Center for Strategic and International Studies

The Trade Guys Podcast

“Bilats, Tensions, and an NFL Victory”

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Date: Wednesday, October 10, 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, Japan looks like it’s saying yes after two years of saying no. After the U.N. General Assembly last month, Prime Minister Shinzo Abe agreed to consider bilateral trade talks with the U.S. after months of trying to convince the U.S. to join the CPTPP. So who got the better of the deal so far, the United States or Japan? And what about national security? We’re going to talk about national security and how it relates to the United States and China coming out of the trade wars. Plus –

REPORTER: (From recording.) Now, the game is one of the biggest TV events in Canada.

MR. SCHWARTZ: – we’ll talk the USMCA and the NFL. All on this episode of Trade guys.

So the U.S. and Japan seem to have embraced the concept of bilateral trade talks. Is this right?

MR. REINSCH: Well, sort of. It was an interesting question of who got played, basically.

MR. SCHWARTZ: This is at the U.N. General Assembly.

MR. REINSCH: Yes. Abe – Prime Minister Abe met with President Trump. And they announced that they were going to embark on trade – a bilateral trade negotiation, which is something the Japanese have been resisting successfully so far.

MR. SCHWARTZ: Why were they resisting it?

MR. REINSCH: Because they wanted the – they wanted the United States in TPP.

MR. SCHWARTZ: Right.

MR. REINSCH: And they were unhappy when the United States left TPP. And –

MR. SCHWARTZ: Trans-Pacific Partnership.

MR. REINSCH: Yes. And what they’ve said privately to us here at CSIS has been that they would only be interested in a bilateral negotiation if they thought it would bring the United States back into TPP.

MR. SCHWARTZ: They, the Japanese.
MR. REINSCH: The, the Japanese. Now, what I thought was interesting was who got what out of this initial encounter.

MR. SCHWARTZ: Yeah.

MR. REINSCH: What we got was an agreement to have a negotiation. What they got were, I think, the two biggest things that Abe wanted. They got a commitment that no car tariffs as long as we’re talking.

MR. SCHWARTZ: Right, so amnesty from potential U.S. tariffs.

MR. REINSCH: Yes, which is one of the things they were most concerned about, which you would this is important for cars.


MR. REINSCH: And second they got no more agriculture concessions than what they’ve already made in TPP. And it seems to me, those were Abe’s two biggest objectives in a negotiation. He gets those upfront. All we got was a promise to have a conversation. Huh. They win, in my view.

MR. MILLER: Well, yes. I’m not so sure that his second condition is fully understood by both sides in the same way. So I don’t know what they agreed to on agriculture, but I do agree that one of – one of the motivations, I think, for Japan was to get – was to get the Juncker deal, get the deal that the Europeans got.

MR. SCHWARTZ: The trade whisperer.

MR. MILLER: While we’re talking, we’re not going to have car tariffs, which is, I think, an important condition and probably satisfied team Trump for now. We’ll see what happens when, as everyone expects, these talks bog down.

MR. SCHWARTZ: So is it just kick the can down the road in terms of cars? Puts it on hold for now?

MR. REINSCH: Well, it’s on hold anyway because under our law he has to wait for this study to be done by the Department of Commerce under Section 232. They don’t have to finish until February. When it began, there was the usual promise that it would be done right away, and we would hurry up. And Trump said, we’ll do this. You know, we’ll have tariffs in the fall. And then it is consistently not come out yet. There are multiple conflicting rumors about the status of the study that range from it’s all done and sitting in a drawer, waiting for the right time to be rolled out, to it’s a complete mess and nobody’s been able to figure out what to do about it and, you know, that they’re having an internal argument over what to do. I don’t know the truth. My guess is it’s not done, but a lot further along than – you know, than the second rumor would imply.

MR. MILLER: Well, keep in mind the industry is vastly larger and vastly more complex than the situation faced by the Commerce Department on steel and aluminum. Steel and aluminum relatively simply industries compared to autos and auto parts, but also steel – and particularly the steel industry has been making the case for the need for government action for so long. They walked in with sort of the arguments very well-developed in the –
MR. REINSCH: Well, and they cooperated.

MR. MILLER: They cooperated.

