Center for Strategic and International Studies

The Trade Guys Podcast

“Trade War on Hold and a Skinny NAFTA”

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Date: Tuesday, May 22, 2018
SCOTT MILLER: I’m Scott.

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MR. MILLER and MR. REINSCH: (Together.) And we’re The Trade Guys.

(Music plays.)

H. ANDREW SCHWARTZ: You’re listening to The Trade Guys, a podcast produced by CSIS, where we talk about trade in terms that everyone can understand. I’m H. Andrew Schwartz. And I’m here with Scott Miller and Bill Reinsch, the CSIS Trade Guys.

In this episode we’re talking about the latest on the U.S. China trade talks, trade war on hold, and where the NAFTA – skinny NAFTA negotiations stand. But first, the U.S. China trade talks.

TREASURY SECRETARY STEVEN MNUCHIN: (From recording.) Well, Chris, we’re putting the trade war on hold.

MR. SCHWARTZ: It looks like round two of the U.S.-China trade dialogue put a pause on the trade war brewing between the two economies. Treasury Secretary Steve Mnuchin said on Fox News Sunday that the two countries reached a tentative deal to curb trade imbalances. The details are sparse, but White House economic advisor Larry Kudlow described to ABC’s George Stephanopoulos what the Chinese offered as part of the agreement.

NATIONAL ECONOMIC COUNCIL DIRECTOR LARRY KUDLOW: (From recording.) They are offering to make structural reforms, such as lowering tariffs and lowering nontariff barriers, which will permit us to export, you know, billions and billions of more goods to China.

MR. SCHWARTZ: Commerce Secretary Wilbur Ross is scheduled to hammer out some of the details as early as later this week. But what does the United States have to give in return?

And next, turning to NAFTA, President Trump said that he would renegotiate the North American Free Trade Agreement between the U.S., Canada, and Mexico. But it looks like the administration might have blown past a key congressional deadline to do so last Thursday. This week, Senator John Barrasso of Wyoming suggested putting forth a NAFTA-lite deal, or skinny NAFTA, which wouldn’t require congressional approval at all.

SENATOR JOHN BARRASSO (R-WY): (From recording.) The question is what can be done – how can NAFTA be changed to our advantage, that doesn’t have to go back to Congress to get another vote?

MR. SCHWARTZ: But what would a skinny NAFTA even look like? Will President Trump threaten to pull out of the deal, as he’s done before? And on the tentative trade deal with China, will it actually level the playing field for Americans? We put it to The Trade Guys.

All right, Trade Guys. So this weekend we hear the news that our Treasury Secretary Steve Mnuchin has said the trade war has been put on hold. War on hold, what does that mean?
MR. REINSCH: (Laughs.)

MR. SCHWARTZ: This is Trade Guy Bill laughing, about to speak.

MR. REINSCH: It means – this is a classic case of fool me once shame on you, fool me twice shame on me.

MR. SCHWARTZ: Why?

MR. REINSCH: Because we’ve been taken again. Last summer they played us. They played us again.

MR. SCHWARTZ: Who – they being China?

MR. REINSCH: They being the Chinese. They made a bunch of vague commitments and, guess what, everything has been postponed.

MR. SCHWARTZ: So China won this, it sounds like.

MR. REINSCH: I think so. Scott?

MR. MILLER: It certainly looks that way to me. Now, look, there’s yet to be a treasury secretary of the United States who wants a trade war with any major trading partner. So this is – this is not something they work toward. And so it’s not surprising to see him call it off. I do think that Secretary Mnuchin is one of the people arguing for stability and sort of status quo in the relationship. We certainly addressed none of the critical problems. I mean, we put through this whole investigation of Chinese practices and came up with a long list of sort of predatory or unfair practices, particularly related to intellectual property and sort of the future of our economy. We got nowhere.

MR. SCHWARTZ: OK, all right. Time out, though, Trade Guy Scott. This is Trade Guy Scott. What are we – what are the stakes here? What are we actually talking about? What are they winning? What are we losing? What did we just put on hold? It’s a bold statement. We put the trade war on hold. What does it mean? What’s at stake here? Lay it out for us.

MR. REINSCH: In the short run, it means we’re not going to impose the tariffs that we threatened to impose, and neither are they.

MR. SCHWARTZ: We threatened 150 billion (dollars) in tariffs?

MR. REINSCH: Yes. Yes.

MR. SCHWARTZ: OK, and so we’re not going to do that anymore?

MR. REINSCH: We’re not going to do that right away. They’re not off the table, but they’re on the back burner, I think is a fair statement.

MR. SCHWARTZ: And what were they – what were they going to do, the Chinese?

MR. REINSCH: They were going to respond in kind.
MR. SCHWARTZ: They were going to put about 50 billion (dollars)?

MR. REINSCH: Well, we did it in two pieces, 50 and 100 (billion dollars). And they said they would respond in kind. They produced a list of 50 (billion dollars), just like we produced a list of 50 (billion dollars). Neither side has produced a list of another 100 (billion dollars) yet, but –

MR. SCHWARTZ: And this is – this is our goods that we’re exporting to them, they will not tax if we don’t tax their imports coming here.

MR. REINSCH: Yes, exactly.

MR. SCHWARTZ: OK.

MR. MILLER: Now, it appears that we’ve – that they have agreed – China has agreed to purchase more I think hydrocarbons and agricultural products, OK.

MR. REINSCH: Yes. They’re going to buy a lot of gas.

MR. MILLER: They’re going to buy a lot of gas and buy a lot more agricultural products because, I guess, people are hungry. But what – I think what this really amounts to is it transparently exposes the problem with setting goals about a trade deficit. First of all, the bad news is the trade – that bilateral trade deficits have almost nothing to do with the trade policy.

MR. SCHWARTZ: What is the trade deficit? I understand – as I understand it, we have a $375 billion trade deficit with China, according to the administration’s numbers. What does that mean?

