Center for Strategic and International Studies

The Trade Guys Podcast

“Episode 5”

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H. ANDREW SCHWARTZ: Hi. We’re rolling with The Trade Guys. And this morning in Washington – it’s Friday – the president just had a pretty wide-ranging news conference or impromptu news opportunity on the White House Lawn where he talked about a variety of subjects. One of them was that they’re going to announce these trade tariffs today on China, $50 billion, which – you know, just the other day Secretary of State Pompeo was sitting in China with Xi Jinping and, you know, that must have been awkward. (Laughter.)

Trade Guy Bill, what do you think?

WILLIAM ALAN REINSCH: I smell trade war. I’m getting depressed about this.

They put out two lists that add up to 50 billion (dollars). The first list, which is 34 billion (dollars), is a subset of the list they put out originally in April, and tariffs – 25 percent tariffs on that stuff goes into effect July 6th. There will be an exclusion process, so like with steel you can petition to have something – a particular product taken off. It’s mostly parts and components.

MR. SCHWARTZ: This trade – the list is mostly technology, right?

MR. REINSCH: Well, it’s hardware. I mean, it’s – there’s a lot of machinery, machine tools, design equipment. There’s a lot of electrical equipment. There’s a lot of transportation equipment: aircraft, railway equipment. There’s a lot of – automobiles, automobile engines, a lot of stuff like that. Most of it is parts and components. So flat panels, which had been on the earlier list, seems to have disappeared.

MR. SCHWARTZ: Flat screens.

MR. REINSCH: Flat screens.

MR. SCHWARTZ: Well, Americans love flat screens. We don’t want to have an issue with flat screens.

MR. REINSCH: Well, I – what they’ve done here is take off the stuff that has the most immediate consumer impact. I mean, all the stuff will raise prices, but it’s parts and components.

MR. SCHWARTZ: Yeah, so, Scott, I want to ask you, where does this hit Americans in their pocket? Because somehow this is going to come down to us, the people who are buying stuff.

SCOTT MILLER: Yes. Well, when the headline reads President Trump imposes 50 billion (dollars’) worth of tariffs on China, it should read President Trump imposes 50 billion (dollars) of taxes on Americans because that’s what it is. It’s a border tax.

MR. SCHWARTZ: That’s a lot of cake.

MR. MILLER: Consumers always pay it at the end.

Now, by focusing – now, first, if you look at everything the United States imports, which is about $2 trillion worth of stuff, half of it, or a trillion dollars, are intermediates. They are machine tools, equipment, parts, components, ingredients – things that are used for further processing. So that’s
half, so it’s a big number. But they focused – the fact that they focused on that half will sort of postpone the inevitable passthrough to consumers on this because what they’ve done is made life immediately difficult for anybody managing a supply chain.

MR. SCHWARTZ: OK. Can you guys explain how and why does this trickle down to consumers, in what form? I mean, obviously, the companies are taxed, so they pass the cost on. But is there more to it than that?

MR. REINSCH: It’s a double whammy in several respects. There’s a trickle-down effect on consumers. For example, one of the items on the list is catalytic converters. So if you’re an automobile company and buying – you’re buying your catalytic converters from China, they just got 25 percent more expensive. And that means you’re going to build that into when you – into the price of your car.

MR. SCHWARTZ: Sure.

MR. REINSCH: So your price is going to go up. It’s going to go up 25 percent of the price of whatever the converter is. Multiply that by, you know, a hundred other parts and there’s a – there’s a, you know, consumer effect.

The more hidden effect – which I think is odd because it’s sort of backwards from an industrial policy point of view – usually, if you want to promote manufacturing growth and you want to promote industrial growth in a country, you put your tariffs on the end products to keep the competition out, and you don’t put them on the ingredients because you want your producers to be able to make stuff cheap and be competitive. So what you ought to be doing for your car companies, if you want them to compete globally, is keeping parts and components tariff-free, you know, and then keeping the foreign cars out. He’s doing actually the reverse. He’s making the parts more expensive. That will make our manufacturers less globally competitive because they’ll have to raise their prices.

And, you know, my favorite statistic is 95 percent of the world’s customers are outside the United States. If we’re going to grow, we have to sell overseas. And he just made all this stuff less competitive.

MR. MILLER: Yeah, Bill just described import-substitution economics, which is – you know, that’s a practice and it’s practiced a lot of places which would have high tariffs on the finished goods.

