Center for Strategic and International Studies

The Trade Guys Podcast

"Counting Down to Tariff Time"

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SCOTT MILLER: I'm Scott.

WILLIAM ALAN REINSCH: I'm Bill.

MR. MILLER and MR. REINSCH: (Together.) And we're The Trade Guys.

(Music plays.)

H. ANDREW SCHWARTZ: You're listening to The Trade Guys, a podcast produced by CSIS, where we talk about trade in terms that everyone can understand. I'm H. Andrew Schwartz. And I'm here with Scott Miller and Bill Reinsch, the CSIS Trade Guys.

In this episode, The Trade Guys look ahead as the deadline to impose tariffs on China approaches quickly. Billions of dollars of tariffs are scheduled for auto parts, farm crops, medical devices, and the like. This has businesses bracing for major disruptions.

MR. MILLER: We know that there is a problem with overproduction of Chinese steel. Applying import tariffs is going to end up hurting more of our businesses than it's going to help.

MR. SCHWARTZ: Businesses are scrambling to rush shipments to try to beat the clock. China says it's prepared to respond immediate with equivalent tariffs on U.S. products like soybeans, which could hurt American farmers big time. So what happens next? Why now? How would it affect businesses? How would it affect consumers? And what's Congress' role in all of this? We put it to The Trade Guys.

Big tariff deadline at hand, businesses are bracing for the fallout at, what is it, 12:01 Eastern time Friday. That's coming up quickly. Yeah, 13 hours if you're just tuning into The Trade Guys. Barring a last-minute reprieve, the U.S. is set to impose $34 billion in tariffs on imported Chinese machinery, auto parts, medical devices. And China said it's prepared to respond. So what's going on here? I mean, this is – this is getting pretty tense.

MR. REINSCH: Well, the first thing to remember, I think, is this is a five-act play, not short attention span theater. There are many –

MR. SCHWARTZ: Why, because it's a long – it's a long play?

MR. REINSCH: It's going to play out over a long time. Not just – you know, it's not just one move. And whether it's a tragedy or a comedy we'll – you know, we'll I think find out later. In the short run, it's really, I think, uncharted territory in many ways, because most of these things get to the threat stage or one round stage, and –

MR. SCHWARTZ: And then people back off.

MR. REINSCH: And then people back off. This time Trump has threatened to go to round two, to add another 200 billion (dollars). We'll see if he does it.

MR. SCHWARTZ: I read that he's prepared to go another 400 billion (dollars).

MR. REINSCH: I saw that too. And I – Scott, do you know the basis for the 400 (billion dollars)? I couldn't figure that out.

MR. MILLER: I don't. I can't find any reference to it in any of the investigations. And it seems like a very large number given the total scale of our imports from China, but –

MR. SCHWARTZ: I mean, was this just a tweet, or is it – or?

MR. REINSCH: It was – no, it was a newspaper story that didn't reference – didn't reference him. It purported to be a compilation of previous threats. But the previous threats were 50 (billion dollars), 34 (billion dollars) or which is today and 16 (billion dollars) will be sometime in the future. And then the threatened another 100 (billion dollars). And then the threatened another 200 (billion dollars). But that only adds up to 350 (billion dollars), max.

MR. SCHWARTZ: And as you – and as you said, usually there's a threat, a threat, and then there's a backing off, and then there's a coming together. But that's not happening here.

MR. REINSCH: I think not right now, no. It appears that it's definitely going into effect and there's going to be some pain, no question.

MR. MILLER: Yes. And not only will the U.S. tariffs go into effect, but China's retaliation will go into effect. Also, by the way, don't forget, Mexico beings their retaliatory tariffs for the steel and aluminum actions that Canada began last week.

MR. SCHWARTZ: All right. But hold on. Time out a second. Bill, you just mentioned pain. Pain for who? Pain for Americans? Pain for America?

MR. REINSCH: Yes. Well, pain for Chinese. But from our perspective probably more important, pain for Americans because, first of all, the Chinese are going to retaliate –

MR. SCHWARTZ: Definitely more important. We care – I mean, so.

