

Center for Strategic and International Studies

The Trade Guys Podcast

“Trade Guys on the Road: George Washington University Edition”

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**

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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.

On this episode of The Trade Guys we went on a road trip all the way across town to George Washington University. The Trade Guys appeared before a live audience made up of the Washington International Trade Association. It was great fun. So listen in as we put NAFTA, China, and much, much more to The Trade Guys.

(Applause.)

MR. SCHWARTZ: Thank you very much. Welcome, everybody. Can everybody hear me OK? All right, good. First, let me start by saying: I have a confession to make. I did not publish an op-ed in The New York Times – (laughter) – called anonymous. I did not do it.

MR. REINSCH: Neither did I.

MR. MILLER: We'll continue to host confessions till happy hour, if you like, but I didn't either. (Laughter.)

MR. SCHWARTZ: None of us published an op-ed in The New York Times. But that's one of the things that everybody's talking about in Washington today, this week, probably for quite some time. One of the things that stuck – that stood out to me in the op-ed was it – the author – the anonymous author said the president was anti-trade, his impulses were anti-trade. You guys – what do you guys think about that?

MR. REINSCH: He's right. There's no question about it. I think one of the things that we've learned about the president is while he's demonstrated – a tactful way to put it – is flexibility on some issues, trade's not one of them. He's had the same views for 30 years. You go back to interviews he gave, the book he wrote in the '80s, it's the same thing. And it's not just trade. It's a policy of victimization. The United States is being taken advantage of by two evil forces – the foreigners who are cheating us and tilting the playing field against us, and all of his predecessors who negotiated horrible trade deals that further disadvantage us.

MR. MILLER: Yeah, it's terribly ironic because – well, first, if you want to make a career in trade, you have to appreciate all right. For instance, when a trade negotiator lowers a tariff, which is good for the citizens of his own country, it's called a concession, OK? So irony abounds in trade. But I found the president's stance on trade so ironic because if you look at the condition of the economy, the reductions in tax rates and the corporate tax reform is a big and important piece of that. But he's also been deregulating the economy, energy policy – in particular, energy environment. But the

deregulatory agenda is part of the success of the U.S. economy. And yet, when it comes to international commerce, he wants to add regulations. It's just – it's such a bizarre disconnect.

MR. SCHWARTZ: Yeah. It really is mixed up. And I think one of the things that people on the Hill are trying to understand – in fact, there was a resolution that came out of the Way and Means Committee yesterday that wanted to see what President Trump's trade strategy actually is with respect to China and our longtime allies. And of course, Republicans on this side said: No. That's giving the U.S. playbook directly to China and others that we're negotiating with. But what do we make of this? I mean –

MR. REINSCH: I think it's a good sign.

MR. SCHWARTZ: Why?

MR. REINSCH: And I think it's the first – it's going to be the first of – because if the Democrats are smart they'll do it again, and they'll do it more than –

MR. MILLER: That's a big if, though.

MR. SCHWARTZ: But, wait, I was going to say, are the Democrats smart? (Laughter.)

MR. REINSCH: Yes.

MR. SCHWARTZ: Yes.

MR. REINSCH: Speaking as one, we are brilliant. (Laughter.)

MR. SCHWARTZ: OK. There you go. You heard him first.

MR. REINSCH: And incisive. You heard it all here first, yes. (Laughter.) To me, what was significant about it, it was a resolution of inquiry which is not – it's a little unusual, but it's hardly unprecedented. What was interesting about it is they actually – they reported it without recommendation, which is important because it suggests I think some weakening in the Republican wall on this.

MR. SCHWARTZ: All right. So, wait, you got to explain what reporting without recommendation means.

MR. REINSCH: The committee – because it's a resolution in inquiry, I believe –

MR. SCHWARTZ: This is some deep Capitol Hill stuff here.

MR. REINSCH: The committee is obligated to consider it and decide what to do with it. They can report it to the full house favorably, which means we endorse it. They can report it unfavorably, which means we oppose it, or they can report it without recommendation. If they don't report it, it's bottled up and that's the end of it. If they do report it, it goes to the House and then someone could demand a vote on it. And normally, what the Republicans do when someone is attacking their president – any of their presidents – is they bottle these things up. You don't want to have an embarrassing vote on the – on the floor of the House, and you don't want to provide the rhetorical

opportunity for the other side to say, you know, all these bad things about the president, so you vote it down and you bottle it up. They didn't do that this time. They reported it without recommendation, which means I think there may very well be a debate on the floor and a vote. And on its face, the vote is benign. All they're doing is asking for information. It'll be interesting to see if the Republicans vote it down or not.

MR. MILLER: But it's an important turning point.

MR. REINSCH: Yes.

MR. MILLER: Look, for the Congress – we're a government, a nation of enumerated powers. The federal government has enumerated powers. One of them happens to be the regulation of foreign commerce, which is Article I. It's the Congress's power. And yet, for 100 years, Congress has delegated power to the executive. And at some point this was going to not work out so well. And we may have reached that sum point. So it would be an interesting turn, and who knows where it goes?

