TRANSCRIPT
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“The U.S. and China Dribble On”

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

Bill Reinsch: I'm Bill.

Scott and 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.

Jack Caporal: I am Jack Caporal, filling in for Andrew Schwartz. On this episode of The Trade Guys, we'll catch up on all the latest China news, from the partial phase one deal reached last week to the blacklisting of Chinese tech companies over human rights concerns. Plus, we'll break down what the NBA China dispute means for businesses, and we'll try and make sense of the latest USMCA developments. All that and more on this episode of The Trade Guys.

Jack Caporal: We're back with a fresh episode of The Trade Guys, and a lot has happened on the China front over the past week. Last Friday, U.S. chair Lighthizer and China's top trade negotiator, Liu He, was here. And they struck a deal, and then a few days went by, and they apparently have not completely struck a deal. Maybe you have a broad outline of it, but I would say maybe some flags have been thrown on the field and some more work needs to be done. So, Bill, why don't you catch us up? What exactly did they allegedly agree to on Friday, and then what unraveled since then?

Bill Reinsch: The tip off was that they provided no paper and no details. In fact, the president said that it needed to be papered over the next three weeks, which meant they hadn't written it yet. And it sounds like they had a verbal agreement, although as more information has come out, it sounds like they're, pieces of it are taken from where they stopped last May. So that, at least, is on paper, but it needs to be tweaked and approved.

The basic deal, I think, is, in the end, may just do nothing more than take us back to where we were when all this began. The Chinese have allegedly promised to buy more stuff. They have been vaguer in their commitment than Trump was. I think he said 50 billion. They've said not a number, and they've also said that their additional purchases will be based on market demand. Also, I think on no further tariffs being imposed, including the ones in December.

So they're going to do what they were going to do anyway, which was buy more of our stuff over time. The 50 billion, it's never been clear what time period that is. If that were one or two years, that would be a big deal, because it's never been more than 20, I don't think. If it's over five or 10 years, it's the same old, same old. We put off, in return, we put off the October 15th tariffs; they were increases of older ones. Left up in the air was
what he was going to do about the December 15th, the new tranche that was going to go into effect, all the consumer items.

The Chinese appear to be holding out for some commitment not to do that. Secretary Mnuchin made a comment about a currency agreement which has not yet appeared but appears to be pretty much the same as what he said they were going to do last April. There are rumors about an IP commitment with no details. I think we wait to see the rest.

It sounds as though, if I were the Chinese, I would be smiling right now, because what they appear to give up is what they were always willing to give up, which was to buy more stuff. What we gave up was an element of leverage. There’s nothing in this agreement that anybody has said so far that addresses any of the structural problems the U.S. has identified. So, it’s phase one.

In a way, it’s exactly what the brilliant Trade Guys predicted. Trump’s not the only one that’s brilliant, you see. We’re brilliant too. It’s exactly what we predicted that he would do, an interim deal, a phase one deal, and punt all the difficult stuff till later. I think this all comes back and bites him or not a year from now.

From the standpoint of keeping the thing alive, preventing him from having a failure, saying that he’s accomplished a great thing, this checks all those boxes, but there’s not a big bear there.

Scott Miller: Right, look, there wasn’t a total breakdown, so that’s probably on the positive side. And as in most of these arrangements, a verbal agreement is usually not worth the paper it’s printed on. That’s certainly the case here. We always knew that there was going to be some element of market access and some elements of structural reform in any satisfactory final package. And it’s still very vague, but as you point out, Bill, the easy part of that is the market access part, is the increasing exports from the United States. But even that is less specific than I think anybody would like.

Look, there’s time to hammer this out. There was a good headline or two, and a sigh of relief from the market, but this is going to be a long negotiations. If it ever really comes to a satisfactory conclusion, nobody knows yet, but we continue to ask China to stop a whole set of unfair practices that they are highly disinclined to do. The idea of getting anywhere fast in this has always been crazy, but whether we’ll get anywhere slowly remains to be seen.

Bill Reinsch: There’s two other elements to it too. It’s following the Japanese model of putting these things in phases, and it’s making the mistake that I think we’ve talked about before that negotiators will warn you against, is if you do the low hanging fruit first and save the hard things for later, you make later much more difficult than it would be before. Usually, you need some of the easy stuff to grease the wheels on the hard stuff. And by doing the market
access piece now, it’s a little bit difficult to see how they’re going to move on to phase two.

The other issue that has bubbled up and I don’t think it will go anywhere, but is growing frustration in Congress, and I was at a dinner last night with some members where this was mentioned, about this kind of agreement doesn’t go to them.

Scott Miller: Right.

