

Center for Strategic and International Studies

The Trade Guys Podcast

“Back from the Road: The Politics of Trade”

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: Friday, September 21, 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.

This week on The Trade Guys, we recorded before a live audience at CSIS. We were joined by the Customs and International Trade Bar Association who asked The Trade Guys some fantastic questions. They were a great audience and they put up with a bunch of lousy jokes from The Trade Guys. Before we went to questions, we talked about China, NAFTA and we talked about the politics of trade here in the United States.

(Applause.)

All right everybody, welcome to The Trade Guys, live here at CSIS, theater-in-the-round style. We've never done this at CSIS before, theater-in-the-round.

MR. REINSCH: It's creepy. What are the people behind me doing while I'm talking?

MR. SCHWARTZ: They're throwing – they're getting ready to throw things.

MR. REINSCH: Yeah, I see eyeballs rolling. Yeah.

MR. SCHWARTZ: Yeah, but we put a mirror up front so you can kind of just look back every once in a while.

Welcome to CSIS. I want to thank our partners who are cosponsoring this event, the Customs and International Trade Bar Association. Emily Beline and Rishi Gupta in particular, thank you. This is awesome.

We're here to talk trade. We're here to talk about the politics of trade. What's going on? Recent polls have given some mixed signals, especially if you're a member Congress running for reelection. What about it?

MR. MILLER: There's really interesting data that's emerging. I think you're referring to The New York Times poll. And I did a thing this morning that had Bruce Stokes from Pew Research there and he had some –

MR. SCHWARTZ: We love Pew.

MR. MILLER: We love Pew. We love Bruce. And he had some fascinating data, the most significant of which was that trade is becoming increasingly partisan.

MR. REINSCH: No kidding.

MR. MILLER: I'm surprised, because for me –

MR. SCHWARTZ: You are? Why?

MR. MILLER: Yes, because for me it was always regional.

MR. SCHWARTZ: OK.

MR. MILLER: If you're Pennsylvania, Ohio, Michigan, you're a trade skeptic.

MR. SCHWARTZ: Correct.

MR. MILLER: If you're California, Washington, Oregon, for obvious reasons you're – both parties – you're pro-trade.

MR. REINSCH: And for a very long period of time. In fact, Doug Irwin's book, "Clashing Over Commerce," which is a history of American trade and American trade policy, has these wonderful maps, these voting maps.

MR. SCHWARTZ: This sounds like assigned reading.

MR. REINSCH: Well, but if you take –

MR. MILLER: It is in my class.

MR. REINSCH: – Smoot-Hawley, Smoot-Hawley which was voted on in 1930, and then the Tariff of Abominations which was 1828, the blue and red, yea and nay are almost identical.

MR. SCHWARTZ: Really?

MR. REINSCH: It's amazing. It's amazing how persistent – because of factor endowments – how persistent views on trade were in regions rather than districts or parties.

MR. SCHWARTZ: Well, so is this a matter of everything else is a partisan issue so let's just make this a partisan issue, too?

MR. REINSCH: I don't think so.

MR. MILLER: Partly. I think Bruce's view was, because of the changes that have occurred recently, a lot of it has to do with the president and the –

MR. SCHWARTZ: Oh, him, yeah, everything has to do with the president.

MR. MILLER: Well, that's the way he wants it.

MR. SCHWARTZ: That's right.

MR. REINSCH: The one data point that struck me – and I guess I can hold this up because there's actually live people here –

MR. SCHWARTZ: He's holding something up because there's live people that can see it.

MR. REINSCH: I'm holding something up for the – yeah – red bars and blue bars – the question was, will raising tariffs help or hurt the economy, the U.S. economy?

MR. SCHWARTZ: And?

MR. REINSCH: And Republicans by a two-to-one margin say they will help the economy.

MR. SCHWARTZ: Help.

MR. REINSCH: Help.

MR. SCHWARTZ: OK.

MR. REINSCH: Forty-five to 23 said it helps the economy. Democrats, 71 to 10 said it will hurt the economy.

MR. SCHWARTZ: Right.

MR. REINSCH: And what is dramatic about this, to me anyway, is the relatively sudden – last couple of years – dramatic shift on the Republican side from pro-trade to anti-trade.

MR. MILLER: This is the shift among Republican voters –

MR. REINSCH: Yes.

MR. MILLER: – not yet reflected in Republican elected officials.

MR. REINSCH: That's the other issue, which has posed the dilemma for both parties. There's a – there's a disconnect that we've commented on before that's also dramatic. Well, it's – the elected officials data is not here, but this data demonstrates the first half of it. Democratic voters are much more pro-trade than Democratic representatives in Congress. Republican voters now are much more anti-trade –

MR. SCHWARTZ: Than Republican members in Congress.

MR. REINSCH: – than Republican members in Congress. So there's this big disconnect. My view has been – I mean, I sort of – then you ask the question so doesn't this –

MR. SCHWARTZ: Why? Yeah.

MR. REINSCH: Doesn't this catch up after a while?

MR. SCHWARTZ: Right.

MR. REINSCH: And the answer seems to be no. And the reason is that if you ask a different question – and Pew asks this every January, they give you a menu of 22 to 24 things.

MR. SCHWARTZ: Yeah, because the people at Pew are smart like that.

MR. REINSCH: They are smarter than we are, that's for sure.

MR. SCHWARTZ: Yeah, OK.

MR. REINSCH: They give you this set of things and say, all right, which of these are the biggest challenges the American people face?

MR. SCHWARTZ: Right.

MR. REINSCH: Trade and climate change regularly are at the bottom.

MR. SCHWARTZ: Right, which makes them a non-voting issue.

MR. MILLER: It's a low-intensity issue.

MR. SCHWARTZ: Right, a low-intensity issue.

MR. MILLER: It's not really – not really salient for voting, right.

MR. REINSCH: So when people vote, aside from probably a half-dozen districts in eastern Ohio and western Pennsylvania and northern West Virginia, aside from those areas, when people vote, they don't vote on trade. They vote on other things.

MR. SCHWARTZ: Yeah, it's a big problem. Climate change is a big problem, but it's not something they feel that they can fix at the ballot box. Same with trade.

MR. REINSCH: So what that leaves us with is a bunch of members of Congress in both parties who are out of sync with their voters and will probably get away with it.

MR. SCHWARTZ: Imagine that, members of Congress who are out of sync with their voters.

MR. MILLER: Well, there's – I think there's a little more to it here, particularly on the Republican side, and that is, first, I'd recognize that President Trump is insanely popular with Republican voters.

MR. REINSCH: I'm glad you're using the word "insanely."

MR. SCHWARTZ: Wait, he's insane or he's insanely popular?

MR. MILLER: No. No, he is very popular. In fact, the Gallup rated presidential popularity – really since, I think, Truman – on day 500 of their administration.

MR. SCHWARTZ: This is a bipartisan organization.

MR. MILLER: Yes.

MR. SCHWARTZ: So I'll say we like Gallup, too.

MR. MILLER: Sure. And Gallup's been in the business for a long time.

MR. SCHWARTZ: Right.

MR. MILLER: They've been doing telephone surveys almost since the invention of the telephone.

MR. SCHWARTZ: Yeah.

MR. MILLER: So these – they have these surveys going back and on day 500 they look at the popularity of the president. George W. Bush was the highest on the list, mostly because of the events of 9/11/2001.