MR. REINSCH: So the soybean people are going to be unhappy, the pork people are going to be unhappy, the aircraft people are going to be unhappy. But more complicated, and we were – Scott and I were just talking about this in advance, is the effect on supply chains. You know, Trump is thinking of a world where, you know, you make it here and ship it there, and you make it there and ship if here, and you just put tariffs on, you know, and you reduce some of that. But the truth is now everything is made everywhere. And he's putting tariffs on parts and components.

MR. MILLER: Right. To put a dimension on that, Bill's right 40-50 years ago what people traded were finished goods and agriculture. That was most of what was traded worldwide. So you made something, a completed product, and traded it. Or, you had an agricultural product that you traded. Today, a fast majority of the – of the growth in trade came in what are called intermediate goods. This is a reflection of sort of global supply networks, which we've talked about before.

MR. REINSCH: Something like, what, three-fourths of our trade is intra-company, right?

MR. MILLER: Yes. Well, a lot of it is managed by firms. Almost 80 percent of trade worldwide, according to UNCTAD is firm-directed.

MR. SCHWARTZ: OK, but today we're talking about – Chinese tariffs would cover 445 categories of U.S. products while the U.S. tariffs would cover 818 categories of products from China. So this is a lot of stuff.

MR. MILLER: Right. Well, these are tariff lines, but the intricacy is that half of what the United States imports, a trillion dollars of our 2 trillion (dollars) in imports worldwide are intermediate goods. They are materials, parts, tools, sub-assemblies that go in for further production in the U.S.

MR. REINSCH: Stuff you use to make something else.

MR. MILLER: You use the stuff to make something else. Consumers don't see it, but manufacturers will be tearing their hair out because their ability to get supplies – the components and ingredients they're going to need to run their business is going to be compromised. And this is going to disrupt a lot of – a lot of companies and their purchasing plans. You will have to find new suppliers. You' will have to evaluate potential substitutes. It's going to be a mess. And in the meantime, nobody really knows how to price to react to that.

MR. SCHWARTZ: Well, what do you mean? I don't quite understand how someone could react to that other than by individual products. So for instance, the soybeans, China imported 14 billion (dollars) in U.S. soybeans last year. If there's a tariff on U.S. soybeans, farmers in the United States are going to get hurt. And you can't deny that.

MR. MILLER: That's true, but there are 700 tariff lines in chemicals. So 700 different types of chemicals in trade. And among those 700, your company may only use eight or nine. So if three of the eight are on the list, you've got a problem with three. If eight or nine of the nine are on the list, you've got a much bigger problem in terms of your supply chain.

MR. SCHWARTZ: All right. Well, this sounds like this is going to keep a lot of trade lawyers in business.

MR. MILLER: Well, it keeps all the operations people up at night trying to supply their factories and stay in business.

MR. REINSCH: So we – yeah, we were just talking earlier about the simple example of soybeans. So it appears that what's going to happen on soybeans is because U.S. exports will be blocked, U.S. farmers lose. Brazil is a big winner because they're a big soybean exporter. In fact, they are now projecting they're going to be exporting so many soybeans to China they don't have enough for their domestic market. So they're going to be importing soybean meal from Argentina to feed their poultry, basically. So Argentina wins. Brazil wins in unexpected says.

MR. SCHWARTZ: And the U.S. loses.

MR. REINSCH: And the U.S. loses. The supply chains get really complicated in things like that. I mean, for Brazil it's a bonanza. You can ship all this stuff to China and make a lot of money, to the point where you're shorting your own guys. And so then you've got to come up with it from a third country. So Argentina ends up a winner too, unexpectedly.

MR. MILLER: For the Brazilian domestic market.

MR. SCHWARTZ: OK, so explain to me then why we're doing this. I mean, certainly Brazil needs a boost to their economy. But the U.S. doesn't need our farmers being hurt big time. So why are we doing this?

MR. REINSCH: I don't think because we're nuts is a good enough answer. (Laughs.)

MR. MILLER: No, I – look, I think the president is always looking for leverage in any transaction that he makes. This is – and he's got a long sort of –

MR. SCHWARTZ: And he's willing to bet our farmer's pain on this?

MR. MILLER: Well, he's been –

MR. REINSCH: He's betting that the Chinese will fold before we do.

MR. MILLER: Yes. He is trying to acquire enough leverage to get what he wants out of the negotiation, which is still unclear. And first, it's unclear that he will actually gain the leverage. And second, unclear exactly what he wants in the negotiation. So hard to predict from that standpoint.

