TRANSCRIPT
The Trade Guys Podcast

“The Politics of You-Smacka”

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

Bill Reinsch: I'm Bill, we're The Trade Guys.

Scott Miller: 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.

Andrew Schwartz: In this episode, Vice President Pence and former Vice President Joe Biden square off on trade on the campaign trail in Pennsylvania.

Joe Biden: We don't deserve a president who goes out of his way to make life in America harder, crueler, pettier.

Mike Pence: Well, Joe, Pennsylvanians will not be fooled. They know that USMCA is a win for Pennsylvania and a win for America.

Andrew Schwartz: And we'll talk all things USMCA, what's going on there. Plus what's going on with the U.S. and China at the WTO. What's going on with the U.S. and China moving talks forward on tariffs, all that and much, much more on this episode of The Trade Guys.

Andrew Schwartz: Gentlemen, we're back in the saddle and this week Vice President Mike Pence and former Vice President Joe Biden traded some swats at each other over trade. What do you guys make of this? It was over USMCA and they smacked each other around a little bit and is it going to seep into the 2020 presidential election? It looks like trade is seeping already into 2020's presidential election. What do you guys make of this?

Bill Reinsch: Well, it was inevitable, it was ... a signature issue for the president, is trade. He's going to brag about his victories. He's going to complain and blame the Democrats for his failures, if ... depending on how things play out. Pence has become the chief salesman for USMCA and it's inevitable. If Trump's going to make it a big deal, the Democrats have to respond and Biden is responding the way they've all responded so far, which is to say he's doing it wrong. They don't really have to say yet what they would do instead. What they're saying is, "You're not doing it right. You're hurting workers. You're hurting the economy, you're hurting farmers end of story."

Scott Miller: What he's not doing right has nothing to do with policy. It has to do with implementation as we've talked before. It has to do with talking tough. Actually the quote from Biden is that he's talking to us but has nothing to show for it.

Andrew Schwartz: Right, so Biden said Donald Trump ... and Biden wrote this to a local paper in rural Pennsylvania.
Bill Reinsch: Luzern County.

Andrew Schwartz: He said, "Donald Trump has talked tough on trade but has nothing to show for it other than pain for American families." So is that right?

Scott Miller: Well, that's the criticism in a nutshell. Whether it's right or not, I don't know if he has nothing to show for it. We do have a new agreement with Japan, which appears to be ready to implement. He did to renegotiate NAFTA, which was his chief promise. USMCA is waiting for congressional action. The U.S.-China relationship has been fraught for a long time. Full of problems and difficult to change. That's one where there's been action and probably some harm to workers and businesses and families but the president's message has been the pain's short term, we've got to get this fixed.

Bill Reinsch: Yeah. But I think in the short term, Biden's right. USMCA hasn't gone into effect. All we got out of China so far is pain, Korea is diminimous. Japan has not really gone into effect. There's nothing there. Farmers are hurting, some of these things that ostensibly are supposed to help workers haven't really worked. The price of steel now is pretty much back where it was when all this began, if not lower.

Scott Miller: The value of the steel companies is down from where they started. It's an effective political attack for that very reason.

Bill Reinsch: But eventually he's going to have to ... I mean, when there's only two candidates at the end, eventually the Democratic candidate is going to say, "Here's what I would do instead." He's going to have to have a policy and they don't have a policy.

Andrew Schwartz: And for his part, President Trump said this Tuesday ... criticized House Speaker Nancy Pelosi for not bringing his administration's renegotiated trade deal with Mexico and Canada, also known as USMCA to a vote in Congress and Trump criticized her for taking way too long. Nervous Nancy's taken too long.

Bill Reinsch: No, he's just changing the subject.

Andrew Schwartz: Well, is he? It's taken a long time though.

Bill Reinsch: He wants to not focus on impeachment.

Scott Miller: Senator Grassley's a little nervous too.

Andrew Schwartz: That's right, that's actually right. That's what was going to be my next point. Senator Grassley, Senate finance chairman committee, Charles Grassley, Chuck Grassley of Iowa says he's concerned for the first time about ratification of USMCA.
Scott Miller: Well, we've talked before and probably several times about doing it before
the 2020 election gets going and probably doing it in calendar year 2019 and
one of the reasons people are nervous is we're running out of legislative
days. I looked at the calendar before coming down here, the house majority
leader's calendar. Today's the 23rd, as we're recording, 23rd of October.
There are 21 days left in 2019 where the house is in session.

Bill Reinsch: Just 21 days.