MR. SCHWARTZ: Sure.

MR. MILLER: But number two in that list in terms of popularity was Donald Trump on day 500 among his own party. So they looked at Democratic presidents among Democrats, Republican presidents amongst Republicans. So he – that's still close enough to presume that among Republican voters the president is popular.

The second point I'd make is the president is an excellent persuader and communicator. We've talked about this before.

MR. SCHWARTZ: He's a superb communicator.

MR. MILLER: And what he's done, what he appears to have done is, for his voters, convinced them tariffs are a good thing –

MR. SCHWARTZ: Right.

MR. MILLER: – convinced them that tariffs, in his plan –

MR. SCHWARTZ: He's fighting for his –

MR. MILLER: I'm fighting for better deals and I'm using the tariffs to do that. I would guess he's gotten that message across. We're overreading the data, that's speculation on my part, but I think that's what's going on there.

MR. SCHWARTZ: No, but that's what you're here for. That's why you're a Trade Guy.

MR. MILLER: Yeah.

MR. REINSCH: But it creates two really interesting dilemmas for the upcoming election. Republicans who are intensely uncomfortable with this position at the same time recognize that their base is his base –

MR. SCHWARTZ: Right.

MR. REINSCH: – and they have to reconcile the fact that they're going to be out there advocating for tariffs, even when they don't believe they're a good thing, watch them tie themselves in knots rhetorically in the House. Every time he does something, you know, the reporters flock and say, well, what do you think and they have to try to figure out a polite way of saying it's not a good idea without antagonizing him.

MR. SCHWARTZ: And the thing is, too, is maybe the majority of their voters are not on the same page as them, but there sure as hell is a couple of businessmen in their district who they really care about who feel the same way they do.

MR. REINSCH: Yes. And that will – there's always the problem of support. One of the reasons they are the way they are is because business, including big business, provides support. The Democrats have a mirror-image problem. Their support comes from organized labor. Organized labor on this issue is sympathetic to Trump – not on most other issues, but on this particular one. But they have the problem of a Democratic electorate that is surprisingly pro-trade.

MR. MILLER: Yes.

MR. REINSCH: And they're tying themselves in knots trying to figure out how to, one, take advantage of the opportunity. Because if you look at – if you look at independents – I didn't talk about independents. But in the same poll, independents lined up with the Democrats, slightly smaller margin, 56 percent to 16 percent, tariffs hurt the economy, so they are largely in the Democratic camp. It's got to be tempting for Democrats to try to capitalize on the fact that a lot of people are unhappy with this policy, yet the source of their organizational support and their financial support and their own views, in many cases, tend to line up more with the president on this issue.

MR. MILLER: So there's some –

MR. REINSCH: So they tie themselves in knots, too. It's fun to watch.

MR. MILLER: There are voters out there who are basically abandoned, you know, because – and that's – in some ways, that's what happened in 2016 –

MR. SCHWARTZ: Talk about that.

MR. MILLER: – is Donald Trump's campaign noticed that there were voters in the middle of the country, sort of – sort of working class, Jacksonian belt, however you want to characterize them, from the industrial Midwest who the Democratic Party had left behind in building the Obama coalitions. Those voters were deemphasized versus the voters that were more important, and they were there for the taking. So he appealed to those voters very effectively.

And so the same thing happens here. That's the Democrats' opportunity is there are voters out there who are strongly disposed favorably toward trade. They can be against the president and for

something, like trade that's good for their consumers. But Bill's right, given the institutional framework of the party, whether they'll be able to get that way in messaging and actually address the concerns of those voters remains to be seen.

MR. SCHWARTZ: It was interesting to me that The Times poll, using SurveyMonkey and Internet Poll, showed that 73 percent of Republicans both favor tariffs and tax cuts. And that's not really the way – again, that's not the way that the –

MR. MILLER: That's not your Jack Kemp-Paul Ryan Republican philosophy.

MR. REINSCH: It certainly says tariffs or tax increases. Yes.

MR. SCHWARTZ: Yeah, yeah, explain this, Scott.

MR. MILLER: Well, look, the Republican Party obviously was the party of the tariff way back when –

MR. SCHWARTZ: Yeah.

MR. MILLER: – post Civil War all the way to the Great Depression, and it – and it stuck around in the Taft wing of the party. They were – Republicans were the high-tariff party for a long time. But the modern-era Republicans, really since Jack Kemp and now embodied by Paul Ryan, are free market conservatives. And economic freedom means low taxes, light regulation, but also low trade barriers.

MR. SCHWARTZ: Open markets.

MR. MILLER: Open markets. And so that all fit together. It was logical, it was – it was part of the – he able to communicate that. And members like Paul Ryan, who started as a staffer for Jack Kemp and rose to speaker of the House, have been very effective proponents of that as with – as with – same with Chairman Kevin Brady. They talk about economic freedom as a whole, but now the voters themselves, the Republican voters appear to be taking the president's angle.

And we've talked about the president's ironic economic policies before where he is cutting taxes at home, he's lessening regulation at home that's making the U.S. economy more competitive, and then he's hurting competitiveness with tariffs.

MR. REINSCH: I bet Grover Norquist was not in the –

MR. MILLER: Was not –

MR. REINSCH: – low taxes, high tariffs are good camp.

MR. SCHWARTZ: That's right.

MR. REINSCH: For him and for conservatives, tariffs are taxes.

MR. MILLER: Right.

MR. REINSCH: And they are taxes. One of the ironies – or one of the oddities might be a better word – you know, the president keeps doing these tweets, billions coming into our coffers, we're making all this money on tariffs. A, we're not because the first effect is a decline in trade. And second, people are – some people are eating the tariffs, not all of them. So the actual amount collected is less than one would think.

But beyond that, who pays those? The consumer pays those. So it's Americans that are paying the taxes, it's not the – the Chinese are not paying these taxes.

MR. MILLER: Yes, it's one of the – one of the complete oddities of using tariffs even as an instrumentality. It's as if you, my trading partner, don't do what I ask you to do, I'm going to blow up my own bridges just to show you.

MR. SCHWARTZ: Right. Right. Right. That's an unusual –

MR. MILLER: I'm going to hurt my own economic efficiency, I'm going to hurt my own constituency.

MR. SCHWARTZ: So it doesn't necessarily make a lot of sense.

MR. MILLER: Yeah. Why do you do that? But we are.

MR. SCHWARTZ: But we are. And so, is this a good strategy? Is it good for the national interests of the United States of America?

MR. REINSCH: No.

MR. MILLER: I agree with Bill, but we don't actually know whether the president's promise of using these tariffs to get better deals, he can actually deliver the better deals. As Bill put it a couple of weeks ago, he gets an incomplete on that particular measure.

MR. SCHWARTZ: Right. And in the process, he's fighting with everybody. I mean, like, most Americans don't exactly want a fight with Canada.

MR. MILLER: Well, yes, but –

MR. SCHWARTZ: We like our neighbors to the north.

MR. MILLER: – remember how good we all felt the day–

MR. SCHWARTZ: Bill's grandfather was Canadian.

MR. REINSCH: Mother, mother.

MR. SCHWARTZ: Mother was Canadian.

MR. REINSCH: And my grandmother.

MR. MILLER: But remember how good we all felt the day that Mr. Juncker was here with his press conference in the Rose Garden.

MR. SCHWARTZ: The trade whisperer.