Now, one other thing that makes this incredibly messy when you raise tariffs on intermediates is – Bill described this Chinese catalytic converter. That part is being bought because in a competitive supply chain that was the best price and quality, all right? Now, at a 25 percent premium it’s a lot more expensive, but the supply chain manager is thinking, well, what are my other options for catalytic converters, OK?

MR. SCHWARTZ: Sure, sure.

MR. MILLER: And they start to look around. And that’s one of the reasons these things take time to penetrate the system, is you think about intermediate inputs. There are thousands upon thousands upon thousands of individual decisions on price and quality that add up to a trillion dollars. And so how a tariff on one item from one source will affect that entire chain and all those decisions is really murky and I think will give the president some time.
Now, keep in mind, in the broad scheme of things there is a ton of –

MR. SCHWARTZ: Give him time for what?

MR. MILLER: Well, for –

MR. REINSCH: Negotiations.

MR. MILLER: – negotiations. He wants to keep the economy rolling while he puts pressure on trading partners to negotiate. That’s the game here, all right? Now, the economy is stimulated big time now with fiscal stimulus, tax cuts and spending.

MR. SCHWARTZ: The U.S. economy is rolling. The Chinese economy is rolling. Why does China and the United States want to get into this trade war? I mean, the Chinese today, you know, of course responded and said, oh, the United States is trying to start a trade war, and they’re not happy.

MR. MILLER: Well, the president gave the reasons for the U.S. I mean, they’ve been stated as clearly as they can with the – with the investigations into unfair practices. So this is all rooted in –

MR. SCHWARTZ: Stealing intellectual property.

MR. MILLER: Yes, all the – sort of the chapter and verse that has been stated as unfair practices by China that’s harmful to our industries. So that’s the rationale.

The problem – Bill and I were discussing this before we started taping – is where’s the off-ramp? How do you actually get so you defuse the tensions and negotiate?

MR. SCHWARTZ: I’m really glad you guys didn’t leave that in the locker room. Let’s go to talk – (laughter) – let’s talk about that.

MR. MILLER: Yeah, you know, because one of the things – a point Bill made in our last podcast is that trade wars usually last one round. Somebody puts tariffs on, the counterparty puts tariffs on, and then they say, well, that was dumb; let’s talk. (Laughter.)

MR. SCHWARTZ: Right, right, right. Right.

MR. MILLER: Or something like that. But you need an off-ramp to do that. You need a way to defuse the tensions to get to bargaining, and I just don’t see one at this point. Maybe, Bill, you have a better idea.

MR. REINSCH: Well, no, the president’s made it worse, because if you looked at his announcement this morning the second part of it was – you know, the Chinese already announced exactly what Scott said. If we do 50 billion (dollars), they’re going to do 50 billion (dollars).

MR. SCHWARTZ: Right.

MR. REINSCH: And they already put out their list. What the president said this morning is if the Chinese retaliate then I’m going to add another hundred billion. So he’s escalating to round two
and the Chinese will respond in kind. They’ll do the same thing. That’s why, you know, Scott’s right, it used to always be one round and then we glared at each other, there would be a negotiation. Trump is upping the ante. They’ll respond. That’s why I think we head into war.

What do we do after an – what’s he going to do after 100 billion (dollars)? Another hundred billion? He’s banking – one of the things he’s banking on is that because of the size of the deficit, if the Chinese do another hundred billion –

MR. SCHWARTZ: The size of the trade deficit.

MR. REINSCH: The trade deficit. If the Chinese do another hundred billion, that’s everything we export. We only export 135 billion (dollars) and we’re talking about 150 billion (dollars) of them retaliating. And he probably figures, well, we win – (laughs) – you know, because they can’t go farther than that. And the answer is, of course, they can. They can put – you know, they can –

MR. SCHWARTZ: Sure they can.

MR. REINSCH: They can expel our service providers. They could put American law firms out of business. They can walk into the Apple assembly plant in Shenzhen and discover 47 health violations and shut them down for three months. They can –

MR. MILLER: They can analyze American consumer products and find lots of safety violations, publicize it.

MR. REINSCH: Their agriculture quality bureau, which inspects food coming in – just like we have one, they have one – they can find problems.

MR. SCHWARTZ: I’m sure they have guys sitting around thinking about this all day.

MR. MILLER: Of course. They do it all the time.

MR. REINSCH: Well, they have – they don’t just have plan A. They have – they’re well-organized. They have plan B, C, and D for different alternatives.

MR. SCHWARTZ: Do we have anything beyond plan A or plan B?