MR. REINSCH: That means they sell us that much more than we sell them in goods. It doesn’t count services. And we actually have a surplus in services. Not enough to offset 375 billion (dollars), but –

MR. SCHWARTZ: We’re a services-oriented country.

MR. REINSCH: We are.

MR. SCHWARTZ: They’re a manufacturing-oriented country. And that’s the –

MR. REINSCH: Three-quarters of our economy is services.

MR. MILLER: Plus, the United States, for the last 45 years, has run a current account deficit, or trade deficit, with the world. But that balance is up because we’ve run a capital account surplus or an investment surplus with the world. This is, at the end of the day, double-entry bookkeeping. And if you have a deficit in the current account, you have a surplus in the capital account. Now, that’s the global story, which the United States does run large current account deficits or trade deficits with the world. The biggest share of that is with China now, for a lot of reasons, but it really doesn’t have a lot to do with trade policy. It has to do with our spending versus saving habits as a country, and many other macro factors.
MR. SCHWARTZ: So why is it bad if we have a trade deficit, but we have a surplus in services? Why is that a bad thing?

MR. REINSCH: Well, I don’t think it’s a bad thing. The president thinks it’s a bad thing.

MR. SCHWARTZ: OK, presidential – why – let me rephrase. Why does President Trump think that’s a bad thing?

MR. REINSCH: That’s a really good question. He’s – well, he’s – he – (laughs) – I should say, he’s a classic 17th century mercantilist. (Laughs.)

MR. MILLER: Well, I think it’s about communication style. One of the things about the president is he is an excellent persuader. And the way he persuades is breaks things down to their simplest form. And I think for him, he has a philosophy of unfairness when it comes to international partners. The world – the United States is being treated unfairly. And he’s found a convenient measure of this unfairness, which is the bilateral trade deficit.

MR. SCHWARTZ: OK, so in a slight – as you’re saying, this morning, Monday morning, the day after the trade war put on hold, he tweeted. He said, “China has agreed to buy massive amounts of additional farm/agricultural products. Would be one of the best things to happen to our farmers in many years.” That’s pretty clear. That’s a good thing if that happens, right?

MR. REINSCH: Yes.

MR. MILLER: Not so fast. All right, it is –

MR. SCHWARTZ: OK, we’re going to get down to it.

MR. MILLER: But look, most agricultural exports are traded on the global market. They’re global commodities. And so the quantity bought from the United States will be greater. Quantity bought from Brazil will be less. Something like that. So all in all, it will not really affect farm markets that much, on a long-run basis.

What you have here is the idea that while the trade deficit doesn’t mean much from an economist standpoint, it is – has the benefit of being easy manipulatable. All right, so China has shown – the United States and China have decided to manipulate the bilateral trade deficit. China, which buys hydrocarbons and soybeans and lots of other agricultural products on the world market, is going to direct their buying to the United States instead of buying from the world. It won’t really make any difference to anybody economically in the long run, but it’ll make the president feel better about the numbers, and he’ll be able to have a tweetable deliverable, which is, I think, what the Chinese want.

MR. SCHWARTZ: Right. Won’t it make a difference to our farmers here, though?

MR. REINSCH: I think it will. I mean, I think Scott’s right about the global market. Unless everybody starts eating me – (laughter) – and there’s an increase in demand. But, you know, from a strictly U.S. point of view, if the Chinese buy more soybeans from American and fewer soybeans from Brazil, our farmers are happy. Brazilian farmers, not so much. But Trump doesn’t care about the Brazilian farmers.
MR. SCHWARTZ: Sure. That’s not – they don’t vote for him.

MR. REINSCH: Exactly.

MR. SCHWARTZ: All politics is local. And he knows that probably better than anybody since Tip O’Neill.

MR. REINSCH: The sad thing about this goes back to what Scott said at the beginning. And we talked about this last week. You know, the administration laid out a whole set of problems, which Scott described. This addresses none of those. It addresses the number, 375 billion (dollars). And it addresses by them buying more. There’s nothing in there about them selling less, which I think what the president wanted. It doesn’t address any of the technology theft, technology transfer, intellectual property related problems.

MR. MILLER: All sorts of unfair practices. Does nothing to them.

MR. SCHWARTZ: Well, it also doesn’t reduce – nothing in this putting it on hold does what they want it to do, which is reduce this $375 billion trade deficit by $200 billion. It also doesn’t do that.

MR. REINSCH: That number didn’t seem to appear in the statement over the weekend. And it didn’t seem to appear in – when Secretary Mnuchin talked on Sunday morning or this morning.

MR. SCHWARTZ: Right, on CNBC.

MR. REINSCH: On CNBC. The number’s kind of gone off into the ozone.

MR. SCHWARTZ: So – OK, so we’ll get to that in a minute. So, but – so the number went away, the number that they had wanted, the benchmark went away. But at 7:30 this morning President Trump tweeted, “On China, barriers and tariffs to come down for the first time.” So how far are they going to come down if they’re not coming down 200 billion (dollars)? Are they coming down five bucks? What does that mean?

MR. REINSCH: (Laughs.) Well, I think we have to wait and see.

MR. MILLER: Look, China is an authoritarian government. They can make these changes very quickly, or not. They can make them wholesale, or they can make them look big and actually be small in effect. So we’ll have to see. As Bill pointed out at the top, it’s very similar to the first encounter of President Trump and the Chinese delegation at Mar-a-Lago, where he proclaimed a big victory on trade, and we got – they promised us seven things they’ve promised us before and delivered basically none.

MR. REINSCH: They gave us beef for the third time. They gave us something on financial services for the second time. Someone was joking they’re probably going to give us beef for the fourth time this week.

MR. SCHWARTZ: Well, we love beef. (Laughs.)

MR. REINSCH: Well, but it’s –
MR. MILLER: Yeah, Secretary Ross will be there to collect it, so. (Laughter.)

