Center for Strategic and International Studies

The Trade Guys Podcast

“China Strikes Back”

Speakers:
Scott Miller,
Senior Adviser,
Abshire-Inamori Leadership Academy

William Alan Reinsch,
Senior Adviser and Scholl Chair in International Business,
CSIS

Host:
H. Andrew Schwartz,
Chief Communications Officer,
CSIS

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SCOTT MILLER: I’m Scott.

WILLIAM ALAN REINSCH: I’m Bill.

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

(Music plays.)

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

In this episode there’s not a truce in sight as we enter the next act of the U.S.-China trade war.

REPORTER: (From recording.) California fields to Beijing markets, a prolonged trade war hurts both.

MR. SCHWARTZ: The Trump administration is planning new tariffs on $16 billion worth of Chinese imports. They’re set to go into effect on August 23rd, and the Chinese have already said they would respond in kind. How are American businesses reacting and what are members of Congress saying?

Plus, U.S.-Mexico talks appear to be advancing.

NATIONAL ECONOMIC COUNCIL DIRECTOR LAWRENCE KUDLOW: (From recording.) I think most of our trade team would tell you we’re moving close on Mexico.

MR. SCHWARTZ: But Canada was notably absent from last week’s round. So what’s going on there? With China striking back and with the NAFTA talks still in flux, we’ve got a lot to talk about. So we’ll put that, and more, to The Trade Guys.

Guys, it’s really hot here in D.C. And Trade Guy Scott managed to go to somewhere that might be a little hotter. He’s at an undisclosed location, but let’s say he has ocean breezes where we just have heat blowing down, you know, Rhode Island Avenue here in Washington.

MR. REINSCH: He doesn’t know it yet, but we’re going there tomorrow to join him.

MR. SCHWARTZ: Oh, yeah, that’s a good idea.

MR. REINSCH: Make room. Make a spare bedroom. Set it up, Scott. We’ll be there.

MR. SCHWARTZ: (Laughs.)

MR. MILLER: Fair enough. Well, I couldn’t resist calling in. I just can’t resist the whole idea of talking about trade, so.

MR. SCHWARTZ: We could never do this without you. So we’re glad you’re here.
So – and we got a lot to talk about, because the Trump administration announced basically yesterday – or, they at least finalized that starting August 23rd, the Trump administration will hit another $16 billion worth of goods from China with a 25 percent tariff. And this is sure to escalate the war with Beijing. And it brings the total to about, what, 50 billion (dollars), is that right?

MR. REINSCH: Yes. This is the second tranche of the 50 (billion dollars). The first was 34 (billion dollars). Now there’s 16 (billion dollars). And you’re exactly right, Andrew. The Chinese announced today, as you might expect, that they have 16 billion (dollars) of their own that they’re going to put into effect also on August 23rd. Keeping in mind the time difference, it’s actually August 24th for us, but it’s – you know, it’s designed to match the same time, minute for minute, and the same level.

MR. SCHWARTZ: Bill, this reminds me in a scene in “The Godfather.” We hit them. They hit us back. We hit them back again. As Clemenza was fond of saying: We got to do this every few years to get rid of the bad blood.

MR. REINSCH: So who puts the horse in the bed? Is that – we do that to Xi or Xi does that to Trump?

MR. SCHWARTZ: Let’s hope we do that. America cannot accept a horse in our ed. And I bet not on Donald Trump’s watch.

MR. REINSCH: I’m sure on Donald Trump’s watch that’s not going to happen. But it does move us into at least round two of this, and with round three being the 200 (billion dollars) yet to come. And the Chinese have put up their list for that, although it’s not the same dollar value. Bu in terms of percentage of trade, I think it’s calibrated.

MR. SCHWARTZ: What’s on the list this time? What’s on the second list?

MR. REINSCH: A lot more chemicals and semiconductors. And you’ll recall, last week, I guess it was, we met with Ed Brzytwa from the American Chemistry Council.

MR. SCHWARTZ: Yeah, who was bracing for this.

MR. REINSCH: Yes. And talked about the effort they had put into trying to get their stuff off the list. And it didn’t work. Of the 284 items that were proposed to be included, only five were dropped.

MR. SCHWARTZ: So they broke bad with their chemicals, but apparently not bad enough.

MR. REINSCH: The chemicals are not happy. The semiconductor people are not happy.

MR. MILLER: Yes. The semiconductors actually made the point that many of the products wind up going back out – back and forth across the ocean. And so it was really – putting tariffs on imports from China was really putting tariffs on American exports in the first place. So – but those appeals did not make a dent in the final number.