MR. SCHWARTZ: So do we think that he's right, that China is going to fold?

MR. REINSCH: I don't think so. I mean, it really is one of these – you know, when you're in third grade one of these staring contests to see who can look at you the longest without blinking.

MR. SCHWARTZ: Wow. Oh my.

MR. RESINCH: And that's what we're going through. And I think both sides are misestimating the other. I think the Chinese believe that we will fold first. And Trump clearly believes the Chinese will fold first. That's a recipe for an extended trade war, which is why we're worried about it.

MR. MILLER: That's why the five acts comment that Bill made is probably right. And whether it – whether it turns into a farce or whether it's a real tragedy remains to be seen.

MR. SCHWARTZ: What are some of the other industries that are really going to get dinged on this?

MR. MILLER: Well, the story today about cheese that I found fascinating – first of all, I didn't know this much about cheese, but –

MR. SCHWARTZ: Everybody loves cheese.

MR. MILLER: Everybody loves it. Now, the U.S. dairy industry, apparently, has become quite productive in its exports of cheese. First of all, milk consumption – because we have fewer young people in America than we did, you know, in generations before, there's less whole milk or fresh milk consumption. Which means dairy operations are producing less fresh milk and more cheese. The U.S. cheese industry has done a wonderful job of finding export markets. And in fact, in April of this year U.S. exports of cheese set an all-time record. So we're supplying important markets like Mexico and

China, which both have put on their retaliation list cheese. So there's now a 25 percent tariff on cheese to Mexico. And China has included by cheese and whey, which is a byproduct of cheese used in animal feed, on the Chinese retaliation list against the United States.

MR. SCHWARTZ: Now, I'm guessing there's a lot of cheese-heads in Speaker Paul Ryan's district.

MR. MILLER: Yes. And there's a lot of them out there in general. Prices for the benchmark cheddar cheese is now at its lowest since 2009. And, believe it or not, our own U.S. Department of Agriculture collects data on the amount of cheese in storage. And there is 1.4 billion pounds of cheese in storage in the United States right now.

MR. SCHWARTZ: So we have a big surplus of cheese.

MR. MILLER: Yes. There's a warehouse somewhere that's really bursting at the seams. But this is going to be –

MR. REINSCH: There's got to be a pun in there somewhere.

MR. MILLER: Somewhere there's a wonderful joke on cheese. (Laughter.) But in the meantime, what's going to happen is Mexican – the Mexican demand is going to be satisfied by other markets, probably Europe. Now, here's the supply chain effect. Once those Mexican customers experience and build a new relationship with a supplier in Europe instead of the United States, what happens when the tariff is lifted? Well, the Mexican importers have a choice now. Do I want to go back to American cheese or am I happy with my new European supplier?

MR. SCHWARTZ: I mean, you can't have fajitas without cheese, everybody knows that, tacos without cheese. So if there's a lot of Mexican food being made in Mexico, and definitely a lot of Tex-Mex food being made in the United States.

MR. MILLER: It's a very important market for the United States, right.

MR. SCHWARTZ: Right. So what's going to happen here?

MR. REINSCH: Well, it's what Scott says. They might very well like French cheese better. And you know, once lost – once market share is lost it's hard to get it back.

MR. SCHWARTZ: It doesn't feel like French cheese – it doesn't feel like French cheese goes with fajitas, though.

MR. REINSCH: Oh, picky, picky. (Laughter.)

MR. MILLER: Look, exporters are exquisitely sensitive to the demands of their customers. And the key thing to remember is substitutes are always available. No one in China has to buy an American-branded car. No one in Mexico has to eat American-branded cheese. OK, and once the substitutions are made, consumers may or may not come back to their original pattern.

MR. SCHWARTZ: So we may lose customers for good because of this. This is what you guys are worried about.

MR. REINSCH: Well, yes. And there's another threat here, just to make it even more complicated. Mexico right now has been prompted to negotiate a trade agreement with the EU, because they have concerns about the U.S. as a supplier, which is what we've just been talking about. So they're negotiating, as the Canadians just did, a free trade agreement with the European Union. One of the things the European Union insists on in its trade agreements is recognition of what they call geographical indications, which are brand names that are tied to a location.

MR. SCHWARTZ: OK.

MR. MILLER: Think of parmesan.

