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TRANSCRIPT

The Trade Guys Podcast

“Bringing Domestic Manufacturing Back With Scott Paul”

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Transcript by Rev.com

Scott Miller: I'm Scott.

Bill Reinsch: I'm Bill.

Scott and Bill: And we're the Trade Guys.

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.

Jack Caporal: I'm Jack Caporal, filling in for Andrew Schwartz. In this episode, we welcome a special guest. Scott Paul is the president of the Alliance for American Manufacturing, or AAM. It's a partnership that was established in 2007 by some of America's leading manufacturers and the United Steel Workers Union. We discuss the intersection of trade and manufacturing and what the U.S. should be doing domestically while engaged in the trade war with China. You'll hear all that and more on this episode of The Trade Guys.

Jack Caporal: We're here this week with a brand-new episode of The Trade Guys. Joining us is Scott Paul, who is the president of the Alliance for American Manufacturing or AAM. It's a partnership that was established in 2007 by some of America's leading manufacturers as well as the United Steelworkers Union. Scott and AAM work to make sure that American manufacturing and made in America is a top concern for voters and our national leaders. They do that through advocacy, policy development, and research. Scott also serves as the board chair of the National Skills Coalition and on the Board of the Visitors of the Political Science Department at Penn State and he sits on the Leadership Council of the Alliance for Manufacturing Foresight. Welcome to the show, Scott. Why don't you just tell us a bit more about your work with the Alliance and what exactly the Alliance does on the ground? What are the top issues for the Alliance and how do you fit into the trade picture?

Scott Paul: Thanks. I'm happy to be on The Trade Guys. I feel like a Trade Guy.

Scott Miller: It's possible that you'll earn a merit badge for today's performance. We don't have any honorary Trade Guys yet, but we're considering that.

Bill Reinsch: We're working on bobble heads.

Scott Miller: Yeah.

Bill Reinsch: We'd be happy to give you one.

Jack Caporal: I think we can find an American source for that. So-

Bill Reinsch: Well that would be hard, but good. We'll consult.

Scott Miller: Glad to hear that.

Scott Paul: Right. So I also do a podcast called The Manufacturing Report where we talk to a lot of people who have started up manufacturing enterprises around the country or visiting manufacturing communities and we've been doing that for a few years as well. So what do we do? You know there are plenty of advocacy groups, think tanks, trade associations in Washington DC. I think the reason we got created is that our founders saw kind of a gap. It was a collaborative gap, that is labor and business don't often work together on issues. There are exceptions to that, but as a rule, they're at loggerheads on a lot of things in Washington. There are also very few groups who have a purely kind of domestic manufacturing perspective. I brought my experience from Capitol Hill. I was a trade guy. I worked for a number of the Democratic leaders in the '90s big trade battles for NAFTA, China. And we've been trying to approach the issues a little different way to shed a little light on them, take them out of the philosophical scope, free trade versus protectionism, and look at some of the results and what those have meant for impacted industries. We've looked at glass and aluminum and steel and paper and a lot of domestic manufacturing. We've looked at procurement markets and trade policy and we try to encourage our policy makers to respond.

Bill Reinsch: So you publish studies?

Scott Paul: We do. We've commissioned a number of studies over the years with outside researchers. We've contracted with Duke University, University of Massachusetts, several think tanks, and independent researchers around town on topics as broad as the WTO appeals process and what that has meant for trade enforcement in the United States.

Bill Reinsch: Oh, I'd like to see that one. We're working on that here.

Scott Paul: Which has flummoxed a lot of people I think. To the kinds of subsidies that particular sectors in China receive from the government in terms of energy, taxes, direct subsidies. Those are a staple, I think, of our engagement. And we've commissioned polls. We've had a bipartisan polling team that's worked for a number of leading Democrats and Republicans before. And so for the past 10 years we've been taking the temperature of the American people on their attitudes on American workers, on manufacturing, and on trade policy.

Bill Reinsch: Do you make those public?

Scott Paul: We do. We... In fact the top line polls and the cross tabs, those are always public. It's all at americanmanufacturing.org, conveniently labeled under the Research tab.

Bill Reinsch: All right, good to know.

Scott Miller: No surprise, but that's terrific. Always good to have more, more facts, more... Better understanding of what voters think and how they behave. That's what good advocacy is all about and it's what ultimately gets to good public policy. So thanks for doing that.

