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 take live and emailed questions from our audience from the Centers for International Business Education. Has the trade war from China spilled over into non-tariff barriers? What's next for USMCA? And are the Trump administration’s new agreements really all that new? All that and more on this episode of the Trade Guys.

Okay. Our first question is from Debra Glassman from the University of Washington. And Debra asked, "To what extent has the tit for tat tariff war with China spilled over into no tariff retaliation?" I think she’s asking about non-tariff barriers. For example, have US firms experienced slower Chinese government approvals or regulatory crackdowns? Is China likely to slow walk re-certification of the Boeing 737 Max? Is this just a tariff fight or is China done behind the border sneakier measures?

I hear it’s definitely spilled over. There is growing anecdotal evidence from companies that they are experiencing longer than normal delays in getting approvals and increased number of inspections. One actually CEO indicated to us that he’d had I think 457 additional inspections recently. Yes, there’s definitely a spillover effect. I don’t know if there’s data on it. Scott?

What I’ve heard the same kind of anecdotal information, but it happens a lot in agriculture, particularly fresh produce or fresh fruits and vegetables that it just, something gets delayed and the container sits in port too long and the product spoils. But also there is the opportunity for sort of discriminatory inspections that technically qualified as a reasonable protection of human health, are done in such a way that there’s a lot more scrutiny to American imports than there are to other imports. This happens a lot in agriculture trade worldwide. I’m certain it’s happening in China.

Foreign invested enterprises, US invested in enterprises in China, China has never been shy about using its regulatory apparatus to speed up or slow down depending on how they feel about you at a moment in time. And given that the Chinese government has stated its plan to identify sort of good guys and bad guys in the corporate world, I forgot the exact title of that, but this is something that we should have expected. Most businesses in China both expected and deal with it. I don’t anticipate it slowing down.
Bill Reinsch: It's not all negative to be fair about it. Last week I recall PayPal got Chinese approval to operate there, having tried for a number of years along with major credit card companies, and I think this was an interesting case because we actually won a WTO case on this back I think in 2011 something like that. And even though we won, the Chinese had been resisting compliance. This is the first big company to get this kind of approval. I suspect that they did it partly because they were under some WTO pressure to do it. Partly because they're telling the rest of the world they're the good guys on adhering to the rules. And this would be one that would be a bad example if they don't, but also I think it's because for PayPal it's too late. There's UnionPay, there's Alipay.

Scott Miller: There's local competition.

Bill Reinsch: The Chinese have already got the market. PayPal will get 3%. Now the footnote there is 3% of China is a lot of money. It may sound, the percent may sound small, but it could be...

Scott Miller: It could add up to real...

Bill Reinsch: It could be a very profitable enterprise for them.

Scott Miller: Business.

Bill Reinsch: Even though I would be surprised if they get beyond a niche part of the market. And I think the Chinese approved it knowing that that's what was going to happen. It was not a threat to the established companies.

Scott Miller: I think the short answer is yes, these things happen. They happen with China, but China's not the only one that has dealt in these kinds of practices over the years.

Mark Ballam: My name is Mark Ballam, I'm with San Diego State University.

Andrew Schwartz: Cool.

Mark Ballam: And as you can imagine being in San Diego right on the border with Mexico, we're very interested in seeing the USMCA pass. The question I had for you was, you mentioned that Ambassador Lighthizer and committee chairman Neal are negotiating some aspects of the agreement and I'm wondering how that can happen. The agreement's already been ratified by Mexico, so what could we possibly be renegotiating at this point?

Bill Reinsch: Well, there's a lot.

Andrew Schwartz: I was going to say, couldn't we be renegotiating?

Bill Reinsch: First of all, we actually, if you go to our website, the CSIS.org website and go to the Scholl Chair, we just issued a paper that looked at every trade
agreement we’ve negotiated since the original NAFTA to study how many of them went back for renegotiation and how many of them were reopened. And what we concluded was, I think that there were, most of them had side letters or sort of amendments that were attached, and I think three of them went back and were actually reopened and renegotiated. It’s not unusual or unheard of to do that. I think Ambassador Lighthizer doesn’t want to do that and there may be solutions short of doing that.

If you think about it, look at it this way, one of the issues where the Democrats have complained is inadequate enforcement, which is an issue that people, a lot of people sympathize with. It’s one thing to negotiate an agreement. Then if you don’t pay any attention to it and nobody implements any of the provisions, you really haven’t gotten anything. Enforcement is important. But if you think about it in the context of the U.S.-Mexico, enforcement really sort of has two parts. Part one is what are the Mexicans going to do? And how do we make sure they’re going to do what they’re going to, they do what they promised? And which relates to part two, which is what do we do if they don’t?

