

## **Center for Strategic and International Studies**

### **“Economic Security as National Security: A Discussion with Dr. Peter Navarro”**

**Featuring:**

**Dr. Peter Navarro,**

**Assistant to the President and Director of the White House Office of Trade and Manufacturing Policy**

**CSIS Experts:**

**Andrew Philip Hunter,**

**Director, Defense-Industrial Initiatives Group and Senior Fellow, International Security Program, CSIS**

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ANDREW PHILIP HUNTER: Well, good morning, everyone. And thank you for joining us here at CSIS for this morning's discussion on economic security and national security. We're so pleased that Dr. Navarro has agreed to come and talk to you on this topic, and then join us in a – in a short discussion. My name is Andrew Hunter and I am director of the Defense-Industrial Initiatives Group here at CSIS. And the genesis or origin of this discussion originally was the release a few weeks back by the president of the industrial base review, done by an interagency group led in no small part by Dr. Navarro, but looking at a lot of issues in the defense-industrial base. But I'm confident this morning's discussion will look at those issues, but also a much broader set of issues related to economic strength and economic security.

Today's event is not sponsored, so it's made possible by general support to CSIS. And we're always grateful for those who provide general support to the Center. I also want to give you a brief security announcement. We work hard on security here at CSIS. I'm confident this morning's event will be an uneventful one. But in the unlikely event that we were to need to evacuate this room for one reason or another, I'll be your security office. And I'd give you guidance on where to go, whether to exit the way you came in or to exit one of the other exits behind us and move to a safe location.

As I mentioned, we're very pleased to have Dr. Navarro join us this morning. He is director of the White House Office of Trade and Manufacturing Policy. And he comes to this position with a tremendous background in economics and a tremendous background at looking at the fundamentals of economic strength. He is a Ph.D. economist from Harvard University. He worked for many years as a professor at U.C. Irvine at the – I'm not sure I'm going to pronounce this right – the Merage School of Business at the University of California, Irvine. Published – has published 10 books, including "Death by China," and "Crouching Tiger," where he has dealt explicitly with the issue of economic strength from the perspective of international competition and how that plays out.

And I think today's event, I think, will give us a good focus on the issue of U.S. economic strength as an element of national power, and that we need – how we can think about it that way, and think about it in terms of a broader U.S. strategy. CSIS has also looked at this question. Earlier this year there was a report "Meeting the China Challenge," put out by a group of us here at CSIS. I was happy to contribute to it. And there's some pretty significant, fundamental questions that come up when you think about U.S. economic strength as an instrument of national power, and what it means if that is in competition with the economic strategies of other nations.

And so I'm really looking forward to the remarks this morning. Without further ado, I'm going to ask Dr. Navarro to come to the stage and give his remarks. (Applause.)

PETER NAVARRO: Thank you, Mr. Hunter. And thanks to John Hamre, leader of this great institution, for the invitation. I have a great fondness for CSIS for kind of an interesting and perhaps peculiar reason. I was just – the only time I was ever here, I don't know if you know this – was down there in the lobby, where I set my film crew up to interview two of the finest scholars we have in D.C., Bonnie Glaser and Michael Green. And that was for my "Crouching Tiger" documentary series. And I was struck at how profound Bonnie and Michael were in talking about the China challenge.

What I'd love to do for you today is talk about the manufacturing and defense industrial base, and this historic effort that's gone under the Department of Defense and President Trump. And what I want to do in order to come to that topic is I want to start at the 30,000-foot level and try to offer some perspective on how this particular effort fits into the broader grand strategy of the Trump

administration in terms of dealing with both economic and defense issues. So let me start by observing that some of our greatest presidents are best remembered for short, but profound, maxims that both guided their policies and led to some of their greatest successes. If you think about William McKinley, one of President Trump's favorite presidents, in the 1896 campaign his campaign slogan was: patriotism, protection, and prosperity.

And it was that slogan that led to strong tariffs and sound money policy, and to a profound realignment of the Republican Party under McKinley, as well as what was the catalyst for very strong economic growth. And if that sounds a little bit familiar, you may have been paying attention to what's been going on the last couple years. And you have of course Teddy Roosevelt, walk softly carry a big stick. We moved in his administration from what was essentially a coast guard into a global naval power. Of course, the gold standard of maxims would be Ronald Reagan, peace through strength. Out of that, came a reversal of the decline in the defense budget, the Star Wars initiative, and basically the demise of the Soviet Union.

And so – and so we come to this great president, Donald J. Trump. In December of 2017, as part of the National Security Strategy, President Trump introduced the maxim that economic security is national security. Economic security is national security. And if you think about everything the Trump administration has been doing in terms of economic and defense policy, you understand that this maxim really is the guiding principle. If you think about, for example, tax cuts – corporate tax cuts, which essentially spur investment and therefore lead to greater innovation, that helps both our economy and our national security. If you think about deregulation under one fine, fine OMB Director Mick Mulvaney, he's been leading a tremendous effort to reduce the regulations that were put in place by the Obama administration.

From a purely economic point of view, a lot of people associate supply-side economics purely with tax cuts. But the more nuanced, sophisticated, and accurate way of thinking about supply-side economics is to also consider things like how deregulation is a pure supply-side benefit, where you lower the costs of firms, you make them more globally competitive, and you get a twofer there, which is essentially growth in a non-inflationary way, which is the best kind of growth there is. Unleashing the energy sector, ending the “war on coal” is in the same spirit of that kind of beneficial supply-side effect, where you get your manufacturers more competitive globally and you put more purchasing power in the hands of American consumers so that you get that kind of benefit.