MR. REINSCH: Under European rules, you can only call it parmesan cheese if it comes from that –

MR. MILLER: Region of Italy.

MR. REINCH: -- region of Italy where Parma is.

MR. SCHWARTZ: Got it.

MR. REINSCH: The same for romano. The same for, I guess, gorgonzola.

MR. MILLER: Yes.

MR. REINSCH: And the Europeans insist on this because, from my point of view, this is a protectionist tactic on their part because it precludes American parmesan cheese or American romano cheese from getting into the market. If the Mexicans accept those European requirements as part of the free trade agreement, then our guys are wiped out permanently.

MR. MILLER: Yeah, life is more difficult for them for the foreseeable future, U.S. exporters, because they no longer meet the requirements of what would now be Mexican law regarding cheese names. They got to find another name for parmesan.

MR. REINSCH: They have to – yeah, they can't call their cheese parmesan anymore. It can be the same cheese, but it has to have a different name, which means they have to build up brand loyalty from scratch all over again.

MR. SCHWARTZ: A whole new brand, right. And everybody knows parmesan cheese. That's a pretty strong brand.

MR. MILLER: That's why the Europeans are doing what they're doing.

MR. REINSCH: That's why they want to protect it, yes.

MR. SCHWARTZ: All right. I have somewhat dumb question. What happens to wine? Cheese goes with wine. We produce a lot of wine.

MR. MILLER: Well, there are already rules on wines in terms of place names. So California chardonnay is a place name that's protected. But Chandon Napa, which is the grapes from Moet & Chandon in the Champagne region of France is called sparkling wine not champagne – actually, wine and spirits have absolutely protection for place names. So Europe's goal is to expand beyond wine and spirits to use these place names based on their origin. But we've been resisting it. But when we're – when we're not a good trading partner, our partners, like Mexico, are inspired to act in ways that protect their interests and they wind up talking to the Europeans about these things.

MR. SCHWARTZ: All right, but back to the U.S. and China in particular, the world's two largest economies are linked. This is not linked. They're being delinked here. What's –

MR. REINSCH: Exactly. Exactly. It's unraveling the fabric that ties us together.

MR. MILLER: And keep in mind, these are not connections made by government. These are connections made by thousands and thousands of individual purchasing decisions by individual businesses.

MR. SCHWARTZ: And so what's going on in China? Are they worried? I mean, there are a lot of people worried here in the United States?

MR. REINSCH: I think their government is telling them not to worry.

MR. SCHWARTZ: Sit tight.

MR. REINSCH: It's not – it's not a democracy, so they don't have as much to say about it as Americans do. I think that one of the things that could happen here that we're also afraid of from sort of a political sense is that the Chinese have not been reluctant in the past to play the nationalist card and encourage consumer boycotts.

MR. SCHWARTZ: Well, you know, it's interesting, the Chinese commerce ministry spokesman said before a packed house of news media in China on Thursday: The U.S. is firing shots to the world, including to itself. So they're telling their people that we're committing suicide over here by doing this, is what they're saying.

MR. MILLER: There are patterns that would account for them being pretty resilient to these things. For instance, 2010, there was a fishing vessel, a Chinese fishing boat in the Senkaku Islands, which is disputed territory –

MR. SCHWARTZ: Right, in the South China Sea.

MR. MILLER: That ran into a Japanese coast guard vessel. All right, and in the wake of that incident, it just happened that China stopped exporting something called rare earths, which are very important ingredients and materials used in electronics.

MR. SCHWARTZ: iPhones and things like that, right?

MR. REINSCH: iPhones.

MR. MILLER: Right, OK, which was very harmful to Japan's interest. It just happened that a lot of the rare earths mines were in China. And they just decided to stop exporting for a while. OK, so this disruption, if you look at trends in Japanese nameplate motor vehicle sales, they dropped after this incident in China. So there's a lot that goes on behind the customs agent who is charging the higher tariff in terms of how retaliation happens. And as Bill points out, authoritarian governments like China can do things that democratic governments find really uncomfortable.

MR. REINSCH: We're already seeing it. Today's story was that there was a shipment of American cherries – Washington State is a big cherry exporter – that arrived in China and was held at the dock for inspection for a week. They all spoiled and were sent back.