MR. MILLER: The trade whisperer and the press had announced we weren't putting tariffs on Europe.

MR. SCHWARTZ: Everybody was happy.

MR. MILLER: It was euphoria.

MR. SCHWARTZ: Right.

MR. MILLER: And then we got all that from doing nothing.

MR. SCHWARTZ: OK. So meanwhile, amid these trade fears, today, yesterday, the market is booming.

MR. MILLER: All-time highs.

MR. SCHWARTZ: Right.

MR. REINSCH: There's a – there's a new – is it meme or meme? How do you pronounce it, M-E-M-E?

MR. MILLER: Meme, is it meme?

MR. SCHWARTZ: Well, it's definitely "me-me" as one – (laughter) – well-known politician called it. But it's meme, yes.

MR. REINSCH: It's meme. The new meme, which was in The Times this morning, but has shown up elsewhere, is that this is – there's no offramp and we're heading into what I think they refer to as an economic cold war.

MR. MILLER: Yeah.

MR. REINSCH: There's no way to get rid of these at this point. I mean, the administration's argument has been what you said, be patient, hang on, we're going to win, they're going to fold, we win, everything goes back to the way it was.

MR. SCHWARTZ: And they're basically – where he's not a good communicator is to people who really follow this closely.

MR. MILLER: Right.

MR. SCHWARTZ: He's not communicating at all. He's telling everybody don't worry, we got this, I'm fighting for you. That may resonate in Cleveland, Ohio.

MR. REINSCH: Yeah.

MR. SCHWARTZ: It ain't resonating here in Washington where people like The Trade Guys want to know, what is the strategy, where are we going, how are we going to get there? This is – this seems very uncertain.

MR. REINSCH: Yeah, we don't really have a way out. And one of the things about tariffs is once you get to the point where the tariff has caused the businesses to change their mode of operation, to change their supply networks, to create a business that reflects the existence of the tariffs, once those modifications happen they get very sticky.

MR. SCHWARTZ: Right.

MR. REINSCH: I mean, this is insidious.

MR. SCHWARTZ: Not easy to switch on and off.

MR. REINSCH: We talked before about the chicken tax applied in the '60s –

MR. MILLER: Yes.

MR. SCHWARTZ: You love the chicken tax.

MR. REINSCH: – still on light trucks to this very day.

MR. SCHWARTZ: Tell everybody what the chicken tax is.

MR. REINSCH: In the early '60s, the French and the Germans banned the importation of American chickens on a variety of grounds.

MR. SCHWARTZ: This is pre Popeye's, I just want to say that.

MR. REINSCH: This is pre KFC, I think, too.

MR. SCHWARTZ: Because who would do that?

MR. REINSCH: What?

MR. SCHWARTZ: That's unconstitutional to tax Popeye's.

MR. MILLER: Popeye's is –

MR. REINSCH: Popeye was a cartoon character at that time.

MR. SCHWARTZ: Yes, he was. Yes, he was. I'll pay you next Tuesday.

MR. REINSCH: This is chicken and not spinach. But anyway, we tried to fix it, they refused, we retaliated and our retaliation was what you always do in retaliation, what can we do to hurt them?

And what we did, we put on a 25 percent tariff on trucks and also certain cognac and brandy because we wanted to stick it to the French as well as the Germans.

MR. SCHWARTZ: Got it.

MR. REINSCH: But the truck tariff was about Volkswagen –

MR. SCHWARTZ: Are you saying the French drink a lot?

MR. MILLER: They export a lot

MR. REINSCH: No, I was not saying that, but I was saying they make an export a lot.

MR. SCHWARTZ: Got it.

MR. REINSCH: Yeah, so I'm trying to walk a fine line there.

MR. SCHWARTZ: OK.

MR. REINSCH: But the trucks were about –

MR. SCHWARTZ: Merci beaucoup.

MR. REINSCH: The trucks were about Daimler-Benz and Volkswagen.

MR. MILLER: Volkswagen.

MR. REINSCH: Yeah. Now it has more effect, you know, 50, 60 years later, they're still there and our chickens are still not there. I mean, this is a problem –

MR. SCHWARTZ: Chicken tax.

MR. REINSCH: – that was – that was – that was not solved.

MR. MILLER: Well, the chicken tax is still there, but we still don't export chickens.

MR. REINSCH: It became the new normal. And one of the things that's going to happen here, there's a high risk of this becoming the new normal. One of the things that I just started thinking about – I had a meeting this afternoon with someone who pushed me in a different direction on this, which I need to think about more, but the idea is this may be actually what they want.

MR. SCHWARTZ: They?

MR. REINSCH: They the administration wants.

MR. SCHWARTZ: Yeah.

MR. REINSCH: The president likes tariffs, he's got tariffs. What's going to happen with tariffs? Well, the best scenario would be very little, we'll see.

MR. SCHWARTZ: Right.

MR. REINSCH: I mean, if they put 25 percent on everything, there's going to be a significant effect. So far, the consumer effect has not been big. But if there is an effect, what it will be is a deglobalization, a disentangling of our two economies, Americans pulling out China, some Chinese companies pulling out of China and going to places where they can produce without having to pay the tariff.

MR. SCHWARTZ: I'm glad you brought up China because we need to talk about China.

MR. REINSCH: And the result of all that is – I mean, that may be what they want.

MR. REINSCH: Well, the president thinks that leads to more manufacturing jobs.

MR. REINSCH: Yes.

MR. MILLER: There are some reasons to believe it probably leads to fewer, but yeah.

MR. REINSCH: There was a poll taken –

MR. SCHWARTZ: Why does it lead to fewer?

Oh, go ahead, Bill. I'm sorry, just –

MR. REINSCH: Well, we'll answer your question in part. AmCham Shanghai, I think, or somebody or AmCham –

MR. SCHWARTZ: American Chamber.

MR. REINSCH: – in Shanghai or Beijing or both, produced their annual survey just this week. And I don't have all the data with me, but one number stuck in my mind. One of the questions they asked the executives was, are you thinking about leaving China –

MR. SCHWARTZ: Yeah.

MR. REINSCH: – in the wake of all this stuff? And I think around 40 percent said no, we're not thinking about that. A smaller percentage, but still closer to 40 said yes, we are thinking about it, moving somewhere else in the region. Only 6 percent said we're thinking about coming back to the United States. So if the objective is to bring jobs back here, it's probably not going to have that effect. They're going to go to other basically low-wage countries, I think.

MR. MILLER: That's probably what happens. In the meantime, you make American manufacturing less competitive by breaking up the supply networks that have been –

MR. REINSCH: You mean we're not making it great again?

MR. MILLER: – that have been formed by lots of voluntary decisions about where to get the best – the best product for the best value.

MR. SCHWARTZ: OK. Let's talk about China for a minute. The trade war rages on with China and China announced or it was reported today that China's planning to cut average tariff rates on imports from the majority of its trading partners as soon as next month. What do you think of that?

MR. REINSCH: Clever move. There may be a WTO issue there. Although as Scott was saying before we started, you know, who's going to complain besides us?

MR. SCHWARTZ: Right.

MR. REINSCH: And are they going to listen to us, given everything else we've done? Maybe not.

MR. MILLER: And we'll see you in court in 18 to 24 months. (Chuckles.)

MR. SCHWARTZ: Yes.

MR. REINSCH: The big impact, though, I think, will be on American business. And this was what we were talking about earlier.

