Center for Strategic and International Studies

The Trade Guys Podcast

"Bad Moon Rising Over G7"

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Date: Friday, June 8, 2018

Transcript By
Superior Transcriptions LLC
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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 we'll talk about the tariffs the Trump administration has imposed on the EU and Canada.

FRENCH PRESIDENT EMMANUEL MACRON: (From recording.) The bases that were used to justify these measures, all being an argument of national security, this is an inappropriate excuse.

CANADIAN PRIME MINISTER JUSTICE TRUDEAU: (From recording.) These tariffs are an affront to the long-standing security partnership between Canada and the United States.

MR. SCHWARTZ: We'll talk about the upcoming G-7 meeting and the bad blood between the U.S. and some of its key allies on trade. Plus, we'll talk about President Trump's pursuit of an aggressive trade agenda and the politics of it all.

But first, I should tell you that we're recording this show before a live studio audience of Tulane University students here at CSIS. I'm a Tulane guy. Tulane's my alma mater. And I'm psyched to introduce this group of students to The Trade Guys.

Gentlemen, there's a bad moon rising on the horizon with the G-7. What's going on? First of all, what's the G-7?

MR. REINSCH: You're showing your age. Isn't that '70s – bad moon rising?

MR. SCHWARTZ: It's '70s, '60s –

MR. MILLER: It is definitely '70s.

MR. SCHWARTZ: Creedence.

MR. REINSCH: Creedence Clearwater Revival.

MR. SCHWARTZ: Creedence, there's a bad moon rising. What is going on with the G-7? What is the G-7?

MR. MILER: Well, the G-7, the Group of Seven, who were at one point the seven large industrial democracies. It is a group that was formed I believe in 1973, after the first oil shock. But it

is the United States, Canada, Japan, Britain, France, Germany, and Italy – which at one point were large industrial democracies. Are still large, but not the largest, industrial democracies. But they've hung together.

MR. REINSCH: Plus the EU shows up too.

MR. MILLER: Yes.

MR. REINSCH: The president.

MR. MILLER: Yes, there's various hangers-on.

MR. SCHWARTZ: OK. So the European Union, the top economic powers in the world. Why is this important? And what effect does this have on trade?

MR. MILLER: Well, we consider them our allies. And the fact – the G-7 are the – is largely the group that created the rules-based system that we have today. If you look who was present in the Bretton Woods Conference back in – before the end of World War II, who was present at the Havana Conference that created the General Agreement on Tariffs and Trade in 1947 – these were the great – what were known then as great powers, who have worked together over the years to develop a set of neutral rules that have facilitated and deepened international trade in a way that is quite oriented toward promoting peace. So it's actually been a – been a good thing to do. And there are those – these nations' impact on the trading system has been generally positive.

MR. SCHWARTZ: These are our economic allies.

MR. MILLER: Correct.

MR. SCHWARTZ: We work together. We make the world a better place because we're talking together constantly about free trade and about keeping the flow of goods, right?

MR. REINSCH: Exactly. And they're also geopolitical allies.

MR. MILLER: They are treaty allies.

MR. REINSCH: They're treaty allies, either bilateral with Japan or multilaterally with NATO.

MR. SCHWARTZ: So it's Trade Guy Bill's voice you're hearing. Before you heard Trade Guy Scott.

MR. REINSCH: So we have a long-standing, you know, actually military relationship with them. Also political and also economic. And I think Scott's – Scott makes an important point. The meeting is significant because these are the people that have kept the system together for 70 years. And the rest of them are not happy with us.

MR. SCHWARTZ: And they're not happy with us specifically this week. President Trump imposed tariffs on the EU and Canada. And tell us about what those tariffs are and what they're supposed to do.

MR. REINSCH: Well, as usual, he's imposed some things, but he's also threatened some other things that has them upset. He finally imposed the previously announced tariffs on steel and aluminum. He had exempted Canada, Mexico, and the EU from those up until June 1st, pending negotiations to address the problems. I think a lot of people thought that he would continue to postpone, particularly with Canada and Mexico because we're actively engaged in NAFTA talks with them. And then he didn't. He imposed tariffs on all of those parties. They're upset. The prime minister of Canada was particularly upset and pointed out that it really is an insult to tell Canadians that they're a national security threat to the United States.