Steel and aluminum tariffs. Steel and aluminum tariffs. What has that done? What it hasn't done is the gloom and doom of the conventional, traditional economics profession, where tariffs are bad. What tariffs have done in this case – from day one – the day one that they were announced, we saw a flood of new investment and expenditures in capital equipment in that industry. Day one, Century Aluminum, \$150 million new investment in plant in Kentucky. Day one, U.S. Steel, opening new boilers. And we've had since that point in time not just – not just domestic companies investing here inside our borders, but also foreign investment coming in so that we can make steel and aluminum with American hands.

So I'm just halfway there in terms of this. If you look at buy American, hire American policies, these are the two simple rules of President Trump. This is actually the equity we have in my office, the Office of Trade and Manufacturing Policy, the equity for buy American. And we've seen, for example, at the Department of Transportation a radical, radical change in the amount of waivers that were given out needlessly and wantonly during the previous administration. Now those waivers have gone from a flood to a mere trickle. And so what you do when you do that, is you – the combination of steel and

aluminum tariffs and buy American policies, using taxpayer dollars, you strengthen – you strengthen the manufacturing and defense industrial base.

If you go to trade policy, if you think about the Section 301 investigation, I mean, this is brilliant. We have in my judgement the finest United States trade representative we've had in our history, although I like to joke with Bob Lighthizer that he shouldn't get a big head about it because the USTR's only been around since the '60s. So you got to kind of put that in context, but doing that Section 301 investigation, that was a – that was a – that was a power that was lying dormant for decades. Ambassador Lighthizer brought that. The way the White House works is that the president says: We need to get this done. How do we do it? This is the way we were able to now protect our technologies and intellectual property from Chinese predation.

And it's been tremendously successful at that. The report that the USTR did on the 301 is something that I think's required reading for everybody in this country because it lays out chapter and verse how there are the many different ways that China goes after our technology. And of course, on trade policy – I mean, let's think about this. A lot of people in this room likely criticized the president early on for his tough stance on trade. You can't – you can't change the Korea deal. Don't mess with NAFTA. That's too risky. But that tough talk, backed up by tough action, has resulted in landmark restructuring of two of the worst – two – we had basically the three worst trade deals in history. The Korea deal, not in absolute number but by its impact on the auto sector. China into the WTO. And NAFTA in 1994, OK?

Two out of three we've been able to renegotiate in what I like to call Trump time. Trump time. What does that mean? It means that this USTR, Bob Lighthizer, was able to renegotiate NAFTA in a fifth of the time – a fifth of the time it would normally take – it would normally take. And the whole essence of NAFTA, the new NAFTA, USMCA, is a provision to bring domestic content back on shore and share the fruits of that, assembly and supply chain, with our neighbor to the south and our neighbor to the north, a deal which renegotiated actually strengthens all three countries, and strengthens, again, the manufacturing and defense industrial base.

So you can see how the grand strategy of this president really feeds into this whole idea. This is a man who wakes up every day and thinks about how to put men and women back to work, particularly men and women who work with their hands in our manufacturing base, to rebuild our communities. And guess what? It's working. If you look at every single economic indicator – every single one is up. When the president – we didn't have to – even have to wait for him to get elected, OK? Or for him to get inaugurated. The day he was elected, business optimism and consumer optimism jumped up. And it's gone straight up since. It's at historic levels.

And now it's reflected in the data. We've got historically low unemployment, 3.7 percent. We have rising wages for a change. We have record-low unemployment – record low unemployment among blacks, Hispanics, and women. And guess what? The rising wages are disproportionately being shared by the lower portions of the income stream – the deplorables, the Trump voters, the people who voted this man into office.

And my favorite statistics and my best measure of success of this administration, I remember during the campaign, on the stump, debating the Clinton economic advisors, who said: nah, nah. We can never do better than 2 percent. And all those people who left the workforce are never coming back. They just don't have this – whatever. Those are the discouraged workers. One of the most interesting days I had on the campaign trail was the day we got news of a study from the Federal Reserve. It came

out – I don't even know when it came out. But it was, like, one out of four people – prime-age workers, 25 to 54, out of the workforce. It's crazy.

What have we done? What has this president done? He's put over a million people – a million of those people back into the workforce, the so-called discouraged workers, the people who were sitting on couches with the shades drawn with no hope in their life are back in the workforce. And so what's going on here with this grand strategy is not just quantities of jobs, it's quality and a fundamental restructuring of our economy back to a strong manufacturing and industrial base whereby people can work with their hands with dignity and earn a decent wage and rebuild their communities.

And this is something that President Obama never understood. And I'm not coming late to this party. This is something during the Obama administration I repeatedly said publicly in TV and in articles. President Obama, who wants to claim any – he wants to claim credit for this Trump economy, OK? This is somebody who – years ago, I said this. I said that this president, Obama, did not understand the difference between a cyclical short-run downturn that you might be able to fix with Keynesian stimulus, and long-term, fundamental, structural problems related to high-corporate taxes, overregulation, and bad trade deals.

And guess what? Because he didn't understand that, the only thing that grew – the only thing that grew during the Obama administration was the deficit, the debt. It took us from the – from the birth of our republic to 2008 to run up a debt of \$10 trillion. It took Barack Obama eight years to double that. And as he was doubling it with Keynesian fiscal stimulus, he was bloating the balance sheet of the Federal Reserve in a dangerous way. So, please, this whole notion that somehow he could claim credit for that?