That latter point is unilateral. The question, what actions the United States can take under its own laws is something that we can address. And we can address it in the implementing legislation. What actions we want the Mexicans to take, we can address that in the implementing legislation as well in terms of what we are going to ask them to do. Or for example, setting up a process that would allow us to determine whether or not they are keeping their word. Senator Wyden and Senator Sherrod Brown of Ohio proposed a solution to this that involves inspections. That American parties could go down to Mexican factories and look to see if the various Mexican commitments were being kept. And they indicated that they were willing to make it reciprocal, that the Mexicans could come up here and do the same thing, which is a little bit controversial. That can all be done within the context of a bill that sets up a process for doing that. The agreement is silent on that, so you don’t violate the agreement if you add all these sort of extra bells and whistles. That’s an illustration.

Scott Miller: Yeah, sure. This is basically, think of this as a feature of negotiating with the United States. Good news, gigantic home market, highly contestable, richest consumers on the planet. The downside, the bad news is our politics are screwed up. And so what you have is a USMCA negotiated by Republican administration and where the objectives were agreed with a Republican Congress. All of a sudden the agreement’s completed and there’s a Democratic Congress in charge, Democratic House. The narrative goes like this, House Democrats, it’s not good enough. Well, I’m sorry, it starts with the President. This is the most luxurious agreement in human history. Then you have the House Democrats saying, ”No, not good enough.” And then you have the trade representative saying, ”What’s not good enough?” Which is how we got to our list of four topics. Now we’re negotiating the four topics.
At some point, the counter offers are going to get accepted. At which point the House Democrats were saying, "There, we fixed it for you, now we'll move it." And so we're in the midst of that narrative. That's the storyline that's playing out right now. And fortunately, well I think the government of Mexico did a magnificent job of putting the right people in place. Jesus Seade, their chief negotiator and economy minister under AMLO is a true professional. He was a deputy director general of the GAT. He's been in this business for a long time. They conducted this in a manner expecting this in the end game and they've been awesomely responsive to questions. They want to get to yes, Canada wants to get to yes. And they're going to let us have our games and play out our domestic narrative and we hope it all resolves.

Bill Reinsch: Where it gets tricky is in cases where the Democrats really are more focused, what they really want to do is change US law. And here Ambassador Lighthizer I think has a good argument, what the trade promotion authority bill that Congress in the passed in 2015 says, is that our trade negotiators should attempt to the extent possible to bring US law into these agreements. That the goal is to produce agreements that reflect existing US law. Well, there are some Democrats that don't like existing US law. The most obvious case that's on the table is a question of data protection for biologic drugs where US law provides 12 years of protection and the progressive wing of the Democratic party thinks that's too long and they think that actually they probably would...

Scott Miller: Zero.

Bill Reinsch: Zero would be good.

Scott Miller: Zero is probably the number they really have in mind.

Bill Reinsch: Five would be okay. Lighthizer's response really is, they got 10, what's in the agreement. Lighthizer's response was, "Well the orders I got from you guys," meaning the Congress, "was stick to US law and I did the best I could and now you're coming back and saying we want you to change it, but what you're really telling me is you don't like US law."

Scott Miller: So go change it.

Bill Reinsch: So go change it.

Scott Miller: Or go work on that.

Bill Reinsch: I think there's actually a proposal that would accommodate this issue I think rather neatly, which is not to say the left wing will buy it, but which is to say that, if any of the countries subsequently changes its law, then we could go back and change the agreement at that point. But we don't have to do it now.
Speaker: Question from Jade Sims from Michigan State University where I went, go Green, go White. Jade wants to know as a group of trade educators working with students and current leaders, what do you think is the positive message that we can share to businesses more involved in exporting despite the current negative environment?

Bill Reinsch: I can think of one. I think Scott probably has some more. I think if you’re an exporter, well, you need to think about what that means. I think there’s a lot of companies where the workers don’t know their exporters, and the company can do a lot to help them understand that. One of the classic example of this comes up, if you are in Connecticut, or let’s say you’re in Michigan since she asked the question, and you make electrical wire harnesses for Boeing, so basically you’re making wiring that goes into the airplane, if you’re a worker, you’re thinking, ”My customer is Boeing and this stuff’s going to Seattle and it’s going to be a corporate into a plane.” Most of Boeing’s planes are exported, so in effect you are an exporter, but you don’t think about it that way. You don’t think that what you are making in your town in Michigan or Connecticut is contributing to the US trade surplus. Well, we don’t have a surplus, but shrinking the US trade deficit because it’s going to somebody that’s going to incorporate into an export. Companies, I think, can do a lot to help their workers understand what their real place is in the global economy and they’re not just making something that’s going to another US company and never leaves the country.