MR. SCHWARTZ: What’s the effect of the semiconductor issue?
MR. MILLER: Well, it’ll wind up making electronic products – I mean, think of them as components – important components to electronic products of various kind, whether it’s mobile phones or all sorts of other devices. And it will make them more expensive. I mean, tariffs are basically taxes. So we’ve decided to tax certain components are fairly high rates.

MR. SCHWARTZ: So this – the tariffs on semiconductors is going to hurt America’s chip makers, correct?

MR. MILLER: And hurt America’s chip consumers.

MR. REINSCH: What the Americans have been doing is sending chips to China to get – I mean, people don’t buy – consumers don’t buy chips by themselves. They buy products like my iPhone, that’s sitting here, that contain chips. And the chips – the Chinese assemble stuff with the American chips. And that means that the products they’re assembling are going to be more expensive. So consumers – American consumers will be picking up the tab, really.

MR. SCHWARTZ: So I guess get your iPhones now, while you can.

MR. REINSCH: That would be one case. But it’s not just iPhones. It’s laptops. Chinese dominate the laptop market. And actually, a lot of medical equipment and other – almost everything these days is a computer, even automobiles.

MR. SCHWARTZ: So this really – this is a significant cost that’s going to get passed onto consumers, in one way or another.

MR. REINSCH: Yes. I think so.

MR. MILLER: Yes. It certainly raises prices for the manufacturers who use these chips in their products. What it does to the price of the final product is yet to be seen. But at some point, this – there just aren’t enough substitutes available and this does get reflected in consumer pricing. So you can see those expectations creeping into whether it’s forward guidance on earnings, or whatever it might be.

MR. SCHWARTZ: Now, something surprised me. The other day Lindsey Graham, senator from South Carolina, after playing golf with the president, said that he believes tariffs are not the best way to deal with this – meaning, this issue with China – but it’s the only way on the table right now, is what he said. He went on to say that President Trump understand there’s some pain involved for farmers, manufacturers, and others. But he – Graham said that the pain in the short term was going to be worth it for a long-term solution. Do you guys buy that?

MR. REINSCH: Scott, do you want to go first, or do you want me to go first?

MR. MILLER: Well, sure. Yeah, look, Senator Graham is basically echoing the president’s team in the way he is discussing this. He actually may be a little bit more complete in these statements than many in the president’s team have, but it’s the same message – is that we’ve got a – we’ve got a real problem with China. We’ve got to do something. The tools that we have aren’t great. And tariffs are by no means a perfect tool but it’s what we have to use – it’s the device we have. And so I think what he – what he’s doing – and, keep in mind, Senator Graham is not 100 percent with Trump on everything. And he’s had his differences with the president. But when it comes to this particular
policy, he seems to be well-aligned. In reading Senator Graham’s statement, I didn’t find much daylight between he and the president.

MR. SCHWARTZ: Yeah. I mean he said – direct quote from Lindsey Graham, “It’s going to take a while. You’re going to see some increase in prices. The supply chain is going to become more costly and you’ll pay more in the short term. But here’s the way I look at China,” he said, “Pay now or pay later, they cheat us too much and I’m glad Trump is finally standing up to them.

MR. REINSCH: Well, I think we’ve established that I think we’ll pay later if we don’t address the problems. What Senator Graham is missing is whether this particular tactic is going to address the problems. I think Scott’s view – and I don’t want to put words in Scott’s mouth – but my view, and I think this, has been that the tariffs are not going to – are not going to succeed. And the administration’s response to that really is where Senator Graham began, which is, you know, it’s all a tactic and just wait. You know, we’ll win. They’ll fold. And everything will go back the way it was before. And we’ve talked about this. Things don’t go back to the way they were before.

MR. SCHWARTZ: Can’t turn the light switch on and off.

MR. REINSCH: Because – right, exactly. Supply chains get revised and people build new relationships. And they’re not considering any of that. And there’s also timing. You know, when are they going to go back? I was reading today I think it was Forbes magazine that dared to give the president a grade on his trade negotiations.

MR. SCHWARTZ: What grade did they give him?

MR. REINSCH: A D.

MR. SCHWARTZ: Whoa.

MR. REINSCH: As in Dog, not – and –

MR. SCHWARTZ: Yeah, yeah. D as in Donald.