And the other thing that President Obama never understood was this concept that economic security is national security. And nowhere was this more evident than his policy toward arms sales to our partners and allies. I was blessed to be part of a large team that worked on two reforms hand-in-hand that were announced – the Conventional Arms Transfer policy and the Unmanned Aerial Systems policy, which basically liberalized our ability to sell weapons systems to our partners and allies. This is a policy that Obama opposed, not on his moral – not on the moral high ground, but rather on his high horse. He just didn't see the chessboard.

But let's think about this. Let's think about how this works for economic security is national security. If we are able to sell defense systems to our allies and partners, what does that do? It makes that partner stronger. It makes the region where that partner is more stable. And most important to me, most important to me, having gone through the Vietnam era and watched Afghanistan and Iraq, most important to me is fewer American boots on the ground. At the same time – at the same time, from an economic security point of view, that's more jobs right here, good jobs at good wages.

I'll give you an example. Case of the F-16. This is why we need the CAT policy. This president, Donald J. Trump, with a different attitude, was able to consummate a sale of F-16s to Bahrain. What did this do? It helped expand the production line at Fort Worth, Texas. It led to a new facility in Greenville, South Carolina. It reactivated – here's the thing – here's what people don't understand. It's not – it's not the big factories where stuff is assembled where the action is. It's in the supply chain. When you reactivate that supply chain, you mobilize 400 suppliers in 41 states. That's what it's all about. That's what – that's what the USMCA is all about, getting back that supply chain.

And so this CAT policy, this UAS policy, is one of the purest expressions of economic security is national security. And so too is what we're going to talk about now, which is the defense industrial base assessment effort that went on. That's the cover of the report, that you can see to the right of that smaller chart there. What this was was an expression of the first president since Eisenhower to think and act strategically about the defense industrial base. What this is is the first – the first whole of government assessment ever of the defense industrial base. It was an effort that started with the inspiration of the White House, with Executive Order 13806 back in July of 2017. My deputy here, Alex Gray, had a lot to do with that, and he did a wonderful job on it.

And the inspiration was turned to perspiration over at the Defense Department by Eric Chewning, Ellen Lord, Brennan Grignon, with the help of Pat Shanahan, working with 16 different working groups across the interagency, 300 subject matter experts, looking at nine traditional sectors – aircraft, shipbuilding – and six cross-cutting sectors. What does that mean? It's machine tools where you need them across the sectors – electronics, software engineering. And what we found in terms of the big picture punchline of that report was almost 300 gaps and vulnerabilities and the sub-tiers of our supply chain, the sub-tiers of our supply chain.

The problems we face aren't at the assembly level, the final plants, whether it's in defense or whether it's in the auto industry. It's where – do you have a vital supply chain? So if you take something like the F-35, to give this some content, you have a seven-tier deep supply chain. And there might be some widget or component in that fifth tier that you need to make sure that that production line can not only continue producing but expand and accelerate production should we need it in a surge. And so if you have a single source making that that's in danger, a fragile market, if you have labor shortages associated with that because you don't have the skills at the trade level or at the STEM level, or if you're dependent on foreigners for that, that would be a vulnerability.

So what are some of these things that we have? If you think about what we call single points of failure, we only have one company that can make shafts for submarines, all right? We have only one depot that can make turrets for tanks. We have only one company that can supply rocket fuel. We have space infrared detectors for missile defense, again, a single source for that. Here's something for you. We have 72 different needs for military-grade impregnated carbon for filtration systems for biological, chemical, and nuclear applications. And we've got fragility there as well.

The labor gaps are equally difficult. At both the STEM end and the trade school end. At the STEM end, we have a shortage of people that can work in electronic controls. We have a shortage of software engineers. We have a shortage of nuclear engineering personnel. This is frightening in a way. I mean, think about this. You need to modernize and keep in ready shape your nuclear arsenal. Do we have enough people who are studying in that field in order to sustain us moving forward? These are the things we're looking at in this report. At the other end, trade skills – welders, pipefitters, machinists for shipbuilding or combat vehicles.

So there are these large labor gaps. And then one of the biggest things that this report uncovered is this very high degree of foreign dependency. This is part and parcel a product of the globalization of our economy, the globalization of our supply chain. So you have something like the lowly now high-tech tent, where you have sophisticated fabric you need for that. And we can't make it here in America. You have rechargeable batteries for the war fighter out in the field. And we have virtually all of the battery production migrating elsewhere now. And we have the lithium that's used for some of this is coming under the control of foreign powers. Printed circuit boards, machine tools have all migrated to Asia.

And then you have critical materials like beryllium, tungsten, and the rare earths which we need for all sorts of applications, whether it's sophisticated electronic systems for our space or aircraft systems, or – (laughs) – what DOD euphemistically calls – I love this – energetics, right? That's the stuff that blows up, right? Munitions for our missiles. These are all the things – and what's, again, alarming – and this is why this report's so important, because it does sound alarms. What's so alarming about this is one of the conclusions of this report, one of the important conclusions, is that these vulnerabilities are not random in some cases. They are the direct effect of strategic rivals – principally China – targeting somewhere in our supply chain or some sector and basically making that vulnerability either existing or worse.

So I guess the question is, how did we get to this place? How did we get to a place where the greatest military power in the world faces gaps – close to 300 gaps and vulnerabilities in its – in its defense industrial base? And the answer comes from the report in the form of what's referred to as these five macro forces that bear down on our defense industrial base. And what are they?

