

**Center for Strategic and International Studies**

**The Trade Guys Podcast**

**“Talking Turkey and the Economy”**

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**Date: Tuesday, August 14, 2018**

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 we'll talk Turkey trade wars. In a tweet last week, President Trump threatened to double tariffs on Turkish steel and aluminum at a time when the country's currency is tanking to historic lows.

REPORTER: (From recording.) He tweeted that he would double tariffs on Turkish steel and aluminum and wrote: Our relations with Turkey are not good at this time.

MR. SCHWARTZ: The move stems from a dispute over an American pastor detained in Turkey. But are the tariffs justified? President Erdoğan doesn't think so.

TURKISH PRESIDENT RECEP TAYYIP ERDOĞAN: (From recording.) (Through translation.) We will boycott the USA's electronic products.

MR. SCHWARTZ: Plus, we'll talk China. We'll talk NAFTA. And we'll talk trade and wage stagnation. All that and more. We'll put it to The Trade Guys.

All right, gentlemen, it is great to be with you. Scott, you're at an undisclosed – still at an undisclosed location where you can see water. But we're here in D.C. But we're all here to talk Turkey. We got to talk Turkey.

MR. REINSCH: With cranberries, as we go today.

MR. SCHWARTZ: Yes, with cranberries. (Laughs.)

MR. REINSCH: And gravy, and stuffing.

MR. SCHWARTZ: Of course. Why – you couldn't do without. But so what's going on with Turkey here. I mean, Erdoğan today called for a boycott of U.S.-made electronics, namely singling out the iPhone. Said, you know, you guys who have iPhones here in Turkey, Samsung makes a really good product too. I mean, that's a – that's a callout on iPhones. It's a callout against the United States. Escalating rhetoric. All began with their two-year detainment of Andrew Brunson, the pastor. So what's happening here? And how's it affect trade? Trade Guy Scott.

MR. MILLER: There's a larger sort of geopolitical action going on here, which includes the – Erdoğan's main enemy is resident in the United States at the moment. And he'd like to see him travel to Turkey. And then we have the – with the pastor from the United States –

MR. SCHWARTZ: Wait, rewind that. Back up. Erdoğan's main enemy – explain that to – for people who aren't following this very closely. Erdoğan's enemy in the United States is Gülen?

MR. MILLER: Yeah. He is resident in the United States. Gülen is a cleric who has opposed Erdoğan's actions over the – over the years. But he sees them as the main – as the main adversary and has been seeking his return to Turkey. As a – as the other pawn that's on the table here is the American Christian Pastor Andrew Brunson, who was imprisoned on the pretext that he'd been part of the coup attempt in 2016.

MR. SCHWARTZ: Yeah. They charged him with terrorism.

MR. MILLER: Yes.

MR. SCHWARTZ: And he's basically been running a ministry on the Aegean preaching. I mean, he's certainly not a terrorist.

MR. MILLER: Right, yes. Right. There are a couple personalities. Well, the big personalities are President Trump and President Erdoğan, of course. But there is a – there is a squabble about some individuals that are involved in this. But so the tensions are relatively high between the United States and Turkey. Turkey was unhappy. Turkey's industry was unhappy when the Section 232 or national security tariffs on steel and aluminum affected them. That was a 25 percent tariff on steel and a 10 percent tariff on aluminum. But tensions are escalating on other fronts.

More importantly, from the standpoint of the Turkish economy, these tariffs are some of the least of their worries. Basically, there is a – there is what appears to be a financial crisis. The Turkish currency, the Turkish lira is down 40 percent year to date versus its value against the dollar. The fallen lira badly needs a tightening monetary policy, but because President Erdoğan has consolidated power and has extended his control over many, many institutions, including the central bank, he refuses to adopt a tighter monetary policy. Therefore, the currency continues to decline. The forecast decline is quite large. I noted this morning that the three-year government note from the Turkish government has a yield of 25 percent. That's the yield required for a buyer to meet a seller in the market. Which says sellers are expecting a continued pretty dramatic fall in the lira.