Bill Reinsch: And Scott loves facts. Scott Miller. More importantly, he remembers them, which I don't usually.

Scott Paul: Just one interesting point about the polling that it showed, and I would say this and people would be in disbelief. It showed up in our polling that Republican voters, years ago, favored I think what you would call a more push back on trade. They weren't just reflexively kind of-

Scott Miller: Sure.

Scott Paul: ... free trade. That was never reflected in the national Republican party until-

Scott Miller: Actually that top-

Scott Paul: ... 2016.

Scott Miller: Precisely. That topic has actually come up several times on this show. Bill and I have both noted separately in our writing and on the show that both parties tend to be out of step with their voters on this issue, that Republican voters who are also older voters and more rural voters have a higher degree of skepticism about trade. Whereas Democratic voters who are younger and more urban actually are now more pro-trade agreements. And it's an odd balance and you're right, it did... It was to my mind, a strong factor, particularly in key states in the 2016 election. But it's something where we've both noticed and we're wondering how this resolves itself.

Bill Reinsch: Well, it's also... I mean it's, that's historically consistent. I mean, the Republicans for, since their founding, Abraham Lincoln was a major protectionist. They were always the party of northern manufacturers who were concerned about imports from, then Great Britain and elsewhere. And the Democrats were based in the South and they were an agriculture party in the beginning and they wanted free trade because they wanted to export their cotton and their other products. So, I mean there've been changes over the years, but in a way I think right now the parties seemed to be going back to their roots in some respects. The politicians, not so much. The voters, yes.

Scott Miller: The voters are, yes.

Scott Paul: They are. And I will say, we're at a time where also, the policy is very much connected with the personality. And that has impacted, I think public attitudes on this as well.

Scott Miller: Sure.

Jack Caporal: So on the policy, I mean, it is a time of evolution and some fluidity in terms of where trade policy is. What does the right policy formula look like for a manufacturer, for the worker, for the industry, and for the alliance? Right? You know, are there aspects of that in the administration's trade policy? Paint us a little bit of a picture of what you want to see.

Bill Reinsch: What are you for, what are you against?

Jack Caporal: Exactly.

Scott Paul: Yeah, absolutely. Well, first of all I like... And I like you know, former congressman Sandy Levin I think had a good construct of this, like the three legged stool of trade policy. Where you have trade enforcement, where you have market opening, where you also have adjustment. And that all of those legs need to have a solid foundation and need equal attention. And so, you know, this administration obviously has stepped up trade enforcement and has done a number of executive actions, which I think far exceed most other presidents. I mean you've seen currency interventions in the past and Nixon intervened directly. You know it has been under-utilized probably. On the other fronts, on market opening. You know, you've seen a renegotiated NAFTA, which is still in process. You've seen some promises of negotiations with Japan and the EU. You haven't seen much fruit borne from that. And I guess also with the UK. And with respect to adjustment, you know, it's interesting, I still don't think we have a fantastic adjustment assistance for workers who are displaced. Whether it's from trade or from automation and that we lag far behind our global competitors there. At least the industrialized western competitors.

Scott Miller: It's okay to tell our audience, we're terrible at that. We as a country do a lousy job.

Scott Paul: We are terrible.

Bill Reinsch: We've said that ourselves.

Scott Miller: Yes.

Scott Paul: Yeah. It's interesting that, you know, this back and forth with China, where you've seen, you know, the agricultural community get about, I think \$20 billion now, in farm payments. The annual budget, of course it's kind of subject to need and all that for trade adjustment assistance, which is mostly for manufacturing workers, also for some service workers. It's about a billion dollars a year and it's a much bigger sector of the economy. We don't, we don't do a good job of that at all.

Bill Reinsch: I spent most of my time on the Hill simply trying to save the program. We played defense most of the time against administrations in both parties that wanted to cut it back, which I never understood.

Scott Miller: The core problem is we can't look at it holistically and maintain the jurisdiction in Ways and Means and the Finance Committee. It's a quirk of the Congress, is that if this program were actually big and successful, the jurisdiction would go to the HELP committee in the Senate and probably Education and the Workforce, in the House. And then get separated from its longtime advocates in Ways and Means and Finance. So it's a pickle that our own system makes more difficult to resolve.