MR. SCHWARTZ: Yeah, I was going to say, cherries sitting on a dock in China for a week don't sound like cherries that anyone would eat.

MR. REINSCH: And the debate that's going on is was this intentional on the part of the provincial authorities or was this intention on the part of the national government. Nobody thinks it was an accident. The question is, who did it?

MR. SCHWARTZ: Well, and you guys have been saying – right. And you guys have been saying, on The Trade Guys, this is the kind of thing that's going to happen.

MR. MILLER: Exactly. Exactly.

MR. SCHWARTZ: That there's going to be – China can hold up inspections. China can act unilaterally. The United States can't exactly act unilaterally because the president can say something but Congress has a lot to say about it. And it even sounds like there's some infighting continuing in the Trump administration about what to do. What are you guys hearing about that?

MR. REINSCH: Infighting? Well, I think it's been temporarily papered over, but it will come back. It will come back for the reason Scott said in the beginning, which is it's not clear what we want. And it's hard to settle a war unless you know what the terms are. And you've got two different groups inside the administration who want – one wants to focus on the technology issues, as we've discussed before. And the other is happy to cut a market access deal and make all this go away. And Trump has papered over this so far by saying: I want both.

MR. SCHWARTZ: And who are the groups in the White House?

MR. REINSCH: Well, we think they are Mnuchin and Ross on the market access side, Navarro and Lighthizer on the tech transfer/IP theft side. Is that a fair –

MR. MILLER: That would be my understanding as well. But the key thing – and Bill pointed this out and it's consistent with my conversations – is when you ask administration officials what it is they want, what's the goal, what are you trying to accomplish, you get different answers. So infighting aside, until they come up with a consistent answer about what the solution looks like, they're not going to be able to prosecute this conflict in a way that makes any sense to the outsiders.

MR. SCHWARTZ: And what's happening on the Hill?

MR. REINSCH: There are rumblings of discontent. Scott and I have been discussing this. I have colleagues who believe that – and I think we said this before – that the Republicans will never stand up to him on trade because his base is their base, and they're afraid. There's going to be a lot of moaning and whining. You hear that every time. It's painful to watch Ways and Means Committee Chairman Kevin Brady, or it's painful to watch the speaker talk about these issues, because you know they're unhappy with what the administration is doing. They are free traders. They've been free traders forever. They're appalled. But they're unwilling to just stand up and say: This is idiotic.

MR. MILLER: Because their voters aren't unhappy, because they have Trump voters.

MR. SCHWARTZ: OK. So this is a question. Are their voters going to get unhappy? Because it seems to me that we already talked about cheese in Wisconsin. There is going to be autos in Ohio. There is going to be soybeans all over the West and the Midwest. Their constituencies are going to get hurt. Their farmers are going to get hurt, manufacturers are going to get hurt, all in the name of trying to level the playing field, trying to maintain some leverage. Meanwhile, in the short term, people are going to get hurt. And when people get hurt economically, what happens? They go to the polls.

MR. MILLER: We'll find out. I think now we can safely say we're at the end of the beginning. We're moving onto a stage where this is going to be real in people's – companies' bottom lines and consumers bottom lines. So, you know, you can look at it. If you were buying a house a year ago you would have paid $9,000 less for lumber than you do today. The reason you do is because of tariffs on Canadian softwood lumber.

MR. SCHWARTZ: So it's not insignificant.

MR. MILLER: These things – these things do show up in consumers' bottom line. And they certainly show up with the companies. But we'll find out. We're going to talk in an upcoming episode with a representative of the State Farm Bureau, which will give us an insight into how this is playing out in detail. But we're now – we're at such early stages, there's a lot of difficulties in meeting demand and frustration with the operations people. We haven't seen this translate into political momentum yet.

MR. REINSCH: If I were going to see a tipping point, I think it will be cars. My wife bought a new car yesterday, so this is on my mind. And she bought a Prius, which is what she already had. That's what she wanted to get. Prius' are 100 percent imported. So if the tariffs go into effect, well, she bought it yesterday so it doesn't matter. But if the tariffs go into effect, that car would have cost more than -- $6,000 more than she paid for it.

MR. SCHWARTZ: Again, not insignificant. That's a lot of money.

MR. REINSCH: Not a small amount of money. And it would have caused – I think, knowing her, it would have caused her to think twice about whether she wanted to buy a new car at that point.