MR. SCHWARTZ: Well, OK, we’ll talk about that in a second.

MR. REINSCH: They know everybody in Beijing.

MR. SCHWARTZ: We’re going to talk about Secretary Ross and the rest of the gang in a second. But meanwhile – so the administration seems to have something that they’re celebrating. Secretary Mnuchin went on this morning on CNBC and seemed to be confident. The markets today have shot up. That’s – they’re going to say that that’s something that’s good. But on the other hand, overseas in China, across the Pacific, China is really celebrating. They’re spiking the ball everywhere – in their briefings, in their statements. They’re tweeting out things on social media. They even went so far as to tweet side-by-side photos of the negotiations, where it looked like their negotiators were extremely youthful and our negotiators didn’t look like spring chickens, to be honest. So what are – they’re really spiking the ball over there. What’s going on with them?

MR. REINSCH: That’s a good question.

MR. MILLER: I don’t follow their politics closely enough to know. But I look at the exchange. And I look at what our expectations were going in, particularly with the report of the investigations into unfair practices. Most U.S. firms doing business in China want these unfair practices corrected. They’re important our economic success in the long run. They’re important to firms’ success in China. And we got none of that.

MR. SCHWARTZ: Our companies are getting a shakedown when they go over there. Their companies are getting barred over here. So it’s kind of – some would say it’s a wash, but President Trump says we’re getting crushed. He even – the other thing he tweeted this morning was he said, quote: “I ask Senator Chuck Schumer, why didn’t President Obama & the Democrats do something about Trade with China, including Theft of Intellectual Property etc.? They did NOTHING! With that being said.” The president went on to tweet: “Chuck & I have long agreed on this issue! Fair Trade, plus, with China will happen!” What does that mean? So Congress is with him? Congress isn’t with him? Where are we here?

MR. REINSCH: I think on the issues that Scott talked about, everybody’s with him in the United States. The business community is with him. The Congress is with him. We’re with him. He’s identified real, serious problems. The question is whether this agreement over the weekend solves any of them. And the answer is, no it doesn’t.

MR. SCHWARTZ: And his advisors seem split also. You’ve got Steve Mnuchin and you have Larry Kudlow, the chairman of the White House Economic Advisors on the one hand. And then you have USTR Robert Lighthizer and Peter Navarro and Wilbur Ross on the other. Tell us about that dynamic.

MR. REINSCH: Well, you’ll notice Lighthizer’s statement was distinctly different from Mnuchin’s over the weekend.

MR. SCHWARTZ: OK, tell us about that.
MR. REINSCH: Mnuchin was – well, you said it – was bragging about the deal and how good it was. Lighthizer was reminding everybody that there’s this long list of intellectual property and technology transfer issues that still have to be addressed.

MR. MILLER: And their agencies reported that there was coordination between the two, so for what that’s worth.

MR. REINSCH: This is – you know, we talked about – (laughter) –

MR. SCHWARTZ: OK, so there was – coordination doesn’t exactly sound like spiking the ball.

MR. MILLER: Well, no. And I do think that Ambassador Lighthizer, who had – who has led this investigation – he is correct in pointing out that none of these issues are resolved yet. And so I don’t think this could be seen anything more than a first step. Look, this is a complicated relationship. It’s going to be a problem for the entirety of the Trump presidency and his successor’s presidency. So this is – this is act two or three of a multi-act play. And we don’t know where all this ends. But Lighthizer at least pointed out that there’s unfinished business.

MR. SCHWARTZ: So he’s saying that they continue to steal our intellectual property and profit off of it.

MR. REINSCH: Yes. And that’s significant, because what – last week we talked about, you know, the two different strains in the administration. You asked about that. There are those like, I think, Secretary Mnuchin, who wants him to settle for a deal that will cut the 375 billion (dollars) to some smaller number. And then you’ve got Lighthizer and Navarro, who said, no, let’s tackle the really important things. That’s a difference of opinion which is pretty sharp. Last week, when you asked me who was going to win. I said 50-55-45 Lighthizer. And I think I’m wrong.

MR. SCHWARTZ: Really?

MR. REINSCH: This weekend, I think Mnuchin won in terms of getting an agreement that focuses on –

MR. SCHWARTZ: What’s the over/under on Mnuchin? (Laughter.)

MR. MILLER: Well, he at least accomplished –

MR. SCHWARTZ: Gambling’s legal now in the United States, apparently.

MR. REINSCH: That’s what apparently the Supreme Court thinks. (Laughter.)

MR. MILLER: This might as well be sports betting, now that you – (laughs) – now that you mention it.

MR. SCHWARTZ: It’s kind of like that, right? Right?

MR. MILLER: Right.
MR. SCHWARTZ: OK, so what’s the over/under on Mnuchin versus Lighthizer?

MR. REINSCH: I think increasingly it looks like the president’s going to buy into the – you know, the cheap market access concession. He wants to go back –

MR. SCHWARTZ: What’s that?

MR. REINSCH: Well, he wants to go to the farmers and say: I got you more sales. He wants to go to Ohio and say: I got you more cars, more steel, whatever.

MR. SCHWARTZ: Sure.

MR. REINSCH: You know, he doesn’t want to go back to those places and say: I got better disciplines on Chinese state-owned enterprises or I got stronger patent protection, because that doesn’t resonate. It’s not simple. It’s exactly what Scott said.

MR. MILLER: Well, exactly. It’s not simple. Plus, the other team’s game plan is hard, all right? What Ambassador Lighthizer is raising are difficult issues – so difficult that it’s not really obvious what we’ve actually asked the Chinese to do that would remedy it. So it’s a very difficult problem to solve. There’s all this compulsory licensing and intellectual property transfer, and the theft thereafter. That’s though. And second, Ambassador Lighthizer would wind up closer to suspending concessions – in other words, applying tariffs – which in the short term would hurt the farmers.