Bill Reinsch: Because this is constructed in such a way as to not require congressional approval, because it doesn’t require any changes in law. And Congress appears to be unhappy about that. It’s not clear to me that they’re going to do anything about their unhappiness, but it’s one more element of friction between the executive and the legislative branches.

Jack Caporal: In the short term, there’s the APEC Leaders Summit in the middle of November, where Trump is expected to sit down with President Xi, and they’re supposed to formally sign off on this phase one agreement. What needs to happen between now and then for them to really ink a deal, China to make good on farm purchases, and for the U.S. perhaps to hold off on the December 15th tariff hike?

Scott Miller: Well, the first thing is they have to get on the same page about what was actually agreed, because that is, to me, completely unclear. At some point, whatever was agreed in the room has got to be rendered to writing and approved by both sides, so they can at least talk about what they’re agreeing to. And at that point, there’s at least, there will be more information to the public, and to members of Congress and other parties with a strong interest in this, about we can expect, at least in the near term.

I think that’s the first step. But I also think that, likely that they will continue on this path of taking what they can now, keeping enough tariffs in place to provide at least what the president believes is leverage, and continuing to negotiate and continuing to demand further action on the structural reform part of the unfair practices argument.

Bill Reinsch: Which, by the way, is going to be fine with the Chinese.

Scott Miller: Yes.

Bill Reinsch: They’re not giving up anything that they care about.

Scott Miller: Yeah, and they like it that way.

Bill Reinsch: And that’s fine. And if we want to keep doing that for years, I think they will sure fully keep doing that.
Scott Miller: Yes. They'll be hosting meetings all the way to the next century if we let them.

Jack Caporal: And they can continue to buy our farm products when they feel as though they need to?

Scott Miller: When they're hungry, yes.

Jack Caporal: Exactly. And it doesn't seem to be much of an issue for them.

Bill Reinsch: Well, they're out of pigs. And so, there's going to be probably pork purchases, and sadly. That's a swine flu epidemic, which apparently now is spreading elsewhere in Asia.

Scott Miller: It's a highly contagious virus.

Jack Caporal: African swine fever?

Scott Miller: Yes. It's a highly contagious virus. And given farm practices in that part of the world, it's not surprising to see it spread quite rapidly.

Bill Reinsch: We've been meaning to have Nick Giordano from the pork producers come on the show. We should go back and see what he has to say about this. They should be ... There are various metaphors here. They should be fairly happy right now, and I think the soybean people will be happy. Although, if you talk to them, it's going to take a lot of purchases to make up for what's been lost.

Jack Caporal: Exactly. And we also, in the broader scheme of things, seem to be stuck in a long-term cycle, where we make a short-term deal, the Chinese buy some products, a few months go by, the president isn't extremely happy with the pace of the overall negotiations, and he makes another tariff threat. And there has been reporting that the hawks, the China hawks in the administration, are actually quite pleased with this outcome because it allows the tariffs to remain in place, it seems, almost indefinitely. It seems like that's what we're being set up for, right?

Scott Miller: It's almost as if that's what they wanted in the first place.

Jack Caporal: Exactly. And so, the question is do they want to break the tariff cycle, and what would be the best way of doing so?

Scott Miller: Well, the hawks would like to see decoupling continue to the extent it's happening. And so, leaving tariffs in place would do that. I think the problem here really is the entire commercial relationship with China is getting more and not less complicated. So, as I see it, we now have actually three lanes, which sometimes intersect and overlap. There's the unfair practices, call it the 301 investigation lane. There's the high-tech lane, which includes dealing with Huawei and all the related security and technology concerns associated with that. And now there's a human rights lane, which, of course,
has always been there and it gets less or more attention depending on the
time. But it includes the ongoing religious repression that’s happening in
certain parts of the country, and now Hong Kong, which is, I think, now in its
fourth month of unrest. It’s starting to look less like a protest and more like a
revolution.

But those three lanes, unfair practices, technology disputes, and human
rights are each complicated on their own, and they will wind up crossing
over at each other and making the entire situation more difficult.

Jack Caporal: Let’s explore that, because in the lead up to the negotiations last week, the
U.S. blacklisted Chinese technology companies that were involved in AI and
surveillance operations, particularly as it relates to the...

Scott Miller: That’s the technology/human rights link.

Jack Caporal: ... bleeding together.

Scott Miller: Yes, right.

Jack Caporal: But it seems as though the negotiations, or at least the negotiating teams,
were able to compartmentalize and still make some progress. Is that
sustainable, or do you think the other lanes that Scott’s identified, Bill, do
you think those lanes will eventually bleed into the negotiation? Right?
There is the thinking, there’s an economic conflict between the U.S. and
China, and then there’s a broader systems conflict that involves core values,
technology, et cetera.

