TRANSCRIPT
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“A Value-Based Trade Policy”

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Transcript by Rev.com
Scott Miller: I’m Scott.

Bill Reinsch: I’m Bill. And we’re the Trade Guys.

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. On this episode of the Trade Guys, we’ll catch up on the latest trade news coming from Capitol Hill, where Senate Majority Leader, Mitch McConnell, is calling for the president to resolve the China trade war, and for Democrats to move on USMCA. Plus, we’ll break down talk of the administration limiting US investment into China, a move that could have huge economic implications. We’ll talk about all that and much more on this episode of the Trade Guys.

Andrew Schwartz: Gentlemen, we’re hearing some noise from Capitol Hill. Yesterday, senate Majority Leader, Mitch McConnell, told CNBC Monday...

Mitch McConnell: Well, I’d sure like for it to reach some resolution soon. It’s been very tough on American agriculture, and my party is very deeply based in rural America and small town America.

Andrew Schwartz: “I hope the president can get a good outcome here,” McConnell said. It doesn’t sound like a lot of pressure. It’s slight pressure.

Scott Miller: Yes. Well, the majority leader also said he admired the president's willingness to take on China.

Andrew Schwartz: He did. He did.

Scott Miller: The key to this comment is Senator McConnell is on the ballot, November 2020.

Andrew Schwartz: And there’s some farmers in Kentucky.

Scott Miller: Last I checked. Yes, quite a few. I think what he’s doing, he has a couple of audiences. He has his colleagues in the Senate, he has his constituents in the state of Kentucky, and he has the public at large. I think he has managed to, as we would expect from a very savvy, very clever political player, somebody who always plays the long game, to manage to make a comment that didn’t really alienate anybody. But good politicians tend to have it both ways, which sounds like what he did.

Andrew Schwartz: Well, in the great state of Maryland and the District of Columbia and I’m assuming Virginia too, it didn’t rain for about a good month until yesterday.

Bill Reinsch: Yes.

Andrew Schwartz: And my lawn is the worst for it.
Scott Miller: So, the little plot of land your farming is suffering from drought?

Andrew Schwartz: Yeah, that's exactly. [crosstalk 00:02:21].

Bill Reinsch: The soybean crop is in trouble. Is that what you're saying?

Andrew Schwartz: Our soybeans are in trouble, so I'm imagining that the soybeans elsewhere in the mid Atlantic region in the South, other places are not doing so good, just from the drought alone.

Scott Miller: Sure, weather has actually been tough this year, because many places, at least in the corn belt, started out very wet in the spring. Farmers couldn't get in their fields. And now it's been dry for some time. Weather is always a factor that farmers have to deal with, and not much they can do about it except complain.

Andrew Schwartz: They're dealing with weather, but they're also dealing with the trade war with China. And while they too probably admire the president for taking this up with China, and they've certainly backed him at the ballot box, there might be some question as to what they're going to do in this next election. If their lives are made miserable, including maybe some of them are going to lose their farms.

Bill Reinsch: There's been an increase in farm bankruptcy. I think that's growing. There's been some erosion in support for him, not nearly as much as I would have thought simply based on the facts. The Trump administration's story has been, "Short term pain, long term gain. We're doing the right thing on China, and there's going to be some short term costs, but in the end we'll win and it will all sort itself out." And I think a lot of people have bought that. We've talked before about the widespread public support for the president doing something about China.

Bill Reinsch: It's very hard to argue that he's conceptually wrong. It's the second half, it's the short term pain people, the farmers will say they're buying, but it's beginning to turn into longterm pain, and no gain. Because this has been going on now for a year. The tariffs keep getting broader and bigger, and they keep not selling very much stuff. So I think they're getting nervous.

Scott Miller: A point that Bill's made frequently on this program, is that the president is not likely to conclude a deal anytime soon.

Andrew Schwartz: That's right.