Now, what really happened here is there was a lot of debt piled up over the past decade, much of it denominated in dollars, much of it taken on, like quantitative easing in the United States, with relatively – what looked like free money. But if you're in Turkey, a Turkish business, you borrowed in dollar. You now are repaying in much less valuable lira. It's a crunch. And that crunch is coloring a lot of the rest of the economic squabbling.

MR. SCHWARTZ: Right, but I want to – I think a lot of Americans want to know, you know, what is this affecting the United States or the rest of the world? I mean, if the United States is in a trade war with China, certainly we can see how that affects the rest of the world. Or if the United States is going at it with our European allies like Germany, that would affect the world. Why is it affecting global markets and us in particular – our market's been down four days in a row. Why is it affecting us that we're seeming to get into a tit-for-tat with Turkey?

MR. REINSCH: Well, the market's up today.

MR. SCHWARTZ: Market is up today, that's right, but before that there was four days of decline.

MR. REINSCH: I'm not sure there's going to be that much of a direct economic impact on us. Scott, what do you think?

MR. MILLER: Well, the nervousness in the markets I believe is not about Turkey and the United States per se, but it's rather some skepticism about emerging market currencies. You will recall back in the '90s when the Thai baht started an Asian currency crisis or financial crisis. Once again, it was due to a lot of borrowing in another currency. Thailand had borrowed – Thailand businesses had borrowed extensively in yen from Japanese banks. And the spread between the baht and the yen grew to the point that the loans became suspect.

And so what's happening – well, what's happening is that pressure on the Turkish lira is causing some pressure on Indian currency and others. But so there's a worry about the contagion that will come from basically all the free money that's been sloshing around out there. Sooner or later it has to be paid back. And the terms of repayment are going to be quite dear. So that's some nervousness there. The U.S.-Turkey fight is not really that meaningful in terms of its size. Keep in mind, the Turkish economy – the GDP's about \$800 billion – it was in 2017 at least. And our trading relationship's relatively small.

MR. SCHWARTZ: And when they're talking about iPhones, they're saying, OK, well, we're going to boycott iPhones. Well, their purchases of iPhones last year represented about 1.1 of iPhones' overall total sales. So we're not talking about a tremendous amount. I mean, it's 450,000 iPhones. That's a lot of talking, but, you know.

MR. REINSCH: Well, we're in one of those things where they're – you know, we're each trying to leverage the other. And that's all he's got, you know? He's got iPhones and –

MR. SCHWARTZ: He, Erdoğan.

MR. REINSCH: He, Erdoğan. There's not a lot of other things he can pull out. I think the thing that's worrisome about it is exactly what Scott said. If you're old, like The Trade Guys, you know, we've seen this movie multiple times before.

MR. SCHWARTZ: The Trade Guys are young at heart.

MR. REINSCH: Young at heart, but old in years. (Laughter.) We've seen it in Thailand. We saw it in – I think in Mexico in the early '90s. It keeps repeating ourselves – itself. Interest rates are down. Countries over-borrow. They over-borrow in dollars. Then what happened? In our case – and, you know, if you're Erdoğan you'll blame the Fed for all this, because what the Fed has started to do, by ending its quantitative easing program, it has started to raise interest rates, which is, I think, the economically rational thing to do for our economy.

But if you raise U.S. interest rates, you make the dollar more attractive, more people move into dollars, which means they want to get out of other currencies. They're getting out of the lira. And the lira is falling. And that makes this debt overhang the Turks have got far worse than it would have been if the lira were stable. Erdoğan has responded to this by doing consistently exactly the wrong things

economically and is choosing to blame it all on the Americans. But, you know, the reality in economic terms is there's not a lot he can do about it.