Bill Reinsch: I don’t think all three lanes are the same size. I agree with Scott that there’s
three of them. The security lane will be the most difficult going forward, first
of all, because I think the issues are genuine. For a lot of people, they trump
everything else. If there is a security threat, they should not be on the
bargaining table.

Scott Miller: You should deal with the security threat.

Bill Reinsch: You should deal with the security issue. And the president’s apparent
willingness to keep these things on the table has been disconcerting to a lot
of people, I think including some of his own, the hawks amongst his own
advisers.

The human rights lane, I think it’s a convenient tool for the administration.
The president, I don’t think, has ever in his entire term ever indicated much
personal interest in human rights anywhere. And I think that this is no
different. I think it is one more tool that he can use to squeeze, in this case,
the Chinese. And because you can do it in a way that also advances our
security interests, it’s convenient. But I think that if other issues get settled,
that one would go away, I think, in his mind. The footnote, of course, is that
there’s a lot of people in this country, I think because of our history and the
way we think, who care enormously about human rights. And what's happening in Hong Kong has outraged a lot of people. What's happening in Xinjiang and what they're doing to the Uyghurs has outraged even more people, including in Congress. And so, I think there's a lot of pressure on the administration to step up and take a much more forceful attitude on these subjects.

And as long as it's convenient for the president to do so for other reasons, I think he will. Will it get so bad that he won't have any choice but to pull back because of what the Chinese are doing? I think that would probably depend mostly on what happens in Hong Kong. If the PLA moves in, if the Chinese government is perceived as having sanctioned, approved, or instigated violence in Hong Kong, I think that would make it very difficult for him to do an agreement in the face of U.S. public opinion.

Jack Caporal: Right. And so, the administration and Congress are taking action on those fronts, right? So, last week, the administration put eight Chinese companies, they essentially gave them the Huawei treatment. These are Chinese technology surveillance and AI companies. This week, Congress has advanced through the house a legislative package on Hong Kong, which, among other things, shows or expresses U.S. support for the protesters there. And in response, China has threatened vague retaliation, although the language that they used was quite stark. And then finally, there’s this whole episode with the NBA and Hong Kong, which raises a separate issue of how businesses now have to operate in a very complex environment where their reliance on the Chinese market or their desire to get into the Chinese market for economic reasons is quite strong, yet there's an issue of standing up and exhibiting American values, like free speech, et cetera.

Jack Caporal: Right? So, should businesses navigate that? And just to put it into perspective with the NBA issue, the NBA has video streaming deal with Tencent, a Chinese company, that’s worth $1.5 billion over five years. 500 million Chinese individuals watched at least one basketball game last year. And then, NBA players rely on shoe sales, Nike endorsements, and also have deals with Chinese apparel companies, right? And so, this is a massive issue, and it’s not just the NBA. There are countless other examples of companies who’ve been scolded by the Chinese or threatened market access for statements, decisions, et cetera. And so, how should U.S. businesses now approach this fraught relationship?

Bill Reinsch: Companies don’t like to be in these positions. Companies like to be, they just like to do their business, and they don’t like to be dragged into politics. It’s particularly difficult for companies that basically have a consumer brand. That’s where the boycotts come in, that’s where the protests come in. They also end up in the position, this is happening in the NBA, where no matter what they do, somebody's going to be unhappy. In the NBA case, if you apologize, then the people that were outraged by the Chinese pushing them around get upset. If you stand up for freedom of speech and free speech, then the Chinese are upset. So you’re going to lose fans one way or the other.
If you do nothing, then they're both upset. So it puts companies in a no-win position.

Where I ended up was, from an American point of view, I think, what the CEOs ought to do, and there are people in these corporations. They're not as soulless as Elizabeth Warren would have you believe; there are actual individuals running them. They ought to do what they think is right and just live with it, so they can look at themselves in the mirror in the morning.

Scott Miller: I actually agree with that completely, but I worry about the direction of at least large corporations in America. I know it was less than a month ago that many CEOs of the Business Roundtable signed a statement about they had multiple stakeholders and sought to serve the interesting concerns of these multiple stakeholders instead of providing shareholder value. And now, that becomes incredibly difficult in our interconnected world, when you have major differences and you have a power like China, which is prepared to play for keeps in this. In the very early days of the Hong Kong protests, when they were still, could be characterized that way, the government of China forced Cathay Pacific to fire some of its employees who were caught with the offense of protesting in Hong Kong.