Scott Miller: So the pain continues. This is going to be chronic. It's going to be one where while the policy seems right, the implementation will be questioned more routinely. And so there'll be a point of pressure, which is frankly, if we want self government, having political pressures usually a pretty good thing. So we'll see what becomes of it.
Andrew Schwartz: So what's the breaking point for Republicans and what's the breaking point for the farmers?

Scott Miller: I don't think we know yet. But I'm recalling our conversation with Blake Hurst of the Missouri Farm Bureau.

Andrew Schwartz: Yeah.

Scott Miller: And his comment is usually is the February, March period-

Bill Reinsch: When they go back to the bank.

Scott Miller: When farmers are seeking loans to get their crop in for the coming summer. That's the moment at which, if there's a crisis, it'll emerge about that time.

Bill Reinsch: I think that's right. I also think in political terms, that our elections are always binary. It's not just about whether you're pro or against the ... For or against the incumbent. It's about who the other person is. I don't think you're going to see a material change in farmer support for Trump until there's a democratic nominee and they can make a judgment.

Scott Miller: Yeah. Especially-

Bill Reinsch: Is this guy going to be better than that guy?

Scott Miller: Especially in a reelection race. It's almost never a referendum on the incumbent. It's a choice. It's basically four more years of time for a change. That's what the voters net down to, in an election like this one where you have an incumbent president running for reelection. And sometimes it's time for a change. As you're reading back in the election of 1912, where the incumbent president, William Howard Taft, got a whopping eight electoral votes. He carried two States, Vermont and Utah.

Andrew Schwartz: That was because of Teddy Roosevelt.

Scott Miller: Teddy Roosevelt split votes. But it was an odd election. But every once in a while it is time for a change. But that's the choice. Four more years, time for change.

Andrew Schwartz: Well, there's a more recent example, I think in '08.

Scott Miller: Yes.

Bill Reinsch: The voters felt they'd eight years of Republicans and it was time for a change. And Obama won. I think frankly, at that point any Democrat would've won, because I think the people made up their mind, it was time for a change. I think in 2016 the same thing happened again. Now in 2020, Trump will say ... And question for elections is always, are you better off now than you were four years ago? And Trump is going to say yes, and his
opponent, if he has any brains is going to say no. And then that’s what the
debate will be about. And in part it’ll really depend, I think more on
economic conditions a year from now, than it does right now.

Andrew Schwartz: So when should the Republicans in Congress, McConnell and others, put
more pressure on Trump to get a deal done sooner?

Bill Reinsch: Well, I think from the McConnell quote, it's already beginning. And he’s an
awfully subtle person.

Scott Miller: Yes.

Bill Reinsch: And you have to really pay attention to figure out what he's talking about. I
think as we head into bank season, January, February, March, I think the
comments will become less subtle, and pressure will become greater. But
there’s a caveat there, which is, and I think we talked about this last time.
One of the things that can happen with China in particular, is an interim deal,
which Trump has said, "I'm not going to do." But on the other hand, he says a
lot of things that he ends up doing the reverse. I think right now an interim
deal would solve exactly the political problems you’re talking about. It
would be a deal in which the Chinese would buy more agriculture stuff,
which they want to anyway. They have their own pork crisis as we’ve been
reading. They’ve had to kill so many pigs. They want to buy more stuff.
They've got a little bit to think they can do a little bit on IP, if they're
promising not to steal anymore IP. Because they've promised that before. So
promise it again.

Bill Reinsch: That would do a couple of things. It would provide some relief for the
farmers, it would relieve some of the pressure you’re talking about. It would
give Trump an excuse not to impose the next round of tariffs, which would
avoid a consumer crisis around the holidays. And it kicks the can, six
months. Now the problem of course is then, next spring you’re going to have
to do it again or come up with something else, because I think this is going to
drag on for a year. But you can ameliorate the short term pressures by doing
things like that.

Andrew Schwartz: And he can still claim a win.