MR. REINSCH: I don’t think the car guys are cooperating in the same way. The point is, until – the point – I mean, the president – this president will do whatever he wants. But –

MR. SCHWARTZ: Really? I didn’t notice that. (laughs.)

MR. REINSCH: I’m sure that comes as a shock to all of our listeners. But in a case like this, you know, he’s going to be – if he does anything he’s going to be sued. You know that. He’s been sued in steel. So you can be sure –

MR. SCHWARTZ: He doesn’t seem to mind being sued.

MR. REINSCH: No, he doesn’t seem – he doesn’t seem to mind. But when you are being sued, you want to go into court with some ammunition. And courts generally defer to presidents on national security. On the other hand, if you provide no evidence and no arguments, it makes it much harder for the court. So the study that’s being done actually is important. Everybody believes – in town, everybody in town believes the conclusions has already been determined that auto imports are a threat to national security. Nobody understands how they will reach that. So it’ll be interesting to read the report. But even if it is predetermined, having the backup, having the data, having the argument is going to be important when he gets sued. So he needs to wait for that. And my current guess is it won’t appear until after the election.

MR. MILLER: I think that’s right. And sooner or later – or, actually, sooner – this gets to the Court of International Trade, much like the steel tariffs are there now.

MR. SCHWARTZ: Let’s talk about national security for a second. Peter Navarro, the president’s advisor, wrote in a New York Times opinion piece on why the U.S. military industrial base is at risk. Is that related to cars and national security, or are those two different things?

MR. REINSCH: Well, I think he’d like it to be. I think that’s been the argument so far. It’s hard to get the Defense Department to say that. They famously resisted in steel and I think they’ll resist in cars too.

MR. MILLER: I think the administration’s argument goes beyond – is – that that particular argument has to do with the actions versus China. It was part of Vice President Pence’s speech.

MR. SCHWARTZ: Last Thursday at the Hudson Institute, yes.

MR. MILLER: Yes. And so there is – there is – in many ways, if you take the vice president’s speech, plus a bill passed in Congress for essentially matching One Belt, One Road, or something like that, in development financing, and the action on trade, both in the USMCA, the sort of anti-China provision, or anti-non-market economy provision, and then the talk about national security, what you may have is the biggest change in U.S. China policy since Henry Kissinger traveled there in 1971. I mean, it looks – if you pull all those threads together, that looks quite –
MR. REINSCH: And I think his – this is an area where I think they’re right to be worried about it. Not about cars and –

MR. SCHWARTZ: The administration’s right?

MR. REINSCH: The administration. I think they’re right because if you look at Made in China 2025, the Chinese document that has been much in the news lately, what it is talking about is – says, here’s a set of sectors that we think are important. And they’re mostly high-tech sectors. And they’re very clear that their goal is to create world-class champions in those sectors. Well, we’re the world leaders in a lot of those sectors right now. So, you know, saying you’re going to create world-class champions in those sectors means you’re going to create companies that are going to compete against us and, from their point of view, hopefully win. That’s – you know, that’s what they get to do. It’s their economy. But it’s something that we ought to be worried about, because it means that they’re going to take us on globally in a bunch of sectors that have security implications, because they relate to information communications technology, and they relate to a whole bunch of other advanced technologies that are an integral part of our defense establishment.

MR. SCHWARTZ: Well, so you sort of answered my question before I even asked it. What I was going to ask: Is the trade war turning into a broader cold war with China?

MR. REINSCH: Seems that way.

MR. MILLER: That’s the way I interpreted the vice president’s speech.

MR. SCHWARTZ: Yeah.

MR. MILLER: Is that – is that we are – we’re now in – when he started to talk about – I think he used the phrase “whole of government” approach on China’s part to the way they treated the United States and the way they were seeking advantage, it was different in tone and manner than just a commercial controversy.

MR. REINSCH: But I want to put in a plug for my column this week, which is about bait and switch. I think what Scott said is right. But don’t forget, a month ago the message on China was don’t worry, this is all a tactic. The tariffs are designed to get them to surrender. Once they surrender, the tariffs will go away. And everything will be fine. And this was designed to appeal to the farmers who got nervous, and are beginning to say, you know, that’s nice. It sounds good. But if I go bankrupt in the meantime before we win, it doesn’t do me much good.