MR. SCHWARTZ: Well, I think we have reached that sum point because, I mean, Democrats were using the terms during the debate yesterday to criticize President Trump's negotiation style as chaotic, unpredictable. Joe Crowley from New York, who's retiring, said it's quite unclear whether the administration has an end game or not. Is there an end game?

MR. REINSCH: I doubt it. (Laughter.) He's a transactional guy. We go country by country.

MR. SCHWARTZ: Right, so but my point –

MR. MILLER: I'd side with Mr. Crowley.

MR. SCHWARTZ: Right, my point here is, is that this isn't political. They're not asking for his strategy just to be political. They're asking for the strategy, I think, because they don't know where it's going.

MR. MILLER: None of us have actually figured it out yet. There is a transactional nature to what happens. And, I got to tell you, our trading partners are trying to figure this out. There's this dragon. And they send out heroes to slay the dragon. And occasionally, somebody succeeds. And if you look at it – well, go back to the steel and aluminum tariffs. The quiet success that nobody recognized was Australia. Australia quickly negotiated quotas. Now, they had the opening benefit of running – the U.S. running a trade surplus. OK, so they were –

MR. REINSCH: It had more than a little to do with it.

MR. MILLER: It may have had a lot to do with it, OK? But they quietly negotiated the quotas and moved on, so never really affected. Korea, I think, did a fine job with their negotiations of the almost as bad as NAFTA KORUS agreement, which was changed in tiny ways and now everything's wonderful. So there's at least – we're getting some exploratory volleys from trading partners. Mr. Juncker of the European Commission either was incredibly lucky or skillful, or some combination of both. His timing may have been perfect. But we settled down –

MR. SCHWARTZ: He's like Trump's trade whisperer.

MR. MILLER: Something. OK, but he had a wonderful –

MR. SCHWARTZ: He somehow – they got on. They got along.

MR. MILLER: He had a great press conference.

MR. REINSCH: Well, it was good timing. And they needed – you know, if I were going to – if I did this some place. If I were to give him a grade it would be complete because virtually nothing is finished.

MR. SCHWARTZ: You did it here on The Trade Guys podcast.

MR. REINSCH: That's right. And you forced me to give him a grade.

MR. MILLER: Nothing's happened.

MR. SCHWARTZ: That's right.

MR. MILLER: But also look at the – at the government of Mexico which very professionally –

MR. SCHWARTZ: Incomplete sucks. I mean, getting an incomplete on something is – it's very unsatisfying.

MR. REINSCH: I never got an incomplete. Did you used to get incompletes when you were in college?

MR. SCHWARTZ: Absolutely not. (Laughter.) I completed. (Laughs.)

MR. MILLER: Well, in terms of completion, I think the Mexican team did a very professional job at handling NAFTA. And that was – if you go back to the campaign and the rhetoric about Mexico, per se, and the people of Mexico and building the wall and making somebody else pay for it, you know, this – they had a deep hole to climb out of. They appear to have done it in an – in what I thought was a very professional and deft manner. We'll see where it all ends.

MR. SCHWARTZ: Yeah. We have to talk NAFTA. I mean, seriously. Today as we speak, Canadian Foreign Minister Chrystia Freeland is continuing high-level bilateral talks with the United States Trade Representative Robert Lighthizer. They're trying to really iron out the remaining issues that are holding up a trilateral NAFTA compromise. What are some of the issues that are still outstanding? She's using language like: We're very close. It's like – she even likened it yesterday to what it's like to be pregnant and have contractions, and have false contractions, and then finally get to –

MR. REINSCH: That was a classic analogy.

MR. SCHWARTZ: The actual –

MR. REINSCH: I'd never heard that before and –

MR. SCHWARTZ: Chrystia Freeland is an amazing communicator. She was a journalist before she became foreign minister.

MR. REINSCH: That explains everything.

MR. SCHWARTZ: She was not with the fake news. Tell me about, what is she talking about? Why are so still so close, but yet so far away?

MR. REINSCH: She's done a very good job of staying on script. And I have great admiration for her. She's done a good job of saying, we're not going to negotiate in public. I mean, they always say that, but then they go ahead and do it anyway. And she hasn't. She's kept the issues in-house. And she's been remarkably kind, would be the best word I can come up with.

MR. SCHWARTZ: The Canadians are a kind people.

MR. REINSCH: My mother was Canadian.

MR. SCHWARTZ: See?

MR. REINSCH: I would second that. They are wonderful people. And nice people.

MR. SCHWARTZ: But we're not being so kind to them.

MR. REINSCH: But they are hard – they are tough negotiators. Let me tell you, they don't – they don't give up easily on these points. And there are a number of issues that are significant. I think the ones that have made the press, which are the main ones, are the dairy issue, which is a market access question, which has a lot of political salience in Canada. Scott will probably talk about that a little bit. The so-called Chapter 19 issue, which I remember – actually, I was there when this came up. This goes back even before NAFTA to the U.S.-Canada Free Trade Agreement that was negotiated earlier. The Canadians have always felt that our anti-dumping and countervailing duty laws – which I assume you learned about over the past two days, have disadvantaged them. And that the United States has come to unfair conclusions that – and that they've lost.