Bill Reinsch: Sure. Yeah. Well he'll claim a victory regardless. But he has to say now that
it’s interim, because it won’t be what he wants. He has to get over the reality
that it won’t be the greatest agreement in the world that he's expecting. So
he’s going to say, "This is just the first bite, and we’re going to come back
and [crosstalk 00:08:44]."

Scott Miller: Which is frankly a good way to manage the politics. President Trump is
unconventional, but every Republican president, unconventional or not,
basically gets things done because of farm state Republican senators that he
needs to rely on. That’s how bills wind up getting to his desk. So he will be
very attuned to that in the coming year, I'm sure.
Andrew Schwartz: These are all the red states that put him in office-

Scott Miller: Correct.

Andrew Schwartz: So he has to... Even though all these members are seriously loyal to him, if they're talking about their interest, and again, with them all politics is local. He's going to listen you think?

Scott Miller: I think the thing to watch is the own party support among voters. At the moment, the president has about, according to Gallup, 88 or 90% support among Republican voters.

Andrew Schwartz: Yeah, he's very popular among-

Scott Miller: As long as Republican senators' voters support the president, he'll get their support. So that's the variable to watch.

Bill Reinsch: Keep in mind too, agriculture is an important issue in the States that you don't always think about. It's a big issue in Wisconsin. It's actually a big issue in Michigan.

Scott Miller: Yes it is.

Bill Reinsch: Sugar beets, fruit, a whole variety of things. Not exactly corn and soybeans. It's a big issue in Ohio. It's a very big issue in Pennsylvania, which I learned working for Senator Heinz. Nobody thinks that. Their father-in-law was a farmer and he grew cattle, but corn and soybeans as well.

Scott Miller: Senator Stabenow from Michigan is still the ranking member on the agriculture committee in the Senate. So those states do factor in.

Bill Reinsch: It's hard to envision Nebraska, or North or South Dakota tipping into the blue column in the election. It is not so hard to imagine a bunch of farmers in Wisconsin and Michigan staying home-

Andrew Schwartz: Pennsylvania.

Bill Reinsch: And Pennsylvania staying home, and then tipping the state.

Andrew Schwartz: Ohio.

Scott Miller: That's where the electoral dynamism is. Keep in mind the president won in 2016, he won the state of Michigan by 10,000 votes.

Andrew Schwartz: Right.

Andrew Schwartz: And we're hearing from our sources that in Southern Ohio, farmers are antsy, and they're not happy.
Scott Miller: Yeah, it's tough. It bears watching carefully.

Andrew Schwartz: So that is something to absolutely watch and we'll watch for signals from McConnell and his colleagues as we go along. Changing topics slightly, Peter Navarro sent a pretty strong signal on CNBC, where he said that recent reports that the United States is considering restrictions on Chinese companies. He called them grossly inaccurate. He called them fake news. There were reports that Chinese companies were going to be de-listed from the US stock exchange, and that US investors were not going to be able to invest in Chinese companies. And so Navarro comes on TV on CNBC and calls this fake news, but the investment community is taking this pretty seriously. What do you guys think about this?

Bill Reinsch: I don't think it's entirely fake news. Secretary Mnuchin made a similar denial over the weekend, but it was carefully calibrated. It said, "We are not contemplating doing that at this time." And "At this time", is one of those phrases that, maybe we're contemplating doing it tomorrow, but we were not contemplating doing it on Saturday. I think it's very much on the table. I also don't think they're very near a decision. So in a sense Navarro is right in that I don't think anything's imminent, because it's complicated and there are a lot of different issues. Some of them are quite old. The delisting issue for example, that's a debate that's been going on for 10 years, that precedes this administration. The Public Company Accounting Oversight Board, the PCAOB has for a long time been upset that what is essentially a clash of sovereignty.