You're right. I mean, the iPhones are de minimis. But I think what is worrisome is if this spills over into the defense relationship and to other political relationships. They're a NATO – they're a NATO ally. They're in a key position. And if he suddenly starts moving in the direction of the Russians, which they have resisted doing for years and years and years – that's why they're in NATO – that's going to cause us I think a whole bunch of problems, both in – vis a vis Russia and Eastern Europe but also in the Middle East.

MR. SCHWARTZ: Well, right now they've got more in common with the Russians than they do in us, in that their currency's falling, Russia's currency is falling, and they're both targeted by the United States in terms of sanctions in the last couple weeks.

MR. REINSCH: And they're both evolving away from normal democracy.

MR. SCHWARTZ: Not good.

MR. REINSCH: Not good for them, but also not good for us. Exactly.

MR. SCHWARTZ: Scott, did you want to jump in here?

MR. MILLER: Well, look, I think Bill's got the geopolitics exactly right. Turkey is a NATO ally. They're in a critical location geographically and geopolitically. It's been a more difficult relationship, basically as Turkey has evolved away from sort of an urban, secular population to a rural – the fast-growing areas of Turkey are rural and tend to be Islamist and more religious than the secular Istanbul and the secular urban populations. And so the idea of sustaining a secular democracy has become – has become more tenuous. And in that void, President Erdoğan has increased his power and influence over many of the institutions.

But the end of this movie is really unhappy unless some really tough actions are taken domestically by President Erdoğan. He can either dollarize or dramatically tighten the central bank policy – neither of which is going to be particularly pleasant. But the other alternative is the lira – right now, in the markets the lira is sort of a catch a falling knife kind of – (laughs) – experiment, which nobody, of course, wants to reach out and catch that falling knife. So the continued decline in the currency is going to be the penalty for inaction. And there's not much anybody outside of the government of Turkey can do about it right at the moment.

MR. REINSCH: But it's also not a happy ending for us because as Erdoğan blames the United States for everything it's just going to make the bilateral relationship worse. I think the doubling of steel tariffs has some implications here which we ought to talk about in terms of trade policy. But what it does for Turkey is it gives Erdoğan an excuse to blame everything on us. So all of a sudden this is not his fault anymore. It's the Americans fault because of the tariffs. The tariffs were, at best, an aggravating factor. Certainly not a precipitating factor. But we just handed him an excuse.

MR. SCHWARTZ: So what happens next? Now that he's today, Tuesday, singled out Apple, singled out U.S. tech companies, should we expect a response from el presidente?

MR. REINSCH: Well, that would be the precedent. I mean, the president's response is always to push back. So I don't know what – I don't know what's left. We going to triple the steel tariffs? I mean, we've – I think we've already knocked them out of the market.

MR. SCHWARTZ: Yeah. And then what do they do? They don't have enough ammo to get into –

MR. REINSCH: Well, then that's when we get back into NATO scenarios, which is what makes me very nervous.

MR. SCHWARTZ: Right. We don't want The Trade Guys nervous. That's the last thing we want.

MR. MILLER: This blame game can really get complicated because – I mean, look at – look at Cuba, which has had a lot of problems, mostly being a totalitarian socialist commune.

MR. SCHWARTZ: Yeah, Cuba's had a lot of problems. (Laughs.)

MR. MILLER: But they blamed every – but they blamed every one of them on the United States since the embargo started in the 1960s. So this is – this is the business model here that we're approaching, except this time instead of with a small island off the coast of Florida with 11 million people, we're doing it with a NATO ally.

MR. SCHWARTZ: A NATO ally who's key to U.S. strategy.

MR. MILLER: Yes.

MR. REINSCH: Can I talk for a minute about the domestic implications of the tariffs?

MR. SCHWARTZ: Yes, please.

MR. MILLER: By all means.

MR. REINSCH: Is that OK? This started me thinking, what did he do here? He decided the double the tariffs on steel on Turkey. So these were 232 tariffs. So the ostensible reason was the United States faced a national security threat from imported steel. And he has decided that he's going to double the tariffs on one country only, one of the smaller exporters only, in order to further offset the threat. I think what this does – what it reveals, I think, is that the 232 rationale was a joke from the beginning. This is not about –

MR. SCHWARTZ: Interesting.