MR. REINSCH: D as in Donald, yes. (Laughs.) And they only looked at things that were finished. So they didn’t look at NAFTA. They didn’t look at car tariffs. They didn’t look at things that were underway. So they looked at the Korea agreement. They looked at the Europe agreement. And they looked at the two China agreements that Secretary Ross struck last year. And the grades were all either incomplete or D or F because of – they really didn’t accomplish very much. At some point – you know, it’s fine to say it’s all going to work out in the end. At some point you have to ask, so when is the end? You know, there’s this – I don’t know if you saw the movie – the Indian movie about the hotel. I’m blanking on the title of it, but –

MR. SCHWARTZ: Indian movie about a hotel. I’ve seen them all, sure.

MR. REINSCH: (Laughs.) But there’s this great line in it where the kid who’s trying to hold together this falling apart hotel says: You know, everything will turn out already in the end. And if it hasn’t turned out all right, it’s not the end.

MR. SCHWARTZ: Oh, boy.
MR. REINSCH: And that’s sort of what they’re saying. But if you’re a farmer or a manufacturer, how long are you supposed to wait?

MR. SCHWARTZ: Right. And if you’re in Lindsey Graham’s state, South Carolina, and there’s a BMW plant there, and it’s in Spartanburg, and it’s driving the economy, I’m not sure how Lindsey Graham can say this with a – you know, and still represent his constituents well.

MR. REINSCH: It’s one of these things. Look, Larry Kudlow, the president’s economic advisor, always talks about the tariffs being an instrument. We’re just trying to get to the bargaining. But the administration has managed to pick so many trade fights with so many different parties that apparently there aren’t enough hands on deck to actually to the negotiation part of this. And the frustrating part for everybody affected by the tariffs has got to be that, OK, I’ve got the pain. Where is the – where is the deal making? How do we get to the deal making? Because nobody sees it.

MR. REINSCH: Exactly. “The Best Exotic Marigold Hotel.” That was the name of the movie.

MR. SCHWARTZ: There, I knew you would – I knew it would come to you. And I’m not going to put you guys on the spot – although I love to put you guys on the spot – but I’m not going to put you on the spot and ask you to grade the president the way Forbes did, because that could be a whole other episode. But, Scott, you have an important point there. We, the United States, we hear a lot of rhetoric. We hear that trade’s an instrument, tariffs are an instrument, but we don’t see what the game is going to be. And that’s hard.

MR. MILLER: Well, that’s right. And particularly, given all the promises of better relations and better deals that come from this administration. But people are holding out now. I think there is growing concern that we’ve opened up too many fronts in this particular set of contests. And I think there’s a genuine desire I think that showed up a week or two ago in the – what appeared to be a closing of the differences between the United States and Mexico in the NAFTA.

There was genuine – first genuine relief in July when the president of the European Commission, Mr. Juncker, came into Washington and there was a sort of agreement not to make things worse with Europe, which was a great relief. And the next week there appeared to be some closing of the gaps with Mexico on the NAFTA. And I think most people engaged in the business that I talked to just want to see some of these things that look like – at the moment look like sideshows, wrap up so we can focus on the important issues. I think there would be some sense that we had some momentum. At the moment, the grade’s got to be an incomplete if we’re going to give them out at this stage.

MR. REINSCH: There’s also a macro/micro thing that people have to keep in mind. And one of the – I think this was in Forbes’ piece – they had an analogy that I thought was interesting. Basically, the administration is saying – this goes to the argument of the tariffs are just a small part of the total economy. And what the administration is sort of telling people is – they said, well, you know, your house burned down. But the rest of the neighborhood is fine.

MR. SCHWARTZ: What the hell does that mean?

MR. REINSCH: Well, it means if you’re in the rest of the neighborhood, you’re fine. But it means that if your house burned down – I mean, you’re still going to be unhappy. What it means is that in a multitrillion dollar economy, you know, $25 billion or $50 billion worth of tariffs is a blip
from their point of view. But if the blip is – you know, is the tree that falls on your house or the fire that burns it up, you know, it doesn’t really matter whether it’s a big blip or a small blip. And that’s what we’re running into. And we’re also running into more and more houses on fire.

MR. SCHWARTZ: Well, right. And we’re going to talk about NAFTA in a second, Scott. But, you know, speaking of houses on fire, Trump’s farmer support is sliding. A new survey conducted by farm futures shows that nearly two-thirds of farmers – about 60 percent – said they would vote for Trump again if they election were held today. And that’s a marked decline from the 75 percent of growers who said they would vote for him in November of 2016. So he’s losing – it seems like there’s some support that he’s losing there. Our friend, Blake Hurst, from the Missouri Farm Bureau said there was a limit to the patience that the farmers would have with President Trump’s strategy. The National Association of Manufacturers has weighed in. Jay Timmons, their president, he said: We’re already seeing price increases that will be felt by consumers and working families. So people’s homes are indeed on fire.