MR. SCHWARTZ: And it would have annoyed you, I'm sure.

MR. REINSCH: It would have annoyed me. It would have annoyed me writing the check. But also, she wanted a Prius. This is not a case of I want a new car and I'll take the cheapest one. She has a Prius, she likes it, she wanted to get another one. The consequence of a $6,000 price increase I don't think would have pushed her to Ford or Chevrolet. I think it would have persuaded her to wait another year.

MR. SCHWARTZ: Well, and that's what the president says he's trying to do, right, is that he's trying to push Americans to not buy a foreign car, and instead buy something made here.

MR. MILLER: Or, again, this is the mentality that – we're straight out of the 1970s, and no longer reflects today's reality. The car – at least last year, I don't know this year's – but the car with the most U.S. content is a Toyota Camry assembled in Georgetown, Kentucky. Brand name an origin are not the same thing these days. Cars are made on planet Earth, for practical purposes. And every manufacturer is global. Every manufacturer has global supply networks. And this is why you saw last week in the public comments on the proposal for tariffs on autos every manufacturer, every association came out against it. There is not a constituent for this particular policy.

MR. SCHWARTZ: Well, and Germany's Daimler and BMW are annoyed. The U.S. sells a lot of sport utility vehicles in China. What are the car manufacturers going to do here? I mean, it's going to turn their world upside down, I'm assuming.

MR. MILLER: Well, they'll sell fewer. Certainly with both BMW and Daimler export sport utility vehicles from the United States to China, OK? So they will have to look for production elsewhere, much as Harley-Davidson looked for production outside the United States to deal with European tariffs.

MR. SCHWARTZ: So does this all translate to loss of jobs and an economy that's not booming?

MR. REINSCH: I think it will. I think, you know, some of this is politics and some of this is economics. I mean, one of the things that occurs to me, if Daimler and BMW, which have huge plants in South Carolina and Alabama, were to announce we're laying off 3,000 people at each one because of this, I think that would have a rather significant political impact. There were some people – there's some people that have done a study of what the overall impact would be. If all of the threatened tariffs went into effect, what would be the impact on the economy? And basically, they were trying to look at the extent to which it would offset the favorable economic impact of the tax cut. And their conclusion was it would reduce the impact of the tax cut by about one-fourth.

MR. MILLER: And keep in mind at the moment you have two dampers.

MR. SCHWARTZ: So does that mean you still come out ahead, though, in their view?

MR. REINSCH: From their point of view, net of tax cut and trade, yes. But you're going to lose several hundred thousand jobs in the process.

MR. SCHWARTZ: OK.

MR. MILLER: You're worse off than you would have been without the tariffs, put it that way. But keep in mind, there are two dampers right at the moment that will moderate the effect on the economy of the tariffs. The first one is the fact the economy is at a sugar high right at the moment from tax cuts and federals spending, all right? That's what's propping it up now. It's a big effect. It's a much larger effect than the tariffs. Second, you have extraordinarily low unemployment, historically low unemployment, which means firms that have tried to retain employees will be unlikely to lay off – or, less likely than if they had slack capacity.

MR. SCHWARTZ: But as you guys have pointed out, wages have been flat, stagnant. Wages are not rising.

MR. MILLER: Yes. But if you're working for Daimler in Alabama or for BMW in South Carolina, your – the people who manage those facilities probably want to keep the employees they have. They're not interested right at the moment in layoffs, certainly not to send a political signal. But it's really too difficult for them at the moment to find and attract and retain new employees, that they don't want to lose their old ones. So that'll create – what I'm just suggesting is that creates some stickiness in job markets that means we're unlikely – in my view, unlikely to see the tariffs cause a big dislocation in employment.

MR. SCHWARTZ: All right. So we are talking about something that is going to happen overnight probably. It's going to go into effect overnight. Are we going to feel any immediate effects of that? Is the market – the stock market going to be topsy-turvy tomorrow? Re real people going to feel this $34 billion tariff tomorrow?

MR. MILLER: Markets have shrugged this off so far.

MR. REINSCH: I just – let me add a data point. So I've been busy here looking up what I just asserted. And this thing that I talked about is a study by the Tax Foundation, which said that if all the tariffs announced thus far were fully enacted by the U.S. and the foreigners, U.S. GDP would fall by $110 billion in the long run, effectively offsetting one-quarter of the long-run impact of the tax cuts. Wages would fall by 0.31 percent. And employment would fall by 341,459. Amazing how they can predict it down to the individual job.