So in the '80s they insisted on including a provision that provided for a special dispute settlement tribunal to deal specifically with AD/CVD cases, where there would be three panelists – the Americans picked one, the Canadians pick one, and then in theory the two of them pick another one, and another one – either a Canadian or an American. And the Canadians have, I think in their mind, benefitted from this. They've won some lumber cases in particular. And it is deeply embedded in their – in their thinking as something that is really important.

The U.S. government – just an historical note, if I can do this – originally was kind of ambivalent. I remember it because I was working for somebody on the finance committee at the time, and this had come up. And this is, I think—there were only—and I spent 20 years on the Hill. There were only two times when the administration came in and actually wanted to know what we thought. They came in often asking us what we thought, but they didn't really want to know what we thought. They just were checking the box.

MR. MILLER: Kind of doesn't matter which administration.

MR. REINSCH: No. No, no.

MR. MILLER: That applies always.

MR. REINSCH: Exactly. And there's a – just to digress – there's a fundamental difference between the two branches of government over the concept of consultation. The congressional concept of consultation is they come in and say: We don't know what to do. Tell us what to do. The executive concept of consultation is: We give you an hour head's up on the press release. And – big gap.

But this was a case when the secretary of the treasury, the U.S. trade representative, somebody from the White – I guess the president's chief of staff at the time, came in and said: The Canadians want this, this – what became Chapter 19. And we're not sure if we should agree to it or not. What do you think? And then genuinely wanted to know what we thought. And I said – well, they didn't want to know what I thought. They wanted to know what the committee thought. And the committee was, eh, generally negative about it, but not apoplectic. And in the end, they ended up agreeing to it.

But it's become this huge thing. And Ambassador Lighthizer is – has chosen not to like it. I think in general he doesn't like things that he regards as intrusions on U.S. sovereignty. And anything that involves an independent panel making a judgement that you have to obey can be construed as an intrusion on sovereignty.

MR. SCHWARTZ: Well, nobody likes an intrusion on U.S. sovereignty, but where did the idea come from that Canada is trying to intrude on U.S. sovereignty? Can you explain that to me? I mean, it's pretty hard to make an enemy out of the Canadians, but this administration seems to be making an enemy out of the Canadians. Trudeau is saying as of yesterday, you know, he's not going to sign a bad deal just because President Trump wants that. President Trump accused Canada of taking advantage of the U.S. for many years. What's the deal, Scott?

MR. MILLER: Well, look – sure. Look, I think dairy is an issue, but I think dairy is one of the president's talking points.

MR. SCHWARTZ: Milk matters. I agree. Milk matters.

MR. MILLER: But it's an easy talking point because the tariffs are high. Look, Canada has a Stalinist supply-managed dairy program – also poultry and eggs, by the way – just like we have a Stalinist supply-managed sugar program, OK? They exist in the world. They're highly trade distorting.

MR. SCHWARTZ: We're communist sugar providers?

MR. MILLER: Well, we pay our – (laughter) – we pay our farmers in a highly trade distorting way when it comes to sugar.

MR. SCHWARTZ: OK.

MR. MILLER: We are less trade distorting with our payments to farmers elsewhere, as is Canada, OK? In fact, Canada grows sugar duty-free, quota-free, OK? So they manage to get by just fine. But that aside –

MR. SCHWARTZ: I know a lot of sugar farmers in Louisiana that would resent being called communist sugar providers.

MR. MILLER: They're good – they're good proletarians. That's all I can say.

MR. SCHWARTZ: Yeah, yeah. All right. (Laughter.) Stop.

MR. REINSCH: Well, the ones that are worse are the ones in the upper Midwest, by the way.

MR. MILLER: Yes, who are growing –

MR. REINSCH: It's the beet guys, not the shredded – not the cane guys.

MR. MILLER: The beet guys are growing a crop that they could make money on at world prices and choose not to because the subsidies are sweet. So –

MR. SCHWARTZ: Those nasty beet guys, my God. (Laughter.)

MR. MILLER: But let's separate that. I think this is all about cars. Look, there are – what I noticed in the –

MR. SCHWARTZ: All about cars?

MR. MILLER: Cars.

MR. SCHWARTZ: It's not about milk, it's not about sugar, cars?

MR. MILLER: Not about – so we may have a difference. Yes, I think it's about cars. I think there's a campaign promise waiting to be kept, which is raising U.S. auto production employment for the 2020 campaign. I think that's something the president talks about all the time. The auto rules of origin that the United States agreed with Mexico will promote U.S. content. It's all about raising not just wage rates that the average car produced, but we went from 62 ½ to 75 percent North American content. So these rules are – that's the administration's focus on a lot of things.

But for me, the U.S.-Canada part of this is – what I noticed about the U.S.-Mexico agreement, first, is that – is that there were a number of things the U.S. and Mexico agreed with which are easy for – easy for those two, and really hard for Canada. All the intellectual property stuff. They sort of bowled right over the Canadian cultural objections. They extended data protection for biologic drugs for 10 years, something Canada rejected in TPP. They rolled ahead with opening the banking and financial services sector, which has not been particularly open in Canada. Telecom. Digital economy. There's a whole series of things that Mexico apparently didn't care about, we wanted and are doing now, and Canada will find difficult.