I used to represent, you know, the big companies when I was at the National Foreign Trade Council. And what I discovered there, particularly in the sanctions battle, is that if everybody's getting hosed, they can – they don't like it, but they can live with it because the playing field is still level, it's just less favorable. What they hate the most is if they're getting hosed and everybody else is getting their share of the market –

MR. SCHWARTZ: Right.

MR. REINSCH: – which is exactly what will happen in this case.

MR. SCHWARTZ: Right, and –

MR. REINSCH: And exactly why the Chinese are doing it.

MR. SCHWARTZ: It's a clever move because it'll make U.S. firms complain more loudly that Trump's strategy is blocking their access to the China market.

MR. REINSCH: And the access – as we're seeing in other cases, I think, with pulling out of TPP and then Japan and the EU negotiating an agreement – the access, once gone, doesn't come back. There's another new normal, and that is new supply chains are formed, new market access is formed. The basic tradeoff in the EU-Japan deal was Europe's taking more cars –

MR. MILLER: Right.

MR. REINSCH: – and Japan is taking more agriculture from the EU. That's at the expense of our farmers.

MR. MILLER: Right.

MR. REINSCH: And it's not going to come back.

MR. MILLER: Now, look, this was very clever of China. It's a very practical, straightforward thing to do. It makes sense for them, but it also exposes the Trump strategy of wanting to – wanting to devote maximum leverage in bilateral negotiations.

The fact is, had we make common cause with other big traders and confronted China together, this wouldn't have looked like as a detractive an option for China.

MR. REINSCH: Too late.

MR. MILLER: Indeed.

MR. REINSCH: But you're right.

MR. SCHWARTZ: So did we get played here or what?

MR. MILLER: We've been played, yes.

MR. SCHWARTZ: We've been played.

MR. MILLER: Yeah.

MR. SCHWARTZ: And China's most-favored-nation average tariff stands at 9.8 percent, so they have some room to cut.

MR. REINSCH: Indeed.

MR. SCHWARTZ: I mean, our –

MR. REINSCH: And they'll probably do it selectively just to things we're shipping a lot.

MR. MILLER: Yeah, just to irritate and annoy us.

MR. REINSCH: Yeah.

MR. SCHWARTZ: I mean – I mean, and to put that in perspective, our average applied MFN rate was 3.4 percent in 2017, so they have a lot of room.

MR. REINSCH: Yes. And this relates to another issue. One of the questions that keeps coming up is, once we both have put tariffs on everything –

MR. SCHWARTZ: Right.

MR. REINSCH: – and we can do that more than they can because of the size of the deficit – then that raises the question of, so what's left? You know, what can the Chinese do next because they're out of imports to tax?

MR. SCHWARTZ: Right.

MR. REINSCH: And the answer – one answer is this. Another answer which is beginning to come up, if you're looking for visible things, is they can restrict exports of stuff that we need.

MR. SCHWARTZ: Oh, boy.

MR. REINSCH: Rare earths.

MR. MILLER: You remember the big fight over rare earths a few years back? Yes.

MR. SCHWARTZ: Yeah.

MR. MILLER: Yes.

MR. SCHWARTZ: So we're getting played, this isn't really going well. When is this going to start affecting the way the administration is handling their negotiating?

MR. MILLER: I think we can say with confidence not before the midterm elections.

MR. SCHWARTZ: OK.

MR. REINSCH: Not until well after that, I think.

MR. MILLER: Well, I think it's probably sometimes in 2019 when consumer prices actually start to rise.

MR. SCHWARTZ: Exactly. OK. So tell me about that because that starts to really affect –

MR. MILLER: Right.

MR. SCHWARTZ: – all of us in this room, everyday Americans, that's where it really starts to show up.

MR. REINSCH: I had a – I had a conversation this morning with somebody who for one of the big retailers and I asked that question, when are you going to see the effect? And the answer was March of 2019.

MR. SCHWARTZ: March of 2019.

MR. REINSCH: That's based on the assumption not only of the 200 billion (dollars) that goes into effect Monday, the assumption there will be another tranche, another 267 (billion dollars) at some point this year. It'll take that long, she thought, to work its way into the system and have a serious consumer impact.

MR. SCHWARTZ: All right. Now, I'm hoping that this major retailer has something to do with Saks 5th Avenue and that you got us a suit deal, wardrobe. No?

MR. REINSCH: (Laughs.) No.

MR. MILLER: Disappointing on both counts.

MR. REINSCH: No, this is the lower end.

MR. SCHWARTZ: Bummer!

MR. REINSCH: This is the low end, not the high end.

MR. MILLER: No Saks, no suits.

MR. SCHWARTZ: Just to put it out there, The Trade Guys, you know, could use a wardrobe deal. Even though we're on audio, we do live events.

MR. REINSCH: Get your dog leashes and your Christmas ornaments soon is all I would say. (Laughter.) And if you need a new phone, hurry up.

MR. MILLER: Oh, yeah. Now is the –

MR. SCHWARTZ: OK. Well, this –

MR. REINSCH: Not before – not before Monday, but –

MR. SCHWARTZ: This reminds me of something. So in our latest round of slapping tariffs on China, there were Apple products that were exempted. Why?

MR. REINSCH: They did a good job.

MR. SCHWARTZ: Apple did a good job.

MR. REINSCH: Lobbying, I think so, yeah.

MR. MILLER: Yes. This is – this is why people employ advocates in Washington, D.C.

MR. SCHWARTZ: It works.

MR. MILLER: Well, it can, that's for sure.

MR. REINSCH: I'm sure the lobbyists are taking credit for it, whether they had anything to do with it or not.

MR. SCHWARTZ: OK. So what does this effectively mean? This means that it will keep our iPhones' cost down?

MR. REINSCH: Well, it means they won this round. If the next round, if he goes ahead with another 267 billion (dollars) –

MR. SCHWARTZ: He can just put it right back in there.

MR. REINSCH: Well, that's everything. You know, that – collectively, the 50 (billion dollars) plus the 200 (billion dollars) plus 267 (billion dollars) more, that adds up to all, virtually everything that we are buying from them.

MR. MILLER: Everything we import, yeah.

MR. SCHWARTZ: This makes –

MR. REINSCH: So they'll be – they'll be on the hook the next time.

MR. SCHWARTZ: So this is why trade is so fun. You could just keep going back and forth and, you know –

MR. REINSCH: There's always another move.

MR. MILLER: Always a disaster waiting to happen, yes.

MR. SCHWARTZ: Always another move. So the two masters of the moves are here. If you were advising Ambassador Lighthizer right now in his negotiations with Chrystia Freeland in NAFTA, what would you tell him?

MR. REINSCH: Surrender. (Laughter.)

MR. SCHWARTZ: Yeah.

MR. MILLER: It looks to me like they're trying to get to know –

MR. SCHWARTZ: They're trying to get to know.

MR. MILLER: – that the – that the end result of the current negotiation will be Canada not concluding the deal that would allow them to be part of the notification. But we'll find out. Look, we're close enough to the end of the negotiations and the release of the legal text and that transmission to Congress that maybe the next time we get together we'll be able to talk about what actually happened instead of speculate on what might.

MR. REINSCH: I had – somebody gave me an interesting thought today that I haven't had time to research. Maybe the reporters are here that can – actually, maybe they can research this. And his point was, what happens on September 30th is the text has to be made public.