Well, the first one, budget sequestration. Again, you can lay that squarely at the blame of the previous administration and the Congress because there was no concept of this idea that economic security is national security, much less any idea that the world's a dangerous place. And so what happens when you – when you randomly just cut off the flow of dollars to the Defense Department? Well, one of the things that we've seen in the – in the – in the report is the crippling of design competitions. These are the things that you need to develop kind of the next generation of weapons systems.

I mean, think about this: The only thing – the only thing that has kept us dominant and free since World War II is the offset strategy, all right? We've been able, through the beauty of this country and the beauty of the people who work here, through our innovative and creative capabilities, to always leapfrog ahead of whatever threat we're facing. But when you – when you squeeze – when you squeeze the defense dollars and you can't do the design competitions, you not only don't do the design competitions, but the people who would otherwise be working on the design competitions migrate out of the defense industry into other applications.

Ground vehicles. This is fascinating to me. This is subtle stuff. It's like, if you think about – if you think about the ground vehicles we use, they look a lot like B-52s, right, with some tweaks, right? The squeezing of the defense budget forced the Army to pursue a strategy of incremental change to the existing technology rather than continually moving ahead with what the next generation of ground vehicle would look like. And again, what you did through that incremental change is you sidelined – you sidelined the people who were important in the design area and you lost an edge.

Inefficient procurement. Think about this. As a – as a – as a second macro force. Six years to develop the F-4; 22 years to develop the F-22. I think they named the F-22 after the number of years that it takes to develop that thing.

A third major macro force has to do with the decline of the manufacturing base itself due to the forces of globalization and, as this report points out adequately – points out alarmingly, due to the industrial policies – the unfair trade practices – of our economic competitors, our so-called allies that we're supposed to protect, as well as strategic rivals, again, principally China. This report calls out China for its strategies of economic aggression. I will talk shortly more about that. And DOD clearly

views China as an identified threat to America's defense industrial base. Nothing could be clearer than that in this report.

But this is a very different view. This is a very different view that DOD and other elements of this government have than the Wall Street and the – Wall Street bankers and the globalist elites. Let's think about this now. Consider the shuttle diplomacy that's now going on by a self-appointed group of Wall Street bankers and hedge fund managers between the U.S. and China. As part of a Chinese government influence operation, these globalist billionaires are putting a full-court press on the White House in advance of the G-20 in Argentina. The mission of these unregistered foreign agents – that's what they are; they're unregistered foreign agents – is to pressure this president into some kind of deal.

Now, two points have to be made abundantly clear about this. First of all, President Donald J. Trump has done an incredible job – incredible job – on trade. He has had the courage and wisdom to stand up to the globalist elites, to stand up to the countries of the world that are engaging in unfair trade practices – non-reciprocal trade, high tariffs, high non-tariff barriers – using the world – using the United States as the piggybank of the world, and running up a trade deficit every year, because they do that, of over a half-a-trillion dollars, which is a pure transfer of wealth abroad: jobs, factories, money. That's like a reverse mortgage on this country. Donald J. Trump has done a(n) amazing job of addressing that issue, and he didn't need the help of Wall Street. He didn't need the help of Goldman Sachs. And he doesn't need it now.

And here's the most important point. When these unpaid foreign agents engage in this kind of diplomacy – so-called diplomacy – all they do is weaken this president and his negotiating position. No good can come of this. If there is a deal – if and when there is a deal – it will be on President Donald J. Trump's terms, not Wall Street terms. But if Wall Street is involved and continues to insinuate itself into these negotiations, there will be a stench – a stench around any deal that's consummated because it will have the imprimatur of Goldman Sachs and Wall Street. So I would urge these unpaid foreign agents to stand down on this issue. No good can come of it. If they want to do good, then spend their billions in Dayton, Ohio, in the factory towns of America, where we need a rebirth of our manufacturing base and an end to the opioid crisis, which they helped create by offshoring our production.

Now, to convince them and to hopefully enlighten you further about the strategies of economic aggression that DOD references in its report, I want to walk through this chart over here, which is basically a chart – it's in the spirit of one picture is worth a thousand words. In this case, one chart – one chart basically encapsulate the – encapsulates the entire industrial policy of the People's Republic of China. If you understand this chart, you not only understand what China is doing to us in the world; you will also understand why it's so difficult to undo what they are doing to us.

And so what you have on this chart at the top is the six strategies of economic aggression they pursue. This is intuitive. You will – you will – this will – this should ring a very harmonious note with you. You will understand this immediately. What do they do? They protect their markets. They attack global markets. They go around the world trying to secure resources in places like the Congo for cobalt or Chile for copper. They dominate – seek to dominate traditional manufacturing, which what I would say has pretty much checked that box at this point. And most importantly, the last two columns are the 301 – Section 301 problems: column five is to acquire the technologies and intellectual property of the world by any means necessary for the purpose in column six of capturing the emerging industries of the future – artificial intelligence, robotics, everything in between, the kinds of industries

going forward where our sons and daughters and their children will find the good jobs at good wages in the future economy.

And then the left column, going down. I call it my Paul Simon chart, the 50 ways, basically, to leave the American economy behind. These consist of more than 50 – more than 50 acts, policies, and practices, many of them documented in that historic USTR report that I referenced earlier – over 50 ways that China basically pursues its strategies of aggression.

High tariffs, 25 percent on autos versus 2.5 percent here.

High non-tariff barriers, things like having indigenous standards for products so that we can't sell into their market.