But they racked up the issues to make the endgame very difficult. I think the endgame becomes take it or leave it. There's a tradeoff between Quebec dairy and Ontario cars. But what the president would actually want – and why I think he might want to get to no – is he – I think he thinks he can persuade the Detroit three to move production out of Canada to the United States, which gives him the win he's actually looking for.

MR. REINSCH: But how likely is that really to happen with the rules that they've negotiated?

MR. MILLER: It is unclear. And of course, all this is way beyond the 2018 elections, OK? All this is happening sometime when –

MR. SCHWARTZ: Beyond the midterm elections.

MR. MILLER: Beyond the midterms, yes. Whether Congress approves this, whether anybody actually reads the implementing bill, there's a lot of things that have yet to happen. But I think that is – you know, if I look at – he always talks about autos. He complained about autos with Europe until the complaining stopped. He complained about autos with Korea until they did a few things that'll happen a long time from now. So it wouldn't surprise me if that was the element here that – I could always be wrong.

MR. REINSCH: I don't know that I agree. Well –

MR. MILLER: That's happened. (Laughs.)

MR. REINSCH: Well, rarely.

MR. SCHWARTZ: Rarely.

MR. REINSCH: One of our faults on this – on this podcast is we don't disagree often enough, but I will this time.

MR. MILLER: OK.

MR. REINSCH: And not just for – because we have people –

MR. SCHWARTZ: This is not just theater.

MR. REINSCH: This is not just theater.

MR. SCHWARTZ: This is a real disagreement.

MR. REINSCH: This is an actual disagreement. I mean, I agree that I think for the president it's all about cars. It's been about cars. It's about redeeming his promises.

MR. SCHWARTZ: Well, he likes cars. He likes to sit in big firetrucks. He likes to sit in cars. I mean, you know.

MR. REINSCH: But not – (laughs) – but he doesn't like Rolls-Royce's and he doesn't like Mercedes.

MR. SCHWARTZ: Apparently not.

MR. REINSCH: And he doesn't like whatever BMW makes that's large. I think what will be – what historians will say is that I think one of the president's weaknesses is that after he won he has never figured out that he's the president of the whole country. He sees himself as the president of the people who voted for him.

MR. SCHWARTZ: OK.

MR. REINSCH: And the people that voted for him and put him over the top –

MR. SCHWARTZ: And he's made campaign promises to those people.

MR. REINSCH: Yes. And those are the people of Pennsylvania, Ohio, Michigan, Wisconsin, Indiana. And he is unusual for a politician in that he actually believes in keeping his campaign promises. I guess that's commendable.

MR. SCHWARTZ: You know, that is commendable. And, you know, if anybody doesn't follow this closely, everything he's said that he's going to do during the campaign, he is doing.

MR. REINSCH: Yes. And cars is one of them. And hence the focus. I think Scott's exactly right about that.

Where I don't think I agree is I don't think that's a sticking point for the Canadians. I think everything else you listed is a sticking point for the Canadians. I don't think—you know, the \$16 wage thing that they put in –

MR. MILLER: Oh, no, that should be easy for them to see. Yeah. Right.

MR. REINSCH: That's easy for them. And I don't see the 75 percent necessarily forcing a lot of changes in supply chains. I mean, actually – full disclosure – one of the projects that the Scholl Chair at CSIS is starting is to look at that case study specifically and to see how changes in rules of origin will affect supply chains and try to figure out how companies will respond. And it – we haven't really begun yet. But the one thing that's clear is that every company's different. They each have their own supply chains. And their cost factors and efficiency factors vary in each case. So they will each do something different. It's hard to predict, but I don't think this is what – I don't think this is what Freeland is arguing about today.

MR. SCHWARTZ: OK. So what is the holdup? Is this politics for Trudeau? I mean, is this helping him at home to have a stalemate on this? Is it – is it politics for Trump? Is it helping him to look tough?

MR. MILLER: I don't – I don't look at a lot of Canadian polling, but I think Prime Minister Trudeau's best day in the polls was the day after the G-7 meeting where he directly criticized President Trump. So I think –

MR. SCHWARTZ: OK. So that's good politics there.

MR. MILLER: So I think – I think anti-Trump actions work really well for the prime minister.

MR. SCHWARTZ: Yeah, but this could really hurt him and hurt Canada, the bottom line, if they don't come to an agreement.

MR. MILLER: Well, it could help his politics and hurt the economy.

MR. SCHWARTZ: Right.

MR. MILLER: And that's the interesting –

MR. SCHWARTZ: Tell us about that.

MR. MILLER: Well, it looks to me like the president and Prime Minister Trudeau are frenemies at the moment because the economies are deeply integrated. We work together as firms across the border on so many issues. I mean, massive, deep integration with Canada from a commercial standpoint. And, frankly, they're a NATO ally. They're one of our most reliable allies on a lot of levels. And, you know, frankly don't create a lot of problems. There are some – there are some issues we've fought about for a long time. They're kind of the greatest hits – softwood lumber, cultural exceptions, dairy, whatever it might be. But there's lots of reasons for us to get along well. But it seems to me, both the president and Prime Minister Trudeau find advantage in being opposed to the other.

MR. SCHWARTZ: You know – you know what Trump and Trudeau really need? I know what they need. You know what they need?

