chiefs of Staff and **David Norquist** was confirmed as deputy secretary.

*Intelligence Community* – **Dan Coats**, Director of National Intelligence, resigned.

*Labor Department* – **Alex Acosta** resigned as secretary, **Eugene Scalia** was nominated to succeed him.

*U.S. International Development Finance Corporation* – **Adam Seth Boehler** is the choice to be CEO.

*United States Trade Representative* – **Khalil Gharbieh** is now the deputy USTR for investment. **Michael Rogers** is the director for Europe.

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