Scott Miller: I agree with that. There’s a challenge in corporate communications, particularly in the days now that we have these complicated value chains and production and trade and intermediate goods. It’s really hard to know what gets exported and what doesn’t. Unless the company is willing to share that information with its employees, there’s no reason for employees to know that. However, I think there’s a more basic problem and it’s one that I’d drawn because before I became a trade guy, I was a consumer products marketing guy. What I learned in consumer products marketing is you always talk the benefit, all right? And trade people, I love them, I enjoy working with them every day of my life, but they always start with a problem. Trade people always start with, ”This is wrong with the system,” and so a listener who’s not an expert and not involved in the debate in some cases will hear that this is just a bunch of problems, just a bunch of people complaining to each other.

So I always recommend that everybody who talks about international trade anywhere, everywhere, whatever the question is, the first subject is, your life is better because of international trade and the world is a better place because of international trade. More people have been lifted out of poverty in the last decade than ever before in human history because of international trade. Your life is richer. You get more for your paycheck, you have a greater choice of what you eat and purchase and wear and drive because of the international system. And that’s a great thing, and most of us just really benefit every single day from that improvement in life. Now, let’s talk about
the problems. And so for me, if I were talking to a room full of educators, do what everybody who sells soap and peanut butter and clothing does is benefit first, then issue.

Bill Reinsch: Scott’s initial comment made me think of something else. When I teach this stuff and when I teach about global supply chains, we use slides that illustrate the complexity of a global value chain. One of them is a vehicle rear suspension assembly for a Chevy Equinox that shows all the different factories that contributed, in this case, in the United States and Canada. I think nine different factories in the United States in that many states, well, in seven different states, and four or five different factories all in Ontario, that contributed to this rear suspension assembly process. One of the characteristics of that is that it went back and forth across the US Canada border five or six times as it moves from place to place to have things added to it.

And one of the things that the students I think always have a problem grasping that academics can help them with is, why is that cheaper than just shipping all the parts of Detroit and putting it together in one place? Which is why Henry Ford invented the assembly line. Everything comes to Detroit or wherever and it sits there and then when you're ready, you pull it out to the assembly line and attach it and move on. And the revelation of global supply change is that it's actually cheaper to move sub-assemblies around and add to them in the places where you've got specialized labor and specialized know how to do it, and then to bring them all back to one point for final assembly. People don't get inherently why that's more efficient. And one of the valuable things I think academia can do is to show how that works and why it works.

Scott Miller: Well, every transaction in international trade, like any kind of commerce, has to be mutually beneficial or the transaction doesn't happen. No one enters into a bargain, none of us do, enter into a bargain to purchase a good or service unless we feel like we benefited from that transaction. So when international trade occurs, most simply, it wouldn't occur if there weren't a benefit. So always look for why this is beneficial to both parties.

Bill Reinsch: Well, you have to think about this long term.

Scott Miller: Yes.

Bill Reinsch: I think there are many transactions where in the case of one of the parties, the short-term costs exceed the short-term benefit, but the party does it anyway because he foresees a long-term benefit.

Scott Miller: That does happen, yes.

Bill Reinsch: I’m going to sell my merchandise to a Walmart at a reduced cost because I’m confident that six months from now, they’ll be buying three times as much at regular cost.
Scott Miller: Correct. The reverse also happens occasionally, which is I'm ready to go ready for another pack of cigarettes. I know it's going to shorten my life, but time to buy it. So there are exceptions to almost any rule, but in general, commerce is commerce. The fact that the parties are in the same country or a different country doesn't change the fact the transactions done voluntarily generate mutual benefit.

H. Andrew Schwartz: Great. We have another question?

Yung Sung Pek: Hi, my name is a Yung Sung Pek. I'm the cyber director of the Loyola Marymount University in Los Angeles. I think another important bilateral agreement that we modified was the KORUS FTA last year. So since Trump became the president, he successfully negotiated too, and as Scott mentioned, we're now negotiating with Japan. It seems to me, I think, that even though you already said actually that some people that start calling it FTA light because it is not as comprehensive as all the other FTAs that we have signed.