MR. MILLER: Boys night now?

MR. SCHWARTZ: They need a bro hug. (Laughter.) They need a bro hug. And probably a boys night out. I think that would do it.

MR. REINSCH: That would be awkward.

MR. MILLER: It would be. (Laughter.) You'd want to make sure nobody –

MR. SCHWARTZ: Why would –

MR. REINSCH: It would be really awkward. I just can't see –

MR. SCHWARTZ: The boys night out or the bro hug?

MR. REINSCH: The bro hug. I'm just visualizing that. And I just –

MR. MILLER: Yeah. The White House photographer would have to not be on Instagram for a while.

MR. REINSCH: I don't see it.

MR. SCHWARTZ: I mean, I know Justin Trudeau knows how to do a bro hug. I'm not sure President Trump knows how. He knows how to do those handshakes where he jerks you back and forth. (Laughter.) That's sort of his bro hug. Well, I don't know. Like, it –

MR. MILLER: We'll find out very shortly, because –

MR. SCHWARTZ: That's what I – when are we going to know? Is it – the Mexicans said this week – the Mexicans –

MR. REINSCH: September 29th is my prediction date.

MR. SCHWARTZ: OK. September 29th. The Mexicans said this week – their Economy Secretary Guajardo said he hopes to see white smoke by Friday.

MR. MILLER: Well, that's good. But, look, the – last Friday – (laughter) – or the – August 31st or September 1 the administration notified the Congress. That started the 90 days clock. But 30 days from the date of notification they have to produce a text. So the words have to materialize on a piece of paper. That's not trivial.

MR. REINSCH: That's why I said September 29th.

MR. MILLER: It usually takes a month to do. So September 30, Congress sees a text according to the TPA timelines. And so this has to be done by then.

MR. SCHWARTZ: Has to? Or what?

MR. MILLER: Well, I mean, it can always fall apart again.

MR. REINSCH: Well, that actually – I'm glad you raise that, because it gives us a chance to tie this to where we began, with some of the other – with the Congress and why the Congress is doing what it's doing –

MR. SCHWARTZ: So what you're about to hear, this would be less awkward than a Trump-Trudeau bro hug.

MR. REINSCH: (Laughs.) Well, don't be too sure. It involves – it involves getting the Congress to come to an agreement about something. But –

MR. SCHWARTZ: Could be quite awkward, yeah.

MR. REINSCH: One of the issues that's come up for debate is last year – you know, the way the rules work, you have to – if you're going to have a negotiation you have to tell the Congress that you're going to have a negotiation and what it is. So last year Ambassador Lighthizer did that. And he said: I'm going to negotiate with Canada and Mexico on updating and revising NAFTA. So now we have an agreement with two, not yet three. So there are members of Congress in both parties – I think the Democrats out of some sense of malicious glee, I think the Republicans out of some sense of genuine concerns, which I'm sure the Democrats have too – are saying two doesn't – this doesn't count. It's bait and switch. You know, you told us you were going to negotiate NAFTA. And you didn't negotiate NAFTA. You negotiated the U.S.-Mexico agreement. That doesn't count.

MR. MILLER: Start over.

MR. REINSCH: You don't get fast track procedures. You don't get the no amendment, no filibuster, and all the rules that go along with it for a bilateral. You have to start all over again with a new notification.

MR. MILLER: So don't pass go. Don't collect \$200. And you're back where you started. Which actually – Speaker Ryan was asked that question of whether this qualifies, or something like

that. And the speaker refused to comment. He basically said, we'll have to see what it looks like. Let's see the text.

MR. REINSCH: They're punting, which is – which is also a sign that –

MR. SCHWARTZ: I was going to say, shocking that he refused to comment.

MR. REINSCH: Well, but it's a sign Republicans are increasingly, I think, divided on this. I see a sense that the number of people that want to stand up and defend the president on NAFTA is shrinking. And you can see this. The immediate reaction from everybody in Congress – the ones that were always going to be against it, but everybody else was: Canada has to be part of it. Canada has to be part of it. Canada has to be part of it. This is one area where Congress has leverage. Nobody gets to decide whether these procedures apply except the House and the Senate. You can't take this to court. Under the statute, this is an exercise in rulemaking by the House and the Senate. Only the House and the Senate can interpret their rules. They don't have to do what the president tells them.

The president's going to say: This qualifies. It doesn't matter. They will decide. They don't have to decide until they actually get something. And I don't mean a text of an agreement. They don't have to decide until they get an implementing bill, because that's what they vote on. And they won't get an implementing bill until next year, because it's going to get signed – the agreement isn't going to get signed until November 30th. And then the ITC has 105 days, if they take them all, to do their economic evaluation. Which means the earliest would be the Ides of March, sort of an appropriate day for a bill to arrive. At that point, then Congress can decide. Until then, you're going to see everybody having an opinion on this question.

And as I was saying back in the beginning, if the Democrats are clever, I think what they will probably do in the next few weeks is put out another – put forward another resolution that says: This doesn't qualify. It doesn't qualify for fast track. And it's the sense of the House or the Senate that we're not going to give it to them. Let's see if they can get a vote on that.