MR. SCHWARTZ: Not so good.

MR. REINSCH: Now what they are saying is something different. Now they’re saying this is a longer, more – bigger – a bigger deal. And I think what they’re really saying is: These tariffs are going to be in place for a long time.

MR. MILLER: This is really a different policy. And, you know, I’ll be interested to hear Larry Kudlow actually come out and say that. He’s the one administration official who tends to give the soothing story about tariffs, that they’re an instrument to get better deals, not a long-term –

MR. REINSCH: It’s bait and switch. And I’d like to them admit it, that’s all.
MR. SCHWARTZ: And it begs the bigger question. Is it possible to keep trade frictions contained to just trade policy?

MR. REINSCH: Well, it has been historically. I mean, we did a – when we had the chicken war, you know, it didn’t spill over into NATO.

MR. SCHWARTZ: But what you’re saying is that this could be different this time.

MR. REINSCH: It seems like it is, yes.

MR. SCHWARTZ: Well, and Scott’s saying this is a whole of government change since Henry Kissinger opened up China.

MR. MILLER: It may be. It certainly has the – has the perspective that you would conclude that. The interesting thing is China has been different when it comes to trade disputes than other industrial democracies, like the United States, where we have managed to contain everything. So, look, the big traders – before China, sort of before 1990, the big traders were all allies, many of them treaty allies. But they – we saw them as our friends. And so –

MR. SCHWARTZ: And that is how we kept them our friends.

MR. MILLER: Exactly. And the open markets helped keep them that way. And the mechanisms for resolving trade issues were all based on that underlying ballast of an alliance relationship. We don’t have that. We never had the ballast in that – in the relationship with China. There was a tendency to try to help China – well, I think Robert Zoellick, when he was USTR, called – we want them to be a responsible stakeholder. And there was a lot of encouragement by administration officials, really from Nixon onto the present day, to try to encourage China to be some – to solve their problems the way other countries, particularly industrial democracies, solve them. I think we’ve kind of realized that that just is not a great strategy.

MR. SCHWARTZ: Well, you know, everything goes back to “The Godfather,” because Hyman Roth always made money for his partners. And that kept the peace, until it didn’t.

MR. REINSCH: I was going to say something, but then Scott sent me off in a different angle.

MR. SCHWARTZ: And then I mentioned “The Godfather.”

MR. REINSCH: Then you mentioned – yeah. (Laughter.) Which really threw me off.

MR. MILLER: The Trade Guys will pause now while we reflect and collect our thoughts.

MR. SCHWARTZ: But we do agree that all wisdom goes back to “The Godfather,” because, you know, “Godfather” I and II, it’s all in there. It’s better than “The Art of War.” If you study “Godfather” I and II, you will be equipped with all strategy you need. (laughs.) Bill’s – I really threw Bill off here.

MR. REINSCH: All I can tell you is that my son would disagree with you.
MR. SCHWARTZ: He would?

MR. REINSCH: He would tell you that everything you need to learn in life, everything you need to know in life can be found in “The Simpsons.”

MR. SCHWARTZ: OK. Well, that is –

MR. REINSCH: And not in “The Godfather.”

MR. SCHWARTZ: OK. This is another discussion, one in which I am not equipped. “The Simpsons” are not my generation so I will defer to your son on this.

MR. REINSCH: They are definitely his.

Going back to China, trying to circle back to the point – (laughter) – there’s – for a long time, we followed the Zoellick policy, which is let’s encourage them to do what we want. Let’s encourage them to come into the Western trading system. Let’s encourage them to behave like everybody else.

MR. SCHWARTZ: And they constantly complained that they were being contained, which they were.

MR. MILLER: Well, off and on. Sometimes they actually acted like they wanted to cooperate. So – to be fair.

MR. REINSCH: I think Jian Zemin and Zhu Rongji, who were the head – leaders of China when they came into the WTO, they wanted China to fit into the Western trading system.

MR. MILLER: And they used it for reform internally.

MR. REINSCH: Yes, exactly.

MR. MILLER: Domestic reform was very impressive for a long time.