MR. SCHWARTZ: And the Prime Minister of Canada Trudeau had some tense words, reportedly, with President Trump on the phone the other day.

MR. REINSCH: Yes, a few. And apparently the president's response was to say something about the War of 1812, which –

MR. SCHWARTZ: (Laughs.) OK.

MR. MILLER: It's an odd reminder. (Laughs.)

MR. REINSCH: Which is, first of all, a distant war and, second of all, had nothing to do with Canada, as I recall.

MR. MILLER: We invaded them once or twice, but. (Laughs.)

MR. SCHWARTZ: But we're supposed to be friends with Canada. People in Canada are nice.

MR. REINSCH: My mother was Canadian. She was very nice.

MR. SCHWARTZ: That's what I'm saying.

MR. MILLER: Well, here's the thing. Set aside for a minute that we've managed to pick fights with our friends, which is –

MR. SCHWARTZ: And Trudeau's cool, right? Everybody thinks Trudeau is cool.

MR. MILLER: Well, yeah. Which is – it's an odd thing to do. It's an odd thing for any human being to do, is to take a group of friends and decide to pick a fight with them. And we've done that. So for me, what's behind this is –

MR. SCHWARTZ: And we're picking a fight over aluminum.

MR. MILLER: Well, look –

MR. SCHWARTZ: I mean, last I remembered, you know, a lot of Americans drink beer. And a lot of Americans drink beer out of aluminum cans. And I've seen people on the news this week – guys who own Coors, guys who own Budweiser – they're not too happy about this.

MR. MILLER: Well, no. And keep in mind, the U.S. and Canadian aluminum industry is deeply integrated. They are – they have specialized. They work together on everything. Same with

the steel. By the way, the United Steelworkers represent both American and Canadian steelworkers. So if you try to figure out who's supporting this, it's hard to do.

MR. SCHWARTZ: And who is the U.S.'s number-one trade partner?

MR. MILLER: Canada.

MR. SCHWARTZ: Correct.

MR. MILLER: Yeah. So, but let's step back from this. What you have is the first test of the premise of the Trump trade policy. President Trump, Secretary Ross, and Peter Navarro always talk about the size of weight of the heft of the U.S. market, and the importance of it to our trading partners. And they believe the U.S. market is big enough that they can use it to bargain to improve terms elsewhere. That's the premise. We are now testing the premise. Now, we're testing the premise in ways that do a couple things immediately. First thing they do is make it almost impossible for the United States to put together any action in concert with our main allies with regard to China. So we're now, because we've alienated the rest of the G-7, we're unlikely to get them as – to help us with China.

The second thing they've done, pretty obviously –

MR. SCHWARTZ: We're unlikely to get our allies to help us with China, who President Trump has repeatedly said is the real concern.

MR. MILLER: Is the real problem. He's also said –

MR. REINSCH: And he's right about that.

MR. MILLER: And he's right about that. We have also massively complicated the end-game of NAFTA, which he made his top priority. Called it the worse agreement in history.

MR. SCHWARTZ: NAFTA, the North American Free Trade Agreement.

MR. MILLER: Right. Put in much effort and a year's worth of energy into renegotiating it. And we've now – the action against Canada and Mexico so complicates the end game it's probably pushed off till 2019. Who knows?

MR. SCHWARTZ: So we're alienating our friends to do what with our enemies?

MR. MILLER: That's the part that's unclear to me. I mean, what we're going to find out is if Secretary Ross and Peter Navarro and President Trump's theory of the case is right. Now, it's not unusual to use pressure tactics to try to get people to the table. That happens in every negotiation ever, including trade negotiations. What is unusual is to do it in a relatively indiscriminate manner. But we're going to find out if the U.S. market is important enough.

MR. SCHWARTZ: But it seems that we're driving away our allies, even if it wins short-term trade concessions.

MR. REINSCH: Yes, but there's – as they say, there's method in the madness.

MR. SCHWARTZ: OK. And you're certainly going to get down to it.