Scott Paul: Right. And it's already, I think, overly politicized in the sense that it's leveraged for when trade authorities come around or trade agreements...and it's rarely, I think de-linked and considered apart from that.

Jack Caporal: Right. And so for our viewers, trade adjustment assistance is something that workers who, you know, can prove that they lost their job because of trade can apply for. And it's essentially... It's part of the social safety net, right? And I think part of the idea that you're discussing, Scott, is to expand trade adjustment assistance under a broader umbrella and kind of just make it adjustment assistance. Because oftentimes, particularly with manufacturing, you hear about foreign companies, foreign businesses, foreign competitors, undercutting Americans. You know, essentially being a trade cheat and stealing American jobs, right? And there is some debate, certainly, you know, whether job losses in U.S. manufacturing can be attributed just to trade or whether it can be attributed to automation or increases in efficiency elsewhere. And so the idea could be to expand adjustment assistance beyond trade in case you lose your job from one of those other ideas. Do those other factors play into getting the trade formula right? So being able to respond to automation and new technology in manufacturing?

Scott Paul: Yeah, I think they're all linked. I don't think there's a question about that. You know, I think if you were to kind of enumerate and weigh what's held manufacturing back over the last two decades. The recessions, it's a very cyclical business. It's not like healthcare where there's a need for it as the population ages. This is much more cyclical based on business conditions. Number two was the surge of imports from China in the aughts. I think that was unprecedented and had a direct and powerful impact in the United States. And part of that was from a trade perspective, part of that was from an adjustment perspective too. I think the EU did a much better job of adjusting to it than we did, for instance. There's a good amount of academic research that suggests that as well. And obviously I think automation is much more of a job changer than a job destroyer. When I walk into a steel mill and say... I've been in the same steel mill in Cleveland over three different decades, and the jobs are continuously evolving. The headcount has only kind of nominally changed because they're able to find new markets, new products. They can expand their production, add another shift. The jobs may change some, but I think that automation serves much more as a ceiling for the amount of manufacturing jobs rather than the primary or the principal job destroyer, which I think is obviously economic performance, recessions, and then how the trade picture looks as well.

Bill Reinsch: Well, let me pursue that for a minute, because I don't agree with you at least on-

Scott Paul: I didn't expect you would.

Bill Reinsch: Well, in one particular sector, my experience has been somewhat different. But, it goes back farther than yours, so, maybe I'm just, you know, digging up old bones. When I was on the Hill, which was in the '70s, '80s, and early '90s, most of the time I worked for steel state senators, John Heinz and Jay Rockefeller, and I spent 17 years working in the Senate Steel Caucus, and we would do battle on a lot of the same issues that you're doing battle now.

Scott Paul: Right.

Bill Reinsch: The wonderful thing about trade is no problems are ever solved, and so it's permanent employment. But, we had our victories from time to time and kept some plants open and saved some jobs. But, if you look at the whole thing from 1973, which was really before I started doing that, 'til now, it seems to me, we are making about as much steel as we ever made with one-fourth of the workers. There have been ups and downs. It's a cyclical industry. It leads on the downturn and lags on the upturn, so they've got a lot of problems. But, the fact remains that over a very long period of time, we're making lots of stuff, we're making lots of steel, and we're not doing it with the same number of workers we did before. In fact, we're doing it with probably only one-fourth of the workers that we did before. There's something up here, it seems to me, besides trade. There are larger macroeconomic forces that are at work here that are determining the course of events.

Scott Paul: Yep. I don't disagree that productivity obviously impacts the number of workers you need to produce the same unit of goods or even more.

Bill Reinsch: Which is an outgrowth of technology among other things.

Scott Paul: Right, right. But, that coupled with... I mean we reached peak production, peak output in steel in 1975. That was our peak year for steel production. It's gone down since then. Steel demand has stayed pretty constant. It's ticked up, and that has been filled with imports. We import more steel than any other country in the world, and it's by a considerable factor. That's where I think... It's not either the technology and the automation or the import picture. I think it's both. I think having a debate that says it's one or the other-

Scott Miller: Yeah.

Scott Paul: ... is not going to lead you to the right conclusions.