MR. REINSCH: They launched a campaign to get rid of state-owned enterprises. And he forced a lot of them out of business. He forced a lot of them to be combined. And then they left office. You know, and then we had Hu Jintao who didn’t really do much for 10 years. And now we have Xi Jinping, who is pursuing a much more aggressive, much more nationalist program of developing national champions and promoting state-owned enterprises. So people forget – people talk about how our policy has changed, which it has. It’s also true that China’s policy has changed. And I think this administration has concluded that encouragement is no longer doing the job. We have to beat them over the head, bludgeon them into submission. I don’t think that will work anymore than encouragement will work, but that’s what we’re doing right now.

MR. MILLER: But it’s not crazy to think that encouragement’s not a good strategy, with this current – this current administration in China.

MR. SCHWARTZ: Why is that?

MR. REINSCH: Or either.
MR. MILLER: Well, they – it’s inconsistent with what China wants to do for itself. I think encouragement worked when China wanted the kind of domestic reform it knew it needed to compete in the world. Now that they’ve achieved at least enough domestic reforms to be a large trading economy and to have attracted a big industrial base and those – and to have modernized to a great extent versus 20 years ago – China is much more modern – I just don’t think the current leaders see it as a solution to the problems they are trying to solve.

MR. SCHWARTZ: So should we expect that this new heightened tension between the U.S. and China isn’t just a blip, but it’s here to say, potentially even beyond the Trump administration?

MR. REINSCH: At the rate we’re going, yes. And you can see it starting to spill over into other areas. The near collision in the South China Sea the other day between one of our military ships – one of our naval ships and a Chinese counterpart. They came within yards of each other. This is not the first time this has happened. And it happened in Bush. It happened in Obama. Sometimes it was aircraft. But these things – and sometimes these things are sort of rogue commanders deciding to, you know, go beyond their instructions. You don’t even really know what’s going on. But I think we’re going to see more of that. I think it’s going to spill over to other areas. And we have – you know, I think in some part it is an inevitable response to what the Chinese are doing.

MR. MILLER: Yes. Look, companies are going to begin to hedge, if they haven’t already. The tariffs are part of that, incentivizing them to look for other ways to build their supply networks. So this is – it would not be a surprising outcome to have this continuation essentially start to delink the U.S. and Chinese economies.

MR. REINSCH: That’s what the policy is. That’s what I’m – it bothers me about bait and switch. They really want to delink – the American side, Ambassador Lighthizer, and the president want to delink the two economies. They want Americans to leave. And at the same time you’ve got Xi Jinping giving speeches saying we need to go it alone; you know, we need to do all this stuff for ourselves. So both countries are moving father apart rather than closer together.

MR. SCHWARTZ: And that’s dangerous, no?

MR. MILLER: It has its risks, yes.

MR. REINSCH: I think it’s always more dangerous for the long term. I mean, if you talk to military people who have always pushed what’s called mil-mil cooperation, you know, having the two militaries periodically get to talk – get together and talk – and they don’t talk about what is our policy. They talk about how to settle things like, you know, making sure our ships don’t collide with each other and making sure that we have channels of communication in case, you know, some pilot takes off and, you know, starts firing on somebody, that if it’s – you know, if it’s a rogue situation as opposed to an act of state that, you know, we find out about it and then don’t overreact, or vice versa. That is very important. It’s also the first thing to go when relationships get difficult. The Chinese have just canceled some of these, as I recall, as they just canceled one of our – one of our, I guess, aircraft carriers was going to make a port call in Hong Kong, and they said you can’t do that. When that stuff starts to unravel, you know, the fabric of communication that keeps us tied together and prevents us from making mistakes starts to unravel, you –
MR. MILLER: Then you increase the risk of an accident becoming bigger and less controllable.

MR. REINSCH: Yes.

MR. SCHWARTZ: Well, and to tie this back to Japan and the U.S. and TPP, after all, every former living secretary of defense, going back to Rumsfeld the first time he served, in the Nixon administration, was for TPP for national security reasons.

MR. REINSCH: That was really its biggest argument. It was – you know, the trade impact for us was going to be marginal. It had a good impact on some other people. It had a – it did have a favorable – it would have had a favorable economic impact in promoting the rule of law and a bunch of important rules that matter for our people down the road –

MR. MILLER: Intellectual property and so forth.