So it appears to me that I think that he's just tried to strike as many bilateral agreement as possible before the presidential election next year so that he can tell the people, "Look what I have negotiated," all of the bilateral trade agreements, so that it could increase his chance to be reelected. And the reason I'm saying that is if you take a look at the content or substance of all these negotiations, there is not really substantial changes, both in the USMCA and also KORUS FTA, and actually at KORUS cyber that we hosted at the other conference in FTA 2.0 last spring. So I'd like to hear from you actually, do you think that that we actually have substantial change in favor of the U.S. industry and companies?

Scott Miller: You are quite right on the substance. Very little change, if any. No meaningful change. My own view is we're in a world where facts don't seem to matter all that much because all the voters ever heard was the Korea Free Trade Agreement was the second worst agreement since the earth cooled, the worst agreement since the earth cooled being the NAFTA, okay? And once we made some basically cosmetic changes to the U.S.-Korea FTA, it was luxurious and perfect and magnificent. Okay? So that's what we got. That's what we're dealing with here.

But I would point out, note the president will never say FTA or free trade agreement. He has no interest in free trade. Okay? That's why it's not the North American Free Trade Agreement, which was an agreement to liberalize markets among three equal partners in North America. The new agreement is the U.S.-Mexico-Canada agreement, okay? The president is bored by free trade, okay? He wants advantages for the United States. And so that's why the U.S.-Japan agreement is not called an FTA. Of course, it's nowhere close to it in terms of its scope or comprehensiveness. But what really is going on, think about the importance of names. Think about the importance of names in persuasion, place names, brand names, whatever it
might be, okay? It’s the U.S.-Japan agreement, okay? It’s not a free trade agreement.

So I agree with you. Substantively, there is almost no difference, and frankly I think the Korean negotiators, Korean government did a really smart thing because they stopped trying to fix the substance and they agreed to what they were being asked to do and agreed to buy some more natural gas or something and make the trade deficit shrink, and it all worked. And so the president hasn’t bugged them since they signed, but you’re quite right on substance. It’s just, that’s our world today.

Kevin Fandl: Hi, trade guys. Kevin Fandl, Temple University, and I love your podcast.

Andrew Schwartz: Go Temple.

Kevin Fandl: Go Temple.

Andrew Schwartz: My parents went to Temple.

Kevin Fandl: Oh, fantastic.

Scott Miller: Impressive win over Maryland, by the way.

Andrew Schwartz: Very impressive win over Maryland.

Kevin Fandl: We try our best.

Andrew Schwartz: Broadstreet bullies come to town.

Kevin Fandl: So I want to ask you about multilateralism. You’re talking about all these trade agreements. We have Trump. We have democrats who are very protectionist. We have the WTO losing its authority in December for dispute settlement. Are we going back to the 1930s? Are we going towards a system of just bilateralism and power politics? What’s going to happen with multilateralism?

Bill Reinsch: Actually read my column next week, which is-

Andrew Schwartz: He can’t read it yet. He wants to know now.

Scott Miller: Yeah, he’s asking the question now.

Bill Reinsch: Yeah. That’s all right.

Andrew Schwartz: It’s a great question by the way.

Bill Reinsch: Two things. First of all, I think, speaking is one, the Democrats are more complicated than your question implies. If you look at poll data, they’re
actually more pro-trade than Republicans. They have a significant element of the party, organized labor, which is not, but overall, they are not only significantly pro-trade, it's increasing, and they've been consistently pro-trade. If you break it down demographically, the reason is, the most pro-globalization, pro-trade people in the country are young people and minorities, and that's the democratic base.

One of the problems that democratic candidates have is reconciling two factions of the party. One which is numerically larger but doesn't vote with the same enthusiasm as organized labor. The other part, organized labor, which is back in the '30s in some respects-

Scott Miller: But highly effective as a campaign operation-

Bill Reinsch: Yes, provides a lot of organizational and financial support. Scott’s comment about this was that the UAW did an absolutely brilliant job of getting out the UAW vote in Michigan in 2016. Unfortunately, they all voted for Trump and not for Clinton, which was not the point.

Scott Miller: Right.

Bill Reinsch: That has to be sorted out. I think there are... To go to your question, one area where I think the Democrats will differ from Trump, probably won't be an issue in the campaign, but I think they are, all of them, even Elizabeth Warren, which I’ll get to in a minute, committed to multilateralism. One of the reasons, frankly, is global warming and climate change.