Scott Miller: Only 21, there are five more days, including tomorrow in October.

Andrew Schwartz: Don't you always feel like we're always running out of time in Congress?

Bill Reinsch: Hold on. This is a phony issue. I spent 20 years up there and the one thing I
learned was if you want to do something, there's always time. If you don't
want to do it, time is the excuse.

Scott Miller: I'm not saying there's not time, there's aren't very many days left in 2019.

Bill Reinsch: Well that number is based on a December 12th adjournment date. It's not
based on the Christmas adjournment date and if you adjourn on the 21st,
which they have done, then you've got 10 more days. Keep mind on a trade
agreement, there's nothing to do, it's unamendable, it's un filibusterable-

Andrew Schwartz: It's up or down, right?

Bill Reinsch: It's up or down.

Scott Miller: Once it's introduced, it goes fast.

Bill Reinsch: After the introduction. It's all anti-climax. It won't be submitted, now ... I
think, now unless the president preempts everything and sends something
up and derails the entire process. Otherwise it won't be submitted until the
speaker is satisfied and the speaker will be satisfied when she has the votes.
So if the bill is submitted, you know she has the votes, you know it's going to
pass. It doesn't make much difference if it passes in November, or in
December, or even in January.

Bill Reinsch: Once it's submitted, there's a clock that starts ticking. It's a long clock but
you know there's an end point and you know there will be a vote. So I'm
worried about it. I mean, this is the kind of bickering that goes on all the time
between the parties. "You're not moving fast enough. You're moving too
fast." I mean in Brexit, it was the opposite. The parliament said to the prime
minister, "You want us to do this in three days, we can't possibly do it in
three days." It's always bickering. What I'm hearing about the substance is
they've resolved most of the issues, there's one significant one left, which is
the enforcement issue and I think there's a path for that. So then there has to
be ... there's always details and fine print.
Scott Miller: Well explain that. Explain the enforcement issue that they're stuck on.

Bill Reinsch: Well, everything is close hold, so nobody really knows. I think what they're arguing about is in labor enforcement, not general enforcement and I think it's about inspections. Are American people going to be able to go down and inspect Mexican plants and the Mexicans have said, "Absolutely no," and I think that's what the discussion is about.

Scott Miller: And in the past, the United States has never asked for it because these kinds of commitments tend to be reciprocal and we don't want foreign inspectors in U.S. plants, therefore we don't demand U.S. inspectors in foreign plants. So it's really ... it's an issue that never been taken to a full hearing or full argument in the past because of that reciprocity problem. We'll see where it goes and it's one of these things that there was a long fight over getting labor and environment provisions in trade agreements equal standing when it comes to dispute settlement and once we achieved that, then it became whether or not you could ever lose a dispute. Unfortunately the labor movement had gotten the Obama administration to enter into his dispute with, I think Guatemala, if I remember-

Bill Reinsch: It was Guatemala.

Scott Miller: ... part of the U.S. Central America free trade agreement and lo and behold, the U.S. lost the case. So that's part of what-

Bill Reinsch: That's been fixed because even the negotiation changed the rules on that.

Scott Miller: Yes, correct.

Bill Reinsch: So I don't think that will recur. So I mean, there are lots of different workouts for this particular problem. Maybe they should have Canadians come in and do the inspection, or CSIS could do it, you know?

Scott Miller: Trade guys.

Andrew Schwartz: Trade Guys to the rescue.

Bill Reinsch: The Trade Guys could do it, there are ... I don't think this is an impossible thing to do. It takes a little while to work out and there's probably some posturing going on. It has to be drafted. I think they're aiming to get it done and submitted before they go away for Thanksgiving, which would mean-

Andrew Schwartz: That's the goal, right?

Bill Reinsch: I think that's the goal. I mean, it may not be achieved, but I think that's the goal, which would I think, open the door to a vote in December because once it's there, there's nothing to do. You have a hearing, the committee meets. All they can do is vote up and down and it lays over a day and then goes to the House.
Scott Miller: It’s been awhile since we did this. I think it was 2011 was the last time that Congress has actually voted on trading agreement immalining bills, but then we had three agreements that passed the house within 72 hours and the Senate just as quickly, so it can go fast. It has gone fast in most recent past, but since 2011, a lot of new members up there.

Andrew Schwartz: What is Mexican President AMLO doing about this? He’s sending letters to the Democrats and he’s mixing it up for his part. Explain his role in this. I don’t quite understand what his game is in all of this.