Scott Miller: I would actually agree with you on steel, that it is both. In the broader economy though, that's where... Let me draw this out to the total economy

and total manufacturing output. Because, the way I look at the data, first of all, I would... One of the President's clearest points of view is that the economy is de-industrializing, and he wants to turn that around. He wants to re-industrialize the economy. His rationale, in my view, is national security. That's what he says. The national security element... are sort of the positive externalities of making things. There is know-how. There are patents. There are lots of positive externalities when you make things, and so I actually agree with that part of the puzzle. What I have trouble reconciling is whether we're de-industrializing. Because if you look at total manufacturing output, it continues to grow. What I see globally is a global specialization within manufacturing. What's manufactured in the U.S., since we're a high-wage, high-skill, high-tech economy is high-wage, high-skill, high-tech manufacturing. We make a lot of stuff at that end of the spectrum and not a lot in the lower-tech, lower-skill, lower-wage part of manufacturing, because of open markets, it's globally specialized. Am I missing something, or is that a picture that's consistent with your findings?

Scott Paul: That is a picture that's consistent with my findings. I'll add some value-

Scott Miller: Okay-

Scott Paul: ... to it.

Scott Miller: ... perfect. Yeah, thank you.

Scott Paul: The output has increased. You're like, well, what happened? Because, we've lost... You see all these abandoned factories. What happened to that? Part of it is the make-up of manufacturing right now, and it's a bit different than, say, it was 20 or 30 years ago. It's much more energy-intensive now-

Scott Miller: Sure.

Scott Paul: ... which reflects the natural gas advantage that we have and a lot of the byproducts that are used, and you've seen a lot of the growth in the output come from the energy sector of-

Scott Miller: Okay, and-

Scott Paul: ... manufacturing.

Scott Miller: ... downstream in chemicals, they're all highly mechanized, highly efficient plants, very few people, lots of output.

Scott Paul: Absolutely, right.

Scott Miller: Okay.

Scott Paul: That's exactly right.

Scott Miller: Okay.

Scott Paul: That is one piece of the puzzle. The datapoint that I look at quite a bit is, what is our global performance? What is the U.S. performance compared to the rest of the world? Where are we lagging? Where are we leading? You're right. We're an innovation leader. We still file a lot of patents. We still have high performance computing. We have competition now-

Scott Miller: Sure.

Scott Paul: ... for that, and we didn't used to, say, 40 years ago. But, where we're lagging really is in our share of global exports. I think there are a lot of complicated reasons for that, but this was concomitant with the rise of China. When you look at this datapoint, Germany somehow managed to stay pretty stable in all of this, and the U.S. and China switched positions. I'm not suggesting that we adopt their export-led growth, state capitalist plan. That's not in our-

Scott Miller: Either China-

Scott Paul: ... DNA.

Scott Miller: ... or Germany. Thank you.

Scott Paul: Well, I think there's a lot to learn from the German example. But, to point out, we're not Germany. We're much more flexible in a lot of ways. But, as a matter of policy, they have put into practice what Trump says he is for in a lot of different ways. But, they've really put their-

Scott Miller: They, Germany.

Scott Paul: They, Germany have put their money where their mouth is. The system of innovation is designed to end up with production in Germany through the Fraunhofer institutes, and they're well-developed. They're well-financed. There's a lot of public-private collaboration. Their education system is geared towards turning out highly skilled manufacturing workers that will be able to grow inside of the company but to have a talent pipeline like that. Even their system of capital allocation is much more patient than it is in the United States, and so you have this Mittelstand that's the heart of German manufacturing, that's not necessarily subject to these quarterly earnings pressures that our guys are, so they can't make those forward-looking investments. They'd rather either buy back stock or return it in dividends to shareholders. You have a government policy that's actually built around the health of manufacturing in Germany. So, it's essentially twice the amount of... share of employment that we have in the United States in manufacturing. Basically, twice the amount of GDP that's in manufacturing that we have in the United States. Yet, it's a high wage, high regulation, high energy cost country, so you have to figure-

Scott Miller: With slower growth and lower living standards.

Scott Paul: Well, with slower growth, with somewhat lower living standards, with some indicators that are far superior to the United States, with far less inequality as well. Again, I'm not saying we need to be Germany. But, there's, from a-

Scott Miller: You're saying-

Scott Paul: ... policy-

Scott Miller: ... there's a different model.

Scott Paul: From a policy intervention point of view, my argument is, that if you have the right policies, you can be the economy you want to be.