MR. MILLER: Yes.

MR. REINSCH: It doesn't necessarily have to be submitted formally and completely to the Congress. It has to be made public. That, he thought, left an opening for further negotiations.

MR. MILLER: Extra innings.

MR. REINSCH: At some point – well, November 30th, they're going to sign something.

MR. MILLER: Yes.

MR. REINSCH: And if they sign it without Canada, then there it is. Although, I think the other issue that is sort of untested is, supposing they do sign something with Mexico on November 30th and it makes Peña Nieto happy, it makes AMLO happy and they move on, and then ultimately they reach a deal with Canada before Christmas and then they have another signing ceremony, you know, 90 days later, et cetera, et cetera, et cetera –

MR. SCHWARTZ: Did you hear AMLO was stuck on a plane the other day for hours and hours?

MR. REINSCH: I did not hear that.

MR. SCHWARTZ: He was stuck on a commercial plane, yeah. All right. So what would it mean for the administration to miss a deadline to give Congress the text of a deal that's worked out with Mexico or with both Mexico and Canada if a deal can be struck?

MR. MILLER: Look, I think the president intends to send the U.S.-Mexico deal. I mean, I think, he – everything he has said indicates he is happy to not have Canada a part of this. I think he's inclined to just do that and see what happens.

MR. SCHWARTZ: I think it's just because he called it USMC and he wants to drop the C because then people are going to get confused about the Marine Corps.

MR. MILLER: Maybe, but he is – he is certainly – everything the president has said or tweeted about the U.S.-Canada negotiations are he'd be happy to move without them.

MR. SCHWARTZ: Yeah.

MR. MILLER: And, you know, for me, I'm a little perplexed about what Canada thought it was going to be doing in the renegotiation of NAFTA because it seems like their position is we like NAFTA 1994 just fine, thank you very much, don't ask us to change these 12 things that are really irritating you –

MR. SCHWARTZ: Right.

MR. MILLER: – OK, and really, really – you know, you'd like to have changed and we'll just – we'll just be quiet here and hope that works out.

MR. SCHWARTZ: In other words, they knew going into this they were going to need to do something that was a change, but they're – but they're not willing to change anything.

MR. MILLER: I thought they would, but it doesn't look like they've concluded that, so we'll see.

MR. SCHWARTZ: Well, Freeland – Minister Freeland said today it's her job to stand up for the national interests of Canada.

MR. MILLER: Yeah.

MR. SCHWARTZ: So that certainly sounds like the rhetoric that's been coming out of Washington. So when you're at that kind of loggerhead –

MR. REINSCH: She is the most on-message trade minister I have ever seen. She always says the same thing and she never says anything else. It's the most amazing –

MR. SCHWARTZ: She's a former journalist, she's got chops.

MR. REINSCH: Well, she's got – she knows what the consequences of deviating from the script are. Scott and I disagree on this –

MR. MILLER: Yeah.

MR. REINSCH: – so go ahead and then I'll tell you why you're wrong.

MR. MILLER: Probably the best news – the best news about the remaining NAFTA negotiations is nobody's leaking. And usually, if somebody's leaking, if one side or the other is leaking, that's a bad sign for reaching a conclusion. So the fact that they're still talking and nobody's leaking I take as a sign of encouragement.

But I look at the likelihood of an election called in Canada this fall and the likelihood of the changes that would be made to Prime Minister Trudeau and his party if they made major concessions in a NAFTA, I look at that and say I don't see them actually agreeing to opening up telecom, opening up the banking sector, dealing with the cultural exceptions that have existed for a long time, dealing with, you know, intellectual property laws that the U.S. and Mexico have already agreed with. So I just see the list as too long.

MR. SCHWARTZ: President Trump keeps focusing on the dairy supply management system and keeps calling it fair, not fair and it's a disgrace, on and on. On the Trudeau side, he's got a political problem because he's got political and economic issues at home and there's real pressure there for him.

MR. MILLER: No question.

MR. REINSCH: I don't entirely agree with Scott on this. I think the Canadians have handled it well. In terms of their own interests, I think they've handled it adroitly. In terms of Canadian politics, which it – and in the end, all this does come down to your own domestic politics.

MR. MILLER: Correct.

MR. REINSCH: I mean, Freeland's right, she's not here to make the Americans happy, she's here to make the Canadians happy. And I think there are risks to doing this deal at the wrong time before an election.

I think they are also – I mean, we'll see how this works out. Scott may end up being right, but I think they are acutely aware of the fact that a Mexico-only deal would have a very difficult time passing in the Congress. The people I've talked to think it would have a very difficult time passing this year, even with this Congress, and it will certainly have a difficult time passing if there's a Democratic Congress.

MR. SCHWARTZ: And there's a five-in-six chance that's going to happen according to FiveThirtyEight and Nate Silver.

MR. REINSCH: Well, which also said that Hillary was going to win, so –

MR. SCHWARTZ: True.

MR. REINSCH: – take these things with a grain of salt.

MR. MILLER: Yeah.

MR. SCHWARTZ: Good point. Good point.

MR. MILLER: Either way, it's a tough sale in Congress.

MR. SCHWARTZ: It's a very tough sale.

MR. MILLER: And maybe Canada's playing the long game here, expecting a U.S.-Mexico deal to crash and burn when the – when the Article One branch of our government gets to deal with it, and then they'll be there to pick up the pieces. So this may be a long game being played.

MR. REINSCH: Well, even the short game, I think it makes sense. In the short term, which is only going to be a few more days, I think they're letting pressure from the Hill mount up, see if it makes – see if it softens Lighthizer up –

MR. MILLER: Yeah.

MR. REINSCH: – see if it produces an outcome. There was a rumor – talk about leakage – there was a rumor today that the Americans have dropped their government procurement position. I don't know if that's true. Andrew's shaking his head yes.

MR. MILLER: OK.

MR. REINSCH: So we'll see if that would be –

MR. MILLER: That's a step closer.

MR. REINSCH: That's a – yes. You know, I think this is literally inches, you know, and they're getting multiple meetings, they're getting closer literally by inches. And I think the Canadians would like to get there. I'm not a good enough negotiator to flesh out what I'm about to say, but I do have the impression that a lot of these things can be sliced and diced in more ways than we're thinking. They're not all binary. Certainly, market access, as you've dealt with –

MR. MILLER: Oh, yeah, it's never a yes, no. Yes.

MR. REINSCH: And if you look at what they did with sunset, for example, which was one of these odd issues where most everybody just said this is outrageous, you can't do it, and they came up with a workout that is really –

MR. MILLER: Well, the Mexicans finessed it brilliantly. I mean, it's – they stickhandled it completely. It was amazing.

MR. SCHWARTZ: You say you're not a good negotiator, but, look, as long as you can negotiate a wardrobe deal for us, I'm good. OK?

MR. REINSCH: Well, I'll keep that in mind. (Chuckles.)

MR. SCHWARTZ: All right, keep it in mind.

MR. REINSCH: Saks, Saks is where you want to go? Is that what you –

MR. SCHWARTZ: Saks, yes, exactly.

MR. REINSCH: All right.

MR. SCHWARTZ: Neiman-Marcus is fine, too.

MR. REINSCH: Are you wearing that right now, is that you?

MR. SCHWARTZ: This is Saks, yes actually.

So let's talk about something else. (Laughter.)