MR. MILLER: Down to the job.

MR. SCHWARTZ: Sure is.

MR. REINSCH: That's not peanuts.

MR. SCHWARTZ: Right. And does that translate to an American public that's hurting? It seems to me that people are going to be hurting in the stock market, people who are in the stock market, and people are also going to be hurting who have – are losing their jobs. People are going to be hurting who can't buy the cars they want to buy. Where do – point out somehow that there is some long-term benefit here, because I – from what you guys are saying, I don't see one.

MR. MILLER: What there needs to be, more than a long-term benefit, is a management strategy, which any of us – you know, Bill and I that study these things quite carefully – we can't figure out exactly where this is headed, where this is leading. If we had a better idea where it as leading, you'd have a better ability to judge the political impact of this. But that's – for me, that's the mystery in all this.

MR. REINSCH: No more to be said. I agree.

MR. SCHWARTZ: So, again, though, are we going to feel this overnight?

MR. REINSCH: You'll feel the cars overnight. That's why I focused on them from a political standpoint. The farmers are already feeling it. I think the rest of the stuff is going to be more like sand leaking out of the bag. You know, it's not necessarily going to have a dramatic, you know, today everything's fine and tomorrow everything is a disaster impact, because the economy doesn't happen that way. The market has – you know, there was a huge market drop a week ago in anticipation of some of this stuff. And the market is really – it's back up today, at least as of this morning. You know, it's down from January. The whole – the overall. The indexes are down from January. But we have not yet had the, you know, 1(,000)- or 2,000-point reduction in the Dow at one time that would really shake people up.

MR. MILLER: Keep in mind that what we import and what we make this economy is rich and complicated and has a lot of different sources and a lot of different suppliers, as well as customers. So while we heard of a nail plant that could no longer get steel to produce nails, it's not like consumers can no longer buy nails. In fact, they're buying imported nails instead of American-made nails that were supplied with imported steel. So these kinds of – these kinds of circumstances will happen all over the place. It's, frankly, way too complex to figure out exactly how it will shake out. And keep in mind, within each of these firms there are people trying to ameliorate the effects. They're looking for different suppliers, looking for substitutes, they're looking for alternatives so they don't have to disappoint their customers. It's a lot of that just kind of dampens the headline effect of all this.

MR. SCHWARTZ: So what are you both watching for in the next couple weeks here with this?

MR. REINSCH: I'm watching for pain stories, because the reporters are going to be looking for those, companies that will be laying people off, companies that will be closing down, companies that suddenly cannot get what they need in order to make their product. Those will start to come out probably within a few days of tomorrow. And the reporters will ferret them out. I mean, this will be fake news in Trump's land, but they're looking for it.

MR. MILLER: They're looking for it, yeah, right. They're looking for the stories.

MR. REINSCH: And there'll be real news. If a company says I'm laying off 300 people, I'm inclined to believe that that's what they're going to do. So I'm looking for pain stories. I'm looking to see at that point if anybody from Congress actually stands up and wants to do anything. So far just rhetoric, but we'll see.

MR. MILLER: For me, I'm waiting for the August recess where the House will actually have a month back in the district with their constituents.

MR. SCHWARTZ: Right, and they'll hear from their constituents.

MR. MILLER: And how those town meetings go, and what they hear, and how the news plays out at the district level will influence the politics back in September.

MR. REINSCH: Right. The Senate is going to avoid that by staying in two three of the four weeks in August. But the House has always been a better thermometer of the public mood anyway.

MR. SCHWARTZ: And the House is at risk here for the Republicans.

MR. REINSCH: They're up every two years, and they're much more at risk.

MR. MILLER: Well, the fact that you face the vote – that every House member faces the voters every two years makes them exquisitely sensitive to public opinion on matters. And that's why they're the real barometer in my book.

MR. SCHWARTZ: And we saw today a story that said that turnout is going to favor – so far, it's predicted that turnout's going to favor the Democrats in the 2018 midterm election. Is that going to scare Republicans?