MR. REINSCH: IP, yes. And –

MR. MILLER: U.S. companies doing business in that part of the world need those kinds of things.

MR. SCHWARTZ: Yeah.

MR. REINSCH: But the big – the big thing it would have done, it would have cemented the U.S. position in the Pacific and basically maintained what had been the status quo of a balance of forces in the region. Now you have everybody thinking the U.S. is pulling out.

MR. SCHWARTZ: And us maybe having a bilateral deal with Japan, maybe not.

MR. REINSCH: We say we want bilaterals. The rumor is the Philippines is soon to be announced. There was a rumor that it was going to be announced a couple weeks ago, but that didn’t happen. I think that they end up being a poor substitute for TPP, and everybody knows it.

MR. SCHWARTZ: Bilateral agreements are a poor substitute?

MR. REINSCH: Yes, I think so.

MR. SCHWARTZ: Scott?

MR. MILLER: They seem to be a second- or third-best solution for most of the American firms that are engaged on a global basis. But then again, that’s not the – that’s not the domestic audience of this administration. This is a worker-centered policy, economic policy. I think the president believes in his negotiating skills and has personalized the trade agenda to the point that what multinational companies might prefer is incidental.

MR. SCHWARTZ: All right. Guys, this stuff’s really important – world peace, you know, containment, all these big issues, U.S.-China – but it probably pales in comparison to the USMCA and the fact that President Trump says that the NFL commissioner, Roger Goodell, called and thanked him
for a deal on Canadian ads. So all this national security stuff we’ve been talking about – (laughter) – I mean –

MR. REINSCH: Pales in comparison.

MR. SCHWARTZ: – pales in comparison to what we really care about, the NFL.

MR. MILLER: We fixed football. It’s awesome.

MR. SCHWARTZ: We fixed football. (Laughter.) There’s no longer – I guess President Trump and the commissioner, there’s some at least détente?

MR. REINSCH: They’re best buddies now, for two weeks.

MR. SCHWARTZ: So why? Because we have a deal for –

MR. REINSCH: Until there’s another knee incident in –

MR. SCHWARTZ: Right, no one’s kneeling right now. But so – and the NFL is new and exciting. You’ve got Patrick Mahomes. You’ve got Baker Mayfield for the Cleveland Browns.

MR. MILLER: Not losing every game. That’s just awesome.

MR. SCHWARTZ: Not losing every game. So there’s some really good things happening in the NFL. There seems –

MR. REINSCH: Not last night, however.

MR. SCHWARTZ: Not last night if you’re a Washington Redskins fan, but very, very big deal if you’re a New Orleans Saints fan.

MR. REINSCH: Record-breaking passing.

MR. SCHWARTZ: Record-breaking night for Drew Brees. He is the all-time leading passer in the league. And on the very same day that this happened, my son, Ben Schwartz, committed to play football at Tulane University next year.

MR. REINSCH: Oh, did he really? Well, congratulations.

MR. SCHWARTZ: Thank you. Thank you. It’s a big deal.

MR. REINSCH: You must be a proud father.

MR. SCHWARTZ: I am a very proud papa today.

MR. MILLER: If they play Ohio State again next year, he’ll get a lot of time on the field punting.
MR. SCHWARTZ: Oh, man. They’re playing Auburn next year. They’re not playing Ohio State next year. (Laughs.) Almost as bad, they’re playing Auburn.

MR. MILLER: I know that – I know playing in Columbus is really good for the athletic department’s revenue, for Tulane.

MR. SCHWARTZ: It’s good for revenue. It’s good to aim a little higher than the American Conference. They have a tough schedule, though. They play the University of Central Florida, Navy, Army, some really good teams.

MR. MILLER: Those are good teams.

MR. SCHWARTZ: All right. But anyway, but that’s – all that’s beside the point. The NFL and President Trump have agreed on something, and it has to do with Super Bowl ads. And the president said, you know, hey, it took me a couple minutes to fix this and I fixed it, and now our country’s going to be taking tens of millions of dollars more money. What happened here, Scott?