MR. SCHWARTZ: All right, so meanwhile we’re here gaming this out. We’re over/under-ing it. These are serious trade policies. Meanwhile, what I want to know – and you mentioned Ohio. My wife’s family’s from Ohio. And I know that if the people of Ohio are happy, then the rest of America’s going to be happy. It’s not just the coasts are happy and America’s happy. If the people of Ohio are happy, and that would surely include Ohio State winning a national championship. But let’s just say, if the people of Ohio are happy the rest of the country’s going to be happy. So, like, what does all this mean to ordinary people, that there’s a deficit with China, there’s a surplus on another hand, we’re trying to cut this deficit, there’s wars at the White House between who’s right and who’s wrong – not at the White House, in the administration rather, I should say. And then there’s also – there’s Congress involved here. What does this mean for regular people in America?

MR. REINSCH: This is for Scott. He’s from Ohio.

MR. SCHWARTZ: This is for Scott. He’s from Ohio.

MR. MILLER: Well, actually – indeed. Go Bucks. But there is a – there was some recent polling among Trump supporters in the Midwest. There are the – Pennsylvania, Ohio, Wisconsin, Michigan, and Indiana. And it was a reportable base from all those states. But 2,000 voters – so a pretty big poll. And one of the things they wanted – first of all, the despite international institutions. They hate the excuse that the WTO made me do it, or that we’re trying to go along with international rules in this situation. They want a more overt, activist trade policy. And one of the things this delivers for Trump voters in this part of the country is they really want manufacturing jobs to come back. And whether or not – there are some things that will help that happen. Whether you reduce the trade deficit with China or not may not be one of them. But having said that, what they’d like is the overt, hands-on, action-oriented policies.
MR. SCHWARTZ: What about – what does it actually do to the bottom line? Like, does this change food prices? Does this change car prices? Does this – when you go to the store to buy your kid a set of Legos, does this – is this going to help it be – cost less, or is it going to cost more? What are the things in real terms that we can – we can –

MR. MILLER: Well, of course. And let me take Secretary Mnuchin’s position for a moment, which is by not imposing high tariffs –

MR. SCHWARTZ: I’ll tell you why I said the Legos, though.

MR. MILLER: OK.

MR. SCHWARTZ: The reason I said the Legos is we’ve had some really tough trade barriers with Brazil. The last time I was in Brazil, I noticed that a set of Legos was, like, $400 versus what it would be here in the United States, it would be $50. If I was in Brazil trying to buy my kid a set of Legos and it was $400. I’d be pretty bummed out.

MR. MILLER: The bound tariff on toys in Brazil is 35 percent. So, yes, that’s part of the problem.

MR. SCHWARTZ: Right.

MR. MILLER: So if we were to apply tariffs on Chinese goods, a lot of electronics would get a lot more expensive. That big-screen TV to watch Ohio State’s next national championship game would get a lot more expensive.

MR. SCHWARTZ: Can’t have that.

MR. MILLER: Those aren’t – that is not happening. And one of the things Secretary Mnuchin did is, by pushing off the tariffs, he increased the level of sort of – reduced uncertainty about tariffs in the first place. But second, by not imposing them, consuming prices stay low. So that’s a positive.

The politics – the politics are very different than the economics. I’d agree with Bill. Unless somebody is going to burn a lot more hydrocarbons or eat a lot more soybeans, this won’t really affect world prices or prices paid to farmers, or U.S. producers of oil and gas in the long run. So it’s a status quo move. It’s one that’s got an ability to claim success. And it continues the president’s direct intervention, hands-on, action-oriented, results-oriented trade policy, which I think is what his voters want.

MR. SCHWARTZ: Fascinating. What do you think about this, Bill?

MR. REINSCH: I agree with Scott, believe it or not. I think the – I think that’s interesting poll data. I haven’t seen that, but I think that’s a good description of how voters feel. And I think what Trump really is a genius at is simplifying things and appealing to that instinct. The problem is that it doesn’t solve, you know, any of the problems that we discussed. I think the dilemma they’re going to have going forward is, in a way, if they stick to the original script, which is to focus on intellectual property also, you know, they’ve kind of dug their own hole because, as Scott said, these are problems that are somewhere between difficult and impossible to solve.
What we’re really asking the Chinese to do on that front is reorganize your economy and be capitalists, you know, and get rid of state-owned enterprises, get rid of state control of the economy. They’re not going to do that. They’re never going to do that. And if we set that up as our goal, we’re doomed. So in one way, you know, it’s kind of ironic. They set that up as a goal. And now they’ve chosen the easier path, which is buy more gas – sell more gas, sell more soybeans, sell more, I don’t know what else, cars, I guess. That is a more achievable goal, and one where they might eventually have success, but it won’t solve any of their problems.

MR. SCHWARTZ: So by putting the trade war on hold, does this hurt President Trump’s leverage with China in any way, including, for instance, we need China on some other things, like North Korea?

MR. REINSCH: Well, I think they were doing high-fives because they figured, you know, we outplayed them again. And –

MR. SCHWARTZ: We?

MR. REINSCH: We, the Chinese, out negotiated the Americans again. We’ll see. I mean, I –

MR. SCHWARTZ: How did they out-negotiate us?

MR. REINSCH: Because they didn’t make any concrete commitments. Where’s the 200 billion (dollars), you know? Where’s the promise to do this stuff? They’re going to buy more gas, which they were probably going to do anyway. You know, and they were going to buy soybeans, which they probably want to do anyway.

MR. MILLER: And in the meantime, they get to renegotiate the penalty on ZTE and maybe keep the company in business.

MR. SCHWARTZ: So do we have leverage here or no?

MR. REINSCH: Well, we did, but we gave a lot of it away, I think. We gave away – well, we’ll see what happens on ZTE. I think they’ve taken a step back from – you know, from Trump’s original tweet, which was fix it, to, well, you know, they’re going to get off the hook, which is moderately encouraging.