MR. REINSCH: It's not about national security. In this particular case, it's about getting even. You know, they won't let the – they won't let Pastor Brunson go. So, you know, we hit back. And we use available tools, even though the tool has no – you know, there's no rational basis for using this tool for this purpose. And I mean, most of us thought when he did the broad tariffs originally that it was more – he was more interested in, you know, providing protection for the steel industry than he was at really trying to deal with a national security issue. Jacking them up for one country only just, I think, demonstrates sort of the emptiness of the policy, which I think is going to make it harder and harder for

him to justify using this tool in the future. At some point – he’s going to get sued every single time. And at some point I think a court is going to say: How can you say this is national security when it’s so blatantly related to other things?

MR. MILLER: This is also provoking a reaction in the Congress. Actually Rob Portman, senator from Ohio and former U.S. trade representative, importantly, and a trade lawyer by training, has a bill about these – amending the Section 232 of the Trade Act of 1962 to make the Department of Defense responsible for the certification of this being a national security problem rather than the Commerce Department.

MR. SCHWARTZ: Which makes sense.

MR. MILLER: Which would make a very interesting move.

MR. REINSCH: No, it doesn’t make sense. It’s an enormous mistake.

MR. SCHWARTZ: Oh, OK. I feel a Bill Reinsch column coming on on all of this, by the way.

MR. REINSCH: There’s a rant coming on here. Well, I used to be in the Commerce Department and had some involvement in these cases.

MR. SCHWARTZ: You ran large chunks of the Commerce Department.

MR. REINSCH: Well, a little chunk.

MR. SCHWARTZ: OK.

MR. REINSCH: But in this case, an important chunk.

MR. SCHWARTZ: Yeah.

MR. REINSCH: If Portman’s bill passes, it’s going to have exactly the opposite effect he wants. I think he’s worried that – he’s worried, with good reason, that we have a president who’s misusing the statute to produce affirmative findings when there are no affirmative facts.

MR. SCHWARTZ: Right.

MR. MILLER: Correct.

MR. REINSCH: So the theory is, send them to the Defense Department and you’ll get better results. I guarantee you, if you send it to the Defense Department you’ll get more affirmative findings and not fewer affirmative findings, because they’ll find affirmative most of the time. So it’s – I understand his motivation, and I sympathize, but –

MR. SCHWARTZ: Why would they find affirmative most of the time?

MR. REINSCH: Because if you ask the people in the bowels of the Pentagon as opposed to the bowels of the Commerce Department – (laughs) –

MR. SCHWARTZ: These are two places I do not want to be, by the way.

MR. REINSCH: Yeah. I can tell you, there are actually – Commerce Department has bowels. It has two basements. And I can tell you stories. But –

MR. SCHWARTZ: OK.

MR. REINSCH: Of getting lost there. But – (laughter) – I'm sure the Pentagon has bowels too. The people down there will find national security threats everywhere, because they've been finding national security threats for 70 years.

MR. SCHWARTZ: That's their job.

MR. REINSCH: That's their job. Now, the secretary – both the current one and his predecessors – do not always come out in that place because they have a broader view. But I think that if you – if you repose this function at the Pentagon, what you're going to get at the working level is working their way up is a string of affirmative findings, which I think is exactly the opposite of what Portman wants.

MR. SCHWARTZ: Interesting.

MR. MILLER: Yes, my own observation on this is up till 1980 it was the Treasury Department not the Commerce Department that had the – that could perform the investigation and made the recommendation to the president. And that would probably be a safer place for it than – certainly than Commerce and probably, for Bill's reasons, than Defense.

MR. SCHWARTZ: All right. Well, speaking of defense, let's talk about China, because yesterday the president signed the U.S. defense act. And many viewed it to be directly targeting China. Explain that to us. Why is it targeting China, our defense bill?