Currency manipulation. There's a great debate now whether China's manipulating their currency. I'll tell you two things about that. First, what we know is that since March of 2018, when tariffs were imposed on China, we saw a fairly dramatic drop in their currency. Who knows if that's a coincidence. But what is undisputed is that from about 2003 to 2014 China is generally regarded by both the right and the left – by the Peterson Institute, Economic Policy Institute; you couldn't have two institutes more far apart – that China was the worst currency manipulator of any country in the world.

Cybertheft and traditional espionage go hand in hand in China.

Forced technology transfer. And I'm not just talking about a company going over to China and having to surrender their current technology in order to have access to the market; it's much worse than that, much worse. Now it's like, OK, you want in our market? You also got to bring your R&D over. And when you bring your R&D over, you're basically bringing over the rest of your manufacturing, and you're basically leaving your country behind. That's what China does.

Massive subsidies. State-owned enterprises conquering the world.

Predatory debt financing. I mean, did anybody's head spin around 360 degrees when China foreclosed on the port in Sri Lanka and took control of that? Did anybody notice that? Malaysia is a colony. Sri Lanka is a military outpost. This is what's going on here.

The list goes on and on. And here's the point. Here's the point. If you think about the art of the deal with China, even if you take 25 of those things off that list, even if you – and they're all structural, right? This is not buying more soybeans or more coal. This is not about that. This is structural, structural change. Even if you take 25 of those off, you still have 25 left. And that probably would be still enough to hurt us.

But there's other difficulties here. You know, I – we went on a – (laughs) – we went on a trip, yeah a road trip; let's go to Beijing and negotiate with the Chinese. So we sit across the table with the – with the Chinese team, right, and it's like we put our demands down. And they were, like, tough demands; there were a long list of demands, like all this structural stuff. It kind of looked like the chart here, all right? And so what do we hear? Well, we don't engage in cybertheft; we're the biggest victim of cybertheft. Oh, we don't – we don't force technology transfer; that's not our – I mean, how do you – how do you have a deal with somebody if they won't even acknowledge your concern? I mean, it's Alice in Wonderland.

But here's the other – here's another problem. I mean, think about this: What's the difference between the Soviet Union and the Chinese model? They're both, like, state-run economies, right, state-controlled economies. China may have a little bit more market stuff in it, more a little capitalist element, but at the end of the day they're state-directed. Soviet economy was a mess. How did – how does China be profitable? You know the answer, right? They steal stuff. They take the technology. If you're able to take the technology of the world and avoid the 10, 20, or 30 percent R&D expenditures that other companies have to spend every year, don't you think you're going to have a cost advantage? That's the difference. That's the difference.

And so if China were to say, well, we're going to stop doing all that stuff, it would be left with an economy that would effectively lose its edge. And I believe that there's deep concern in China that if they make the kind of structural reforms that are necessary for them to be reasonable, fair, and responsible citizens of the global trading system, they won't be able to compete.

The biggest problem – the biggest problem is the trust issues. The trust issues. I got – somewhere I have – the beautiful thing about working at the White House is you can, like, ask for stuff. So I said, OK, give me – give me, like, all the things – all the instance where China has agreed to something and then not kept their promise. And, you know, I get like five pages back of stuff going back 30 years. It's like – it's frightening. I mean, Bonnie Glaser, right, she knows all about the South China Sea thing – Scarborough Shoals, how we tried to make a deal with them and we thought we had a deal, and now China owns Scarborough Shoals. Of course, coming into the World Trade Organization in 2001, they're serial violators of every single principle of the World Trade Organization.

The one deal we made with them after Mar-a-Lago, the one substantive deal, was like the beef deal; they're going to buy more American beef. Where's the beef? Where's the beef?

The game that China has played – and they played people in the Bush administration like a violin – is to do the tap dance of economic dialogue. That's all they want to do. They want to get us to the bargaining table, sound reasonable, and talk their way while they keep having their way with us.

And this is – this is – I mean, look, here's all you need to know when you think about the prospect of a deal, OK? We had a high-ranking member of the Chinese government agree with Barack Obama on two things back in 2015. Two things, OK?

The Chinese official agreed to no militarization of the South China Sea. Within two years those artificial islands were armed to the teeth.

The second thing that official agreed to was to stop hacking American businesses. The weird thing about that, I remember, like – I remember, like, watching that press conference and watched President Obama joke about the fact that he wasn't going to crack down on China's steel and all our weapons systems, which they had done with aplomb. I mean, every single weapons system, pretty much, they've hacked into. I mean, the Chengdu fighter is basically a clone combo of the F-35 and the F-22, and we can't afford to build F-22s. And meanwhile, they're grinding them out like crazy in Chengdu. Ergo, the Chengdu fighter. So Obama jokes. He goes, oh, it's – everybody hacks defense, but – but – we're going to – the Chinese have promised to stop hacking at least our businesses. Yeah, well, that lasted about six months, and now the U.S. government will tell you unequivocally that those hacks are back up, they're serious, and they're coming to get us.

So the point is that if you think about a deal, it's been great having the president and Ambassador Lighthizer work with the Koreans. We were able to renegotiate. We were able to renegotiate with Canada and Mexico in a deal, and we can trust them. We are entering into negotiations with Japan. We are in the process of negotiating with Europe. We're negotiating with everybody around the world, people that we can trust if there's a deal. But when it comes to China, it's sui generis. So I would again say: Wall Street, get out of those negotiations. Go to Dayton, Ohio. Bring your – bring your Goldman Sachs money to Dayton, Ohio, and invest in America.