MR. MILLER: Yes. The barometer released by Purdue University shows growing pessimism among farmers who were surveyed about their prospects for this year. So there’s definitely some frustration creeping in. And I think there’s really a need for the administration to show some results somewhere that they’ve – that there’s a plan here other than just more tariffs.

MR. SCHWARTZ: So let’s talk about NAFTA, because you did mention NAFTA. And the president’s advisors say that we’re moving closer on NAFTA. What happened with Mexico when the Mexican Economy Secretary Guajardo came here for talks? And what’s yet to come?

MR. MILLER: Well, what I found interesting is, first – two things. The first is that it appears that the United States is pursuing a completed sort of agreement in principle with Mexico, and not a – and only when that is accomplished will turn to dealing with Canada. They haven’t gone so far as to say they’re not going to try to conclude a tripartite agreement, but they have separated the negotiations very interestingly. So last week they Canadian foreign minister, who’s their lead negotiator, Chrystia Freeland, was in Asia while the commerce secretary for Mexico, and the person who will be the chief NAFTA negotiator in Lopez Obrador’s administration Jesus Seade were both in Washington with Ambassador Lighthizer last week. So there’s definitely a separation of negotiations.

Second, there appears to be confidence that if they conclude by August 31st, give it the 90 days notification that the administration must give to Congress to sign an agreement, that actually President Pina Nieto can sign the agreement with President Trump before he leaves office. I think that’s the preferred strategy for incoming President Lopez Obrador, who takes office December 1st.

MR. REINSCH: It’s classic Trump. It’s a divide and conquer strategy. It’s trying to – I think what they’re trying to do, and I don’t know that it will succeed, but I think what they’re trying to do is cut an auto deal with the Mexicans, which won’t necessarily irritate the Canadians because it’s – I think they’re all getting close to an agreement. But then try to press the Mexicans to basically sell out the Canadians on one or more of the so-called poison pill proposals the Americans have been making – the sunset proposal, the elimination of the investor state dispute settlement system, the elimination of the dispute settlement process for dumping and subsidies cases, these process issues that the administrations have insisted on and the other two countries have rejected from the beginning.

I think the game here for the Americans is to try to get the Mexicans to – to entice the Mexicans into accepting one or two of those, along with a car deal they can live with, and then going to the
Canadians and trying to leverage that. I know, having talked to the Canadians, they think they are in lockstep with Mexico on this, that that’s not going to happen. I have no idea whether it is or not. The other thing that I’ve heard from people is I don’t anybody that has been following this that believes they can actually finish by the end of this month. They may be able to get to a point where they can announce that they’ve reached an agreement. But, you know, if you’re going to sign something, you have to sign an actual text. You don’t sign a – you know, you don’t sign a news release or a statement of principles. You have to have a text. And just the translation alone I think will take them beyond the end of the month.

MR. SCHWARTZ: It’s going to be hard to translate it into Canadian.

MR. REINSCH: (Laughs.) It’s the French.

MR. SCHWARTZ: Right.

MR. REINSCH: Although, the French would say that’s not really French in Quebec. But that’s a whole other –

MR. SCHWARTZ: Right. That’s a whole other –

MR. REINSCH: – a whole other issue that I don’t – we get into that at our peril.

MR. SCHWARTZ: But why do you think it’s not going to work with regard to Canada? Because Canada and Mexico are more aligned than we are with either one of them? Is that why?

MR. REINSCH: They say that.

MR. MILLER: It’s really unclear whether they are or not, because one of the key demands in – at least in terms of automotive rules of origin – is to have a – sort of a wage component – a wage rate component to the rule of origin, and sort of try to raise wages in Mexico. Now, one would think that the United States and Canada would agree on that proposal, since the U.S. and Canada are the high-wage markets, especially in the auto industry, and Mexico’s the low-wage market. But yet, the claims are, as Bill states, that Canada and Mexico are – have all the alignments and not Canada and the United States.

MR. SCHWARTZ: Is rules of origin the key sticking point?

MR. MILLER: Well, that’s what they were working on last week.

MR. REINSCH: It’s the only thing they’ve really been working on from the beginning, except at lower levels where they were doing non-controversial stuff.