MR. MILLER: Well, I don't know if I'd consider it targeting China. What is – what did happen in the Defense Authorization Act is there was a refocus away from counterterrorism, which has been the main focus really since – for the last 17 years of the defense – our defense facilities and organizations.

MR. SCHWARTZ: Since 9/11, basically.

MR. MILLER: Back to sort of – back to great power conflict. And so that refocus was really much more about the threats posed by China and Russia, which is – which is an older posture, but sort of – it's the pre-9/11 posture. And the reporting about the defense bill, that's the main – that's the main shift.

Bill, you may have a much more detailed and nuanced understanding.

MR. REINSCH: Well –

MR. SCHWARTZ: Well, there's the CFIUS component of this, though.

MR. REINSCH: Yeah, that – I think the Chinese focus is on the so-called FIRRMA, the Foreign Investment (Risk) Review – what is it – Modernization – I forget what the other M stands for – Act.

MR. SCHWARTZ: Yeah, but it's basically – the new National Defense Authorization Act, or NDAA – a lot of acronyms here – strengthens the Committee on Foreign Investment in the United States, also known as CFIUS, which reviews proposals to determine if they threaten national security. And this measure was seen by many as targeting China by strengthening CFIUS. China often has a problem with the CFIUS process.

MR. REINSCH: And China also sees itself as targeted. They made a statement today expressing concern about this. And you're exactly right. I think the bill does – well, the act now. It's not a bill anymore. The act does two significant things for China. First of all, it significantly expands the universe of investments that are going to be reviewed, because under the previous law the only investments that were reviewed were acquisitions. Where – not just China, but anybody that was going to take over. Now, a lot of other things, particularly acquisitions – what are called non-passive, non-acquisition investments. Significant investments in companies that don't involve taking over control, but are not, like, 5 percent, where you're just in it for the money.

MR. SCHWARTZ: So substantial investments in a U.S. company on U.S. soil.

MR. REINSCH: Yes. Those are now going to be reviewed. The Chinese had specialized in those, trying to take, you know, a chunk of the company and then use that to give them access to the company's technology, give them a seat or two on the board of directors, and on and on and on. When we did a thing here at CSIS last year trying to figure out what the scope of this would be – and all this data is fuzzy, because there's not a combined place where it's all reported. But previously CFIUS has been reviewing maybe 250 to 300 cases a year. And that's all countries, not just China. The estimate that we were working with a year ago was that the number of technology transfers that occur annually is closer to 10,000. So there's a lot that don't get looked at. This – and a lot of them are benign. So – but there's a lot that simply don't get reviewed. This bill will make a lot more of those subject to review. That's one thing the Chinese don't like.

The other thing is that part of the act concerns inward investment, China buying U.S. stuff. The bill also takes a step on outward investment, which is technology transfer. Joint ventures or patent licensing agreements where the Americans are selling or giving technology to the Chinese. And it is designed to provide more enhanced export controls to control that. So the Chinese are unhappy on two counts. They've been unhappy about the second one, on the export controls, for 30 years, and telling us that we need to loosen up. On the inbound side, they're also unhappy. They don't have a very good leg to stand on, frankly, because their investment review regime is more restrictive than ours is.

MR. SCHWARTZ: Right. So what do they do?

MR. MILLER: By a long shot.

MR. SCHWARTZ: Yeah, so what do they do when they're unhappy? They see us do this, and then what do they do?

MR. REINSCH: Then will probably tighten up their own procedures, as far as U.S. investment is concerned. And you'll see slowdowns in issuing licenses to do business there on the services side.

You'll see they already rejected the Qualcomm-NXP merger. I think you'll probably see some more of those. Chinese direct investment in the United States has been declining anyway. Not only because of this, primarily because the Chinese government has tried to discourage it because they want – they're worried about capital flight for a whole bunch of reasons that Scott can probably talk about more competently than I. But they've been discouraging off-shore investment for the last 18 months anyway. So it's not as big an issue as it – as it was in terms of quantity. But they're still going after companies here that have the technology that they want.