MR. MILLER: Well, we know the House has this power because in 2008 –

MR. REINSCH: Yes.

MR. MILLER: OK, the Bush administration sent the implementing bill for the U.S.-Colombia Free Trade Agreement, which it had negotiated and concluded in 2007 – they sent it to the House. And Speaker Pelosi and the Rules Committee at that point in time basically made it not in order, stopped the TPA clock that was supposed to run under the rules, and life went on.

MR. REINSCH: But I think what you're going to see in the short run is an effort by the people that don't like a bilateral to put everybody else on the spot and say: Let's have a vote. We don't have to decide until whenever it is – March. But let's have a vote right now on this. And let's send the president a signal. Let's say this doesn't count. You need to include Canada.

MR. MILLER: Interestingly, 39 states have Canada as their leading export market, OK? Interesting voting pattern.

MR. SCHWARTZ: That's how much business we do with them.

MR. MILLER: Yes. Well, they are our largest trading partner, without a doubt.

MR. REINSCH: Correct.

MR. SCHWARTZ: Well, let me – let me read a quote from – for you guys and have you react to it. This comes from Stephen Moore, who’s an economist with the Heritage Foundation, who’s very close to the White House. He advised President Trump during the presidential campaign. Moore says, quote, “They’re going to reach a deal with Canada because ultimately Trump is focused on China.” What do you think about that? (Laughter.)

MR. REINSCH: I didn’t –

MR. SCHWARTZ: I mean, to add a little confusing to this whole thing.

MR. REINSCH: He went on to explain – I don’t think that’s what – I don’t think it’s going to play out that way necessarily.

MR. SCHWARTZ: He’s saying there’s going to be a domino effect.

MR. REINSCH: What – he’s saying – yes. He’s talked about dominos. And he’s a positive version of what everybody else is saying, which is you can’t go up against China if you’ve offended everybody else in the world that you’re relying on to form a coalition to support you. And most people who have worked with China for a long time would say that if you want to apply pressure effectively in the Chinese case, you need to do it via coalition. They don’t like to be an outlier. They don’t like to be the only one.

So you’ve got the Europeans, whom we’ve offended. The Japanese, whom we’ve offended. The Koreans, whom we’ve offended. The Canadians and the Mexicans, whom we’re in the process of offending. (Laughter.) All going up with you saying the same thing –

MR. SCHWARTZ: Then you isolate China?

MR. REINSCH: Yes, the odds are better. And so you want –

MR. SCHWARTZ: But meanwhile we’ve offended every one of those people that we want to help us isolate China.

MR. REINSCH: We have. Yeah, what Moore is suggesting is maybe we can un-offend them by reaching some agreements on some of this, yeah.

MR. MILLER: Well, and in fact –

MR. SCHWARTZ: Now we’ve been tough with them, we’ve softened them up, is what he’s saying?

MR. REINSCH: That’s the Trump idea. Soften them up. Bludgeon them into submission.

MR. MILLER: The un-offending part – the un-offending part is actually what’s been happening. Look, we all remember the press conference with Mr. Juncker. OK, remember how good we felt when nothing happened? Because literally nothing happened, OK? (Laughs.)

MR. SCHWARTZ: Jean-Claude Juncker is the trade whisperer.

MR. MILLER: It was amazing. Look, we had the same – the market had the same euphoria when the U.S.-Korea FTA 2.0 was announced. Everybody goes, whew, well, that didn’t hurt. You know, it’s awesome. So we are pounding our head against the wall in the supply chains trying to deal with these tariffs. And when you stop beating your head against the wall, it actually feels pretty good. The market responds positively. I think the president is in a position to settle the 232 tariffs on steel and aluminum with Mexico.

MR. SCHWARTZ: Two-thirty-two is the national security provision.

MR. MILLER: Yes. And since Mexico’s retaliation was on agricultural products – hogs, corn, other ag products – you get the NAFTA train going again for the farmers, that’s a big positive for the markets. If we settle with Canada as well, I don’t know if that’s possible, but I think that’s where the good news comes from. It’s not from a change in the terms of trade as much as it is, wow, we just didn’t do something crazy today.

MR. REINSCH: I think what – I think what the president – our president needs is a political victory on this stuff. What he’s – because there haven’t been any. I mean, Korea is small.

MR. SCHWARTZ: It wouldn’t hurt to have a political victory on this.

MR. REINSCH: It wouldn’t hurt. And he’s increasingly hearing from the people that are – have been affected adversely by the tariffs, saying –

MR. SCHWARTZ: Farmers, auto dealers.

MR. REINSCH: Yeah. And a lot of them are saying, you know, I buy the logic. You know, you soften them up, get a better deal. But how long do we wait? You know, this is cutting into my livelihood.

MR. MILLER: Yeah. We got the softening up, now where’s the deal?

MR. REINSCH: Yeah.

MR. SCHWARTZ: Some of them don’t have a lot of patience for this.

MR. REINSCH: Right. Right. So I think he’s under some pressure to produce an agreement – a NAFTA agreement before the election so he can – and, of course, it’ll be the greatest agreement ever struck in the history of the world. We do know that.

MR. SCHWARTZ: There will be a beautiful agreement It’ll be a beautiful agreement.