I think – my sense from the Canadians is that they’re watching the auto negotiations very closely and they’re comfortable with the way it’s going. I mean, Scott’s right. They’re a high wage producer, as are we. So I don’t think they’re going to be uncomfortable with an outcome that forces the Mexicans to raise their wages. I think the election of Lopez Obrador in Mexico makes it easier for the Mexicans to accept some kind of change that would raise Mexican wages, because he’s for that. There is – I think that what they’re arguing over, as near as I can tell, is numbers. You know, what percent has to be – what percent of work has to be done by higher wage workers. And the other
number issue is how much can you count R&D and sort of non-production elements as part of your overall equation. And my view has always been with negotiations when it gets into numbers you can always get to an agreement. You have – you say 50, I say 20, there’s some number in the middle that they’ll be able to reach an agreement on.

MR. SCHWARTZ: You haven’t met my wife. (Laughter.)

MR. REINSCH: No. And maybe I don’t want to –

MR. SCHWARTZ: She’s a tough negotiator.

MR. MILLER: In addition, there’s a transition. They can – they can negotiate the number of years that it takes to transition to the new rules. So there’s yet another variable, but it’s a numerical variable.

MR. SCHWARTZ: What does the Trump administration want or need to happen for this agreement to be signed?

MR. REINSCH: Well, what the president wants, I think, are two things to brag about. He wants to brag about an auto agreement that he can say will bring more car production back to the United States. That may or may not be true, but he wants to have something that allows him to say that.

MR. SCHWARTZ: He wants to be able to say it. He wants to tweet it.

MR. REINSCH: And I think that he needs, you know, one or more of those poison – so-called poison pills to be able to say: I won, you guys lost.

MR. SCHWARTZ: And what do they want?

MR. REINSCH: I think they want to escape with their economies intact. I mean, Scott, what do you think? I think it’s defensive on their part.

MR. MILLER: I think – I think Mexico and Canada would both like to have the NAFTA negotiations in the rear-view mirror, OK? Similar to – this is – they’re in the position that South Korea was in with the renegotiation of KORUS. It’s like, tell me what it’s going to take to get done with this so we can go back to doing business. So I think – I think they’d like to have it just done, and without too many negative consequences. Now, my real concern is that – you know, and the great irony is that if the president actually gets what he wants in autos, it will lead to fewer jobs not more jobs in the auto sector in the United States because he – his team will have succeeded in making the U.S. auto industry less globally competitive. I don’t think he intends that, but I think that would – everything I’ve read and when I’ve spoken to people in the industry, that’s where this leads.

MR. REINSCH: It’ll make U.S. products more expensive. And that makes us less competitive globally. So we should talk to BMW or Mercedes – these are the guys that are exporting American cars from here, and what they think about this.

MR. SCHWARTZ: Well, what have they said?
MR. REINSCH: I think they’ve said that this is not – this is not going to be helpful. Scott, which was it, BMW or Daimler has already announced moving some production to China.

MR. MILLER: Yes, I believe that was Daimler. But there was a large study of the entire auto industry that was published that basically demonstrated that the rules that the United States was seeking would make U.S. autos both more expensive and less competitive. What it didn’t address but is probably predictable is, particularly if the tariff preference in NAFTA is 2 ½ percent, which it is for passenger cars, you’re more likely to get nonconforming vehicles sold in the United States – in other words, cars where you choose to pay the 2 ½ percent tariff instead of comply with the NAFTA rules to get the preference of a zero tariff. And that would really – what would be the step that would lead to fewer auto jobs and fewer auto parts and supply jobs in the United States.

MR. REINSCH: More imports, in other words.

MR. MILLER: Right.

MR. REINSCH: And that would make the trade deficit worse too, conveniently.

MR. MILLER: Presumably so.

MR. SCHWARTZ: Speaking of which, we need to talk about the trade deficit.

MR. REINSCH: I was trying to find a segue for you there.

MR. SCHWARTZ: This was a great segue. To wrap up NAFTA, a lot more needs to happen before the end of the end for the NAFTA rounds to come to conclusion.

MR. MILLER: That’s correct.

MR. REINSCH: The meeting is this week. Were we doing this on Friday instead of Wednesday we might have more news. We’ll just have to wait and see if they make progress on that.