MR. MILLER: Right. And look, the first thing to remember about investment policy is there really aren't any global rules about what good policy looks like, and policies – there are no obligations, at least. It's not – other than some slight coverage at the WTO, there's virtually no bounds on any country in terms of how they treat foreign investment in terms of access to markets. So China has this – what's called a positive list. If you're not in their book – if you're in a business or sector that's not in the Chinese book of permissible investments, you can't invest there, for instance. The U.S. has a much more open investment climate.

But these restrictions are not – so they're not – there's no international jurisdiction over investment restrictions. And so I think what you'll see, they are probably going to be concerned about, you know, these restrictions on other investments in sensitive businesses that Bill mentioned. There are also the outbound evaluation of emerging and foundational technologies, which is what the statute now says. Now there's regular process of identifying foundational technologies and determining whether they need to be licensed. So these are – these are important changes, from a Chinese perspective. And there will probably be sort of an equal and opposite effect on American investment in China. We'll see where it goes, but –

MR. SCHWARTZ: Let me ask you this. Would The Trade Guys say that foreign investment from Chinese companies into the United States is a good thing? Or should it be blocked?

MR. MILLER: Well, look, foreign investment overall into the United States is a very good thing. It creates jobs. It advances the economy in important ways. We're the world's largest recipient of foreign investment for a reason, and it's highly beneficial to our economy. At this point, in my judgement, Chinese investment in the United States is very small, to the point it's actually not a particularly important source of investment. Whether they're not – whether or not they invest here is somewhat immaterial. But overall, I do believe that the United States benefits from an open investment policy. And to the extent we add restrictions, I'd be cautious for – from – restrictions from any source of investment.

MR. REINSCH: Chinese – I think in general that's the right policy. I agree with Scott. Chinese investment has been more of a mixed bag because it has been increasingly targeted specifically at high-tech companies in order to acquire technology.

MR. SCHWARTZ: Or steal technology.

MR. REINSCH: Well, yes – exactly. And it is not – it doesn't never happen, but it is not unusual for Chinese investment to leave the American company worse off than before the investment occurred. That the investment – the investors come in, basically they suck out of the company what they – the know-how and the technology they need. They leave the empty shell. And they go and create a – you know, a new company in China that uses the technology to out-compete the American. Sometimes legally, sometimes illegally.

I just was reading – there was a court case in California where a Chinese employee who had stolen literally hundreds of documents from his company – it was a company that makes – it’s called – the company is called LumaLED, and it makes LED equipment. He stole hundreds of documents from the company, went back to China, and is now the vice president of a Chinese company that is making the same products. And he was in court – well, not he personally. I think he’s still in China. But a jury found him guilty of this and fined him \$66 million, which they estimate to be the cost of what –

MR. SCHWARTZ: That’s a lot of LED meters jumping up and down.

MR. REINSCH: It is indeed. And it’s their estimated cost of what the U.S. company would have had to spend on R&D if this hadn’t happened. Now, I don’t know that he’ll ever pay. He’s in China. But this is not unique. This happens a good bit. And I think it’s a cautionary tale, both on sort of – on investment and the Chinese front. I mean, what the administration is doing about it – which I think has a lot of long-term implications that are probably not good – is they’re really trying to separate, to disentangle the two economies. So if the Chinese don’t invest here, that’s fine with this administration. And frankly, if we don’t invest there, that’s also fine with this administration. What that does is drive the two countries apart, which I think long term is not a good thing. But in the short term, it may be the only tool we have to address a very big problem.

MR. SCHWARTZ: All right. Well, we’ve got tension in Turkey. We’ve got tension in China. I guess some good news, some optimism, is the Trump administration has said this week – White House Council of Economic Advisers Chairman Kevin Hassett said on Monday that he U.S. is very, very close to reaching a deal with Mexico to update NAFTA. What does that mean, very close?

MR. REINSCH: (Laughs.) Well, he said –

MR. SCHWARTZ: I feel like every week we’re optimistic, close.