I think the Democrats understand better than Trump that there are problems of the global commons, and there are problems that cannot be solved by the nation state. They can only be solved collectively by nation states working together. They inherently believe in multilateral cooperation. That doesn't mean that they're going to pursue necessarily liberal trade policies, but I think you'll find them committed to multilateral institutions and wanting to do things that involve working within the institutions, including reforming the institutions rather than abandoning them. Now, what it is they want to do will vary between candidates. I've said on other occasions, including here, that Trump’s problem is he’s lost in the '50s for all the reasons that Scott said. He doesn't understand supply chains.

He looks at, you make it here and you ship it there, that’s good, and they make it there and ship it here, that's bad. It's a very '50s view of the world. Somebody like Senator Warren really is lost in the '30s. For her, this is class warfare. Trade is one more way that the large multinational companies cheat and oppress the workers. It’s classic class warfare.

I'm dying to have a candidate that's in the 21st century. They're all different decades. Lighthizer is lost in the '80s, but he's not running for president, so we don't have to worry about that. The democratic candidates agree on two things. One, whatever the president is doing, he's doing it wrong. That allows
them to avoid saying exactly what it is they would do instead, but it’s easy to say he’s doing it wrong.

The second thing they all agree on is that he’s not building coalitions when he should, which also relates to the multilateral point. That’s a criticism catching on. I think most people believe inherently that it’s better to work with your friends than to sue your friends, which is basically what we’re doing. This is particularly relevant when it comes to China where we need… Well, we’ve got a lot of friends potentially, because there’s a lot of other countries that have exactly the same problems we do, and we’re missing that entire boat.

Scott Miller:

When I speak to university student groups, one of the things I remind them of is, fish don’t know they’re in water, but if you drain the aquarium, they’re in some kind of trouble. That’s kind of like the multilateral rules-based system. The multilateral rules-based trading system is responsible for some huge gains in prosperity worldwide and has preserved peace since it was established in 1947. It is an amazing accomplishment as an institution. Its structure, while it’s cumbersome, has worked very well. But the fish that are currently trading today don’t know they’re in water. They don’t recognize it. As I also tell the students, you don’t have to be a binge watcher of Game of Thrones to know you’re better off inside the wall than outside when night falls.

Being in the multilateral system is inside the walls, but frankly, in the last 25 years, the world, United States included, has done very little to preserve and advance the system, and it’s running on fumes now. The president is not ever going to kill it, but the cracks have been existing for some time now, particularly with the rise of large developing economies who never really took much of an initiative in advancing the rules, and now the whole thing seems stuck. It’s necessary, it’s a problem, we’re not actually dealing with it in a forthright manner in our politics.

Speaker:

Last question comes from Rebecca Ballenger from the University of Maryland. She says, Bloomberg reported that the United lost 10,000 jobs in August, and some are pointing to this as a quantifying measure of the fallout of trade wars, particularly with China. What is your take, and do you think that if USMCA if passed, or the bilateral Trade Agreement with Japan, would either of those agreements make up for those lost jobs?

Scott Miller:

I think the best answer is we’ll never know because of the size and complexity of the US economy. We have a question about a loss of 10,000 jobs. Well, the Bureau of Labor Statistics will tell you that they were somewhere between 140 and 150 million people working in the United States. That’s the Employer Survey. That’s the denominator, and if 10,000 is the numerator and 140 or 150 million is the denominator, this is a very small portion of jobs.
In addition, our economy is highly dynamic, and so there are roughly, in that 140 or 150 million workers, people employed, there are roughly 2 million jobs every month that are destroyed. There are probably 2 million-plus jobs created, but the unemployment report, as it's called, the Employment report, is the net of jobs created versus jobs lost. If you've created 200,000 jobs in a month, the economy created 200,000 jobs in a month, that's because 2.2 million jobs were created, and 2.0 million jobs were destroyed. A lot of people are looking for ways to connect policy actions to specific measures. It’s a hard thing to do. It’s particularly hard given the scale and complexity of the US economy.

Bill Reinsch: I think the right answer is Scott’s, the short answer is, I don’t think that the agreements she’s talking about will have that significant effect on unemployment. I think the Japan agreement will probably have a positive effect on farm income, but not necessarily on farm jobs.

Speaker 3: Thank you both, and thank you for your questions. For our listeners, you can send more questions to tradeguys@csis.org.

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: Thank you.

Bill Reinsch: Thanks Andrew.

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