MR. REINSCH: And I think – I think it is madness. But a lot of what they're doing is deliberately creating uncertainty in the marketplace. And the reason they're creating uncertainty in the marketplace is they don't want American companies to invest overseas. They want – most of the things they're doing – whether it's in NAFTA or even with China and even the message to the EU – is partly to American companies, which is keep your money at home. Build more factories at home. Hire more workers at home. Alter your supply chains so that you have more domestic content. And they think by doing things like attacking our allies, it makes people say, well, maybe, you know, if I'm thinking about entering into a joint venture with the Germans, I'm going to wait on that because I'm not sure what's going to happen to that relationship.

The whole thrust of what they're trying to do in NAFTA is to basically discourage off-shore investment. You know, why does he want – the big fight he's having with Trudeau is over this five-year sunset NAFTA proposal, where NAFTA would automatically terminate after five years unless the parties decide to keep it. And everybody says, that's insane. Why do you want to negotiate an agreement –

MR. SCHWARTZ: And he's negotiating bilaterally with Canada on an agreement that's really a trilateral agreement.

MR. REINSCH: Well, he wants the Mexicans – that's the next step. He's going to try to take it apart. But, you know, people are thinking, why do you want to do something – why do you want to negotiate something and then say it's going to be over in five years? And the reason is because he doesn't want Americans to invest in Canada and Mexico. He wants them to invest here. And if they think the rules are going to only last for five years, that's what's going to happen. I mean, there really is an underlying policy here that not only is going to unravel the institutional basis that we've just been – the post-war institutional basis we've just been talking about. It really is unraveling supply chains and unraveling the globally integrated economy.

MR. MILLER: Yes, and this is one of the reasons that American – globally engaged American companies are furious about this, is that their goal is global competitiveness. And NAFTA, as a production unit, as it's developed over the last 25 years, is globally competitive versus factory in Europe –

MR. SCHWARTZ: It's enabled us to compete globally, hasn't it?

MR. MILLER: Absolutely.

MR. REINSCH: Yes.

MR. MILLER: It's very clear, if the president has his policies implemented, that American products will be less competitive globally. It's obviously if you look at the auto study that was done. Cars will be more expensive in the United States. That not only hurts consumers here, but it makes those cars less likely to succeed in foreign markets. So this is – there's a basic – there's a basic disconnect between the traders and the president here about what the goal of these policies are.

MR. REINSCH: The Peterson Institute for International Economics came out with a report yesterday dealing with potential increases in auto tariffs, because the president has threatened – he

hasn't done that yet, but he's threatened to do that. That's what's being studied. And the Peterson Institute concluded that if we impose a 25 percent tariff on autos – imported autos, which is what he said, that would cost 195,000 jobs in the United States.

MR. SCHWARTZ: Hundred and ninety-five thousand jobs?

MR. REINSCH: Jobs, yeah.,

MR. SCHWARTZ: OK. So – but at the same time, the president's economic advisor Larry Kudlow came out yesterday, went into the White House briefing room, and he said that their trade policies are working. And he said – he called on the U.S. allies to take notice and to work with us. But you're talking about reputable think tank, colleagues of ours, saying it could cost us almost 200,000 jobs.

MR. REINSCH: And that's even – that's not even counting retaliation. That's just our tariff increases alone.

MR. SCHWARTZ: So how is this work – how is our trade policy working?

MR. REINSCH: Well, you know, Larry is sort of Mr. Happy. His job seems to be to go around and tell everybody: Everything's going to be all right. Don't worry. His main function seems to be stop the stock market from tanking. There's no basis for what he said.

MR. SCHWARTZ: This is a guy who used to come off like Gordon Gecko. And now he's Mr. Happy.

MR. REINSCH: (Laughs.) Well, you know, where you stand depends on where you sit.

MR. SCHWARTZ: Yeah. (Laughter.)