MR. SCHWARTZ: Well, and one trade official, I think it was Ambassador Lighthizer said that we could always put trade barriers back up. We could always put it back on them if we wanted to.

MR. REINSCH: Well, you say that, you know, but basically we blinked. And the Chinese –

MR. SCHWARTZ: We blinked?

MR. REINSCH: The Chinese know we blinked. And so they’ll be very busy making sure that we blink the next time.

MR. SCHWARTZ: This is why they’re spiking the ball.

So what’s next? Next we hear Wilbur Ross, secretary of commerce, is headed to China next.
MR. REINSCH: To negotiate agriculture. That’s a real winner.

MR. SCHWARTZ: OK. So what’s going to happen there? Do we have any predictions there?

MR. REINSCH: Well, I think the secretary of agriculture is going to be very unhappy, would be my first thought.

MR. SCHWARTZ: OK. Why is he going to be unhappy?

MR. REINSCH: Because he should be over there negotiating agriculture, and not Ross.

MR. SCHWARTZ: I see. I see. Not enough room on the plane?

MR. REINSCH: (Laughs.)

MR. MILLER: This goes back to the early days of the Trump administration, when the president chose to rely on Secretary Ross for a lot of decisions that are practically not part of the Cabinet – the Cabinet responsibilities of the secretary of commerce. And this created – well, first of all, it was a slow confirmation for the U.S. Trade Representative Ambassador Lighthizer. But in that absence, the president looked to Secretary Ross to handle trade matters. In the meantime, Congress thought he was working on the weather and lighthouses, and the things that the Commerce Department handles. So it created some strains early on. It may have reduced Secretary Ross’s effectiveness because the first round of dealings with China did not come out favorably from our standpoint. So there may be a different strategy now, but like Bill I’m a little perplexed about why.

MR. REINSCH: Ross is the guy who a month ago told the farmers: Don’t worry, everything’ll be fine. There may be a short-term problem, but you’ll – everything will work out.

MR. SCHWARTZ: How’d they take that?

MR. REINSCH: Not well.

MR. SCHWARTZ: Yeah.

MR. REINSCH: They were not pleased.

MR. MILLER: Yes. That is part of the coalition that’s not particularly happy with the president. Farm state senators – Republican farm state senators have been in the White House a number of times.

MR. SCHWARTZ: OK. So let’s talk about Congress right here. What does Congress think? Are they behind the hold on the trade war? Where does Congress fall on this? Is it split along partisan lines or not?

MR. MILLER: Well, generally they’re really grumpy about trade. And they’re grumpy for some interesting reasons, which is, I think, a lot of the Democrats like what President Trump is doing on trade, but they don’t want to give him credit for it. They don’t want to say they support him. And a lot of Republicans are –
MR. SCHWARTZ: Of course not. They couldn’t possibly do that. (Laughs.)

MR. MILLER: No. And a lot of Republicans are really uncomfortable with what he’s doing, but he’s their guy and they don’t want to take him on in public. Yeah.

MR. SCHWARTZ: So they wouldn’t–of course they can’t take him on in public either.

MR. MILLER: And his voters are their voters, more importantly.

MR. SCHWARTZ: Sure.

MR. REINSCH: Exactly.

MR. SCHWARTZ: So–OK, all right, so now we’re getting down to the good–yeah.

MR. MILLER: So now we’re getting to grumpiness. But at the same time, Congress will–Congress will make statements all over the place. Look at Senator Rubio and his comments on ZTE. At the same time, will they do anything? Nobody’s done anything yet.

MR. SCHWARTZ: Interesting. Well, to be continued. We’re going to be talking about this on The Trade Guys, about Wilbur Ross’s trip there. We’re going to be talking, the Treasury is supposed to send rules to the White House this week on restrictions on Chinese investment. That’s something to watch.

MR. REINSCH: Very much so. The last conversation I had about that suggested they were going to meet the deadline, which is today.

MR. SCHWARTZ: Here’s the inside scoop, people. When you–the last–see this is–this is the inside stuff. Trade Guy Bill’s going to tell us about–this inside baseball–tell us about the inside scoop on this issue.

MR. REINSCH: Well, I talked to somebody who’s working on this–it’s no big secret. I talked to somebody who’s working on it, who told me absolutely nothing except that they’re going to meet the deadline.

MR. SCHWARTZ: OK, well, that’s more than they’ve done in the past.

MR. REINSCH: And the deadline is today. So we’ll see. I’ve since come to the conclusion that it is–the investment piece is kind of separate from the other pieces. That is, that because we did this thing over the weekend on tariffs, that doesn’t mean investment’s going to go away. I think that they will make some proposals on investment. They kind of have to, because the Congress–you asked about the Congress–one of the things where the Congress actually is acting and is acting at least in the Senate on a bipartisan fashion, is on investment. And they’re about to pass restrictions. In fact, the Senate Banking Committee is going to markup a bill tomorrow, so is the House Financial Services Committee, going to make up a similar bill tomorrow–

MR. SCHWARTZ: Tomorrow, Tuesday.
MR. REINSCH: Tomorrow Tuesday, May 22\textsuperscript{nd}. Both of them would impose more restrictions on inward investment from China – primarily from China, but not exclusively, and also expand the program of export controls on outbound technology transfer. So, in a sense, the Congress is kind of pushing the president along here on this issue. So I think he’ll get a package. And the package will borrow a lot from what the Congress is doing. And we’ll see if he waits for the Congress to act, or if he implements it on his own.

MR. SCHWARTZ: This is – this is interesting. Before we leave Asia and turn to our hemisphere – because we want to talk about NAFTA – where does this leave Japan, for instance? The way I see it, Japan’s not very happy right now because we’re saying to Japan, just like we’re negotiating bilaterally with China, we’re going to negotiate bilaterally with you. Japan doesn’t want that. They want us to be part of the TPP again.