The president of the United States does not need shuttle diplomacy. What we need is to rebuild our manufacturing and defense industrial base. That's what this president is doing. And the beauty of this report, OK – we like to do things differently in the Trump administration. This is a different culture. The culture of Washington is to do a report, hand it in, and go on to your next report. That's not what we did here. The day that that report was handed in by Pat Shanahan in the Oval Office to the president, DOD and other agencies of government were already moving forward to fill those vulnerabilities. The day that that report was handed in, we signed two Defense Production Act Title III orders that would help a couple of small companies in that fragile supply chain, help us in things like the future Navy unmanned systems, all right. We have initiatives for the national defense stockpiling program to help with critical materials issue(s). We have a(n) effort ongoing to modernize the organic industrial base. We're developing with the Department of Energy a Title III-style, DPA-style funding mechanism to deal with some of our vulnerabilities in energy and nuclear. And this administration is working tirelessly – tirelessly – to fix those gaps and vulnerabilities.

And this effort really is one of the purest expressions of the principle that economic security is national security. We will strengthen America's manufacturing and defense industrial base. In the process we'll create jobs, we'll build factories, and better protect our homeland. So I salute the Department of Defense for its yeoman effort in this. I salute this president for having the courage and the vision – the grand strategic vision – to pursue the rebuilding of this country, and this country's manufacturing and defense industrial base, through broad-range efforts of which this is a small but important part of.

There's more work to do. One of the next things on our agenda is dealing with some of the infrastructure issues in the defense industrial base. But hopefully we can come back at some point and talk about that.

So now I'll turn it back to Andrew, and I guess he's going to put me on the griddle. Is that –

MR. HUNTER: That's right.

MR. NAVARRO: Thank you for your patience on this. (Applause.)

MR. HUNTER: Thank you so much, Dr. Navarro, for those remarks and for a really – (audio break).

And I want to start with the question of strategy and policy mix. You talked about a wide range of policy tools that this administration is using to pursue its economic and national security strategy, including tax policy, regulatory policy, trade and tariff policy; and a variety of national security policies, including spending, arms exports, investment security, targeted measures like Defense Production Act projects.

MR. NAVARRO: Yes, sir.

MR. HUNTER: And, you know, I kind of want to start where your chart here about the Chinese policies and their objectives, that they're going after, from the perspective of, as you've laid it out – I don't know if they would lay it out in the same way; one would presume they might lay it out a little differently. But they have a –

MR. NAVARRO: To that point – (laughter) – this is on the WhiteHouse.gov website. This is, I think, the third thing that has had my effort in it that will not be ever seen by the light of day by the people of China. This is banned in China, but the leadership is well aware of that.

MR. HUNTER: So if we were to have a chart like that of U.S. policy objectives – of, you know, the tools that we are trying to use to reach our economic and national security objectives – and the overarching goals that we're trying to achieve – robust manufacturing, innovative R&D sector, innovative services sector – what would that look like? What is – what are the goals that you're – that you're seeking? And let me – let me give you a chance to answer that.

MR. NAVARRO: Sure. So I think – I think here's what's really important to understand about this chart. This chart is founded on the underlying assumption in China that they are a non-market economy, a state-directed economy. And they use international rules when it is in their interest to do so, and when it's not they violate them. So all of these are violations, OK? All of these are violations of international trade rules. So we may have some of the same objectives broadly. Certainly, we want to strengthen our manufacturing and defense industrial base. Certainly, we want to do that. Certainly, we want to lead the industries of the future. But what we do not do is any of the stuff that China does in violation of international rules.

We have, for example, the lowest tariffs, on average, in the world. We have the lowest non-tariff barriers. And I'm talking about not just China; I'm talking about with Europe, for example. Why is it – I mean, this is insane, and presidents allowed this to happen: Bush, Clinton, Obama. It's like, why is it that Europe gets to charge us 10 percent to try to sell them a Ford or a GM automobile and they get 2.5 percent? I mean, that's insane.

So the answer to your question is what we seek – what the president is clear about seeking is free, fair, and reciprocal trade. I like to refer to the five zeroes, OK? My brother Kudlow only goes for the three, but I like the five. What are they? Zero tariffs, zero non-tariff barriers, zero subsidies, OK? Zero currency manipulation and zero advantage from VAT tax versus income tax treatment. If we lived in that world – if we lived in that world and everybody actually played by the rules – this country would prosper, the rest of the world would prosper, and we would be the most competitive nation in the world because we don't need cheap labor and we don't need pollution havens to gain competitive advantage like some other countries around the world. We have the finest education system in the world. We have the most innovative thinkers in the world because we are a free people. Those two are highly correlated. And all we want to do is compete. So that's the difference, OK?

MR. HUNTER: So the objective is that China and other nations, including our allies, would pursue policies that would also have the result of that five-zero approach: low or nonexistent tariffs –

MR. NAVARRO: Free, fair, and reciprocal trade. Free, fair, and reciprocal trade, just like – just like you read about it in the textbooks, right? But the thing about – the thing about – I mean, sure, I'm sure there's, like, some free traders in the audience who might think I'm a protectionist, right? But

please understand this. Thank you for referencing my Ph.D. in economics from – (changes pronunciation) – Harvard. (Laughter.) You can't buy those, by the way. But the point I want to make here is that I taught macroeconomics for years. I mean, I've done, like, online courses. You can go kind of look at what I did there, right?