MR. MILLER: I think a better summary of this is the policies haven't damaged the economy yet, OK, but the Peterson Institute study is sort of a long run if these policies stay in place. If they stay in place, markets will respond, they'll adjust. Keep in mind, you have – the differential here is you have high tariffs on inputs but remaining low tariffs on finished goods. So think about the things that steel is used to produce. If those finished-goods tariffs stay low, companies/customers will buy imports over American products. That's where the job loss –

MR. REINSCH: There was a great quote about this this morning in The Washington Post, where somebody said: You know, he's looking at a supply chain and he's helping the first link and hurting the last links. He's increasing the price of primary input products – aluminum, steel – so everybody that makes anything out of aluminum and steel, whether it's beer cans or cars or pipe, they're going to – their costs go up. And their costs are going to go up 25 or, in some cases, even more percent. Because what the domestic industry does is, you know, they raise their prices because they're protected by the tariff. You know, it's not just the imported steel that's more expensive.

MR. MILLER: Domestic steel price are up 30 percent versus six months ago, OK? That's the fact, OK? And the reason is because they have room to raise prices because imports are more expensive. Import competition is lessened.

MR. SCHWARTZ: And that's what the president intended.

MR. MILLER: That is exactly what –

MR. REINSCH: Yeah, I mean, that's the point of protection, is to help the domestic guys make more money.

MR. MILLER: Well, help the connected domestic guys.

MR. SCHWARTZ: So help us understand. In some senses it seems like his policies are working. And you just pointed out one where the steel industry is benefitting. But is it a short-term benefit? Is it a long-term benefit? And what does this mean for us, like, real people? What does all this mean? We're talking about trade policies at a very high level. How does this come down to affecting regular Americans? Can you guys break that down for me?

MR. MILLER: A lot of it depends on the response of the people who these – or the economies who wind up dealing with these higher tariffs. I had some very useful instruction in my youth from an older brother on how to deal with bullies. And it was – it made a lot of sense and it actually worked, OK? The question is, who punches the bully in the nose? I don't know that. The theory is we're such a big market – the is the Ross/Navarro theory – is we're such a big, important market we'll get away with this. All right, now Europe is equally large.

MR. SCHWARTZ: This is Commerce Secretary Wilbur Ross, White House Economic Advisor Peter Navarro on one side. Kudlow and others are on another side?

MR. MILLER: Who knows. Who knows? But we're testing the premise of the Ross/Navarro theory.

MR. SCHWARTZ: Which is we can do whatever we want.

MR. REINSCH: Which is we're big enough we can get away with it.

MR. MILLER: We're big enough we can get away with that.

MR. SCHWARTZ: OK.

MR. MILLER: Now, Europe –

MR. SCHWARTZ: We can get away with what? Get away with putting tariffs on everybody else and reaping the benefits?

MR. MILLER: Of forcing other negotiations that are to our interest – in our interest and to our advantage.

MR. SCHWARTZ: OK.

MR. MILLER: Now, will that work? I don't know. Depends what happens next. Now, Europe, while equally large as a market and very sophisticated, is not unified at the moment. My view

is that the German industry would like this thing to go away and are quite worried because German exports are quite important to Germany and the total EU.

MR. SCHWARTZ: A lot of people who like German cars in America.

MR. MILLER: Yes. But you tell me what happens to – in Italy. We have a new government. We have unclear policy direction. So Europe will have a challenge getting it together. But that, for me, is the likely sort of next step in this – in this fight.

MR. SCHWARTZ: So Germany's reacting a bit differently than the rest of the EU. Is that correct?

MR. REINSCH: They've taken – well, it varies. They've taken generally a softer line than some of the others.

MR. SCHWARTZ: So they're backing down because we're bigger.

MR. REINSCH: Well, not yet. I mean, they've been able to – they've been able to unite on the principle that what the president has done is outrageous and they need to push back. The difference of opinion has been over exactly what we should do to push back.

MR. SCHWARTZ: OK.

MR. REINSCH: They have agreed on retaliation in kind, basically. And this is what the World Trade Organization kind of contemplates, which is – and oftentimes these fights – I mean, to me the question is going to be what Trump does next. A lot of these fights tend to go one round. We do something. The other guys do something back at us which is equivalent. You know, the same – what the EU has done has estimated the damage that the tariffs are going to cause them. And they have announced that effective July 1 they're going to put tariffs on American products in an equivalent amount. So that's – you know, tit-for-tat, round one.

Usually then you sit there and glare at each other for a few months, and then there's a negotiation. There's beginning to be a little bit talk about maybe the president's – President Trump's response to the Europeans will be more tariffs on other things, in other words upping the ante and going to round two. That's really disturbing.