MR. REINSCH: Right.

MR. MILLER: Well, look, it’s – Japan has several things to be frustrated with. The – talked about the steel and aluminum decision and the so-called Section 232 national security tariffs placed on aluminum and steel. Most of our allies, treaty allies, were exempted from those tariffs. Japan was not. In fact, they may have been the only treaty ally to not have been exempted from steel tariffs of 25 percent and aluminum tariffs of 10 percent. So that’s where it started – well, it started with our withdrawal from the TPP.

MR. SCHWARTZ: Trans-Pacific Partnership.

MR. MILLER: Correct. And so there’s a number of things there that are not quite sort of going in ways that you would expect a close collaboration to go.

MR. SCHWARTZ: And Trump and Abe – Shinzo Abe, Japan’s prime minister, are supposed to be close. They’re supposed to be close allies, close personal friends. Prime Minister Abe’s been to Mar-a-Largo. They’ve exchanged golf clubs. They’ve played golf together. This can’t be good for him.

MR. REINSCH: First of all, I think you’re only the president’s friend if you’re doing what he wants. So he was a friend before. Maybe he’ll continue to be a friend. But he’s not, right now, doing what we want, or what the president wants. He’s got – I’m not a Japan expert – but he’s got a boatload of political problems at home. There’s a financial scandal that doesn’t involve him personally but involves other people in the government that is dragging down his poll numbers. So he’s busy there.

MR. SCHWARTZ: This can’t be good for his poll numbers. He looks like he’s appeasing President Trump, he’s acquiescing the United States. And yet, he’s not getting anything in return.

MR. REINSCH: That will not be good for his poll numbers, although he’s still doing better than his predecessors, who are mostly in single digits.

MR. SCHWARTZ: (Laughs.) Right.

MR. REINSCH: And he’s above that. The one thing that –

MR. SCHWARTZ: You think U.S. politics are tough, go to Japan, right?
MR. REINSCH: He’s exhibited – the thing that impressed me, he exhibited a lot of leadership on TPP – basically picking up the pieces after we pulled out and pulling together the other 11 to produce an agreement. That was no small accomplishment. And the Japanese deserve the credit for that.

MR. MILLER: Yes, a very unlike Japanese trade ministry of the past 30 years. So it was quite a – quite a – it was a stunning –

MR. REINSCH: They usually follow. And they don’t lead. And in this case, they led, and they led successfully. And I think what they produced will be good for Japan. And I think he’s getting credit for that at home.

MR. SCHWARTZ: All right. We’re going to have to watch this one too. But now we need to turn to the North American Free Trade Agreement. All of a sudden – or NAFTA – they’re calling it skinny NAFTA. What is skinny NAFTA? What’s going on here?

MR. REINSCH: (Laughs.) It’s a response to the obesity crisis, Andrew.

MR. SCHWARTZ: (Laughs.) Well, it doesn’t seem like it’s working.

MR. MILLER: Well, I only wish it would be successful. But I actually think –

MR. SCHWARTZ: Yeah, wouldn’t we all.

MR. MILLER: Skinny NAFTA at this point is a unicorn. It’s a mythical beast which may or may not materialize.

MR. SCHWARTZ: OK, tell us what they mean. The Congress is saying skinny NAFTA, or the president’s saying skinny – what do they – they were supposed to come up with a NAFTA deal. And now what does this mean?

MR. MILLER: Right. Well, first of all, one the campaign trail, throughout the campaign, candidate Trump called NAFTA the worst agreement in American history. So there’s something really wrong with it.

MR. SCHWARTZ: And NAFTA – the agreement with NAFTA is since 1994?

MR. MILLER: Yes. It came into force in 1994. It’s the most consequential of our preferential trade agreements, because Canada has long been our number-one trading partner, Mexico has long been our number-three trading partner. It’s 30 percent of total U.S. trade. It is quite consequential for the way our economy operates. So it’s a high-stakes game.

What is meant is today’s parlance, with a skinny NAFTA versus NAFTA, is Congress requires – because Article 1 Section 8 says Congress has the power to regulate foreign commerce. Congress requires the administration when they negotiate an agreement that changes U.S. law to come and request specifically to have those changes enacted. So Congress needs an implementing bill that makes the changes that the administration has negotiated. And that’s a fairly long process. In fact, the specific barrier they’re up against is that trade promotion authority, passed in 2015, has a fixed time
table. And so from the time you sign an agreement, or there’s text to the agreement that the president signs, or his representative signs, it’s about 105 days until Congress can consider that piece of legislation.

MR. SCHWARTZ: OK, but what’s the problem, as the Trump administration sees it, with NAFTA to begin with? Hasn’t it worked since 1994? Or they don’t think it’s working effectively enough? Or he did make it a big issue on the campaign trail, and you saw, you know, anti-trade, anti-NAFTA, all this stuff all over the place. But I’m not so sure everybody really knows what it means. The sounded more like campaign slogans, to me, than any real understanding of the issues.

MR. REINSCH: It exemplifies his focus on manufacturing cars and steel. He believes that NAFTA has resulted in the movement of lots and lots of American factories to Mexico.

MR. SCHWARTZ: OK, that resonated during the campaign. He made that very clear. That was an issue that he made people understand.

MR. REINSCH: Which is exactly what Ross Perot said was going to happen in 1992 when he ran against it and didn’t succeed. The truth is more complicated than that. You know, there have been some factories that have moved to Mexico. There have been some that have not. And there have been a lot that have not. There have been a lot of studies done about whether NAFTA’s a winner or loser. I think – I mean, we can only give opinions. My opinion has long been that, like a lot of trade agreements, at a big, macro level it was good. Are there specific – are there specific loser? Yes, there are specific losers.

MR. SCHWARTZ: So what were some of the good things, before we talk about the bad.