MR. REINSCH: I asked that question at one point and the answer was yes, but nobody wants to talk about what it is.

MR. SCHWARTZ: Nobody in the administration wants to talk about what it is.

MR. REINSCH: Right.

MR. SCHWARTZ: Well, what does Congress think about this?

MR. REINSCH: (Laughs.) I was writing my morning column – my column this morning and there is –
MR. SCHWARTZ: Don’t miss Trade Guy Bill’s columns if you’re out there listening. They’re on CSIS.org.

MR. REINSCH: There’s a vague, vague sign of evolution taking place. Some people are developing spines, and this is probably a good thing. There has been a lot of moaning and whining. They don’t like what he’s doing. Particularly, his own party doesn’t like what he’s doing.

MR. SCHWARTZ: Right. Scott calls them “grumpy.”

MR. REINSCH: That’s exactly the right word. They’re grumpy. It has not yet coalesced into anybody actually doing anything.

MR. MILLER: Yeah, because some are Sleepy and Dopey. (Laughter.)

MR. REINSCH: And, well, most of them are afraid and intimidated.

MR. SCHWARTZ: (Laughs.) Our Congress is sleepy, dopey, afraid, intimidated. Oh, man.

MR. REINSCH: Who else can we insult today?

MR. MILLER: We’ll leave Happy and his friends – and Doc out of it. (Laughs.)

MR. SCHWARTZ: How could anybody be happy if, you know, there’s a trade war going on which makes it more difficult for investors to –

MR. REINSCH: There were two events this week that are significant in Congress.

MR. SCHWARTZ: OK.

MR. REINSCH: Two amendments to the defense bill. One succeeded and one did not. The one that succeeded was to roll back the ZTE penalty mitigation. I think we talked about this before. They were –

MR. SCHWARTZ: ZTE, the company, the Chinese company.

MR. REINSCH: ZTE, the telecom company. Initially – or, at one point the secretary of commerce essentially puts them out of business. The president ordered them to roll that back. They rolled it back. It’s now a big fine and a bunch of other things. It’s less than it was. The Senate is – on Monday they’re going to vote on the final bill, but they’ve adopted an amendment that would reject that mitigated penalty and restore the more severe penalty. And that was a bipartisan amendment. And the Congress is very clearly pushing back against the president. That will go to conference. The House does not have that provision. It’ll be negotiated, and we’ll see what happens.

The other one was an effort by Senator Corker to roll back the steel tariffs. You know, and it was an amendment that said: Retroactively, those tariffs have to be approved by Congress. He was blocked from offering that. And that produced several angry conversations among senators because –

MR. SCHWARTZ: Who blocked him?
MR. MILLER: Senator Inhofe.

MR. REINSCH: Senator Inhofe. In his capacity as acting chairman of the committee he objected. It probably would have been defeated, which I think – well –

MR. SCHWARTZ: The committee – the Senate Armed Services Committee.

MR. REINSCH: Yes. But what Senator Corker said on the floor was telling. He said he thought 95 percent of his Republican colleagues agreed with him on the merits, but they were all afraid to go up against the president. And he accused them of –

MR. MILLER: And Senator Corker is, of course, retiring. And he’s leaving – he’s not running for reelection in November.

MR. REINSCH: And, but – yes. And it’s not lost – two things have not been lost on members of Congress. First, if you go up against the president, the president hits back. And Congressman Sanford in South Carolina –

MR. SCHWARTZ: The president actually hits back 10 times harder.

MR. REINSCH: Yes. And Congressman Sanford in South Carolina lost his primary on Tuesday because, in part, the senator – the president endorsed his opponent. Sanford had been a Trump critic.

MR. SCHWARTZ: Yes.

MR. REINSCH: So it’s not lost on Republicans that this is what happens if you oppose the president. It’s also not lost on them that the only people who have stood up and opposed the president are retiring. And –

MR. SCHWARTZ: Within the Democratic – or, within the Republican Party.

MR. REINSCH: In the Republican Party. And so they can afford to do it. I give Senator Corker great credit, because he’s remembered his oath is to the Constitution and not to the Republican National Committee and not to the president.

But I still think this is a good sign, because somebody stood up. And I think – you know, then you try to think, well, what’s going to get more of them to stand up? And we’ve already discussed, I can see three tipping points: A major China war, NAFTA withdrawal –

MR. SCHWARTZ: Major China trade war.