MR. REINSCH: Well, I think they're already running scared. It's complicated, though, because, you know, you may get – you know, one of the problems of redistricting and gerrymandering is that Republican and Democratic voters are concentrated in districts. So you may get an enormous Democratic turnout in districts that are already safe Democratic districts. And they're going to elect the same people that are in now. The places to watch are basically, I think, suburban districts where you have moderate Republicans, you have a lot of women voters who have been less Trump supporters than men.

MR. MILLER: And you have political competition.

MR. REINSCH: And you've got more competitive districts. So look around Philadelphia, particularly because Pennsylvania's just been redistricted into actual less gerrymandered districts. Look around Philadelphia. Look around Chicago. Look in –

MR. MILLER: Yes, Southern California, Orange County.

MR. REINSCH: Look in Orange County. Look in suburbs of New York and Westchester, and going north from there and across the river, and see what's happening there.

MR. SCHWARTZ: You know, but I can't tell, when it comes to a state like Ohio, where both senators are against the president's trade efforts, the state is full of manufacturing – whether it's GE or Ford, or farmers. And yet, it seems like the support is still behind the president. I can't figure that out. They're going to hurt directly. Their senators who are, as you guys said, even though they're not people of the House they both are exquisitely attuned to their constituents – I think both Sherrod Brown and Rob Portman, both who know a lot about trade. When you look at a state like Ohio –

MR. REINSCH: Scott's the Ohio expert.

MR. MILLER: Look, as I mentioned earlier, we're at the end of the beginning. We're going to find out a lot about how these tariff effects play out in actual purchasing decisions and actual responses over the next six or eight weeks. We're just getting started with this. And so I want to watch it, but that's, of course, I'm not a political consultant. I'm a trade guy.

MR. SCHWARTZ: You are a trade guy, but it's fascinating, though, because as a trade guy you're looking at real people. And as a trade guy who's from Ohio, you understand people in Ohio and what they face. And this has got to be a really interesting case study.

MR. MILLER: Well, there are a lot of splits developing. There was a big split between steel producers and steel consumers in Ohio. There's a lot more firms that use steel as an input to further processing than there are people who work in businesses that produce steel. The steel producers are

happy right at the moment, they're actually having substantially higher prices than a year ago because of the tariffs. The steel consuming industries are facing a lot of difficulties in even keeping their products available to consumers, let along being able to price them competitively, as their customers expect. So there are already these tensions developing, depending on where you fall in that particular business. Same for the farmers. Lots of soybeans, lots of hogs grown in Ohio, both of which are subject to substantial price reductions versus a year ago and versus before the tariffs. So this is all going to play out. We'll see what members hear when they're back home.

MR. REINSCH: The other unknown which people have been baffled by throughout Trump's administration is that he does seem to be kind of the candidate that these things don't stick to. You know, his base supports him no matter how bad it is. And he will switch course. He'll not tell them the truth. He'll do things that work to their disadvantage. And they're still for him.

MR. MILLER: There is a bond underneath the president's constituency which is that he has always, as a political figure, treated the concerns of particular working Americans with respect, OK? And that's the basis of a bond. And because it's respect and not a policy or not an action or a decision, it's very resilient. So I think a lot of Trump support in what I would characterized as sort of blue-collar Midwest – blue-collar Ohio, blue-collar Pennsylvania, blue-collar Illinois, Indiana – that is rooted in the respect with which people feel he treats their concerns. And they'll – I think they'll be with him for some period of time because of that.

MR. REINSCH: You know, they used to call Reagan the Teflon candidate. And this has some similarities.

(Music plays.)

MR. SCHWARTZ: Here on The Trade Guys, we love talking shop about what's happening in Washington, but we also like getting insight from outside the Beltway. Next week we'll bring on a special guest, which we plan to do monthly. You'll be hearing from Blake Hurst, the president of the Missouri Farm Bureau. He's also a third-generation farmer. We can't wait to get his take on trade policy and how trade policies are playing out on the ground.

To our listeners, if you have a question for The Trade Guys, write us at TradeGuys@CSIS.org. That's TradeGuys@CSIS.org. We'll read some of your emails and have The Trade Guys react to it. Thank you, Trade Guys.

MR. REINSCH: Thanks, Andrew.

MR. MILLER: Thank you.

MR. SCHWARTZ: You've been listening to The Trade Guys, a CSIS podcast.

(END)