MR. MILLER: Well, two in particular. One is that the – making a large North American market and allowing producers to specialize made the goods produced in North America globally competitive, versus goods produced in the European 28-plus the association agreements, and toward goods produced in Asia, which are all produced in a complex manner with lots of different origins, with global specialization. And so North American products – think of NAFTA as a set of rules for production that makes North American products globally competitive.

The second thing is –

MR. SCHWARTZ: So we’ll sell more things as a hemisphere than we were as an individual U.S. –

MR. REINSCH: Correct, because they’ll be – they’ll be cheaper.

MR. MILLER: Right. We make things together and sell them to each other in the world. That’s what NAFTA helped do.

The second is, we have a more prosperous, more secure, more stable neighbor on our southern border. There was a U.S.-Canada Free Trade Agreement –

MR. SCHWARTZ: Although, some people would say our southern border isn’t stable at all, in a variety of ways – whether it’s the drug war, whether it’s immigration, whether it’s, you know –
MR. MILLER: Those arguments are being made.

MR. SCHWARTZ: Yeah.

MR. MILLER: But it’s probably better than the alternative if you look at where we started 20-some years ago.

MR. SCHWARTZ: OK, so –

MR. MILLER: So Mexico has moved from a lower-middle income country by the World Bank measures to an upper-middle income country.

MR. SCHWARTZ: Which has to be good for us.

MR. MILLER: Which has many security benefits, right, as do the habits of cooperation that come from the NAFTA and the commercial relationships.

MR. SCHWARTZ: So if you end NAFTA, what happens?

MR. MILLER: Well, you end NAFTA. U.S. manufactured products, or products manufactured in North America would likely become less competitive in a world economy. They would be less globally competitive than products from Asia, products from Europe.

MR. SCHWARTZ: That can’t be good.

MR. MILLER: Well, we don’t think so. And this is – in fact, if you look at some of the difficulties in negotiation, the Trump administration has proposed a very specific set of rules for automobiles that would increase U.S. content. The automakers actually analyzed those rules and pointed out that it would make the cars more expensive, which is another way to say make them less globally competitive.

MR. SCHWARTZ: Mmm hmm. I don’t want a more expensive car. So, like, what do we – what needs to happen here with NAFTA to make it a good situation for all of us?

MR. REINSCH: Well, I think that on automobiles they actually are going to be able to reach an agreement. I mean, I agree with Scott. And it won’t be an agreement that’s actually the most efficient one that you could produce, because it probably will make cars more expensive. But it will be something that the manufacturers can live with. I mean, what the administration wants to do – which makes no sense – but what they want to do is force the auto companies to move manufacturing back into the United States.

MR. SCHWARTZ: Wait, why doesn’t it make sense?

MR. REINSCH: Because it’s too expensive.

MR. MILLER: Because it raises the cost of producing a car in North America, versus the cost of producing that car is Asia or Europe. And therefore, it reduces our competitiveness. So companies have a goal of global competitiveness, OK. The administration has a goal of U.S. jobs. Those goals
are in conflict, OK? Now, there’s lots of other things companies would like from NAFTA that the administration is either interested in or not. So –

MR. SCHWARTZ: So this is a really complex issue. There’s winners and losers. And what is the Trump administration trying to do by renegotiating NAFTA? What’s their ultimate goal here? If they could get everything they wanted, what would it be?

MR. REINSCH: Well, I think – people will disagree on that. I think what they want is – what they really want is to disentangle the United States economy from the Mexican economy. It’s a go it alone administration. They want to bring jobs back on shore. They want to bring production manufacturing back on shore. And if that means, you know, leaving Mexican factories abandoned, that’s all right with them.

MR. SCHWARTZ: OK.

MR. MILLER: Now, keep in mind, most of American economy, most businesses and farmers, do not want that. American farmers have an integrated production with Mexican and Canadian farmers. It’s a North American production system. They’re happy with it. It’s efficient. It’s productive. It’s globally competitive. There are also areas of NAFTA which many in the American economy would like to see improved. For instance, we’re a major energy producer now, as are Canada and Mexico. There is not energy – there are no energy commitments in the NAFTA because at the time it was negotiated Mexico had a constitutional prohibition on such a provision. So likewise, there was no commercial use of the internet in 1994. So there’s no telecom or internet chapter.

MR. SCHWARTZ: So it needs to be updated no matter what.

MR. MILLER: Most of – most of the Congress and most businesses think that. And I think that would be good for Americans. That is not necessarily the administration’s priority. So here is where you get into skinny versus regular, OK? Regular is driven because the Congress controls approval. Regular is driven by these time tables I mentioned, the 105 days from signing to a vote in Congress – minimum. Hundred and five days from next week I sometime in –

MR. REINSCH: Yeah, next week isn’t signing. Next week would be announcement.

MR. MILLER: Announcement.

MR. REINSCH: So another 90 days.

MR. MILLER: Oh, that’s right.

MR. REINSCH: So you can’t – first you announce you agree to something, then you have to wait 90 days before you sign, then it’s another 105 days.

MR. MILLER: Then it’s 105.

MR. REINSCH: So the whole thing is more than six months, from beginning – when you announce you’re finished negotiating to the day the Congress gets it it’s more than six months.

MR. SCHWARTZ: These are because of the rules – the rules –
MR. MILLER: Congress set and President Obama signed.

MR. SCHWARTZ: OK.

MR. MILLER: It’s statute.

MR. REINSCH: But it’s not like everybody’s sitting around for 195 days. There are advisory hearings. There are hearings. There’s draft. There’s all this stuff going on.

MR. SCHWARTZ: Right, right. That’s why there’s 90 days, is because there needs to be consultation.

MR. REINSCH: Yes, exactly right. Yeah, the 105 that Scott referred to is so the International Trade Commission can do a study of the economic impact of what they’ve negotiated, which is important.

MR. MILLER: Right. And all this has to be done before it can be presented to the Congress. And if we don’t do it about right now, it falls into 2019, a new Congress.