MR. REINSCH: Trade war, yes. NAFTA withdrawal, or the automobile tariffs. And the other rumor this week is he wants to do automobile tariffs before the election because he thinks that will help him politically. And Scott can probably comment on whether that’s a good idea or not.

MR. MILLER: Well, I do think Bill’s right at identifying those triggers. And for me, the – what I’ll be watching for is what do the farm state Republicans in the House and Senate do now? They were unable to pass a farm bill. But with the China tariffs escalating, they are – they are going to be
hurt. Soybeans is atop the retaliation list. OK, so the farm states are going to be unhappy pretty quickly with the Chinese response to the president’s tariffs. What do they do now, OK? And so that’s something to, you know, sort of think about from now to the –

MR. SCHWARTZ: What do the representatives and senators from farm states do?

MR. MILLER: Yes. Yeah, and –

MR. SCHWARTZ: Are they going to mobilize? Are they going to – now, presumably the president knows that this is going to happen.

MR. MILLER: Yes. And I think they have been effective, at least in postponing the NAFTA withdrawal decision. I mean, senators like Pat Roberts, who’s chairman of the House – or, is chairman of the Senate Agriculture Committee from Kansas, a good, solid Republican senator, pointed out that the Republicans want to pick up a Senate seat in North Dakota. And almost 80 percent of ag exports from North Dakota go to Mexico and Canada. So you change the – both the economic and political dynamics if you pull out of NAFTA. So they’ve made this point. They at least, I think, achieved a postponement. But whether they’ve actually changed direction, nobody really knows. No question, they will be the first to be harmed by China’s retaliation.

MR. REINSCH: And they’re not – I don’t think they’re going to be impressed by automobile tariffs.

MR. MILLER: No.

MR. REINSCH: Doesn’t help anybody in Kansas.

MR. MILLER: Right.

MR. SCHWARTZ: No. Well, who does it help?

MR. REINSCH: (Laughs.)

MR. MILLER: Well, you look at the states carried twice by Obama and which swung Trump. That would be Ohio, Michigan, Wisconsin –

MR. SCHWARTZ: Pennsylvania.

MR. MILLER: Yes, parts of – certainly Pennsylvania. But Missouri is also a big auto state. And so it’s the – it’s the states that provided Trump his margin of victory in 2016. That’s where – that’s where his economic base is. He’s shown his preference for both the steel industry and the auto industry in all the negotiations so far.

MR. SCHWARTZ: Well, this morning he was talking about how we have to protect our intellectual property. Our smart people in America are all out in Silicon Valley and we have to protect them. Are they for these tariffs? I mean, I’m sure they’re for trying to curb the theft of intellectual property. I know that that’s the case. But are they for these tariffs?

MR. REINSCH: Funny you should ask. I was just in Silicon Valley –
MR. SCHWARTZ: Of course, you were.

MR. REINSCH: Three days ago.

MR. SCHWARTZ: You guys are everywhere.

MR. REINSCH: Three days ago, talking to actually semiconductor CEOs for the most part – hardware and software. And I think it’s fair to say they think these things are a terrible idea. They do think – and to be fair about this – they do think, as I think Scott and I think, that the administration has diagnosed the problem correctly.

MR. SCHWARTZ: OK.

MR. REINSCH: They’re very aware that technology theft is a big problem for them. Forced technology transfer is a big problem for them.

MR. SCHWARTZ: This isn’t new.

MR. REINSCH: They’re not happy.

MR. SCHWARTZ: We’ve been talking about the – we’ve been talking about the technology theft of the Chinese for well over a decade, at least, publicly, right?

MR. REINSCH: At least.

MR. MILLER: Well, look, presidents promised to move the U.S. embassy to Jerusalem for about the same period of time. Trump actually does it, OK?

MR. SCHWARTZ: Right. Sure, sure. OK. (Laughter.)

MR. MILLER: This is a case where I think he’s right. There is a big problem here. It needs to be dealt with. And he’s – he campaigned on this, so he’s going to do it. Now, whether it works and whether they’ve got actually a plan to see this through to some positive conclusion that doesn’t destroy the trading relationship or the foreign policy relationship with China is unclear.

MR. REINSCH: That’s the off ramp.

MR. MILLER: That’s the mystery. That’s the off ramp I’m looking for.

MR. SCHWARTZ: I got it. I got it. So let’s talk a little bit more about Silicon Valley. So the people – the companies in Silicon Valley are going to get behind the president on this? Or what are they going to do?