MR. REINSCH: You don't want to talk about your suit?

MR. SCHWARTZ: No, no, no, no, no.

Trudeau keeps saying no deal is better than a bad deal, so how do we get past that? Because how is he going to get a deal that he's going to feel like looks good and gets him a win?

MR. REINSCH: Well, this has been the dilemma all along because, you know, every trade negotiator knows that trade negotiation, by very definition, has to be win-win.

MR. SCHWARTZ: Right.

MR. REINSCH: You've got to give the other guy something that he can take back to his country and say I got this, we win. And if you're really adept, what you do is get the other guy to believe he got more than you did, particularly if it's not true. Trump is much more, because of his real estate background, I think, is much more in the zero-sum camp.

MR. SCHWARTZ: Yeah, like, I don't –

MR. REINSCH: You know, I –

MR. SCHWARTZ: – I win, you got suckered and everything's OK. That's what he got.

MR. REINSCH: Yes. Unless I humiliate you, I haven't really won.

MR. SCHWARTZ: Yeah, right.

MR. REINSCH: They have to get past that. Lighthizer understands that.

MR. MILLER: Yes.

MR. REINSCH: And that's – to the extent I have hope, it's that he will understand that and come up with some things that will allow the Canadians to say we win, even if it's saying we didn't give away the store, you know, because they're playing defense on everything. They do have – actually, they do have some demands. I mean, we're attacking their dairy program. Our dairy program is not a model of free trade either and they've got some gripes about it that I think are as legitimate as our gripes about theirs.

MR. MILLER: Most likely.

MR. SCHWARTZ: Well, look, we want to take some of your questions. And if you could identify yourself so you can be known on The Trade Guys.

Q: I'm Anshu, Inside U.S. Trade. And for the record, I don't know about the government procurement thing. I've only read the reports, so I can't confirm that.

But I wanted to actually bring this back to what you were talking about initially, which is the politics of trade. And I want to ask the same question that Bill posed to the six USTRs on Monday, which is, do you see this as a temporary blip in U.S. trade policy or an inflection point? Because it seems to me – and granted, I'm only a young war correspondent, not a veteran of trade wars as you – but it seems to me that the debate around trade policy, at least in recent history and maybe going back to Doug Irwin's book, maybe since the days of Cordell Hull, has been kind of largely within the 40-yard lines of the consensus that free trade is good, right, free trade is good for the country. And we can get into debates about trade adjustment assistance and things like that.

But now I feel like President Trump has injected new into the kind of – or maybe not new ideas, maybe Hamiltonian or Jeffersonian ideas if you wanted to put it like that, the idea that protectionism is now kind of at least part of the debate. And so do you think that, you know, that'll stick around and that it'll be difficult to get back to, you know, trade policy before Trump? And I'm particularly curious what you think Republican trade policy will be after Trump.

MR. REINSCH: You go first.

MR. MILLER: Well, sure. Look, I think – I think we are – we are out of the previous era of trade policy and I don't know what the new era is going to be. I think that the previous era, which Doug Irwin characterized as starting with Roosevelt's Reciprocal Trade Agreement Act of 1934, that that era of reciprocity tied in with the – with the global order that the U.S. guaranteed post World War II, that era of trade policy, at least in terms of its support among American voters, is over, I think. And I think what ended it was the radical change in technology, information and communication technology, that led to global value chains, that also led to the deindustrialization of the G7 economies. It led to the – whereas Richard Baldwin says, where the G7 labor lost its monopoly on G7 know-how.

This is what really upset the applecart. It's why the last real bipartisan vote was GATT '94, which was the last deal made by the big industrial democracies. And ever since then, we've been

scrambling for coalitions. We've had parties blow up over the NAFTA and it was part of a major shift in our Congress. Trade agreements post NAFTA have been knock-down, drag-out fights. We're passing by one or two or three votes. OK? And we don't have a consensus on anything.

I think it is because the level of disruption of information technology, when it comes to trade, is similar to the kind of disruption that took place with the steam engine, and we haven't accounted for it yet, we don't understand it and it'll take a while for the politics to catch up with the disruption in technology.

So I think Trump – I think Trump is a – is sort of a partial solution to a problem that goes back 20 years. But he's not the – it's not the final – it's like any mathematical equation you're working on, any scientific problem, that he's got a partial solution which won some votes and has some political prominence at the moment. We don't know how this is going to shape up for some time.

MR. SCHWARTZ: Over to the warhorse.

MR. REINSCH: I'll let that one pass. (Laughter.) I'm more in the blip camp. I mean, I think Scott's analysis – we both read the same books. I have taught Baldwin and taught Irwin and I think he's right about all that.

At the same time, if you look at other polling data, which has been consistent, going back 20, 25 years, in a way, it was summarized by Bill Clinton both in his first campaign and subsequently when he gave – he gave a speech at the U.N. that I – in '96 or '97 that I remember where he said – he was talking about globalization. He said it's not good, it's not bad, it's here and we need to deal with it, which is what he said in '92. And he also said I'm going to be with you and help you deal with it, which was the political part of it.

This morning when we were having a discussion about this same topic, one of the corporate people there was talking about some focus groups that they had run in various cities, cities where they expected a pro-trade reaction and cities where they expected an antitrade reaction because of what had happened locally. And he said they got across the board kind of an antitrade point of view about all the problems, until the last question. And the question was, well, so should we pull up the drawbridge, you know, and isolate ourselves? And everybody said no, we are part of the world, we need to compete, we need to get out there.

And where I've ended up thinking about this, I think Americans, they don't like what's happening, they don't like change. As long as it happens to somebody else, they're OK with change, they don't really like change when it's happening to them. So they don't really like what's going on, for all the reasons that Scott said, but they understand that there's an inevitability about it that isn't going to go away. And I think at some level, they understand that Trump isn't going to be able to go back to either 1980 or 1950. So we have to live with it.

And they're prepared, I think, to have more of a debate about, OK, we're here, we're stuck, so what do we do about it that's constructive? Pulling up the drawbridge is not constructive, won't leave us better off, let's talk about what will leave us better off. That's why I'm optimistic that post him, however long that is, we're going to get somebody else that will answer that question more constructively.

MR. SCHWARTZ: I really don't see what's so great about going back to 1980 or 1950.

MR. REINSCH: You probably weren't alive in the '50s.

MR. SCHWARTZ: I was not.

MR. REINSCH: I grew up in the '50s.

MR. SCHWARTZ: How was it?

MR. REINSCH: It was a halcyon era. What can I say? Eisenhower? I mean, how can you go wrong? "Howdy Doody," you know, I mean –

MR. SCHWARTZ: Kind of like the internet, you know?

MR. REINSCH: Not quite the same thing.

MR. SCHWARTZ: Yeah, I mean – let's get to another question. Do we have a question back there?

MR. REINSCH: That would be good. I don't want to talk about old age anymore.

MR. SCHWARTZ: OK. Right over here.

Q: Tom Beline from the law firm Cassidy Levy Kent.

Bill, I think you mentioned that the U.S. ought to surrender in the negotiations with NAFTA and that Canada has been playing it exactly right. I find it interesting insofar as that Canada has chosen Chapter 19 as a sort of hill to die on when it comes to negotiating in the press. If I told you some facts on the last 20 cases at the CIT versus NAFTA, 12 in each fora resulted in remans, either whole or in part, and the CIT reached a decision in 583 days versus a Chapter 19 panel which took 1,157 days for resolution.