MR. REINSCH: It’ll be a beautiful agreement. It’ll be huge. (Laughter.)

MR. SCHWARTZ: Yeah.

MR. MILLER: The U.S.-Mexico agreement was the biggest ever until The New York Times called us and fact checked the whole thing.

MR. SCHWARTZ: Ah.

MR. MILLER: And there was the WTO, GATT '94, and the European single market were a lot bigger. (Laughs.)

MR. SCHWARTZ: But still. It's huge.

MR. REINSCH: He's under some pressure. The Canadians, I suspect, are intrigued by – are going to let this play out a little bit because they're seeing a lot of pressure from the Hill saying: Include Canada. Include Canada. Include Canada. And I think they will take a little while to see if that has any effect on the administration, and whether it softens the administration up. If the Hill can convince the administration that, look, we're not going to consider this without Canada, that's not a victory.

MR. MILLER: Right.

MR. REINSCH: What he really needs before November the 6th is all three of them together. That will move this whole debate about, you know, have you met the terms of the notification or not. And it'll probably be a deal that a lot of people will support. Not everybody, but – hopefully. So, you know, there's a way to get to the happy ending. But it involves the administration, I think, continuing – well, the administration coming off some of its more extreme positions. They did that for Mexico. They did it for sunset. They did it on autos.

MR. MILLER: Yes. I mean, look at the sunset clause. Yes. Yeah.

MR. REINSCH: So apparently – but you've got the president saying: No more concessions. No concessions to Canada.

MR. MILLER: Yeah, they're presenting Canada sort of a take-it or leave-it deal because of the clock that's ticking on the implementing – or, on the notification.

MR. REINSCH: So I think it'll tick for a while.

MR. SCHWARTZ: They need a bro hug.

So meanwhile – OK, back to China –

MR. REINSCH: Maybe Minister Freeland and Ambassador Lighthizer can do a bro and sis hug?

MR. SCHWARTZ: That would be nice. You know, just get this over with and get it done, and everybody benefits, right?

MR. MILLER: I just don't want to see it. I'm sorry. (Laughs.)

MR. REINSCH: One would hope.

MR. SCHWARTZ: All right. So –

MR. REINSCH: Not everybody will benefit. That's the sad part of this.

MR. SCHWARTZ: All right. So talking about China. In a meeting –

MR. REINSCH: Not to change the subject or anything.

MR. SCHWARTZ: Well, no, I mean, it's all interrelated. I want to talk about China for a second, because today is supposed to be the last day for public comments for China. And then President Trump says he's going to levy an additional 200 billion (dollars) on China, correct?

MR. REINSCH: And the gossip is – the media gossip is that that's coming very soon – like tomorrow or the next day.

MR. SCHWARTZ: Right.

MR. REINSCH: Which kind of undercuts the argument that you have carefully considered all of the submissions that were being sent in until midnight tonight.

MR. SCHWARTZ: Yeah. Yeah.

MR. REINSCH: But, you know, that's not unexpected.

MR. SCHWARTZ: President Trump said yesterday to congressional leaders: We've done very well in our negotiation with China, but we're not prepared to make the deal that they'd like to make, he said. He said: We're taking in billions of dollars in taxes coming from China – billions and billions of dollars more. What is he talking about?

MR. MILLER: Well, he's – there was a tweet –

MR. REINSCH: Tariffs, I guess.

MR. SCHWARTZ: Isn't this money we're spending? Like, American taxpayers are spending?

MR. MILLER: Well, these are – these tax dollars, as he would call them, comes from American taxpayers –

MR. SCHWARTZ: Yeah.

MR. MILLER: Because we put sales taxes on goods from Canada, basically.

MR. SCHWARTZ: Correct.

MR. MILLER: We put a 25 percent sales tax on these goods. And American consumers pay them. But he's tweeted about how he's going to reduce the national debt with tariffs. And it's like,

wait a minute, there's billions and there's trillions. And I think he got a few decimal places off.
(Laughter.)

MR. REINSCH: Well, I think your figure was, if he does what he says he's going to do, if you want to eliminate the debt, it'll take, what, a thousand years?

MR. MILLER: A thousand years, roughly speaking, if nothing else goes different, you know.

MR. SCHWARTZ: Let's talk about what the Commerce Department said on Wednesday, that the deficit for the first seven months of the year hit 337.9 billion (dollars), up 22 billion (dollars) from a year earlier, to its highest level in a decade. What does that mean?

MR. REINSCH: Well, of course it did from the tax bill.

MR. MILLER: Yes, we – it means – it means we have a roaring economy, and it means we are spending more than we're saving, OK? When you have a high – a low savings rate and the economy grows very rapidly, our economy pulls in stuff from all of the world to support that growth. And so since we started running trade deficits in 1973, every time the economy improves the trade deficit widens. Every time we enter recession, the trade deficit shrinks, OK? That's the way the math works. And until change the saving rate – well, the math will work that way one way or another. Your current account increases when your economy grows faster. And because we don't – Americans don't save anything, we spend everything we get and more – I mean, I don't know what the deficit is this year, but –

MR. REINSCH: Speak for yourself. (Laughter.)