Bill Reinsch: If you want to be listed on American Stock Exchange, you've got disclosure and transparency requirements, that the PCAOB insists on. Chinese companies routinely don't meet those standards, because the Chinese government forbids them from doing so. And they regard it as an intrusion on their sovereignty. We've been negotiating this on and off with the Chinese for 10 years without success. It's a legal issue, because US regulatory law and obligations are clear. And I think people are running out of patients here with the fact that we have a double standard. So that's one issue. Now going much further and saying that for example, one of the other things on the table is that pension funds should not, or will not be able to invest in Chinese companies. Or will not be able to track indices that use Chinese companies as part of the index. That is much bigger, much newer, much more controversial, and I think it's far from being resolved.

Scott Miller: And potentially dangerous. The United States economy benefits massively by our open investment policy. We are both the largest foreign investor abroad, and the largest recipient of foreign direct investment in the world. Thousands upon thousands of jobs come from foreign direct investment in the United States. And just to look in the financial markets, in the idea of exchange traded funds are listed. Any listing on our stock exchanges, it's our depth of capital markets that attracts capital to the United States. Also our neutral rules. So as this moves forward, Bill's right, there has been a long dispute about whether Chinese firms actually meet the standards that the US
regulators apply. But I think you’ve got to look at this practically. What we want are neutral rules, and we want them for abroad, as well as for foreign firms at home. Now CFIUS provides that. The only investment review we have, is 40-

Andrew Schwartz: CFIUS, the Process of [crosstalk 00:14:10]?

Scott Miller: Committee on Foreign Investment in the United States, is a review of national security and national security only. And many of us think that’s the way it should be. But also if you get to the point of putting barriers to Chinese investment in the United States, whatever they may be, you’ve got to keep in mind, the amount of US investment, foreign direct investment and portfolio investment in the people’s Republic of China. It dwarfs the Chinese investment in the US. And so if reciprocal barriers are put in place, you have massive US stranded capital in China. And all of a sudden American firms are hurt badly, that’s going to show up in our economy.

Bill Reinsch: There’s also an argument that’s being newly articulated, including by some people in the administration. And in fact CSIS is going to have a session on this in a couple of weeks. It’s the values argument. There’s a legal argument, and sort of an economic argument. What we’re beginning to see is the value argument. The United States is a country that respects human rights, freedom, liberty, the private sector, opportunity. China’s a country that respects none of those things. Do we really want to be doing business with them?

Scott Miller: Now consider that policy angle in light of Senator Warren’s trade policy that she’s announced. It is a values base. It’s a class warfare based, but it’s also a values based trade policy. She wants to use the Trumpian leverage about openness to the US market. So we trade and invest in companies that share our values. This is not a sort of a wingnut idea.

Scott Miller: Well it’s a two wingnut idea.

Scott Miller: It’s a dual … It’s two way [crosstalk 00:15:45].

Bill Reinsch: A classic illustration of what happens in trade is the far left and the far right end up shooting at the center. And this is another illustration of that. The far right says the Chinese are evil, because they’re out to get us. And when I was on the China Commission-

Andrew Schwartz: And what does the far left say?

Bill Reinsch: The same thing from an economic perspective. What I discovered in the China Commission, was the Republican commissioners … It was six and six. The Republican commissioners all thought China was an existential military threat. And the democratic commissioners all thought that China was an extensional economic threat. And they fed on each other, so they proved very apocalyptic negative reports. Senator Warren doesn’t want to do
business with countries whose policies oppress workers and don't respect the environment, and do a whole bunch of other [crosstalk 00:16:31]. That don't respect human rights. The right doesn't want to do business with a country that A, is communist, and B is-

Andrew Schwartz: Takes advantage of us.

Bill Reinsch: Take advantage of us, as pushing the countries around in the South China sea.

Scott Miller: And it's a geopolitical threat.

Andrew Schwartz: Yeah. A national security threat.

Scott Miller: Sure. Right.

Bill Reinsch: None of which has a lot to do-

Andrew Schwartz: And steals from us.

Andrew Schwartz: A lot of things.

Bill Reinsch: Well, yes. Then what happens if you take that view is, then you have a search for what can we do to get them? What can we do to hit them? And this is the new thing, delisting or going after the pension funds or their investments here.