MR. SCHWARTZ: How can a rollercoaster – yeah. I mean, how can a rollercoaster like this be good for our policies and for the economy? Unless there, like you said, there is some method to the madness here?

MR. REINSCH: Well, it's – if you continue to do that, it's enormously disruptive. I mean, this had begun, at least in terms of threats, in the case of China, where the president said I'm going to put tariffs on $50 billion worth of Chinese stuff. The Chinese then said, OK, if you do that, we'll do the same thing. And they each put out their list. When the Chinese said that, Trump came back and said, OK, my response is I'm going to add another 100 billion to the pot. And the Chinese said, well, of course, if you do that then we'll do that. Well, that creates sort of an odd situation. Our total exports to China last year were, I think, 135 billion. So the Chinese are already talking about retaliation against 150 billion. They're talking about retaliating against more stuff than 100 percent of what we sent them.

MR. SCHWARTZ: OK, but then the Chinese also attempted, it was reported this week, to buy us off. They said that they would buy 70 billion (dollars) worth of American goods if we would, what? If we would drop our tariff?

MR. REINSCH: Yes. This has been going on for a long time. And it goes back to a discussion that we had in the last Trade Guys, I think, where, you know, one of the mysteries that's been debated is what does the United States really want? Because on the one hand they put out a report – the so-called Section 301 Report – that talked about the Chinese –

MR. SCHWARTZ: OK, time out. Time out. What is the Section 301 Report?

MR. REINSCH: It's a reference to a piece of law that allows the president to conduct a study of unfair, unreasonable, and discriminatory practices by other countries.

MR. SCHWARTZ: OK.

MR. REINSCH: And then recommend – the study would recommend action to the president. This particular study focused on Chinese activities involving intellectual property theft, forced technology transfer – you know, you enter into a joint venture. A condition of doing business in China is you give them your IP. Discrimination against American companies in China. So that's – there's a whole set of things that are on the table that most people agree are serious problems. There's not any dispute in the think tank or the business community that they focused on the right diagnosis, OK?

The president talks about that, but he also mostly talks about the size of the bilateral deficit. He complains about the Chinese tariff on cars, which is higher than ours. He compares – and he complains they don't buy enough of our stuff. So –

MR. SCHWARTZ: And is he right about that?

MR. MILLER: They're different issues.

MR. REINSCH: They're different issues. I mean, his facts are right. They do have a higher car tariff. And, of course, they'll never buy as much stuff as you would like. But what this exposed is a division in his administration. And there are some people – I think U.S. Trade Representative Bob Lighthizer and Peter Navarro, who we talked about, are saying: Let's focus on what's important, the intellectual property issues that we've identified.

MR. SCHWARTZ: The intellectual property – that China is stealing our intellectual property, benefitting off of it, and we're losing.

MR. REINSCH: Yes, yeah. Let's have a negotiation to fix that. Whereas, rumored Secretary of the Treasury Mnuchin and actually Secretary of Commerce Ross saying: Let's focus on the size of the trade deficit, and let's get that down from 375 billion (dollars) to, what the president says, let's bring it down another 200 billion (dollars). I think they're telling the president what he wants to hear.

The Chinese, of course, see this difference and are trying to figure out how the play that. And, you know, the reality for the Chinese is making market access concessions to buy more stuff is an easy thing for them to do. Changing their economy and changing how they treat American companies inside China is a very hard thing for them to do. So they've tested the hypothesis of – you know, the

issue of, what does the president want more? And they're testing that by offering up goodies. We'll buy more chips. We'll buy more soybeans. We're going to buy a lot of gas – because that's 50 billion (dollars) right there. And see if he bites.

And the president's response so far has been classic, which is instead of choosing between the two he says: I want it all.

MR. SCHWARTZ: Well, he's a guy who wants it all.

MR. MILLER: Yes, that's a fact.

MR. REINSCH: You know, he wants both things. And he rolled out the tariff threat again. I mean, he already threatened the 50 billion (dollars). And now he said: We're going to publish the final list by June 15th. And we're going to impose the tariff shortly after that. I think in an effort – which didn't work, but it was an effort to get the Chinese to come to the table and negotiate seriously, I think on both things. The Chinese then did exactly what you said. They've offered up a package which is very – it keeps on getting smaller, actually. Both sides are moving the goalposts here.