And so the Ricardian model in principle is simply this: If two countries engage in free and fair trade, right, each will work to their competitive – comparative advantage, resources will be used more efficiently, the pie collectively will be bigger, and there will be more gains from trade to share among the nations, OK? Now, here's the punchline: It's all predicated on floating exchange rates that allow trade balances to always be roughly around zero, right? If country A is selling country B too much stuff, their currency builds up, becomes stronger; ours becomes weaker; we sell more exports, they buy – we buy fewer of their imports; trade comes back into balance. That's not the world we live in. It'd be nice to get there, but clear eyes.

MR. HUNTER: Well, so, by the way, I should have mentioned at the start, we've collected over 25 questions. And I am drawing on these submitted questions for the questions that I am asking. If there are some that haven't been turned in yet, we'll start collecting. I can't promise I'll get to them, but thank you for submitting questions.

Let me talk, then, about the policy mix, because, again, you described a robust policy mix. And obviously your main focus is on that trade-policy angle. It's right there in the title of your office. But, you know, traditionally this policy mix has been recognized. And trade has been, I would say, handled somewhat reluctantly as a primary lever in U.S. national strategy for what I would say is a few reasons.

It can be hard sometimes to have an exit strategy, or at least there's a fear that it can be hard to have an exit strategy if you use trade tools to try and influence broader economic objectives. And so there's been a reluctance sometimes to use tariffs or tariff increases as a tool. And that's obviously a reluctance you don't share.

MR. NAVARRO: Can I –

MR. HUNTER: But I –

MR. NAVARRO: Can I suggest something, though?

MR. HUNTER: Sure.

MR. NAVARRO: Because that's ahistorical, in my judgment.

MR. HUNTER: Yeah.

MR. NAVARRO: What I see historically, going back to the end of World War II, when we were the richest nation in the world and wanted to help rebuild the globe, just because that's who we are – but we also knew that if other countries were prosperous, we'd be more prosperous too – we got in the habit, when we were a rich country, of trading off pieces of our economy for national security. We were willing to give deals that were better than they should be to different countries of the world. We were willing essentially to sacrifice our economy, because it never really mattered until it did.

And so once it did, I think the culture, particularly in Washington, was such that it was very difficult to see. And that's why the economic security is national security is such a beautiful thing, because until you recognize that economic security is national security, you will continue to believe that it's OK to get into something like the TPP for geopolitical reasons, even though getting into the TPP would have devastated our auto and auto-parts industries.

So that's the way to think about it. And the other way to think about it is, yeah, we're not reluctant at all about imposing tariffs on other countries when they impose higher tariffs on us. I mean, that's – it's madness not to do so.

MR. HUNTER: And so you see – is that an endless cycle, or does that end? You know, there's

MR. NAVARRO: Well, clearly it ends episodically with certain countries. I mean, again, it's like I said right at the outset of my remarks. A lot of people in this audience, it's like, at the beginning of the Trump administration we started talking tough on trade. It's, like, ooh, ooh. Ooh, ooh! It's going, ooh, ooh. And what have we got? We got a better Korea deal. We got a better NAFTA deal. I mean, you could, like, stop there as a president in four years and say, hey, I did it.

Now, we're not stopping there. We're trying to get a better Japan deal. We're trying to get a better Europe deal. We're certainly trying to get a better relationship with China on trade. But that one's embedded in this broader geopolitical issue. And so it's, again, sui generis when it comes to, like, sitting down at a table and just negotiating more soybeans or more coal. It's not that simple.

MR. HUNTER: You referenced the G20, upcoming G20 agreement. Do you anticipate that leading to something like a deal, or do you think that's just one step on a longer road?

MR. NAVARRO: So not my lane.

MR. HUNTER: Yeah.

MR. NAVARRO: One of the things that I have strenuously supported and espoused at the White House is that we have one trade representative. His name is Robert E. Lighthizer; great American patriot who actually springs from a family that, if I get this correct, somebody in his family line was with George Washington crossing the Delaware. I mean, it's – Ambassador Lighthizer is – you're in good hands with Donald J. Trump and Robert E. Lighthizer, OK. You're not in good hands when the negotiations get outside those two people. And I don't presume to get in the middle of that, and I don't think anybody else should.

MR. HUNTER: Do you anticipate, from a broader trade-policy perspective, the change in control of the House of Representatives will impact your policy approach at all, either to help it or cause you to adjust it? Or is that something totally exogenous to your –

MR. NAVARRO: Again, outside my lane; outside my lane.

MR. HUNTER: Understood. Let me talk, then, a little bit about the defense industrial base; a review that you mentioned, and some of the findings that came out of that. And I think there was roughly, I think you said, about 300 specific vulnerabilities in the industrial base that were identified. And as it comes to going after those and the act plan that you intend to take, the follow-up to go after

those, do you see a hierarchy in your policy tools? You mentioned the Defense Production Act as one of the early actions being taken.

Is there a role for trade policy in addressing those vulnerabilities as well? And is there a hierarchy of how you approach them?

MR. NAVARRO: So to my friends at C-SPAN 1, there's a great C-SPAN 3 video that has Eric Chewing talking precisely about that at some level of granularity. But one of the things he said, which is exactly right, is that what you want to do in pure McKinsey consulting style, which is where he came from, is you – he has a two-dimensional chart where it's highest impact, easiest to implement, right.

And so as you move forward in time, what you want to hit is the highest-impact ones that are easy to implement moving forward. And, yeah, his view was that we could get a third of these things out of the way very, very quickly, within six months or a year. We could get another third over a several-year period. And then the rest of them are going to be ongoing struggles because of things like resource constraints. I mean, if we were to basically rebuild our tungsten domestic industry or rare earths or whatever, that takes time. It takes investment. It takes creativity. It takes innovation.