Scott Miller: Yes. So life is still hard to be a centrist on trade policy, but that's the right place to be.

Andrew Schwartz: But you're saying there really is a case to limit US investment in the Chinese market? Both from the right and the left

Bill Reinsch: This is more about Chinese investment in the US market. Well, no, it's both.

Scott Miller: It's both.

Andrew Schwartz: One of the things that Navarro and Mnuchin denials of this story was they wanted to calm US investors.

Bill Reinsch: Yeah. It's about decoupling. That's the fashionable word these days, and it's another way to pull the two economies apart. To say we don't want your money and you can't have our money.

Andrew Schwartz: And what does that do ultimately?

Bill Reinsch: Slows down growth in both countries and it retards growth. It also retards innovation.
Scott Miller: Yes.

Bill Reinsch: People will tell you that if you're separating, it retards competition. And that's going to lower productivity improvements, it's going to lower innovation and growth.

Scott Miller: Plus, if this is done with precipitous government action, it increases both complexity and a lack of predictability, and makes the markets even more nervous.

Andrew Schwartz: What does Wall Street want?

Scott Miller: Well, more than anything else, predictability.

Andrew Schwartz: And there's none here.

Bill Reinsch: Yes, I think Scott ... They want to be left alone, but-

Scott Miller: Yeah, but they're not going to get that.

Bill Reinsch: It's a little late for that. But after, '09, I don't think that's going to happen. But I think an uncertainty is he's right. The predictability is the key point. Uncertainty is the, the bane of every financial person's [crosstalk 00:00:18:20].

Scott Miller: Always, and it does great harm to prosperity in the long run. If you sustain an uncertain environment, you leave investment on the sidelines, you lose productivity growth, you lose innovation. And sooner or later you get poorer.

Bill Reinsch: People sit on their money.

Scott Miller: Right.

Bill Reinsch: And if they're sitting on their money and they're not growing, they're not investing, in the long run it doesn't pay off for anybody. If they don't know what to do, or if they don't know if their investment this month in a Chinese company is going to be illegal two months from now. They wait.

Andrew Schwartz: Finally, gentlemen, we cannot get through a podcast without talking about “USMCA”. It's still back-a. And ... Yeah, I know.

Bill Reinsch: You're going to run out of puns one of these weeks.

Andrew Schwartz: I know, I know. But Scott got it started. “USMCA” is so great.

Scott Miller: Yeah, it's all my fault.
Andrew Schwartz: Both leader McConnell and leader McCarthy, Kevin McCarthy from the House, wrote an Op-Ed in the journal the other day. And basically they said the US ... They called for the USMCA to get done. They called on Democrats to put it through. And one of the things they said was USMCA would also help keep North American partners close, while the United States hangs tough with China. What do you think of that?

Scott Miller: The Op-Ed was basically right. The timing of the Op-Ed was because the USMCA was signed a year ago. This has been sitting around for a year now.

Bill Reinsch: Agreed to a year ago. They didn’t sign it until December 1st.

Scott Miller: That’s right, it was agreed to. They notified that they were going to sign, but it’s been a year. And this happens a lot when administrations deal with Congress, particularly one party unity all across the Hill and with the White House. So this is not unexpected. There’s a lot of good work going on. On the negative side, Congress always winds up with a pile up of important issues at the end of the year. They’re gone for two weeks now, that when they come back there’s six weeks roughly speaking of session left. And there’s a very long to-do-list. Now the positive, once the negotiations with the Ways and means committee are completed, as I understand it, there’s really nothing left to do but vote. So of all the things this fall, which could cause distraction, if Chairman Neil and the working group reach agreement with the administration. At that point, they are basically saying we’re ready for a bill. Once the bill’s introduced it can’t be amended. It’s on a fixed timetable. So-

Andrew Schwartz:: And it’s going to pass.

Scott Miller: Well you might as well just vote on it, at that point.