MR. REINSCH: He said it last week. He said it the week before last. (Laughter.) And somebody else said it the week before that. We’ve been close all month. Maybe we are. I don’t think anybody really knows.

MR. SCHWARTZ: We are getting incrementally closer.

MR. REINSCH: We are getting incrementally closer. The people I’ve talked to think that – that while we may be getting closer, they think that it is very unlikely that we will be able to produce a finished agreement in the month of August, which was the goal, because the idea is that because of the way our law works once you announce that you finished negotiating, there has to be a 90-day period before you sign it. And so the current Mexican president leaves office December 1<sup>st</sup>. So if you want him to sign the agreement, you really need to finish the agreement this month because of the 90-day cap. Now, that’s not – he doesn’t have to sign it. I mean –

MR. MILLER: No, but just as a reminder to our listeners, the current – the incoming president, Lopez Obrador, would like his predecessor to sign it for his own political reasons. That’s what drove the August 31<sup>st</sup> timetable.

MR. REINSCH: Yes. Then he can blame it on the outgoing party. I don’t know anybody who thinks that getting the finished agreement to the point where they can announce it’s – you know, it’s

ready by this month is feasible. And in fact, I noticed that the administration now has started to talk about a statement of principles, which is I think entirely doable. But, you know, that's far away from a finished agreement.

MR. MILLER: There's also a practical – there's a practical negotiating policy here by the administration, which is they think they're having some success getting what they want or need from the Mexico government. And they're having more difficulty with Canada. They've separated the negotiations, hoping to achieve some level of agreement with Mexico that they can then present to Canada as whether a *fait accompli* or just to add pressure to the – to that side of the negotiation.

MR. SCHWARTZ: Well, and the Mexicans say they're cautiously optimistic.

MR. REINSCH: Yes. Well, I would emphasize caution.

MR. MILLER: Better than being pessimistic.

MR. REINSCH: The Mexicans, though, have also been clear that they've been saving the hard stuff for the end. That most of the talk is still about cars, which is difficult. But Canada's not really at the forefront of the car debate. That's really between us and Mexico. The hard stuff is the sunset provision, which Canada and Mexico adamantly oppose, and what to do about these various dispute settlement provisions, where the Mexicans and Canadians are so far in lockstep in opposition to the Americans. What to do about government procurement, same thing. Those are all being saved. And so at some point they have to be addressed with Canada if we're going to have a trilateral agreement. And those are not going to be easy negotiations unless the administration falls off its positions.

MR. SCHWARTZ: I want to talk about one more thing, because when we're talking about all these different international agreements that we have and tiffs that we're having, we don't always know how severely or not severely that affects individual Americans. But, Bill, this week you wrote something that does speak directly to Americans. You talked about wage stagnation. And you said in your piece: Don't blame trade for wage stagnation. Can you explain that?

MR. REINSCH: (Laughs.) You better – you better give me the piece of paper.

MR. SCHWARTZ: I will. I'll give you my notes, yeah.

MR. REINSCH: So I can see what I wrote .

MR. SCHWARTZ: OK, there you go.

MR. REINSCH: What I was alluding to was that the Pew Research Center, which does wonderful work, has come out with a handy little chart that shows how average wages have changed really over 50 years – 54 years, to be exact. And while it's gone up, and significantly, in nominal terms, in terms of real dollars, OK – inflation-adjusted dollars – it's gone up only a couple dollars over that time – you know, like 0.2 percent per year, which is not much of an increase. This is a mystery. And people have been arguing for years about why this is so. It is typical for the trade skeptics to say this is all the fault of trade. It's the fault of globalization. It produced a race to the bottom. Jobs leaving. Companies are compelled to keep wages down in order to compete.

Economists would say wrong, that the real answer is slow growth of productivity, that wage rates actually keep up with rise – when productivity rises, and productivity isn't rising so much. Other people would point to other things. And I had a list. One, for example, is the decline in union membership, which means fewer benefits achieved through collective bargaining because fewer people are going through the collective bargaining process. More non-compete process policies, which makes job shifting more difficult, which ties people to their existing positions, makes it harder for them to move.