All right, so, it was pretty clear it was going to be the approach of China. But look, I think that many companies are going long for the day when, if you produced a good or service of superior quality and value to competition, and stayed in business and rewarded your shareholders, that that was good enough. And that, for a long time, was. Getting woke seems to carry a lot of problems with it.

Bill Reinsch: Yeah, but I think you have to put in perspective too the long term versus short term of these things. I rather like the Roundtable statement. I think it was a bold thing to do, because I interpreted it as saying, look, there’s more to corporate success than quarterly earnings, and that the health of the corporation over the long term, and therefore the return to shareholders over the long term, has to be taken into account. It’s not just what are you going to do for the next three months.

Scott Miller: Yes. And that much is true. In fact, that was a widely held philosophy in the 1950s and 60s-

Bill Reinsch: Correct, yes.

Scott Miller: Okay? By far. And the move to total shareholder value as the single measure had downsides to it, had difficulties, but it’s very difficult to manage. And so, you have the NBA, which is getting the full brunt of this. But look, the NBA was woke to begin with. The NBA had points of view on American policy. They were, they had points of view on state policy, okay, that they were willing to use their economic power to act against. And now it's backfiring. I'm just very interested to see where this settles. It is going to take very
careful management and really real visionary leadership to get through these kinds of things.

Bill Reinsch: Yeah. I think if you spend too much time trying to game it and figure out how we navigate through, you just end up making everything worse.

Scott Miller: You got to figure out what the right thing to do is...someone is going to do it and do it.

Bill Reinsch: No matter what you do, even if you do nothing, a substantial number of people are going to be mad at you.

Scott Miller: Yes.

Bill Reinsch: Which is why I ended up, you can just skip all that. Do what you think is the right thing and live with it.

Scott Miller: Yes.

Jack Caporal: Let me flip that back on both of you then, and say you're CEO of a Fortune 500 company, and expansion into China is the next hottest thing that you think will drive growth for your company and your shareholders, et cetera. How big of a flashing red light is this NBA episode? What kind of signal does that send to American companies looking to grow and looking at China as a key part of that growth?

Bill Reinsch: I think the signal it sends is don't go there. Now, that's a dangerous thing to say. In sessions with representatives of big companies who've said that it’s such a big market with so many people that you can’t really be a multinational company and not be there. And I think for a lot of companies, they feel they don’t have any choice but to go. And even if they only end up with a small slice of the market, which is normally what happens, because it’s not exactly a market in the normal sense of the word, the Chinese will pretty much decide what slice they’re going to get. But even if it’s a small slice, it’s a lot of money. So if you say don’t go, you’re asking them to make a rather significant sacrifice. But the costs of going, not only in terms of the moral hazard position it puts you in, but the cost potentially of having your IP stolen out from under you, or forced technology transfer, or fairly overt discrimination once you're there, the costs can be enormous.

Scott Miller: Yes. And look, if you go, you better have a strategy to manage the risk, and you go in with your eyes open. That has been true of foreign markets for a long time. For hundreds of years, foreign markets were fairly hostile places to home market companies. And it got a lot better fast in the post-World War II era, and we forget that there are risks that need to be addressed, need to be planned for and managed when you run operations away from your home market.
Jack Caporal: Tricky situation. Not going to be resolved anytime soon, I don’t think, especially as the Chinese consumer market gets wealthier and wealthier and becomes more attractive.

To shift gears, there’s still the outstanding issue of USMCA, as always. Nancy Pelosi said today that there is good progress being made, which is obviously a positive sign-

Bill Reinsch: Which is same thing she said for the last 10 days.

Jack Caporal: Which is the same, right. But it’s still positive rhetoric from her. She again reiterated that enforcement is the key issue, as it has been for Democrats for quite a while. But last week, Richard Trumka, head of the AFL-CIO, the country’s largest labor organization, said a vote before Thanksgiving on USMCA would be ill-advised and would be dead-on-arrival. So, what do you all make of that? Because the administration and Republicans, I think, have been fairly transparent that pre-Thanksgiving vote is their preferred timeline.

Scott Miller: Well look, couple things. One is that progress can only be made in small increments for a time. If you start one day and walk half way toward the wall across the room from you every day, you’ll never reach the wall. You’ve got to find a way to bridge the conclusion. My view is that they are in a position to do that, because A, there’s still, I think, goodwill on all side, and B, and for me, this is the more important part of what makes this congressional process different than previous trade agreements, is there has not yet been organized opposition to the passage of the agreement.

Now, Mr. Trumka’s statement may change that, and labor has always been the issue that is most prominent among the objections and among the improvements needed, mostly because the labor movement still moves votes. So this is the one they had to get right; they haven’t gotten it yet. But time’s wasting, and if the Trumka statement turns into actual, mobilized opposition, then there’s trouble that hasn’t been visible so far. And that would, to my mind, it would be a change in the situation.