MR. SCHWARTZ: So it's not as attractive as it sounds.

MR. REINSCH: It started out being 100 billion (dollars), I think.

MR. SCHWARTZ: Right. And they're down to 70 (billion dollars).

MR. REINSCH: And now it's down to 70 (billion dollars). I mean, the next round maybe it'll be down to 50 (billion dollars).

MR. MILLER: And by the time we get it implemented it'll be 5 (billion dollars).

MR. SCHWARTZ: By the time this podcast is over, it might be down.

MR. MILLER: It's likely.

MR. REINSCH: Well, it's fascinating to watch, because this is the Trump approach.

MR. MILLER: Yes, exactly.

MR. REINSCH: You know, you don't give me what I want, I offer you less.

MR. SCHWARTZ: It's a negotiation.

MR. REINSCH: Yes, but it's not – it's not the way most people negotiate.

MR. SCHWARTZ: So isn't the overarching goal that we should be working to further open the Chinese market to the United States?

MR. REINSCH: No. I don't think – I don't think so. I mean, Scott might disagree on this.

MR. SCHWARTZ: OK.

MR. MILLER: Well, look, as developing countries go, China is relatively open. Their average external tariff is, like, 9 percent. India's is 30s somewhere. OK, most developing markets are less open than China. What we'd like to do is deal with a lot of the practices that harm our companies, which are necessarily the external tariff and don't really show up in the trade balance.

MR. REINSCH: Yes. What the – you know, what the Chinese have done is – and what has, you know, roiled the whole debate – is they put out two things, actually. If you look at their five-year plan, it's – the current five-year plan it's there. But they also put out a little book called Made in China 2025. And what Made in China 2025 says is: Here are a whole list of sectors that we've identified as important to our economy.

MR. SCHWARTZ: Doesn't sound like good bedtime reading.

MR. REINSCH: (Laughs.) If you have insomnia it's a good cure.

MR. SCHWARTZ: OK.

MR. REINSCH: But here are high – you know, semiconductors, telecommunications things, a bunch of high-tech sectors. And the book – and the report says: Our intention by 2025 is to produce world-class global champions in those sectors that are going to put American companies out of business. And they're telling you, we are going to be better than you. We are going to out-compete you.

MR. MILLER: And their companies will still have zero cost of capital, thanks very much.

MR. REINSCH: Because we're going to use – in the semiconductor case, which is the one I know the best – we're going to use $150 billion U.S. of government funds to subsidize the construction of 30 semiconductor fabrication plants in China to compete with Intel and the Americans. So you can imagine, the American companies see this coming. I mean, it's not a secret. And in part, you know, they know it's coming because it's being done with their technology that the Chinese have either taken or coerced them into providing. So they see it's coming and they're unhappy about that. And I think that's the main problem, because that has to do not with today and steel and soybeans. It has to do with our future competitiveness, five, 10, 20 years from now, which is really what presidents are supposed to be worried about.

MR. SCHWARTZ: Presidents are supposed to be worried about that. What is Congress supposed to be worried about? And what's their reaction to all this? I mean, here we're messing around with Mexico and Canada. That's going to directly affect them and their constituents. We're seemingly alienating many of our allies, and we are at odds with China. What is Congress saying?

MR. MILLER: Well, they're starting to get upset.

MR. REINSCH: They're –

MR. MILLER: They're starting to get upset. They're very grumpy about it all, OK, but they haven't gotten past the point of stern letters to follow up. You know, they're still just grumpy.

MR. REINSCH: Well, a grumpy bill to follow. A grumpy bill introduced yesterday.

MR. MILLER: There was a grumpy bill, yes. Senator Corker introduced a bill that would amend Section 232, the very section of law that Trump used for the steel and aluminum tariffs, and essentially require congressional approval to apply them.

MR. SCHWARTZ: Senator Corker is the chairman of the Senator Foreign Relations Committee.

MR. MILLER: Yes. And does not face the voters this fall.

