

**Center for Strategic and International Studies**

**The Trade Guys Podcast**

**“To Be / Or Not to Be in the TPP”**

**Speakers:**

**Scott Miller,  
Senior Adviser,  
Abshire-Inamori Leadership Academy**

**William Alan Reinsch,  
Senior Adviser and Scholl Chair in International Business,  
CSIS**

**Host:**

**H. Andrew Schwartz,  
Chief Communications Officer,  
CSIS**

**Date: Thursday, May 3, 2018**

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.

Today we're talking about a trade deal called the Trans-Pacific Partnership, or the TPP. It's an agreement that then-presidential candidate Donald Trump criticized while he was on the campaign trail.

DONALD TRUMP (Republican nominee for president): (From recording.) The TPP is a horrible deal. It is a deal that is going to lead to nothing but trouble.

MR. SCHWARTZ: Hillary Clinton did, too, by the way.

HILLARY CLINTON (Democratic nominee for president): (From recording.) I did say I hoped it would be a good deal, but when it was negotiated – which I was not responsible for – I concluded it wasn't.

MR. SCHWARTZ: And then, on day three of his presidency, Trump withdrew from the TPP, saying he didn't want the United States to take part. But it looks like the president has changed his mind. He recently announced that he was having his administration look into rejoining the TPP. Here's Senator Ben Sasse, a Nebraska Republican, after meetings at the White House about the TPP.

SENATOR BEN SASSE (R-NE): (From recording.) The president said he was deputizing Larry Kudlow and Ambassador Lighthizer to look at reentering the TPP negotiations. The president reaffirmed in general to all of us and looked right and Larry Kudlow and said, Larry, go get it done.

MR. SCHWARTZ: So why now? And why did President Trump withdraw from the agreement in the first place? We put it to The Trade Guys.

So what is TPP?

MR. MILLER: Well, the Trans-Pacific Partnership was a 12-party negotiation to develop a sort of broader-context free trade agreement. This was –

MR. SCHWARTZ: With 12 countries.

MR. MILLER: Twelve countries, 12 economies, including the United States.

MR. REINSCH: Should we impress him and list the countries?

MR. MILLER: Sure.

MR. SCHWARTZ: Can you guys list the countries?

MR. REINSCH: We can: U.S. – originally, U.S., Canada, Mexico, Peru, Chile, Australia, New Zealand, Japan, Malaysia, Brunei, Singapore, Vietnam. Did I get them?

MR. MILLER: Well done. Well done.

MR. SCHWARTZ: That's why you guys are The Trade Guys.

MR. MILLER: All 12, yes.

These countries decided to work together to form a higher-standard agreement where they would grant basically free trade or preferential trade status to the other 11 parties and agree to a set of rules. And these included rules for the digital economy, rules for services trade, rules for investment, rules for treatment of – and labor rights, rules for the environment that were all part of the Trans-Pacific Partnership. They would agree to those high standards and try to boost economic commerce among the parties and to strengthen their idea of what the right set of commercial rules for the 21<sup>st</sup> century would be. That was the idea.

MR. REINSCH: But it was more than that, too, and this is something that President Obama talked about a lot. It was also a strategic agreement. You know, we have spent the entire postwar era, since World War II, trying to make sure that there was a balance in the Pacific and that no single power – initially Japan, now China – is predominant. And our presence there has been by and large welcomed by the smaller countries, who are worried about being dominated by one or the other of those two. And if you look at their history, they have good reason to be worried. So we've been welcome there. At the same time all those countries, particularly in Southeast Asia, are chronically afraid we're going to leave. TPP was a way to graphically demonstrate our continuing firm commitment to the region. That was one reason why it was so important.

MR. SCHWARTZ: And there's one country, at least that I heard, that was not on that list, and that would be China.

MR. MILLER: China, right.

MR. SCHWARTZ: OK. So how come they weren't invited to the party?

MR. REINSCH: Well, they were told if they wanted to come in they could come in, on our terms. And it was – actually, it was interesting to watch because in the beginning they dismissed it. They said this is, you know, an evil Western plot to hurt us.

MR. SCHWARTZ: The U.S. and all its allies dominating our hemisphere.

MR. REINSCH: Yeah, was ganging up on them.

MR. MILLER: Called it containment.

MR. REINSCH: As they watched it develop they began to understand what was going to happen, because if you think about what's going to happen is, in a world of global supply chains where

things are made in lots of different places and shipped around, what TPP actually is is an incentive to create supply chains inside those 12 countries because inside those 12 countries there won't be any tariffs. So if you locate your manufacturing in Vietnam or in Malaysia, you can ship here duty-free. What that meant over the long term was that Chinese factories were going to move to Vietnam and were going to move to Malaysia to take advantage of that. And the Chinese began to realize, wait a minute, this is not going to be good for us in economic terms; but if we join, you know, we'll be part of the supply chain too, and we can take advantage of our access. So they never said they wanted to join, but they shifted from saying, you know, it's a containment plot to we're studying that very closely.

MR. SCHWARTZ: You know, there's 11 men on each side on a football field and I know that there's 12 people – 12 countries in the TPP. But it sounds like we took 11 or so – 11 or 12 of our allies and we just put a lockdown defense on China here is what we did. Is that what we did here?

MR. REINSCH: That was – that was our –

MR. SCHWARTZ: Or what we tried to do.