MR. MILLER: OK. So that was the driving force with – behind many deadlines.

Now, here’s what a skinny NAFTA is. A skinny NAFTA is a set of changes to the existing NAFTA that does not require changes to U.S. law, and therefore can be done on a basis of executive order.

MR. SCHWARTZ: Without Congress.

MR. MILLER: Right. Which is exactly what they seem to have done with the U.S.-Korea FTA about two months ago.

MR. SCHWARTZ: OK. So they want – they want to tinker with it marginally, get a few things they want, and cut Congress out of the deal.

MR. MILLER: You could probably add a chapter on telecommunications. You could probably add a chapter on the internet – or electronic commerce, or a chapter on energy, without changing U.S. law, if you negotiated it right. So it’s possible.

But here’s the thing, how do you fix the worst agreement in American history without a change that requires any change to U.S. law?

MR. SCHWARTZ: Right. You can’t – it doesn’t sound like – from what it sounds like, President Trump wants sweeping change. But skinny NAFTA doesn’t get you sweeping change.

MR. REINSCH: Well, it would get one – it might get one thing he wants. The lawyers are debating this. In fact, I was in a call this morning where the lawyers were debating this –
MR. SCHWARTZ: This is more inside stuff.

MR. REINSCH: No. There’s no answer. The question is, can you make changes in the auto rules without going back to Congress?

MR. SCHWARTZ: I see.

MR. REINSCH: Because the bill – the law says that – the law has existing rules in the law. The implementing bill contains the existing rules of origin. But it also contains a provision that says the president can proclaim changes in those rules, just as he can proclaim changes in tariffs. Proclaim means he doesn’t have to go to Congress. He can just publish them.

So my view has been that they can negotiate changes in the auto rules, and they don’t have to go back to Congress for that one thing. And that – to me, that puts some small amount of meat on the bones, it makes it not quite so skinny, because I think that’s the thing that Trump wants more than anything else.

MR. MILLER: Yeah, so you have skinny NAFTA, not quite emaciated NAFTA, OK? (Laughter.) But skinny NAFTA is enough to claim victory, particularly because of the president’s commitment to the industrial base, particular autos, steel, others.

MR. REINSCH: Now, keep in mind, at the same time, Congress is very unhappy about that, because they all memorized Article 1 Section 8 of the Constitution. And they don’t like trade agreements that don’t go back to them.

MR. SCHWARTZ: Both sides the aisle.

MR. REINSCH: Both sides of the aisle. Both bodies are unhappy. And as we speak, memos are being written explaining why the administration cannot do this.

MR. SCHWARTZ: So what’s going to happen here, do you think?

MR. REINSCH: I think they can reach an agreement on cars, because at the end of the day that is really just about numbers. You know, it’s – I say 100, you say zero, there’s some – you know, we saw the current rule – it’s a content percentage. We say 62 ½. We’ve asked for 75. The Mexicans said 70. There’s a whole bunch of subcategories. They’re all numbers. I think when you negotiate numbers, you can – you can work it out. So I think that’s going to happen.

The Canadians and the Mexicans, on the other hand, would be crazy to agree to just that and leave everything else, you know, for later.

MR. MILLER: Because they have demands as well.

MR. REINSCH: They have demands as well.

MR. MILLER: They have their own problems with NAFTA.

MR. SCHWARTZ: And they don’t care about our skinny NAFTA or our skinny margaritas or our Skinny Cow ice cream sandwiches. They care about the bottom line.
MR. MILLER: They’d like a skinny NAFTA if it delivers their preferences, the things that they wanted out of the agreement, which it may not.

MR. REINSCH: Exactly. And they oppose some other things that the U.S. has proposed, like an automatic sunset in five years. They’ve opposed that. The United States has proposed taking away some of the dispute settlement mechanisms that are built in – sort of the arbitration tribunals that we’ve talked about. The United States proposed getting rid of those. The Canadians and Mexicans want to keep them. They don’t want to have sunset. A skinny NAFTA that says, well, we get cars, and all that other stuff we’ll talk about later, they’re never going to agree to that. A skinny NAFTA that says: We can reach agreement on cars and you, the United States, abandon these other things, that might be a deal. But we’re not there yet.

MR. MILLER: Yes, right, and add in a few things that we agree on, like electronic commerce, that we think we don’t need the Congress, OK. Add that in as well, just for sweeteners. Then it’s – then it’s sort of auff, you know, reasonably fit NAFTA that doesn’t require congressional approval. (Laughter.)

MR. SCHWARTZ: All right, so we’re –

MR. REINSCH: I think we’re taking this metaphor much too far. (Laughter.)

MR. SCHWARTZ: Yeah. This is – this is – we’re going to have to figure out what kind of shape NAFTA’s in in our next episode. But I will tell you, this is a fascinating debate and a fascinating discussion. And we’re going to – we’re going to have to continue talking about it, because it doesn’t sound like with all the different deadlines that there’s still time here in the game.

MR. MILLER: It’ll continue to provide entertainment probably all summer long.

MR. SCHWARTZ: OK. Sounds good.

MR. REINSCH: And next time we can talk about avocados. Good story.

MR. SCHWARTZ: Very good. Well, what’s the good story?

MR. REINSCH: Oh, you’ll have to wait and see.

MR. SCHWARTZ: All right. We’ll have to wait and see on avocados.

For The Trade Guys, I’m H. Andrew Schwartz.

(Music plays.)

MR. SCHWARTZ: To our listeners, if you have a question for The Trade Guys, write us at TradeGuys@CSIS.org. That’s TradeGuys@CSIS.org. We’ll read some of your emails and have The Trade Guys react to it. Thank you, Trade Guys.

MR. MILLER: Thanks, Andrew.
MR. REINSCH: Thank you.

MR. SCHWARTZ: You’ve been listening to The Trade Guys, a CSIS podcast.

(END)