So the other thing I'll say about this is that everything this president does is viewed multidimensionally with multi-vector lines of attack on a problem. OK, this is a unique kind of perspective of this president. He really does see the chessboard. Every time I've been blessed to be in the Oval or the Roosevelt Room with him, he's always the smartest guy in the room – always the smartest guy in the room. He's always three steps ahead of everybody else. He listens to everybody's points of view, and he always gets it right at the end. The only thing that can cripple him is when he doesn't get diverse opinions. But he sees the chessboard.

So my point is, to your question, is that this issue of a strong manufacturing and defense industrial base is, as I said in the outset of my remarks, a multi-vector attack. It's like if you think about it, it's like the old days. It's like somebody in defense, some standard defense expert, maybe here at CSIS, would never think about tax cuts or deregulation as instruments to further our defense goals. This president does. Economic security is national security.

MR. HUNTER: And then – so with the things like you're talking about, some of these materials that we might feel the need to start production in the United States, something that we no longer produce here or that we want to see produced here in greater abundance, and maybe a DPA project would support that, maybe some trade policy to ensure that that production wasn't immediately obliterated by either normal global competition or less than normal global competition.

Is there a way in which that transition at some point, that we actually reach competitiveness in that? And how do you actually achieve that objective? Because, I mean, my experience with this over the years is there is some skepticism in some folks that even if we were to start a NASA, you know, tungsten production in the United States, would it still be, you know, competitive in 10 years' time? Or would we continually have to support that?

MR. NAVARRO: It's a great question, and it really cuts to the heart of the matter. But it also cuts to the heart of the matter of the Trump culture. We do things from a business perspective; try to figure out what's the best and most efficient way to solve the problem.

So that'll be the kinds of solutions we face. In terms of giving out money, this won't be corporate welfare. It'll be seed money. We view it as the same way a venture capitalist in Silicon Valley would view it, as seed money to get the venture going, to get the venture healthy.

But I can tell you that if a foreign country is dumping a particular critical material or mineral into this country, dumping being selling way below cost, there's many, many parts of government that – yeah, the Department of Commerce, for example, is very aggressive about antidumping, countervailing duties. And for any of you who think tariffs don't work, you think tariffs are like an outlier or whatever, spend, like, an hour on the internet looking at all the tariffs that are imposed; I mean, like, hundred percent tariffs, 200 percent tariffs, on countries that are just killing us by dumping materials into this country.

MR. HUNTER: I know your time is limited and you're already over time with us, so I really appreciate you sticking around for some discussion and –

MR. NAVARRO: We'd love to go back to the White House –

MR. HUNTER: – answer questions. (Laughs.)

MR. NAVARRO: What my mission at the White House –

MR. HUNTER: Could I ask – could I fit one more in before –

MR. NAVARRO: You get one more.

MR. HUNTER: OK.

MR. NAVARRO: But I'm going to just tell what everybody at the White – so you understand what I do, what my office does.

MR. HUNTER: Yeah.

MR. NAVARRO: My mission coming to Washington is to create good-paying jobs in the manufacturing sector for Americans who work with their hands. And that's what we do every day. And trade policy is part of that. But again, when I was on the campaign trail as the chief economic adviser, it was four points to the compass, four points to the compass – tax cuts, deregulation, unleashing the energy sector, and fixing our trade deals. And I said that if we did that, we could get out of the new normal of 2 percent, which was not a world any of us wants to live in. Those Obama years were not fun. We could get to 3 percent or more, and got there.

So what – your last question – when I was a teacher, there would be time for the last question. I would say, OK, this better be a good one, now.

MR. HUNTER: (Laughs.) Well –

MR. NAVARRO: We don't want to end on an anti-climax for C-SPAN.

MR. HUNTER: The good news is you've rolled right into it, because –

MR. NAVARRO: Am I – OK. Here we go.

MR. HUNTER: – my question was kind of about how this –

MR. NAVARRO: Am I going back to teach? Is that – no, go ahead. (Laughs.)

MR. HUNTER: Not any time soon, I assume.

MR. NAVARRO: Not any time soon.

MR. HUNTER: It's about how you kind of fit these pieces together. In an interagency process, your office –

MR. NAVARRO: Sure.

MR. HUNTER: – National Security Council, OMB, the Department of Defense. Clearly you've indicated you're going to follow up on this industrial base review, and that's a thread of activity that's going to –

MR. NAVARRO: Sure.

MR. HUNTER: – that's going to keep pushing this objective. Are there others that we should be paying attention to? I'm sure the budget process is one. But are there others you'd point us at and say these are the key lines of effort for how you translate economic security as national security into direct policy?

MR. NAVARRO: Well, certainly an ongoing concern is going to be maintaining a healthy defense budget in which we not only spend sufficient dollars, but we spend them wisely. We are at the cusp of the next industrial revolution, where we're moving into these industries of the future where the manufacturing process will be radically altered, where we have things like artificial intelligence and blockchain technology, which will radically change the battlefield. Space is increasingly coming into play.

And so a deep concern is to make sure that we spend that money, spend it wisely, and over the years we keep making those expenditures. And the way to end this would be to say this is why economic security is national security, because if we don't engage on the economic policies we need to grow healthily, we will not have the tax base to fund what we need for our national security.

MR. HUNTER: Well, Dr. Peter Navarro, thank you very much for joining us.

MR. NAVARRO: Well, thank you, sir. All right. (Applause.)

MR. HUNTER: Thank you. (Applause.)

(END)