Bill Reinsch: I just saw an interesting article about that which suggested that, that may turn out to be not right over the long term. It started me thinking, because it had not occurred to me before, that the argument was essentially that the German program, particularly the apprenticeship work that they do, which is very good, turns out young workers who are very well-prepared to do the jobs that they're hired to do. They have specific skills. They learn specific skills, and they do those jobs. In a rapidly changing economy, that's good for 10 or 15 years. But, when they're 50, they're not as flexible, and they're not as generally educated as American workers are. They run into problems at a later date, because it's harder for them to adapt to the technology changes that have occurred in the interim period. Whereas the Americans are sort of the reverse. We're not necessarily turning out the people that are the best fit for the immediate jobs. But we may be turning out people that are better equipped to deal with the changes they're going to face down the road. I mean, I don't know if that's true or not. It just came across my desk.

Scott Paul: I don't disagree with that. I do think that, again, looking at other models that have been built around the German model, the Swiss model, the UK model, there's an example where upskilling, which is learning on the job or learning new tasks, new skills, new credentials, has been embedded into those systems. There's been some learning from that. Again, I think that's where the United States could succeed. I think that they're just, on the skills and training question, I think there's an incredible amount of confusion in the United States-

Scott Miller: Definitely.

Scott Paul: ... much more so than almost any other country about who's responsible for it.

Scott Miller: They're-

Scott Paul: Is it the worker? Is it the company? Is it the government?

Scott Miller: There are a lot of leading companies who are actually quite serious about this-

Scott Paul: Yeah.

Scott Miller: ... and doing it. We have a friend of CSIS, who is from Wisconsin, Kohler, Wisconsin, as it turns out. There's a big company there called the Kohler Company. Their pitch to high school graduates in the area are, "Come and work for us. We'll teach you everything you need to know to have a satisfying career." That includes life-long skill development as their production processes change, as their business changes, things like that. It seems like companies who need to do it will figure it out and do it. How do we get that transferred to a broader cohort, whether through government or through associations? Which is often the American way to do it.

Scott Paul: I've studied this question quite a bit, and I think there's a couple of answers and a couple of challenges. One is, again, the expectations of publicly traded companies in the United States, where it's about cutting costs and returning value to shareholders. How do you invest in workers that's going to pay dividends 20 years from now? Shareholders don't care about that, unfortunately. There are answers to that though, which is you can incentivize different types of investments. You can incentivize different kinds of corporate behaviors. We already do that in a number of ways. You can account for your human capital in some way. Right now, it's a cost center. Why aren't the humans worth as much as the machines are, if you've invested in them, and you've built their skill set? But, on your books, that's just a deficit.

Scott Miller: Sure.

Scott Paul: You're paying wages. You're doing training. It's not an asset. I think there is somewhat of answer to that. I do think that we need clarity about this question about who's responsible for this, whether it's the person to realize, "A robot's going to take my job in 20 years. I need to find the skills." That's an unrealistic expectation, I think. Should it all be on the companies? I think also that's a bit unrealistic. Then, what's the federal role in this, and how much are we going to truly invest in it? This is just a side note, but an important one, we invest a lot in post-secondary education. Almost all of it goes to four-year degree programs in higher education. There's a good reason for that, but some of that's to the detriment of more than half of Americans who won't ever get a four-year college degree, and that are left fighting for the remains of all of that.

Bill Reinsch: We have a study coming out, what, in two weeks, on worker training in advanced manufacturing. It was stimulated by one of our companies that is in the advanced manufacturing sector making high-tech machines and having difficulty finding people to operate the machines. To do it at the high-end, they have difficulty finding the engineers. But, we really focused on the not so high-end. I don't want to leak the results, but we should send it to you, because-

Scott Paul: Well I look forward to seeing it.

Scott Miller: Oh yeah, and this, of course, the theme of one of America's finest public intellectuals, Mike Rowe, star of Dirty Jobs. Mike Rowe is an amazing, clear articulation of this issue. Mainly, because, I think he wanted to study music and his dad wanted him to have a skill, a trade, and he wound up doing both. He actually sang for the Baltimore Opera. But developing the trade put food on the table. We have somehow de-emphasized the skills, but I think they're going to be needed. I mean, if you look at the future, there's a switch to sort of McKinsey Global Institute, their analysis of what's happening to manufacturing supply chains. First, they're becoming less global and more regional, which is an interesting opportunity. Second, they're becoming more intangible. So labor adds less value, but software and ideas and innovation add more value in the goods. You can see it in the software that's in our cars today or whatever you might like to point to. Plus, it's also advanced production technology is becoming a greater and greater component, which does require advanced skills. Now all that seems like those are tailwinds for the U.S. manufacturers-

Bill Reinsch: Do you see that happening?