Bill Reinsch: I think, well, what he’s trying to do is convince the U.S. Congress that Mexico is going to honor its commitments, it’s going to do everything in their promise to do in the agreement and it’s going to do everything that is required to do in the legislation that he got passed in the spring, which is the labor reform. The questions that had been raised by the House Democrats have largely been about Mexico’s intentions and its capacity. Do they really want to do this? Because there’s been many, many years when they’ve said similar things, haven’t done them. But then beyond that, even if they want to do them, are they capable? Do they have the ... and that’s a become a budget issue.

Scott Miller: Sure.

Andrew Schwartz: So he said that the Mexican legislature can budget the necessary amount for implementation.

Bill Reinsch: Well, that’s true of all legislature.

Scott Miller: That’d be true of the Congress, about appropriations bills here as well. Now the thing to remember, and it seems like ancient history now, but this agreement was negotiated and signed by AMLO’s predecessor and so he wanted it that way. The fact that the end point of the negotiations was pretty much predicated by his predecessor leaving office, that timing.

Bill Reinsch: It was literally the last day in office.

Scott Miller: His last day in office, but at this point the Mexican president needs to assure the U.S. Congress, and particularly Democrats in the Congress, that the commitments made are going to be honored.

Andrew Schwartz: Okay. So gentlemen, your predictions on USMCA. Does it get done before the end of this legislative session? Does it carry into next year? What do you guys think?

Bill Reinsch: I still think it gets done this year.

Scott Miller: I think it gets done this year. It will not have as many votes as the speaker would like from her party. The speaker would like 130 Democrats to vote for this, which is a little more than half of her 235 member caucus. I don't think
she'll get that and I don't think that's even all that feasible, but it does have
enough votes to pass because of really the strong Republican support.

Bill Reinsch: And actually, speaking of that, one of the interesting things that happened is
that when this started out, there were Republican skeptics. You'll recall the
Freedom Caucus had LGBTQ issues. There were other people who didn't like
various provisions from coming from the right and that seems to all have
disappeared. In a way, the efforts of the Republicans to make this partisan
and to blame the Democrats for not moving, among other things has united
the Republicans in support of it. So I think you're going to see virtually
unanimous Republican support.

Scott Miller: Yeah, Senator Toomey's going to vote no but other than that, yeah. He'll
definitely vote no.

Bill Reinsch: Well Senator Toomey, yes. One Republican no vote. Maybe more than one
but it would be single digits, I think.

Scott Miller: But it's been a unifying vehicle for House Republicans.

Andrew Schwartz: Once this gets done, what will the effect be for the American people? Will
they feel it instantly or no?

Bill Reinsch: Well, I'm not sure they'll ever feel anything at all because if you read the ITC
economic analysis, the impact is going to be marginal at best.

Scott Miller: Now, it will be important for businesses that it's done.

Bill Reinsch: Certainly, yes.

Scott Miller: There'll be a great deal of certainty, a predictability about North American
operations because of that. That's a good thing. There'll be some coverage in
other areas, which is also a good thing. There's going to be a lot of frustrated
compliance people in particularly the auto industry because there's a whole
new set of rules of origin that appear at least on the surface to be very
difficult to generate the data needed to comply with them. So those people
are going to have pretty full employment for a couple of years.

Andrew Schwartz: So what do Americans need to know about this? If they won't feel it ... I
mean, if it doesn't get done, they're going to feel it.

Scott Miller: Here's the best part of the current message, is that Mexico and Canada are
number one or number two trading partners. I got them in the reverse
order. It's Canada. Mexico but that's a great message for Americans to
remember because I don't think most ... most Americans know we do trade
with Canada and Mexico. They know they're our neighbors. They don't think
of them as big contributors to our economy, which they are. They now
account for about half of American exports.
Andrew Schwartz: What do Americans take away from all this back and forth between Democrats and Republicans and the rhetoric and the noise and the USMCA going back and forth?

Bill Reinsch: I don't think they pay much attention to the rhetoric, they're tired of it. They're tired of partisan rhetoric on everything and this is just more noise. I think what it will mean for them is it reaffirms that we have an integrated North American market and that's a good thing, that there were some people that probably wanted to either slow that down or unravel it, but that's not going to happen. Clearly, I think for the American people that have a stake in this, the worst possible outcome that you could have here would be to end up with nothing. Old NAFTA, we would grow up out of old NAFTA, the new one wouldn't pass and we'd go back to pre-1994 and I mean, Scott said something about this this morning when we talked to a group of actually federal employees that, I think people have gotten used to it.