I've hypothesized that one of the issues – and people have written books about this although I think it's inconclusive – is CEOs that are increasingly focused on two things, which is quarterly earnings and stock prices. And their loyalty has shifted over 50 years from their workers and maintaining a strong company they can pass on, you know, to their children and grandchildren, to their shareholders and short-term returns. The result is the workers get left holding the bag as the continue to try to compress wages in order to maximize earnings and share prices.

On a happier note, the other reason – which I think is a legitimate one – is the rise of non-cash income. So companies are paying more in health costs, 401(k) matching benefits, disability insurance, life insurance, a range of educational allowances, you know, travel vouchers and –

MR. SCHWARTZ: Benefits.

MR. REINSCH: Benefits, thank you. That all go into the total wage benefit package. But it tends to all – as those parts go up, the wage part goes up less fast. So the bottom line, I thought, was that there's a lot of reasons. Trade ends up being a scapegoat for all of them. While trade, I think, is not entirely innocent, you ought to keep all these other things in mind as well.

MR. SCHWARTZ: Does LeBron James leaving Cleveland to go to L.A. have anything to do with this? (Laughter.)

MR. MILLER: Well, I'm actually glad you brought that up, because –

MR. REINSCH: Because it's an Ohio team and Scott can talk about Ohio.

MR. SCHWARTZ: Yeah.

MR. MILLER: No, because there's one other major change in the economy over the last 50 years is the shift from goods to services. Always keep in mind, 80 percent of trade is goods. It's stuff. Eighty percent of the U.S. economy today is services. And services productivity is a very different issue than goods production productivity. And improving them comes very differently. Now, some services have been improved. And LeBron James is a good example of it. He's nowhere – in my judgement, despite his Ohio roots, he's nowhere near the basketball player that Bill Russell was. But LeBron James has out-earned Bill Russell by orders of magnitude because as an entertainer he has a global audience, where Bill Russell had a much smaller audience. So some services do find ways, due to digital technology and communications technology, to improve their productivity and efficiency. But a lot of services – think about haircuts or brain surgeries or things like that. It's very difficult to improve productivity in those tasks. My barber can't cut that many more heads of hair in a given eight-hour shift than she did probably 20 years ago.

MR. SCHWARTZ: You definitely need a haircut before you have brain surgery.

MR. MILLER: Definitely. I recommend it highly. But the services component of the economy adds a lot of sort of complexity to productivity calculations that aren't there in, say, an export-oriented, goods-producing economy.

MR. REINSCH: But hold on a minute, Scott. Isn't LeBron also in the goods business? I mean, doesn't have a line of shoes?

MR. SCHWARTZ: Jerseys.

MR. REINSCH: And a line of jerseys and a line of hats? I mean, he's a major element in apparel, I would think.

MR. MILLER: His endorsements – which I guess would be a form of intellectual property – is a good part of his value to his family and the world.

MR. SCHWARTZ: Well, I think we've solved everything today.

MR. REINSCH: The complexity of the modern economy.

MR. SCHWARTZ: Yeah. I think –

MR. REINSCH: As exemplified by LeBron James.

MR. SCHWARTZ: It all comes down to LeBron leaving Cleveland to go to L.A. I know there's something in there.

MR. REINSCH: I can tell you're devastated by this turn of events.

MR. SCHWARTZ: I am. I am. Well, until next time –

MR. REINSCH: When we'll talk about baseball maybe, or football.

MR. SCHWARTZ: Yeah. It is football season. And we've got a lot to talk about next time on The Trade Guys.

(Music plays.)

MR. SCHWARTZ: To our listeners, if you have a question for The Trade Guys, write us at [TradeGuys@CSIS.org](mailto:TradeGuys@CSIS.org). That's [TradeGuys@CSIS.org](mailto: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)