MR. REINSCH: That was our idea, but – and it was attractive to the others because we're a big market, and getting tariff-free access to the U.S. market is not small cheese. I mean, that's a – that's a big deal.

MR. SCHWARTZ: A big deal, sure. But China wasn't going to get that.

MR. REINSCH: Right.

MR. SCHWARTZ: And we were going to lock them out. But this sounds like something that President Trump would actually like, really.

MR. REINSCH: Which is why he's rethinking.

MR. MILLER: Not really. Well, it's why he's rethinking, but you got to understand the president has a trade strategy that is quite unusual versus his predecessors. What President Trump and his team want to use U.S. trade and investment policy to do is to strengthen employment. They want to incentivize U.S. employment. They're less concerned about international commerce. They are – the president has always been deeply concerned about the industrial base. It goes back to comments he made 30 years ago. And his team is all about taking the policy tools they have and incentivizing production and incentivizing operations within the U.S. Now, this is a problem for an important constituency of the president, and that is agriculture. And I would note it's not an accident that the president instructed his team to look into rejoining TPP during a meeting with farm-state senators and agriculture people, because the immediate – the immediate losers from withdrawing from the TPP were farmers, because the first thing that would have happened would have been increased market access for American farm exports in places like Japan that have been largely closed to U.S. exports for a long, long time. We lost that immediately. Now, these rules and the other supply-chain developments that Bill talked about, those are real and important, but they're much longer term, and they didn't have the short-term effect as the loss in those export markets had for the farm states. So the president now, I think, a year-plus into his job, realizes he's got a trade policy for the old industrial base of the United States that suits them and suits him, but doesn't suit a big, important constituency called farm-state Republicans.

MR. REINSCH: And he's also getting an earful, I think, from his security people, who pointed out what we were talking about a couple minutes ago, that this was part of the U.S. strategic positioning in the Pacific. And he torpedoed that and has replaced it with nothing. I mean, he talked about let's have bilateral negotiations; he hasn't started any. So we have no strategy now in the Pacific, and what is happening is the Chinese are moving in and moving –

MR. MILLER: And, in fact, bilaterals were worse than nothing. I mean, the president went to the APEC meetings and talked about bilaterals, and most of the attendees at that meeting – the other national leaders from the Asia-Pacific – said, well, we see what you're doing to your neighbors in the NAFTA renegotiation, and no thanks. We'll wait. (Laughs.)

MR. SCHWARTZ: So we really – we have some backtracking to do here to put this back together. What's it going to take to put this back together?

MR. REINSCH: Well, actually, here at CSIS we've been thinking about that. And –

MR. SCHWARTZ: So I'm asking the right question –

MR. REINSCH: You're asking the right question.

MR. SCHWARTZ: – to the right people. The Trade Guys are thinking about this.

MR. REINSCH: Yeah, you don't have – you don't have a good answer yet. We're working on it.

MR. MILLER: The first thing to know is it's somebody else's agreement, all right? The TPP, with the 11 parties ex-the United States, has entered into force. They modified the agreement to suit themselves once we were gone, they removed some things that we wanted very much or were concessions to the United States, they split up the ag market access among themselves, and implemented it.

MR. SCHWARTZ: So now they're playing ball and we're not.

MR. MILLER: We have to join somebody else's agreement.

MR. REINSCH: They moved on without us. The other 11 went ahead.

MR. SCHWARTZ: We're on the sideline.

MR. REINSCH: We are on the sideline. They formed an agreement. And Scott is exactly right: the market access that we would have gotten, particularly in agriculture, is going to get captured by the Australians and the New Zealanders. They're going to sell more to Japan than we would have sold to Japan instead.

MR. SCHWARTZ: Trade Guys, this is not a country that likes to stand on the sideline. We like to play ball.

MR. REINSCH: That's why – optimistically, that's why he's rethinking.

MR. MILLER: It's not going to be easy because, as I said, they've moved on. They took –

MR. SCHWARTZ: It's their game now.

MR. MILLER: It's their – it's their agreement. It is their protocols as how acceding parties become members, so they control that. Also keep in mind the president had a concluded agreement which he thought was bad, but getting back to that agreement will actually take a lot of work. The status quo ante is no longer existing. He will have to negotiate American interests back to what we had on January 19<sup>th</sup>, 2017.

MR. REINSCH: And the other countries are saying – they're not all saying it exactly the same way, but basically their message is: If you want to come back in you're welcome to come back in, but this time it's going to be on our terms, not your terms, because we're up and running.

MR. SCHWARTZ: So might we have to make concessions to get back in?

MR. REINSCH: We might have to make concessions. I think the bigger issue is what Trump is saying is we want to get more in order to get back in. And the other countries are going to say, no, no, you don't get more, you know; you probably get less.

MR. MILLER: Like I said, unforced errors often create difficulties down the road. He's got a very difficult negotiation ahead of him and a skeptical Congress. It's a Congress that at least some measure, while they were skeptical about the agreement to start with, there were a lot of them who supported it and are unclear about why we pulled out in the first place, would have to be convinced to go along. And, second, we knew what we had last November or last January. We're not sure what now.

(Music plays.)

MR. SCHWARTZ: Well, I guess this is to be continued.

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

MR. MILLER: Thanks, Andrew.

MR. REINSCH: Thank you.

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

(END)