MR. REINSCH: Well, I don’t think they’re going to get behind tariffs. I mean, they are – I mean, they’re conflicted. They agree with his analysis of the problem, and they are the primary sector that’s been hurt by what he’s talking about. So they would very much like to see it fixed.

MR. SCHWARTZ: They’ve been hurt, but they’re making gobs of money anyway.
MR. REINSCH: Well, that’s their dilemma. They have the – and I told them this, and they didn’t disagree, they have the classic short-term, long-term problem of do they trade off short-term profits for long-term competition? What the Chinese have done, and what the president is objecting to, is they wrote this report called Made in China 2025.

MR. SCHWARTZ: Right.

MR. REINSCH: We’ve talked about this before. What that says is here is a list of industries which are mostly in the high-tech sector, where we, the Chinese, are going to create global champions. And we’re going to put billions and billions of dollars into the – in subsidies, into those industries. So we are going to create global champions who are going to compete against you, American companies, and we’re going to destroy you competitively. And the industry – the U.S. industry knows that. They see it’s coming – see it coming. The Chinese have said it’s coming. But it’s what you said, they’re making piles of money right now selling in China, chips and a lot of other stuff, not just chips. In fact, chips are a relatively small part of it. And they can’t divorce themselves from the short-term profit, even though they see the long-term challenge. And I don’t think they’ve fashioned coherently a really good pathway for dealing with that.

MR. MILLER: Yeah, if you look at just the specific of the ZTE case, which we talked about earlier, what puts them out of business is the fact that ZTE phones have an American-made chip.

MR. SCHWARTZ: Right, Qualcomm, right?

MR. MILLER: Qualcomm, yes.

MR. REINSCH: Well, but it’s not – there’s a lot of companies that sell parts to ZTE.

MR. MILLER: Parts, yeah, sure.

MR. REINSCH: And all of whom were hurt by the president’s decision. On the other hand, you know, I don’t think that – most people would agree with the initial decision. You know, ZTE committed a crime. And it was a crime that affected our security, it affected our foreign policy. And that’s – you know, I –

MR. MILLER: You need to deal with that.

MR. REINSCH: Yes.

MR. SCHWARTZ: You need to enforce the law.

MR. MILLER: Right.

MR. SCHWARTZ: All right. So you smell trade war. It’s pretty clear that the next step is going to be some escalation or at least some talk of escalation.

MR. REINSCH: Yes.
MR. SCHWARTZ: How do the markets react to this? If you’re an investor and the U.S. economy is doing well and parts of the global economy are doing well, how do you place your investment strategy, given all of this uncertainty? If you’re an investor, you can’t be too happy about this.

MR. REINSCH: Well, the market’s down –

MR. SCHWARTZ: Or at least it’s providing a challenge.

MR. MILLER: Yes.

MR. REINSCH: The market’s down 253 as of the time we speak this morning.

MR. SCHWARTZ: Right. So that’s not good.

MR. MILLER: And in the past, it has – it has – it has gone down on the day of the announcement and quickly rebounded. And once again, there is so much fiscal –

MR. SCHWARTZ: It’s going to be a long weekend, though.

MR. MILLER: It’s going to be a long weekend. People will think about it. This is a bigger action than the actions threatened in the past, so every time the president has barked in the past six months, the markets have dipped and returned to their previous levels.

This is a real bite, and people are going to think about it and look at its potential consequences, but to my mind, at least at the moment, there is sufficient fiscal stimulus that really outweighs the macro effects, so as long as corporations keep meeting their earnings estimates, OK, and we’re not seeing any disappointments, that’s ultimately what the market actually values in the long run. It’s a – any stock is just – it’s discounted future returns.

MR. REINSCH: The real – to me the real impact is going to be less on the market than on investment.

MR. SCHWARTZ: Right.

MR. REINSCH: All the signals from the administration is we don’t want you to invest outside the United States. We want you to bring your supply chains back on shore – look at the NAFTA negotiations; that’s what that’s about – and we want you to invest here. We don’t want you to invest in China. We’re going restrict – further restrict your transfer of technology to China, which means joint ventures. We’re going to make it harder to enter into joint ventures. We’re going to expand what we think of as national security, and we don’t want you to invest in Canada and Mexico. We want you to invest here.

What the smart investor, I think, does in listening to that is I’m going to wait and see what happens. I’m not going to move right now until the situation stabilizes.

MR. SCHWARTZ: Or I’m going to take my money out of the market once it dips back up, next week –
MR. MILLER: That could be as well.