Bill Reinsch: I got a first-hand view of this, because last night, I went to a dinner, which, as I mentioned, and the guests were a number of democratic freshmen. And it was a skewed sample, it wasn’t a representative sample. They were pro-trade freshmen, but they were from a variety of places. The South, Midwest, industrial North. And they were all pro-trade, and they were all talking about how important getting this done for their constituents. The ones that represented farmers were the most exercised about it, and they had lots and lots of stories about the difficulties that their communities are facing because of what’s going on. I was tempted to ask them why are they all still going to vote for Trump, but we didn’t have that conversation. But it’s very clear that there’s a significant element of, which I think the speaker listens to. That’s what’s partly driving this train.
A lot of these freshmen, which are the ones that gave her the majority, they're the ones that, they defeated Republicans, they either took open seats that had been Republican, or they defeated Republicans. And that's-

Scott Miller: That's why she's-

Bill Reinsch: ... those are the people that made her speaker.

Scott Miller: That's why she's speaker. Exactly.

Bill Reinsch: And she's paying attention to them, and I'd like to think that at the end of the day, organized labor ... And it wasn't just Trumka. He was followed by the UAW, the United Auto Workers, and the International Association of Machinists saying the same thing. I would like to think that they're going to figure out that they are so much better off on a host of issues with the Democrats running the show than they are with the Republicans running the show, not just on trade, but labor law and union dues and this whole host of issues where this administration in particular has tried to reduce their influence, reduce their ability to organize. And that you would think that, at the end of the day, they would be focused on what could we do to help the speaker maintain the majority.

I also don't think the proponents had to be careful not to ask for too much. You don't have to get an endorsement out of Richard Trumka-

Scott Miller: No, no. You just. You have to leave him in a position where he does not mobilize opposition.

Bill Reinsch: Yes, exactly.

Scott Miller: That's the key.

Jack Caporal: Where does the Thanksgiving deadline come in then? Right? It just seems kind of arbitrary, right? It's not entirely clear what he's looking for. He has doubts maybe about Mexico's ability to enforce their own labor law reforms. I just don't know what could happen between now and Thanksgiving that would change his mind, right?

Scott Miller: Look, this is never going to be good enough. I have no idea where the Thanksgiving date comes from, either. I think there are very few legislative days after Thanksgiving. It may be part of it. And look, this is never going to be satisfactory. It's never going to be enough. So the key question is how far do they have to get it where it's good enough to address the concerns in a fair way and not provoke organized opposition?

And I think, will Mrs. Pelosi get half her caucus, 130 votes? I don't think so. Okay. Will she get 80? She probably could. Okay. So this is not a terrible outcome, but it is one that speakers are careful about. And it's complicated, still complicated, and it always has been.
Bill Reinsch: The thing that worries me is some of the opponents, some of the labor opponents, are saying that we can’t do it until we see evidence of Mexican implementation, which really is not the postponement till after Thanksgiving. That means postponement for months if not years. It’s for them to develop a track record. In a way, there’s kind of a catch 22 there. The Mexicans don’t have any obligation to implement the agreement until the agreement’s been approved.

Scott Miller: Correct.

Bill Reinsch: They have an obligation to implement their own law.

Scott Miller: Yes.

Bill Reinsch: But if you wait for them to develop a track record, I think we’ll be waiting a long time. At some point, I think the parties simply have to say, they make commitments, they put their money where their mouth is, and the budget that needs to be decided.

Scott Miller: Yes.

Bill Reinsch: And that it’s time to move on.

Jack Caporal: Do you think if push came to shove, and the administration submitted the implementing legislation, and the speaker put the bill on the floor before Thanksgiving, that it would have the votes to pass?

Scott Miller: Well look, I think those two things are inconsistent. If the administration sends the bill, I think that trips a wire that would gain resistance. If, when Mr. Neil and his working group are ready for a markup and the bill goes forward, at that point, I think it’s a deal. Okay? And that it will move in good faith. But I would still discourage any provocative action, because I think it would be seen as bad faith.

Bill Reinsch: We’ve talked about this before and I think Scott’s right. If the president submits it preemptively, it goes down, because the Democrats will rebel. If the speaker puts it forward, it’ll pass, because she won’t put it forward until she’s got the votes.

Scott Miller: Correct.

Jack Caporal: Sure. Okay, so stay tuned on USMCA.

Scott Miller: Fair enough.

Bill Reinsch: And 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 and Bill: Thanks, Andrew.

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