If you were advising Minister Freeland, would you say to her CIT is not what it was in the 1980s when Canada-U.S. Free Trade Agreement was agreed to, so maybe we ought to let this one go and move on to the challenging topics, including what you said? And I think that there is some daylight there where people can agree to. I'm just wondering what your view.

MR. SCHWARTZ: Now, our listeners can't see this, but in addition to this gentleman asking an excellent question, he's got a wardrobe deal.

MR. MILLER: Yeah.

MR. SCHWARTZ: Check him out.

MR. REINSCH: He's got great socks.

MR. SCHWARTZ: Great socks, a great wardrobe deal. This is a handsome crowd, I should say. (Laughter.) The Trade Guys bring out the best-looking people.

MR. REINSCH: People at the table excepted.

MR. SCHWARTZ: Yeah.

MR. MILLER: No kidding.

MR. SCHWARTZ: Now you may answer. I'm sorry for interrupting.

MR. REINSCH: I've forgotten the question in the interim. This is a familiar problem. A lot of us – Americans, too – are really good at fighting the last war. And this is particular true in the AD/CVD world where people are really prisoners of – talk to the Japanese, you know, who are really lost in – they have a victim philosophy, you know, we always get the short end of the stick, we always lose and this new law does us no good at all. The Canadians have the same view, particularly on lumber where they used it – they did use it successfully, and so they're lost in the past. And what they're not seeing is the extent to which the world has changed, not just the CIT, but the operating environment has changed.

I learned this firsthand when I was at the NFTC. I asked one of my large, multinational members, well, what do you think about all these laws? And he said, well, you know, we're a plaintiff, we're a complainant in one case – a petitioner in one case, we're a respondent in a second case and we buy input products that are subject to an antidumping duty order. You tell me what my position is. And in a supply chain world, that is the new normal.

And I don't think we've figured that out. Trump has not figured that out. And it sounds like the Canadians haven't figured it out either.

MR. MILLER: Well, actually –

MR. REINSCH: And maybe somebody will give them that advice and maybe what we'll end up with is something a little bit different than what they've got now.

MR. MILLER: I think it's even worse with Chapter 19, particularly because what has happened – set aside softwood lumber. If you look at the last 10 years of AD/CVD, antidumping and countervailing duty, cases in the United States and Canada, what you'll find is they look like each other. The two countries have petitioners that look like these same petitioners. They have respondents that are the same countries, on the same products, pretty similar, OK? Which says what we absolutely expected after 25 years of free trade, which is the industries that use trade remedy laws have North Americanized, they've become common and they've specialized where they could, but they're pretty similar.

And so I think Chapter 19 – first of all, the practical notion is it's never going to solve softwood lumber. It never could, win, lose, it doesn't really matter. It's like Mexican trucking. No trade agreement can solve Mexican trucking, so they threw it overboard. No trade agreement's going to solve softwood lumber, don't hold onto it.

But for everything else in trade remedy law, Canada looks like the U.S., so it's actually – if you – if you concede anything to keep Chapter 19, you've wasted the concession, it's simply obsolete, you shouldn't even bother with it anymore. And what you should have done is, well, what maybe they're

doing is placing a very high value on it to give it away at the last minute. And maybe Bob Lighthizer will think he got a sweet deal, who knows? But I agree with you on all that.

MR. REINSCH: That would be clever.

Q: Jeanne Whalen from The Washington Post.

You both mentioned that if supply chains move as a result of these tariffs, that'll probably be a permanent change, American companies pulling out of China. Is that necessarily a bad thing? I mean, could it be a neutral or positive thing for the U.S.?

MR. MILLER: Look, the fact is supply chains change all the time. OK? This is a constant dynamic, organic process. Apparel would be a classic way to look at it. Apparel supply chains in the last hundred years have moved from Massachusetts to the southern U.S. to Central America to Indonesia. And the apparel and footwear that's being made in China now is moving to Laos and Cambodia. The needle – the needle always moves, and that's just an example.

MR. REINSCH: No pun intended.

MR. MILLER: But all these supply chains are dynamic in their existence, and so nothing's ever the same. What tariffs do is create some additional factors in the analysis of how to source best quality for best price. And so the – but the fact that – the key is tariffs are not, by any means, an exclusive effect on supply chains.

MR. REINSCH: I'd approach it differently. And I'm not sure I agree with it. I mean, he's right about the movement. But I think from the standpoint of economic theory, you know, big companies have supply chain managers and their job is to find lowest price, best quality, most efficient delivery systems globally. And they'll keep adjusting as they find better alternatives.

What we are doing is injecting, essentially, kind of the political criterion into that calculation.

MR. MILLER: Yeah, fair enough.

MR. REINSCH: You're changing the basic market economics of the industry and saying all of a sudden this element of it is going to become a lot more expensive, so you need to change. I think the likelihood is that, of course, there will be a new equilibrium, you'll change.

The new equilibrium – first of all, there's a transition cost, which is always there, which might be significant. If you're in the apparel industry, it's probably not large. If you're Apple and have to move your plant, your assembly plant somewhere else, it's likely to be a lot more expensive. And there are contractual obligations, it adds up.

Second, it is likely to be an inferior new equilibrium to the old one, because if your supply chain manager was doing her job right, she got the most optimal one that was there. And what they're being forced to do is move to one that is less optimal.

MR. MILLER: Right.

MR. REINSCH: So I think from a theoretical standpoint, it's going to produce something that is worse, it's going to cost more money.

Now, at the same time, the place where, from the United States point of view, it might be advantageous is from the national security point of view. And that's not absent from the administration's calculations. Part of the issue, you know, is forced technology transfer, IP theft. And part of their theory is, if we weren't there, there would be less of that. And they're right about that. And so, to the extent that that's a consequence, there would be less to worry about on that side and I think that's a legitimate point.

MR. SCHWARTZ: Jack, you got more questions?

MR. REINSCH: I can't see who's got the mic. Oh, there we are

Q: Natalia Sharova, American Petroleum Institute.

So going back to the trade war with China, I think we can all agree that tariffs aren't good for the American economy, they're bad for consumers and American businesses. But we can also agree that there are some unfair trade practices from China's side in place.

MR. REINSCH: Yes.

Q: So what, if not tariffs, what would you say is a better approach to address it?

MR. MILLER: Look, you're absolutely right in the point you're making. And Bill and I have often commented that we think President Trump's theory of the problem with China is right. OK? And now, we've confronted them with a very big problem and one that's very hard for them to deal with. If you read the 301 investigation report, what it says is, China, you cheated your way to prosperity, OK, and we've got to stop. That's the report, OK, in essence. And that's a very hard message. Most trade negotiations begin when both parties agree on what the problem is. That's a tough problem for China to agree to.

But having said that – so the theory of the problem is right. What I – what I would have counseled is a multinational approach because I think every economy with a big trading relationship with China has the same problems. OK? And I would have been much more systematic about exploring ways to do that.

For instance, I note that in the end of the Uruguay round, we were not getting very far on agriculture, but the one thing that was accomplished on agriculture was to categorize agriculture's subsidies by the degree to which they were trade distorting. OK?