MR. MILLER: Well, this goes back to – well, the bigger picture is the USMCA, not including the schedules, is 1,186 pages long or something like that. It’s a very, very involved document. And because of the complexity of the negotiation, there’s room to fix little problems along the way. And, in fact, because the trading relationships between the United States, Canada, and Mexico are big, there’s probably a lot of little problems. You can count on it. And so this was one of them that appeared to get fixed, which is kind of cute and clever, but it probably happened to several dozen other nagging problems that we just don’t know about.

In any case, in this case what happened is, look, the Super Bowl is a very popular program worldwide. Like many international sporting events, there are local rights negotiated to broadcast the game in other markets. So a Canadian broadcaster acquired the rights from the NFL to broadcast the Super Bowl in Canada. In doing so, they had to make some revenue estimates, and unfortunately in 2016 there was a broadcasting commission in Canada that ruled that the Super Bowl broadcast in Canada needed to carry American advertising, not Canadian advertising. This reduced the attractiveness of the broadcast rights to the Canadian affiliate, the Canadian company that owned the broadcast rights, therefore fewer royalties back to the NFL. They could generate less revenue from Canadian viewers, and therefore they could afford to pay the NFL less. So, ultimately, it was the NFL who was harmed by this Canadian regulatory decision.

It appears what has happened in the USMCA is that decision has been reversed. The Canadian broadcasting unit can now sell and air Canadian commercials, so Molson instead of Budweiser, and –

MR. SCHWARTZ: But if you own a – if you own a dry-cleaning business in Toronto, you can now advertise?

MR. MILLER: Yes. All it takes is money.

MR. SCHWARTZ: Right.

MR. MILLER: But you could advertise on the Super Bowl. You’d be –

MR. SCHWARTZ: Got to be a pretty big dry-cleaning business.
MR. MILLER: Or a pretty big wallet to do that. You can have a small dry-cleaning business if the wallet’s big enough.

MR. SCHWARTZ: With a big wallet, right.

MR. MILLER: But in any case, all of a sudden the Canadian – the Canadian rights picture looks better for revenue, which looks better for the licensing arrangement the NFL can achieve. Therefore, Roger Goodell and company benefit from the arrangement, and I guess they’re happy.

MR. SCHWARTZ: They don’t just collect nationally, they collect globally.

MR. MILLER: Yes they do. Now they can collect more in Canada.

MR. REINSCH: But what are viewers going to do? Because don’t they want to watch the American commercials?

MR. MILLER: Well, viewers –

MR. SCHWARTZ: That’s the question I have.

MR. MILLER: Viewers have options, OK?

MR. SCHWARTZ: They have YouTube. (Laughs.)

MR. MILLER: I lived – they have YouTube, yes. But back before YouTube, it was not unheard of for people in Toronto to drive to Buffalo to watch Bills games.

MR. SCHWARTZ: Sports bar.

MR. MILLER: Either in person or at sports bars in Buffalo. Put a little shopping with it while you were there, and it was all on day’s – all on a day’s laughs.

MR. SCHWARTZ: Sure lots of folks could get to Detroit pretty easily.

MR. MILLER: And a lot of the – a lot of people in Ontario can also get to Detroit. But so there are lots of – there are options. Consumers have options. And in this day and age of internet high-speed broadcasting and high-speed feeds, consumers will watch what they want to watch at the end of the day.

MR. SCHWARTZ: All right. So this is a solution. And I guess President Trump, during Super Bowl evening, where there will be millions and millions of viewers watching, will be able to claim credit for having brokered the peace, fixed something with the NFL. All will be happy. All will be well. It will be huge.

MR. MILLER: It’s one of the more luxurious components of the USMCA.

MR. REINSCH: But the basic point is one that Scott made in the beginning. There’s probably dozens of these in the agreement.
MR. SCHWARTZ: Right, there’s a lot of little things.

MR. REINSCH: And we’ll – it’s going to take some time to tease them out one by one. That was one of the ones that people noticed. It solved a wine problem, the details of which I’ve forgotten. But British Columbia has –

MR. SCHWARTZ: Because you drank too much wine, or because –

MR. REINSCH: That would not have anything to do with it, I can assure you.