MR. SCHWARTZ: – and then just say, you know, look, I did really well this last year, or this last couple of years. I’m going to sit this out for a while.

MR. MILLER: That’s the investor’s point of view. From a firm point of view, it’s likely it will create enough uncertainty that it will leave capital on the sidelines.

MR. SCHWARTZ: Yes, that’s an important point.

MR. MILLER: Look, one of the salutary positive – one of the positive effects – most positive effects of the tax reform bill was that it incentivized capital investment –

MR. SCHWARTZ: Right.

MR. MILLER: – by radically lowering the rate and basically eliminating depreciation on capital. So it had massive stimulus for capital investment. We’re walking back some of that by creating uncertainty.

MR. SCHWARTZ: And at the same time, we have the Fed saying they’re going to raise interest rates and then they’re going to raise interest rates again.

MR. MILLER: Sure.

MR. SCHWARTZ: So this is complex, but it – what you just said a minute ago, Bill, brings me another point that we absolutely have to talk about this week – is the fallout from the G-7.

You just talked about a strategy where, you know, Americans are going to be incentivized to invest here, within America. This all – Make America Great Again – it feels like the United States – it certainly seems like the United States is hunkering down, staying within itself. We clearly had an episode with our allies last week at the G-7. They didn’t cotton too well to President Trump’s appearance there, and what he said, and the way he treated them.

What’s the fallout from the G-7, and what does this all mean?

MR. REINSCH: My reaction to it was it was a kind of – another inflection point like we were talking about with the Congress. I think it’s a sign that our friends and allies are adopting a more aggressive strategy.

Last year was a turn-the-other-cheek strategy, and flattery, and let’s try to be reasonable and assume that he’ll be reasonable. And I think they are deciding that that didn’t work.

The steel tariffs showed them it didn’t work in couple of ways. First, he actually did it, which they didn’t like, but the way he did it I think also offended them, and I – words matter, you know. It’s – people do sticks and stones and – you know, and all that, but words matter because basically, you know, his justification was we’re putting steel and aluminum tariffs on because we have a national security threat.

Well, if you’re – well, who – but who did he put them on? The Canadians –
MR. MILLER: Allies.

MR. REINSCH: – the British, the Japanese, you know, the French – all the people in the G-7, he’s telling them, you’re the enemy, you know –

MR. SCHWARTZ: Our friends.

MR. REINSCH: – you – and this is what Trudeau said, you know, it’s insulting to Canadians to be told that Canada is a national security threat to the United States.

MR. SCHWARTZ: It’s mind-boggling to me because Canada is so nice.

MR. REINSCH: Well, it’s – and because we have such a – we have an integrated defenses arrangement with them.

MR. MILLER: Exactly.

MR. SCHWARTZ: That’s what I mean. It’s a – I mean, we deal with the Canadians her all the time on such a variety of issues, same with Mexico. We’re in close cooperation on many, many national security things. They’re our largest trading partners.

MR. MILLER: Sure.

MR. SCHWARTZ: What’s going on here?

MR. MILLER: Well, here – I think that it’s important to note that, while the top-line portrayal was the U.S. versus the other six, I think the responses of the other six have been quite nuanced and different, and I want to – I want to see how that plays out.

So, for instance, somebody not in the tweet storm? Japan. Japan was not exempted from the steel tariffs in the first place, but there has not been a complaint. But Prime Minister Abe came to the White House before the G-7 meetings. He is managing – and so there is a very quiet effort to protect Japan’s interests that’s staying completely out of the press and out of the tweet storm. That’s interesting to me.

The second point I would make is the European members of the G-7 are not united. When it comes to autos, Germany is looking for a solution. They are looking for a compromise. Italy has a new government; it’s hard to say what’s going on.

MR. SCHWARTZ: Right.

MR. MILLER: The U.K. is focused on Brexit.

MR. SCHWARTZ: Right.

MR. MILLER: OK? And so you don’t have a unified Europe at this point, and Canada – it seemed that there was a very quick resort by the prime minister to use talking points that might – about the rules and everything else that might have worked in other administrations, but at this point seemed
like they’re not listening. And if I were concerned about an action on autos, I would be really worried if I were Canada because, first of all, it wouldn’t take much to get U.S. automakers to rework their supply chains and move them out of Canada, which is a big hit. And keep in mind, while we both have exports to each other in the $300 billion range, our exports to Canada are 2 percent of GDP. Their exports to the United States are 20 percent of GDP. I mean, they – Trump –

MR. SCHWARTZ: Wow.