So we've got all these colored boxes. You've got green-box subsidies and yellow-box subsidies and all this and amber boxes, and it actually had an effect on farm policy in the United States and elsewhere where we have fewer trade-distorting ways of – now, Canada – Canada dairy is one of the remaining, highly trade-distorting farm subsidy policies. But U.S. subsidy policies, including on peanuts, which used to be almost identical to Canadian dairy, was completely reformed. So these things make a difference. So I would start a process looking at the subsidization that goes on in the economy and forcing economies by example, have the WTO run one of those projects and let's look at

what the subsidies are, including domestic subsidies, and how they distort trade and how they distort commercial activity.

You know, the problem in China, you know, with subsidies is it really doesn't matter whether the tariff is 5 or 7 percent if your competitor's cost of capital is zero. OK? That's the business problem., OK? And so I would find a way – and that business problem is shared – and then find a way to work with likeminded economies and frame up a discussion that puts pressure on the right points.

MR. REINSCH: I didn't hear all the question. Was it about what to do about China?

MR. MILLER: Yes. Instead of tariffs, yeah.

MR. REINSCH: Oh, you digressed then.

MR. MILLER: Substantially.

MR. REINSCH: That's all right. Nothing wrong with a good digression.

MR. MILLER: I had PR training. They ask their questions, you give your answers, basically. (Chuckles.)

MR. REINSCH: One of my great faults is I try not to do that. In this case, I think what Scott has provided is the conventional wisdom, which is not wrong. That's why it's the conventional wisdom. I think in China, in the China case, it's not – it won't all work.

I think that if you look at what we are trying to do via the 301 report, we are trying to get them to make changes in the way their economy is structured that are fundamental. And without going into a lot of detail, the consequence of – if they do what we tell them to do, it's going to reduce the party's control over the society and over the economy and the party's never going to do that. Job one in China is self-preservation.

So we are asking them to do something that, first of all, for them, is a national security and public control issue, not a trade issue. They're not going to do that and they're certainly not going to even come close to it in a trade negotiation.

Second of all, we are asking them to do things in an area where they have control. You know, there's certain – there's things we can control. We can't control what they do inside their economy. We can control what we do inside our economy.

And where I've ended up on this – I mean, sure we should try, you know, beat them over the head, develop coalitions, do all the stuff that Scott's talking about because that's all good stuff. And we have done it in the past on occasion and it had – it had an impact, including with China on indigenous innovation, for example, that was an impact.

But my view has increasingly been that the real battleground here is not China, the real battleground is third countries. What the Chinese have said they want to do in their Made in China 2025 report basically is to, in the area of – in the technology sectors they identified, is we are going to create global champions that are going to outcompete the Americans and everybody else and we are going to dominate those sectors. That's OK for them, they're allowed to have those goals. And they

get to do whatever they want to try to achieve those goals. If they break rules, then, you know, we litigate and we do all that stuff.

But the question is, given that, you know, our job, I think, is to fight back because it's a direct attack on our – the same sectors where we're the world's leaders. Well, the way we fight back is in India, in Europe, in Australia, in Latin America, in Africa. We fight back everywhere else where the playing field is level, leveler or at least level with us vis-à-vis China and where we've got a fighting chance.

And in some cases, I mean, there's no reason why, in the world, why the Indians should buy Chinese rather than buying American. And the question is, what are we doing, what is the U.S. government doing to help our companies better compete in those situations? And at the government – and the answer is not much.

MR. MILLER: Right.

MR. REINSCH: And the question – look at the Ex-Im Bank is the best example.

But the second question is, what is our government going to create global architecture that is rules based and level playing field and open that the Chinese will have to adhere to if they want to access those markets? That's what TTIP was about. And that's what TPP was about. That's why, you know, pulling out of TPP is going to go down as an historic mistake for this administration. And even in terms of its own China policy, it's an historic mistake because it was about building an architecture that the Chinese would need to fit into if they want to access those markets. Europe is the same thing. That's what we should be doing and we're not. But, you know, we'll see.

MR. MILLER: We've actually circled the room, which is a good thing. So the theater-in-the-round actually worked, so thank you.

MR. REINSCH: It forces me to turn around, though.

Q: Thanks for doing this. I'm Andrew Adair, I'm a lawyer and consultant who focuses on transatlantic business.

And just curious, I think it's clear that Trump obviously has the authority to do the tariffs under the, you know, 301 and 232 and so forth. It's pretty clear that Congress isn't poised to stop him anytime soon based the analysis you just gave and so forth. And so – and then, you know, the courts, maybe there's some litigation, but that's probably not going to stop him on, you know, whatever constitutional grounds.

But my question – and this is partly ignorance because I don't know a whole lot about WTO – but what about WTO? I mean, this Times article that you alluded to, you know, where it said – you know, Jack Ma, whatever, that this could a 20-year, a generational trade war. I mean, isn't there some point where the WTO can say, you know, all these tariffs are illegal under the WTO rules or under international law, you guys are members of the WTO, so you have to unwind them?

MR. MILLER: Yeah. Go ahead, Bill. I don't think it would work out.

MR. REINSCH: Well, yes, but I think there would be a differential outcome. I mean, no doubt, we'll be sued.

I'm not going to turn around and look at you because I'd miss the mic.

No doubt we'll be sued on everything because that's just the way the system works. I mean, he's being sued in the United States. And I think the president will probably win most of those.

In the WTO, I think we're going to lose on 301. I think the essence of the Uruguay round was a commitment by the United States to operate within the constraints of the rules in its application of 301. And he didn't do that, we're operating unilaterally.

MR. MILLER: Yes.

MR. REINSCH: And I think the Chinese will win that. It may take a while because there will be panels and appeals, you know, all that stuff. But they win, we lose.

232, which is steel and aluminum now and –

MR. MILLER: Could be cars.

MR. REINSCH: – also possibly cars in the future, I think we're going to win that one. We will see. In point of fact, it's being litigated already in a different case. Russia did the same thing to Ukraine and the Ukrainians are suing them. And the issue is, can you do a national security action?

MR. MILLER: Yeah.

MR. REINSCH: And the defense – and the United States has filed a brief supporting the Russian position, which is ironic, which is basically that the definition of national security in Article 21 is essentially self-defined, that country gets to decide for itself what is in its national security interests and there's no second-guessing by the WTO, they're not allowed to come in and say, well, you've acted in a way that's contrary to your national security.

I think the panel in the Russia case, distasteful though it will be for them, will probably find in Russia's favor, which is a clear sign they're going to find in Russia in our favor. And I think we win that one. I think we lose the 301 one.

Got a different view, Bill?

MR. MILLER: Right. No, I think that's right. I do – I do think these national security cases, particularly a 232 case at the WTO potentially unravels the organization because you have one of the biggest members declaring, you know, its own essential security. And WTO is forced to either agree with that and then expect every economy to take a national security claim for any action it wants to take, which kind of makes the rules disappear, or provoke the large member whose leader has threatened to remove its membership from the WTO several times. So it meets a crisis, frankly, a crisis that's been eminently foreseeable for the past 15 years, I think. In terms of a body that actually constructs constructive negotiations, the WTO has fallen and can't get up. And the members need to take action to make the organization retain its relevance.

Its dispute settlement system has thus far – its decisions have been respected. But I think the door – I think, as an organization, it's kind of running on fumes. And so I'm actually concerned institutionally about what happens.

MR. SCHWARTZ: I want to thank everybody for being here. This has been really terrific having you. And we're going to do this again. And thanks for being here. (Applause.)

(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)