MR. SCHWARTZ: OK. (Laughs.)

MR. MILLER: That’s a separate problem, could not be solved by the USMCA. (Laughter.)

MR. SCHWARTZ: OK.

MR. REINSCH: Exactly. British Columbia wine stores have been discriminating against foreign wines in –

MR. SCHWARTZ: How dare they.

MR. REINSCH: – product placement, shelf placement, and things like that, and we actually have taken them to the WTO over this.

MR. MILLER: Yeah, it’s a subject of a dispute at the WTO.

MR. REINSCH: And apparently this agreement solves that problem, in addition, from our point of view. I wonder – I’m sure there were a few of these that the Canadians wanted fixed that we ended up doing.

MR. MILLER: Oh, no doubt, and same with U.S.-Mexico. There are probably a whole bunch of little nuisance issues that never rose to prominence in the national debate, but it was an opportunity to solve them so they solved them.

MR. SCHWARTZ: And so now we have a framework going forward to solve them.

MR. MILLER: Well, that’s what –

MR. SCHWARTZ: In theory.

MR. MILLER: One would think that – well, trade agreements have always had these frameworks. The question is what gets on the agenda. I mean, every trade agreement the United States has ever negotiated has a – forms a what they call a free-trade commission, which is the trade ministers of the countries involved. This has always existed with the NAFTA. And they’re supposed to meet regularly and work on ways to improve the agreement. It’s harder than it sounds, obviously, because it doesn’t get done particularly often, but we ought to be doing that all the time and then maybe avoiding the future situation where we have a 23-year-old agreement that’s ripe for attack by politicians instead of constantly improved.
MR. REINSCH: And if that doesn’t work, the agreement retained the state-to-state dispute settlement mechanism intact. So if we have a problem like wine that we can’t solve, there is a mechanism intact in the agreement going forward where we can get it fixed. The people who lost on that were individual investors and companies because they used to have a similar process in which, if they had a grievance against – if you were American, an American company, and had a grievance against the Canadian government – which actually happened rather frequently – you could in – have one of these dispute-settlement mechanisms, which involved a neutral tribunal to adjudicate your case. That’s being phased out for the – with Canada.

MR. MILLER: Yeah. So there’s a three-year phaseout with Canada. It’s being restricted in terms of U.S.-Mexico. And so we’ll see – we’ll see what happens.

Throughout the history of investor protections, state-to-state dispute settlement has not always worked very well because it was a – it used to be called a spousal, but –

MR. SCHWARTZ: It’s put a lot of people to sleep, I’m sure.

MR. MILLER: Oh, I’m sure. (Laughter.) But basically you had to have a big enough problem to get your government to take it up with the other government. And individual – problems of an individual enterprise seldom rise to that extent.

MR. SCHWARTZ: OK. So, if you’re President Trump or part of the administration or part of the people who support the administration, you are feeling pretty good about your trade positions right now. You just got the USMCA done. You are holding China at bay. You’re bringing Japan to the table. Except for –

MR. MILLER: You’ve launched bilaterals with Europe.

MR. SCHWARTZ: You’ve launched bilaterals with Europe. Except for there was a stat that came out last week: the United States’ trade gap hits a six-month high as soybean exports plunge 28 percent. And there was also a study done by Brookings recently that basically said that all the people who are being hurt the most by the trade war, if we call it a trade war, are the people who supported the president, in the places that supported the president. So, if you’re President Trump, this is a little bit more complex than just everything’s beautiful and we won, or we’re winning.

MR. REINSCH: Yeah. Brookings had a great capacity to look at county data, you know, look at microdata in the country. And they looked at every county and looked at basically Trump counties and Clinton counties, I guess, and discovered that the retaliatory tariffs – not the ones that we’ve put on, but the ones that Mexico, Canada, China, EU responded with after we put the tariffs on steel or other things – they are skewed toward Trump country, probably deliberately. Some of the – some of the countries that have done it acknowledge that, that they were basically going after that. And it’s not just Trump country; a lot of it is designed to get focus on particular congressional leaders that happen to be Republicans.

MR. MILLER: Farm-state senators, things like that.