MR. MILLER: The president looks for leverage. He’s got it with Canada.

MR. SCHWARTZ: And clearly he’s going to use it.

MR. MILLER: Well, I – it wouldn’t surprise me at this point. He tried – he tried with the NAFTA, didn’t get where he wanted with the NAFTA. And this may be a resort to something else.

MR. SCHWARTZ: Well, why should anybody be surprised? This is a president, President Trump, who does what he says.

MR. REINSCH: Yes.

MR. SCHWARTZ: He does what he says he’s going to do, and people keep thinking he’s not going to do what he says he’s going to do and then he goes and does it. Why should anybody be surprised?

MR. REINSCH: Well, yeah, we’re learning that. I’ve said before every prediction I made that’s been wrong is because I have assumed rational behavior and that’s a mistake, you know? He is actually predictable. He does do what he says he’s going to do.

MR. SCHWARTZ: Yeah.

MR. REINSCH: And his tactics are predictable. He always hits back and he always hits back harder. And I think the other countries are figuring that out and they’re adjusting their strategy accordingly.

I don’t entirely agree with Scott on the G-7. I mean, I think that the – there are differences between the countries.

MR. SCHWARTZ: There’s a dispute between the Trade Guys.

MR. REINSCH: But they’re – well, you know, what –

MR. MILLER: Just a different perspective. (Laughter.)

MR. SCHWARTZ: We want that. We want –

MR. REINSCH: This is theater. What do you want? (Laughter.)

MR. SCHWARTZ: We want this. We want this.
MR. MILLER: That’s why there are two of us. (Laughs.)

MR. SCHWARTZ: Yeah.

MR. REINSCH: Do I get to – do I get to say: “Scott, you ignorant slut,” or? (Laughter.)

MR. SCHWARTZ: Oh, no, no, no, no, no, no, no, no.

MR. REINSCH: I’m not going to take that back. (Laughter.)

MR. SCHWARTZ: For those of you who are too young to remember, that is a “Saturday Night Live” reference.

MR. MILLER: It is.

MR. REINSCH: Yes.

MR. MILLER: It’s a parody of –

MR. REINSCH: Jane Curtin, I think.

MR. SCHWARTZ: And Dan Aykroyd.

MR. MILLER: Dan Aykroyd and –

MR. REINSCH: (Inaudible) – yeah.

MR. MILLER: In a parody of “Crossfire.”

MR. REINSCH: Yes.

MR. SCHWARTZ: Yes, yes.

MR. REINSCH: Anyway, I think that – I think on some of these issues there are nuances or differences. I think you’re going to see, particularly in Europe, more of an aggressive pushback and a common pushback. They will work out their differences amongst themselves. And I’m looking for – I think I’m seeing a more aggressive pushback.

What fascinated me about it was what Trudeau did post-event, this funny little thing they had. And I thought it was funny because Trudeau did to Trump exactly what Trump has done to Trudeau multiple times: happy meeting, public criticism afterwards.

MR. SCHWARTZ: Yeah.

MR. MILLER: Yeah.

MR. REINSCH: It’s exactly the same strategy. I think it was deliberate.

MR. MILLER: Most likely.
MR. REINSCH: And what Trump demonstrated is he can dish it out but he can’t take it. But I think you’re going to see more of that –

MR. MILLER: I think so too.

MR. REINSCH: – because I think they’ve figured out – they’ve figured out how he does things, and he’s predictable. And now they know how to give to him.

MR. MILLER: Well, and I agree – I agree with you. It is likely that the Europeans will work this out together. They’ve been working things out together since the Treaty of Westphalia. That’s how you – that’s how you do things in Europe.

MR. REINSCH: Well, so much for our fight.

MR. SCHWARTZ: Yeah, yeah.

MR. MILLER: Yeah, but they haven’t – I haven’t seen it yet, but I – that’s the pattern.

MR. SCHWARTZ: But Trudeau and Macron and others seem to really be on the same page and are trying to figure out what to do –

MR. MILLER: Well, they sure all don’t like it.

MR. SCHWARTZ: They don’t like it.

MR. REINSCH: I mean, Scott’s right. Merkel has the most at stake because of the German auto industry.

MR. MILLER: Yes. Autos, yeah. Mmm hmm.

MR. REINSCH: And they –

MR. SCHWARTZ: Well, that photo of Merkel and Trump and the other leaders with the Merkel stare-down, that was quite something.