Andrew Schwartz: And so is it fair for the Republicans to be claiming that the Democrats have turned “USMCA” into a political football?

Bill Reinsch: Well, no. I give the Democrats more credit than that. I think they’re genuinely trying to get to, yes. The Republicans will always do this, because it divides the democratic party. There’s people that are irreconcilably against any trade agreement.

Scott Miller: Yeah. This is good politics for Republicans and tough politics for Democrats. So yeah.

Bill Reinsch: I don’t think there’s been an undue delay, and I think Scott is exactly correct. Once there is a deal, if there is one, it’ll all go very quickly, and I think this is going to be over with by Thanksgiving. I continue to think that.

Andrew Schwartz: They’ll vote and it’ll be approved by Thanksgiving?

Bill Reinsch: I think so.
Andrew Schwartz: Then Canada will follow our lead and sign it? [crosstalk 00:21:27].

Bill Reinsch: That's probably on their election.

Scott Miller: Yes, but what the Republicans are indicating is they're not going to give up on this and they're not going to stop poking the Speaker to get on with it. This is a talking point that they're going to continue to use.

Bill Reinsch: Yean they're vulnerable on it. First of all, it's a classic case of changing the subject. If you don't want to talk about impeachment, let's talk about something where we can point the finger to the Democrats.

Scott Miller: Sure.

Bill Reinsch: Of course the other problem that the Senate Republicans have to face, this is not a McCarthy issue, it's a McConnell issue. If you want to talk about the graveyard of legislation in the US Congress, it's the US Senate, the US House have past hundreds of bills and the Senate hasn't done anything with any of them.

Scott Miller: I think there's a T-shirt available on the McConnell reelection campaign website that basically summarizes that point. The leader is quite proud of that fact.

Bill Reinsch: Yes. When I moved from the Hill to the executive branch, one of the things that bothered me about the executive branch was that I thought it was full of people who go home, thinking they had a good day if they stopped something from happening. And that the mindset on the Hill was to finish. It was self-serving. You wanted to finish because you wanted to get the press release so you could take credit, but that seems to have changed now. McConnell thinks he has a good day if he stops something from happening.

Scott Miller: Well look, we had several majority leaders of both parties who liked the House better than the Senate and tried to turn the Senate into the House. So we're down that path quite a ways. But at this point obstruction seems to be worth it for point scoring only. That was also true when you had a democratic president, a Republican House, and a Democratic leader in the form of Senator Reid a few years back.

Bill Reinsch: I wish for the days when you could actually have a vote on something. I went to a reunion on Saturday, I went to a reunion of Senate Banking Committee staff. People that worked in the banking committee in the '80s and early '90s.

Andrew Schwartz: That must've been a hootenanny.

Bill Reinsch: It was much more fun than you would think. You say the word banking and people's eyes roll. But this was a good group and an interesting group. One of the comments that someone ... It was not a group discussion, but I was
talking to one of them, and one of the comments that someone made in passing, one of the things they admired about Senator Proxmire who was chairman for a long time and mostly.

Andrew Schwartz: William Proxmire.

Bill Reinsch: Yeah, Wisconsin, most of that period was ... Proxmire’s view was that you ought to let the committee vote. And even if he didn't have the votes, he would hold the meeting, and he would let them vote, because he thought that was the right thing to do.

Scott Miller: Now this reunion-

Bill Reinsch: And I think that was the right approach.

Scott Miller: At the reunion they handed out T-shirts that said, "Get off my lawn."

Andrew Schwartz: Gentlemen. As always, it is great fun chatting with you. Until next week, keep it real. Stay with the Trade Guys. We'll be back.

Andrew 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. We’re also now on Spotify so you can find us there. When you're listening to the Rolling Stones or you’re listening to Tom Petty, or whatever you're listening to. Thank you, Trade Guys.

Scott Miller: Thanks Andrew.

Andrew Schwartz: You've been listening to the Trade Guys, a CSIS podcast.