MR. MILLER: OK. But in any case, as long as that happens, that's what we're going to have. And in that context, a lower trade deficit is a sign of bad economic news in the United States. Trade deficit fell 66 percent year over year in 2009.

MR. SCHWARTZ: Why is it bad?

MR. MILLER: Well, it's bad because the economy shrunk.

MR. REINSCH: Because everybody's unemployed.

MR. MILLER: Trade collapsed. People are unemployed. They don't buy things. If you don't buy things, you don't buy imports as well as domestic products.

MR. REINSCH: If you want to reduce the deficit, have a recession.

MR. SCHWARTZ: Do we have a question?

Q: We do have a question. Hearing what you said about – the trade deficit is tied as much to savings and the health of the economy, some of the critical issues with China are forced technology transfer, this theft of intellectual property. If tariffs are being put in place to combat those practices, that I think are universally agreed to be detrimental to American business and American interests, when will the tariffs come off, because how – when will we be able to see the positive benefits of China changing its behavior? How long will that take?

MR. MILLER: Well, this is – you're on a problem that we've talked about before. Bill called this U.S.-China interaction a five-act play, right? And we're still in early stages. But one of the reasons is the U.S., if you read the Section 301 report and its findings, the United States is saying something to China that is very difficult to hear. The U.S. is basically saying: Hey, you cheated your way to prosperity. That's the essence of the 301 report. That's the bumper sticker from the 301 report. Now, I've watched trade negotiations and trade disputes happen for a long time. And the disputes that get resolved are ones where both parties understand what the dispute is about, OK, and accept the findings. I mean, so –

MR. SCHWARTZ: I mean, that would help, if both parties understood, yeah.

MR. MILLER: Yeah. It's like resolving any dispute. A dispute with your spouse or significant other. If you don't can talk about what the – what the problem is –

MR. SCHWARTZ: I don't understand anything my wife and I fight about. (Laughter.)

MR. MILLER: Well, you just – you just agree with her. That's how you solve that. (Laughs.) But in any case, you've got to have an agreement about what the problem is before you can talk about solutions. I think that we have posed a problem – we, the United States – have posed a problem for China that is very difficult for them to agree that's a real problem and do something about it. And so I think it's going to be a while. I would also notice that we fought about frozen chickens with Germany – West Germany in 1965. And the 25 percent tariff on trucks is still in place today.

MR. SCHWARTZ: Chicken tax.

MR. MILLER: The chicken tax. So tariffs can stay for a while.

MR. REINSCH: Yeah. My answer about timing was going to be never. I mean, does that work for you? (Laughter.) What we are –

MR. SCHWARTZ: A lot of optimism here from Trade Guy Bill.

MR. REINSCH: I'm not – I'm not sure that I'm in the majority on this. But my view has been, if you look at their – the 301 – the Section 301 report, we are asking them to do things to their economy that will, in their view, weaken their national security, weaken the party's control over the society, and weaken the party's control over the economy. That is the last things that they're going to do, because they all end up imperiling the party's position in the society, which is – and preserving that is job one for everybody in a position of importance in China.

MR. SCHWARTZ: We have another question in the back here.

MR. REINSCH: By the way, not to say that we're – that we're wrong. I think the diagnosis in that document is correct. They're doing those things. They are serious problems. And they're affecting us adversely. There's no question about that. The argument is whether the right way to deal with it.

MR. MILLER: Yes. We have the correct theory of the problem and no clue about what the solution will be.

MR. REINSCH: Yes. And there are other answers. But fortunately we have a question, so we don't need to get into this.

MR. SCHWARTZ: Yes, ma'am.

Q: Do you think the president's going to terminate NAFTA anytime soon?

MR. MILLER: I would – well, it would not surprise me to see – because nobody's seen the text of this thing that they're ready to sign. But I think the thing they sign is an amendment – they invoke Section 2203 of the NAFTA, which is the provision to amend the NAFTA. And so they invoke that for U.S.-Mexico. And then at the same document announce the termination in Section 2205. So I think those things move together, that they basically – they call what they concluded with Mexico an amendment to the NAFTA, they use Section 2203 to amend it, and then basically say: Old NAFTA go bye-bye. I mean, I don't know that, but that would be my guess.

MR. REINSCH: Sort of at one level that's inevitable. You know, if you've got a new thing, you need to repeal the old thing, so you don't have any confusion about what is operational. I'm not sure it will play out quite that smoothly. I have been thinking that what he will probably do – because he wants to jam the Congress like everybody else – is at some point, certainly I think not before signing. But at some point, either after signing or when the implementing bill is actually submitted, I think he'll invoke 2205 and announce withdrawal. There's a six-month suspension. Because that essentially tells the Congress: You've got a binary choice here. You can – you can approve my NAFTA, or you can have nothing because I'm getting rid of the other one.

MR. MILLER: Back to MFN, yeah.

MR. REINSCH: So if your idea is we're going to defeat this one and keep the old one, he's going to take that option off the table.

MR. SCHWARTZ: I want to thank everybody for your time today. It's hot in here, but this has been a hell of a lot of fun. Really appreciate it. Thanks from The Trade Guys. Thanks for being on The Trade Guys. (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)