MR. SCHWARTZ: All right. Well, we’ll follow up on that a soon as we can. But speaking of the trade deficit, President Trump has been consistently saying that the trade deficit fell $52 billion. What does he – first of all what is the trade deficit? And what does he mean by that? Because there was a piece in The Washington Post today by Glenn Kessler, the fact checker, who said that the $52 – the trade deficit has not being reduced.

MR. REINSCH: Gave the president four Pinocchios for this one.

MR. SCHWARTZ: Four?

MR. REINSCH: Four is the most you can get.

MR. SCHWARTZ: Oh, four is the most? OK.

MR. REINSCH: Four Pinocchios is the most.
MR. SCHWARTZ: Yeah, four Pinocchios. And so he just said, unfortunately President Trump’s been saying that 52 billion (dollars) – it’s been lowered by 52 billion (dollars). And that’s simply not true. I read this article four or five times. (Laughter.) Pinocchio is certainly not – it’s no good. I don’t understand what this is. Please help me understand this. And help our listeners understand it.

MR. REINSCH: Scott, do you want to explain it or do you want me to attempt to?

MR. MILLER: Sure. The confusion is the merchandise trade deficit, which is a component of the current account deficit, is usually measured on an annual basis. And this is basically the difference between goods in imports and exports. It tends to be measured annually and compared versus a year ago. Now, it turns out that there is a component of gross domestic product – and this came up in the announcement surrounding the release of the quarterly economic growth numbers, the 4.1 percent of GDP.

And there is – there is an element of trade in the GDP in that one of the four components of GDP – the four components actually are personal consumption, investment, government expenditures, and net exports. And so when you have a change versus the previous period in net exports it is a contributor to – it’s a positive contributor to GDP. When the trade deficit goes up, it’s a slight – versus the previous period – it’s a slight subtraction to GDP. When the trade deficit decreases versus the comparative period it’s a slight positive to GDP.

So in this case the way the components of GDP were considered, the net export figure increased versus the comparison period. Now, there are a lot of adjustments to GDP numbers that make sense when you’re calculating the total size of the economy that are not done in terms of things like chain CBI and the way you adjust for inflation is different in GDP calculations than it is in the published merchandise trade balance. And it’s also – it’s what are you reporting? Quarter versus previous quarter? Or an annual versus previous year? So there are a number of potential, you know, distortions in this.

The net of it is there was a slight benefit to the GDP numbers for the quarter ending June 30th, largely related to soybean shipments to China ahead of the tariffs. But be that as it may, there was a slight improvement in net exports for the period. This was claimed to be a reduction in the trade deficit, which it may be but isn’t precisely. And that’s what led to the four Pinocchios.

MR. REINSCH: The reason he got – the reason he got all the Pinocchios is because basically he took an annual number and said it was a quarterly number. The 52 billion (dollar) was an annualized number and he attributed it to a single quarter. So you really should divide that by four in order to get a more accurate number.

MR. SCHWARTZ: But it sounds really good to go around saying: The trade deficit has been reduced by 52 billion (dollars).

MR. MILLER: Just like I promised, yes.

MR. SCHWARTZ: Just like I promised.

MR. REINSCH: Yes. Yes. And it’s certainly better than what the data is showing, which is I think first half of this year the trade deficit is actually worse than it was the first half of last year.
MR. MILLER: That’s correct.

MR. SCHWARTZ: Yeah, right. So for the first half of 2018, in actuality the trade deficit has grown to 291.8 billion (dollars), which is almost 20 billion (dollars) higher than the first half of 2017.

MR. MILLER: Yes. Unless you’re Donald Trump.

MR. REINSCH: No Pinocchios for that one. That’s a real number.

MR. SCHWARTZ: That’s a real statement.

MR. MILLER: And unless you’re Donald Trump that’s actually not a bad thing. When the economy grows – it is typically when the economy grows faster, the trade deficit increases in the United States. When the economy slows down, the trade deficit shrinks, because when the economy is growing fast the demand for lots and lots of things, including imports, increases. So it’s actually a pretty good thing that – I think it’s a good thing when the economy grows fast. And one of the consequences of fast economic growth is typically in the United States, in this era, is an increase in the trade deficit.

MR. SCHWARTZ: Gentlemen, you have explained the unexplainable. We now understand why Pinocchios were given. We understand the truth about the 52 billion (dollars). And we are better informed about the trade deficit.

MR. REINSCH: But do we know who Pinocchio was?

MR. SCHWARTZ: That, we do not.

MR. REINSCH: Next time.

MR. SCHWARTZ: Next time, on The Trade Guys.

MR. MILLER: (Laughs.) All right.

(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)