Scott Miller: Is it right? And, and do manufacturers sense a tailwind here in a high-skill, high-wage environment like the United States.

Scott Paul: Yeah. I completely agree with that. I do think that even as we become more globalized and more connected that supply chains may actually shrink their pattern. There's a lot of reasons for that. Some of it is risk, some of it is they can be more nimble, more flexible, more automated.

Scott Miller: Speed and automated, right.

Scott Paul: Yeah, there's a lot of reasons for that and I do think the skillset that's required is much more about collaboration and problem solving. Although to Bill's point earlier about you still need to find those highly specialized machinists because the big guys, they'll figure it out eventually because they'll have the resources, they'll figure it out. But the small and midsize manufacturers that are in these labor markets that are smaller, if they've had a machinist who's been on the job for 30 years and there's no trades program at the local high school, they have a heck of a time finding someone to do it, no matter what they pay them, I will say. So it can be a real challenge.

Scott Miller: The big guys have these people in their supply networks.

Scott Paul: They do.

Scott Miller: I actually remember being ready to launch a new brand of liquid detergent, we were going to save the world with liquid detergent, which is another story entirely, but I remember the long lead time item was the bottle molds. We had a custom designed bottle, and bottle design was easy, but finding the machine tool operators who could basically carve the molds out of steel,

there were a handful of them in Pennsylvania, all in the 50 to 65 age cohort. Okay. And you were waiting until they were ready for you. Okay? Because they had backlog of work and so this is, as you said, leading company, lots of money to throw at the problem. Money didn't matter because of this skill that was unique and distinctive and incredibly fundamental to actually making the product the way we wanted it made.

Scott Paul: Right. And from a macro perspective, there is a... we're facing our own demographic challenge in the way that China's facing one with one child. It's because of manufacturing hiring patterns. They stayed pretty stable. They were cyclical until about 1998. Then there was a paucity of hiring in manufacturing for about a decade, a little more than a decade. And now you have a lot of guys who might've survived that who are in their 50s and manufacturing can still be a hard job and physically demanding, they want to retire. And young people, I mean even if you can recruit them into it, there's going to be a pressing need to do that. I don't think there's going to be two million unfilled jobs. I think you can find a lot of studies that will say things that you want them to say, but I do think that there will be a real challenge and that in our research that we've done, we found that there's two main barriers to that. I mean even if there are jobs. One is that there's the perceptions that the jobs won't be there because their parents may have lost their job on the assembly line or something like that. And so the reference from the older generation is not necessarily a great one. The second is still aspirational and it's this idea that a lot of people hold onto that I want my kid to get a four-year college degree, and that's the pathway to the American dream. Even though you see all this six-figure college debt and sometimes low wages for people just out of college, or not in the job that they have a credential for, you still see this pretty pervasive in society today. And you know, Mike Rowe, others they talk about this but, yeah, it's a problem we've got to hit.

Jack Caporal: Let's tie this to a current issue: China. It seems like what you're saying is maybe instead of beating them up with tariffs and other trade measures we should have had, as a country, a moment of reflection and said maybe we should focus on getting our own house in order. That involves shoring up manufacturing, making sure that our kids are skilled in order to fill those positions. Being sure that there's less of a stigma towards the industry. Should that moment have occurred when it comes to China or is the administration, following the correct path in terms of just using tariffs as a hammer?

Scott Paul: That's a great question. I think that the tariffs should have been used 15 years ago when the problems first arose, and I think-

Bill Reinsch: When we had more leverage.