MR. MILLER: Notice Prime Minister Abe on the sidelines with his arms folded in that picture. (Laughter.)

MR. SCHWARTZ: Yeah, he’s – he’s still trying to support President Trump.

MR. MILLER: He’s trying to predict – (inaudible).

MR. SCHWARTZ: There’s a variety of reasons for that, because obviously he – you know, he’s thinking about North Korea. He’s thinking about South China Sea. He’s thinking about the U.S.-Japan alliance.

MR. REINSCH: Well, and Scott was right to pick that up. Nobody else noticed that. But he’s – Scott’s exactly right. He was really absent from all the controversy.
MR. MILLER: Right. Yeah, he’s over –

MR. REINSCH: And it was deliberate.

MR. MILLER: There’s not been an anti-Japan tweet that I’m aware of.

MR. SCHWARTZ: Now, so is this partly because Abe has domestic political issues himself and he’s trying to –

MR. MILLER: Well, they all do. Look, these are all democratically elected leaders. They all have publics to account for. They all have voters to worry about, OK? So I don’t think they’re differently situated. But I do think they have different – they’re facing different issues. And I think Japan naturally, given its – given its own situation, would look at the world a little differently than the Europeans.

MR. SCHWARTZ: Well, clearly President Trump has made a political calculation that what he’s doing now is not going to hurt the Republican Party in the midterm elections and it’s going to help propel him to reelection.

MR. MILLER: Yes, and he’s also found the next little bunny to attack, which I think is Canada, so.

MR. SCHWARTZ: Why is he picking on Canada? Because it’s easy to pick on Canada?

MR. MILLER: Leverage.

MR. SCHWARTZ: Leverage?

MR. MILLER: Leverage. Well, I think he’s – I think he likes the idea of tangling with Prime Minister Trudeau, but I really think it’s leverage.

MR. REINSCH: And I think it – I’m interested in what Scott thinks. I think it’s a political mistake. People like Canada.

MR. SCHWARTZ: Yeah, and they like Trudeau.

MR. REINSCH: I mean, it – what intrigued me was in the congressional cases I referred to – in the ZTE case, the Congress thought the president was soft on China. They were happy to strike back and be tough on China.

MR. MILLER: Yes.

MR. REINSCH: When the president – they sort of bailed when the president was insulting the allies. They didn’t want to take him on on that. But I think there’s a different point of view. People are – I mean, the Democrats have started to talk about – make a political issue out of the tariffs on Canada and say the president – and the political line from the Democrats is, the president is attacking our friends and he’s soft our enemies. You know, he’s soft on China. Look at ZTE. And who’s he
punishing? The Canadians and the Brits. They don’t talk so much about the French and the Germans.
(Laughs.)

MR. SCHWARTZ: Right.

MR. REINSCH: So that’s going to be the Democratic line in the election. And I think it’s going to resonate in some quarters.

MR. SCHWARTZ: And at the same time, he’s saying Russia should be in the G-8. And he’s –

MR. REINSCH: Yes, right. And we’re going to have a summit with Putin later this summer.

MR. SCHWARTZ: We’re going to have a summit with Putin. And, you know, in a broader sense, he’s opened up the world for Kim Jong-un, who is going to now be received on the World stage by Putin and others himself. So there’s something to that too.

MR. REINSCH: Well, do you, Scott – or, do you agree, Scott, or not on that?

MR. MILLER: I do agree that that would be the narrative of the opposition. So I think – I think you’re right about the narrative. I am not sure how Canada’s going to play out. Canada’s a very – they’ve been our largest trading partner forever, and they still are. It’s very important connections between the two countries. And Andrew’s right, they’re just a nicer version of us. And so we look at – Americans tend to look at Canadians quite favorably.

MR. REINSCH: My mother was Canadian, so I’m glad to hear you say these things.

MR. SCHWARTZ: And I know she was a nice, nice lady.

MR. REINSCH: Indeed, she was. A wonderful person.

MR. SCHWARTZ: And the Canadians supply the NHL with a lot of hockey players – a lot of really good hockey players.

MR. REINSCH: Can’t leave that out, although I think the Caps team is more Russian than it is –

MR. SCHWARTZ: The Caps team is more Russian. Will they be welcome at the White House? (Laughter.)

MR. REINSCH: Will they go?

MR. SCHWARTZ: Will they go? We’ll have to see, next time on The Trade Guys.

(END)