MR. SCHWARTZ: Because he's on the way out. So he's throwing bombs, I guess, here, with this.

MR. REINSCH: Well, he did get nine bipartisan co-sponsors.

MR. MILLER: He does have co-sponsors. He does have co-sponsors.

MR. REINSCH: But that's a total of 10 out of 100.

MR. MILLER: And Speaker Ryan was asked to comment on legislation to rein in Trump, and he encouraged the reporter to "do the math," quote-unquote.

MR. SCHWARTZ: Do the math? Meaning, like, we don't have the votes?

MR. REINSCH: That would be a polite way to say it.

MR. MILLER: That would be a polite way of saying we don't have a veto-proof majority to stop the president.

MR. SCHWARTZ: So Congress has no power here.

MR. MILLER: Unless they get themselves organized. Congress has ultimate power. Look, as – you know, to quote many fathers – they've brought that statute into the world and they can take it out. (Laughs.) But they have to get organized to do it.

MR. REINSCH: But going back to something we said earlier, the president had a meeting yesterday with, I think, 10 or so senators. And Lindsey Graham, the senator from South Carolina – who, by the way, represents a state that has been one of the biggest beneficiaries of globalization because BMW is there, Daimler's there, Volvo's there, a lot of things are there. He comes out and says: I don't support what Corker wants to do. I think we should let the president play this out. He's promised, you know, a successful negotiation and better trade. And I think we should give him a shot at it.

MR. SCHWARTZ: OK, so you have Lindsey Graham, who's widely regarded as a reasonable centrist member of Congress, supporting the president. So that's –

MR. REINSCH: So far, yes.

MR. SCHWARTZ: Makes you feel like we're on the right track.

MR. REINSCH: Well, it makes you feel like Corker doesn't have the votes, is what it tells you.

MR. SCHWARTZ: Yeah, Corker doesn't have the votes.

MR. MILLER: Yeah. Senator Corker ultimately wants to add this amendment to the defense authorization, which is considered a must-pass bill. However, if there's a veto threat, that becomes a dicey proposition. And it's hard to – it's hard to add an amendment with nine co-sponsors.

MR. SCHWARTZ: Why has Congress been so hands-off on this, or so disinterested?

MR. MILLER: Well, I think for Republicans, they want what the president's doing overall. He's their party and they share voters with him. Even if they're – so even if they don't like his trade policy, they're reluctant – here six months before an election – to take on the president.

MR. SCHWARTZ: Because that's the thing, you hear whispers all over town that Republicans don't like his trade policy.

MR. MILLER: That's right. And they've kept that to be sort of kitchen discussion rather than a front room discussion, so.

MR. SCHWARTZ: And why is that?

MR. MILLER: That's the way politics works.

MR. REINSCH: There's no statesmen anymore. That's why.

MR. SCHWARTZ: Are they afraid of him?

MR. MILLER: Well, look – and there's also no old bowl to enforce prerogatives, OK? The Congress used to have institutionalists – Jesse Helms, Bob Byrd – who would stubbornly enforce the prerogatives of the body to the great benefit of the Congress, actually. It would – that's the way the structure – the system was designed to function. And nobody does that anymore. So we're at a place where Republicans are frustrated but share voters with the president and don't want to, basically, break too much furniture before the election. Democrats – many Democrats kind of like what he's doing but aren't in a position that they're prepared to publicly support him because that would offend their voters. So –

MR. SCHWARTZ: Why do the Democrats like what he's doing? This is interesting.

MR. MILLER: Well, I'm –

MR. REINSCH: Some of them.

MR. MILLER: Some of them do. The architype labor Democrat, Sherrod Brown, senator from Ohio, member of the Finance Committee, I think is very supportive of this kind of leveraged trade policy, where you actually provoke allies – you force better bargains onto the scene by using your economic heft.

MR. SCHWARTZ: How is that helping people in Ohio?

MR. MILLER: Well, so far it's helped steel workers and steel companies in Ohio. And I think the senator will pocket those press releases and then see how it plays out from here.