MR. REINSCH: Yes.
MR. SCHWARTZ: Well, the report seemed to suggest that it’s – that these places are targeted to mobilize political angst.

MR. REINSCH: That’s the idea. I don’t think there’s a lot of evidence that that’s happening, but we’ll see, yeah.

MR. SCHWARTZ: We’ll see in the election.

MR. MILLER: And when you start to select tariff lines for retaliation, your goal is to deescalate or resolve the dispute. So you select tariff lines to give you a political advantage – domestic political pressure that helps resolve the dispute. That’s why farmers get picked on in these things.

In terms of the overall trade deficit, look, my prediction is that the Trump administration is going to stop talking about the size of the overall trade deficit because, given the fast growth of the U.S. economy and the big spending, the deficit spending on the fiscal side of the house, and the current exchange rates for the dollar, there is no way – there is no possible forecast but for the current account to deteriorate, for trade deficits to get bigger over time.

MR. SCHWARTZ: But does that matter?

MR. MILLER: I’m not prepared to defend that it matters a lot in the short term. I do think that – over the long run, I think the experts would say that fiscal imbalances ultimately resolve themselves, and they tend to – they tend to unwind. But they can persist for a very long period of time.

MR. REINSCH: They resolve themselves if your current is – fluctuates and is convertible.

MR. MILLER: Yes.

MR. REINSCH: We’re a reserve currency, and it’s hard for us to do that.

MR. MILLER: And so it’s hard to predict, and it’s one of the reasons we’ve had a persistent current account deficit for 44 years now.

Having said that, in the – in the near term I don’t think it hurts a thing. Think of it as a – as a benign tumor more than anything else. People don’t like the look of it. They shudder when the numbers come out. But it doesn’t really interfere with life.

MR. SCHWARTZ: But it may be a drag on the economy.

MR. REINSCH: The IMF certainly seems to think so. They just came out with a lower growth – global growth forecast, citing the uncertainty created by our tariffs and the uncertainty created by Brexit. It was not – the U.S. was not the only thing. But this is – you’re going to see, I think, more of those uncertainty – what happens when people are uncertain is they hang onto their money and they don’t buy, they don’t invest, and – because they’re waiting to see what happens.

MR. MILLER: Yes. Uncertainty is a detriment to prosperity. But at the same time, the U.S. economy growing at 4 percent is faster than either of its close neighbors – Mexico, Canada; faster than the world as a whole; faster than any industrial country, with the exception of China, which is not fully industrialized but still considered a developing market. So fast growth in the U.S. is going to increase
demand for almost everything that our economy uses: people, you can see that in low unemployment; domestic supplies, you can see it in the purchasing manager index; and imports, half of which go to produce something else. So as long as we are growing faster than our peer economies out there, we’ll continue to run a large and persistent trade deficit.

MR. REINSCH: Which we were supposed to do next year, but now the American economists are predicting recession in 2020, just in time for the next election. This is an interesting development. People are beginning to look farther ahead. And I mean, even when the tax bill was passed last year, people were forecasting that it’s only – it’s going to provide a short-term stimulus shot, and then that fades away. And then the question was, so how quickly will it fade away? And do you ever really have to pay for it? Which is what Scott was alluding to earlier. People are now beginning to look at growth patterns, the IMF projection of globally slowing growth, and suggesting that U.S. growth is going to slow significantly starting in 2020. And that’s ironic, actually, because what Trump is benefiting from is a recovery that began before he was elected. This is, what – this is the, I don’t know, 144th month of, like –

MR. MILLER: Yeah, it’s like nine-and-a-half years.

MR. REINSCH: – of growth, of expansion, or something. So he benefits from that. He’s taking all the credit of something that began before him. And now, if it starts to go down in 2020, he’s going to get the blame, whether he’s responsible for that or not.

MR. SCHWARTZ: How will he be able to deflect that?

MR. REINSCH: Oh, I’m sure he’ll find a way. It’ll be Obama’s fault, probably, or the fault of his opponent, because his opponent will be advocating economic policies that will make everything worse. You can be sure about that.

MR. MILLER: This is one of the reasons, I think, that President Trump might like a Democratic Congress next year.

MR. SCHWARTZ: We’ll have to see.

(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)