Scott Paul: And we had more leverage, and it would've set the tone for a much more two-way give and take on this. But there was a reluctance to do that. I don't think the tariffs are necessarily a bad thing because we, as Bill points out, we

have very little leverage at this point in time. Access to our market's probably the biggest one. But one out of every five Chinese exports in value heads to the United States. And so we command a lot of attention or we should. We're not exposed that much in China. Some sectors have lots to lose. There's no question about it. But if you're looking at relative exposures, China has a lot more to the U.S. economy than we have to the Chinese economy. So, using the tariffs to get some leverage, again, not necessarily a bad idea, but it's the outcome that's important and what we are able to get. Do we get more purchase agreements for soybeans, something China probably needs anyway? I wouldn't view that as a victory. Do we get some changes with respect to technology transfer and IP? Obviously, that's going to be helpful for companies that are operating in China or in competition with those Chinese firms that gain some of those benefits. I think that still leaves a lot of these larger issues unexplored about how industrial overcapacity has overwhelmed a number of sectors and will in the future with China's planning as well. I know you all have looked at that too, and I think it's a very tricky path ahead for the-

Bill Reinsch: How likely is it that the Chinese are ever going to do anything to deal with that last set of problems? I mean we're really asking them to change their economy in fundamental ways. One of which reduces the Party's control over the economy, which seems to me is going to be the last thing they'll ever agree to do, so-

Scott Paul: Right.

Bill Reinsch: Aren't we asking more than we can realistically hope to get?

Scott Paul: Yeah, Bill, that's a great question because for 15 years people said, just be patient because eventually China will change its export-driven model and will want to lift up consumers.

Scott Miller: We were wrong about that.

Scott Paul: And we were wrong.

Bill Reinsch: Well wait a minute, I want to defend the past on that because we weren't-

Scott Miller: We weren't completely wrong.

Bill Reinsch: We weren't... Well, I think, this was not my portfolio when I was in the Clinton administration, but it seems to me that at the time we made the right decision based on the information that was available at the time. The Chinese leaders at the time were pursuing a very different policy than they're pursuing now. Xi Jinping has taken everything back in a more state-controlled direction. One of the problems, I mean you're right, we should have done some of this stuff 15 or 20 years ago. The problem was there wasn't any reason to do it 20 years ago because we didn't have the same kind of trade relationship we had then with China we have now. You

couldn't build the kind of public opinion or the coalition that you see now back then because people didn't perceive the threat the same way that they perceive it now.

Scott Miller: Yeah, the canary in the coal mine was indigenous innovation and the high-tech companies saw that and were horrified by it and wanted to take action. But to Bill's point, there really wasn't public support for it. There is public support now, which is a good thing but that's really where the-

Scott Paul: Well, you saw a lot... Because I remember this very specifically, you saw a lot of tough talk about this in 2008 during the campaign. I mean from Obama, not maybe from McCain. Because there had been in the Midwest... this hollowing out had started. You had seen a lot of manufacturing jobs that had shifted. But again, I think it's this kind of conflict about what intentions, what expectations are, what kind of other foreign policy interests you're balancing with what you can get China to change. I agree. I don't know that it's inevitable that China's going to change its system. If you look at the planning, plans to dominate the industries that we're looking at as our salvation in the future. And so how we respond to that is very important. But back to the original question, I think it takes a number of tools. I think we do have to push back on trade. I don't think that we can concede there at all. I think we have to do it carefully. I think Lighthizer is a very results-oriented guy. If he were calling the shots, I'd be more optimistic about the outcome.

Bill Reinsch: It's one of the problems. We've said on this program many times that his worst enemy is his own president.

Scott Paul: Yeah, yeah. I think he'd be a great USTR in a Democratic administration, for instance.

Bill Reinsch: Well maybe they'll keep him if there ever is one.

Scott Paul: It would be a wise choice if they did. But the other issue is that I think at the same time, and it's not an either or, we do need to get our own house in order and we need to make the smart investments in R&D and infrastructure and in the workplace and skills and training to do that. But I think that they both must happen together. Too many people in this town want to say it's either this or that, and I think it's kind of all of the above.

Scott Miller: As a former intern used to tell me, "Embrace the power of and," which I think is exactly what you're doing. We actually do need to do both. We need a workforce better suited for the future of our economy and we need to make a relationship that is currently unfair, closer to fair.

Andrew 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. We're also now on Spotify so you can find us there when you're listening to the Rolling Stones, or you're

listening to Tom Petty, or whatever you're listening to. Thank you, Trade
Guys.

Scott Miller: Thanks Andrew.

Bill Reinsch: Thank you!

Andrew Schwartz: You've been listening to The Trade Guys, a CSIS podcast.