MR. REINSCH: It's a reminder that trade is becoming partisan, but it's always been more regional than people think. If you look at Ohio, Republicans and Democrats will have similar views on trade and will be supporting the president. If you look at California and other coastal states – also Washington and Oregon – Republicans and Democrats have parted company with the president on trade a long time ago, because they represent communities that are dependent on cross-Pacific trade.

MR. MILLER: And these are very persistent. Ohio was represented in the Congress by a man named William McKinley, who became chairman of the Ways and Means Committee, and was the author of the McKinley Tariff Act, one of the more protectionist bills in our nation's history. So that core of sort of Republican protectionism goes back at least 100 years, probably 200 if we really looked at it.

MR. REINSCH: Ohio is the origin of many of our finest presidents – William McKinley, Warren Harding. A number of real winners have come out of Ohio.

MR. SCHWARTZ: Taft.

MR. MILLER: Yes.

MR. REINSCH: Taft, yes, that would be another one. I'm from Illinois, I can claim Abe Lincoln.

MR. MILLER: Yeah, Lincoln passed through Ohio at one point. That's all we know. (Laughter.)

MR. SCHWARTZ: So you're from Illinois, Scott's from Ohio, my wife's from Ohio. So there's some regional dissention here going on amongst The Trade Guys and the moderator.

MR. MILLER: Perhaps we can conclude with a political philosopher from New York, the great Mike Tyson, who said – (laughter) –

MR. SCHWARTZ: The great Mike – OK. (Laughs.)

MR. MILLER: Everybody has a plan until they get punched in the face.

MR. SCHWARTZ: Yeah, OK. And last I checked, Illinois doesn't have a football team like Ohio State, so –

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

MR. SCHWARTZ: Yeah. They do have the Cubs, though. And the Cubs won the World Series a couple years ago.

MR. REINSCH: Yeah, regrettably about that, I'm a Pirates fan. So can't help you with the Cubs.

MR. SCHWARTZ: Pirates? Oh. All right, so Congress doesn't have much say on what's going on. Does that mean that the president and his advisors are just going to battle it out internally and they're going to come up with a plan, and they're going to go forward with it and Congress is going to go along no matter what they come up with?

MR. REINSCH: I think – I think he'll get away with it for a while. I think he'll probably get away with it for the election. And then we'll see the election result. The Democrats have adopted in general, not just on trade, the same position that the Republicans adopted vis-à-vis Obama. They're simply opposing everything Trump does, without regard to merit. If they prevail in the election, if they take over control of the House or the Senate or both, then we're going to head into a much more antagonistic thing. They're not going to support what the president is doing on anything. They're going to –

MR. MILLER: Just because it's his.

MR. REINSCH: Because it's his. They're going to spend two years investigating him. The whole context is going to – is going to change. And it'll be a lot more difficult for him to accomplish what he wants to do on trade. I think between now and then he'll pretty much get away with it. Because, you know, the economic consequences that we've been talking about are like sand leaking out of a bag. You know, it's not like Ohio's going to explode and 80,000 people are going to lose their jobs in a week.

MR. MILLER: No. In the near term, these tariffs are a hurt to the macro forecast. But we have this big help called tax cuts. And the fiscal stimulus from tax reduction, regulatory reform, and government spending just dwarfs the size of the tax cuts in any short term. Now, it messes up peoples' supply chains, makes a lot of people's jobs difficult. Some prices will go up for consumers. But in the grand scheme of things, I think he has some room to run with the economy.

MR. SCHWARTZ: We're going to leave it at that for this week. And we want to thank our studio audience today. We did this before – as we announced in the intro – we did this before a live studio audience of Tulane students, my alma mater. Great to have them here with us. And I know each one of them is going to tell 12 of their friends about The Trade Guys podcast. That's the new thing. You got to tell 12 of your friends about The Trade Guys podcast.

MR. REINSCH: And assignment.

MR. SCHWARTZ: If everybody tells 12 of their friends, that's the new policy on The Trade Guys.

MR. REINSCH: It's like one of those chain letters, Andrew. Pretty soon the whole world will know –

MR. MILLER: Some of us will have to make friends to get to 12, but that's all right. (Laughter.)

(Music plays.)

MR. SCHWARTZ: 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. MILLER: Thanks, Andrew.

MR. REINSCH: Thank you.

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

(END)