NAFTA was controversial when it began. You remember Ross Perot, the giant sucking sound thing, but 25 years later, I think people see it as an important part of our economy. It's an important part of the way we do business and I think they're going to be encouraged that we can get this done and that most of it really is an upgrade. There's not a lot that ... The auto rules are a little strange, but there's done a lot in it that are really take steps back.

Andrew Schwartz: Well, I think we've exhausted this USMCA subject for the day, so let's turn to China, another ...

Bill Reinsch: We're going from the hard to the easy, now?

Andrew Schwartz: I was going to say, another easy topic.

Scott Miller: The gift that keeps on giving.

Andrew Schwartz: Another happy topic, China. China offers tariff-free quotas for 10 million tons of U.S. soybean purchases. What's that all about?

Bill Reinsch: Well, I'm hurt.

Andrew Schwartz: That happened this week.

Bill Reinsch: The gossip today was that it really doesn't mean much at all because the Chinese aren't buying because they think our prices are too high. I think that's a temporary phenomenon.

Scott Miller: Yeah, the reduction of the tariff, basically it makes the land it costs to the millers in China lower because it improved the terms of trade but the quantity of the purchase ... they were buying large quantities of soybeans before and I think most of what we'll find out when we really delve into the
Bill Reinsch: Exactly. Shameless plug here, my column this week addresses this issue.

Andrew Schwartz: That is not shameless. Read it at csis.org, it’ll be on the homepage. You can find it, William Reinsch is the author.

Bill Reinsch: It’s brilliant as always. But what it concluded was exactly what Scott said that I mean, until we have more details and we may not for awhile because the Chinese have been careful not to confirm what the president has said. They haven’t denied it either, but there’s a lot of mystery about this. They’ve agreed to buy more stuff, but how much and over what time period is a big unknown. I think Trump said 40 to 50 billion more dollars of agricultural products. If that’s one year, that’s huge. That would be double the record year.

Andrew Schwartz: And that would mean that he really did get a good deal.

Bill Reinsch: That would be huge. If it’s over two years, it’s pretty much what they were doing before all this began.

Scott Miller: If it’s over five years it’s a reduction, all right.

Bill Reinsch: If it’s five years it’s a reduction.

Andrew Schwartz: But either way it’s a beautiful, perfect deal.

Scott Miller: Yes.

Bill Reinsch: Well of course, but I think where we’re going to end up on this is pretty much where we started before all the fuss. They’re going to start buying things, probably a pretty much the same level. They’ve got to be smiling about this. I mean, they don’t smile very often publicly, but they’ve got to be happy about this.

Scott Miller: Bill’s right. Think about this. What China wants is to not do anything. What they want is not to address the concerns raised in 301 investigation. They don’t want to do the things we’re asking them to do. So how do they manage? So if that’s your goal, how do you manage the situation where you make it look like you’re playing nice, you continue to talk. We’ll have meetings scheduled in perpetuity.

Andrew Schwartz: Yeah and President Trump said that trade talks are on target for a November deal. So that’s.

Scott Miller: What’s a deal in this particular circumstance?

Andrew Schwartz: Don’t know.
Scott Miller: Could be another small package.

Andrew Schwartz: Don’t know.

Scott Miller: Could be a get together.

Bill Reinsch: They are masters of recycling commitments and I think when this stuff comes out, I think you’ll see that what they promised on IP was probably not all that different from what they promised Obama twice. What they’re giving us in financial services, probably not all that different from what they promised Obama once, I think it suits ... where the column ended up was, in an odd way although I think it accomplishes very little, both sides I think see themselves as winners. For the Chinese, see themselves as winners for exactly the reasons Scott said, they didn’t give up anything that mattered.

Scott Miller: They didn’t change.

Bill Reinsch: And the can was kicked, and Trump gets to declare victory.

Andrew Schwartz: He said, "They have started the buying," but he also said, "I want more." So he got to say he’s already won, but he gets to continue to talk tough.

Bill Reinsch: Well, and this I think validates what we were saying a couple of weeks ago, which is, his problem is how does he get from now until next October when he declares the big victory before the election and hope that people believe him. We got an answer last week, or two weeks ago, which is we’re going to have phases. So we just had phase one and I think what you’re going to see is phase two in the spring, which will tee us up for phase three next September, October.

Scott Miller: Maybe a phase 1.5 when they meet in Chile, so you never know.

Bill Reinsch: Yes, this is the way he keeps the balls in the air and the Chinese have other things that they can concede that are not really material. So I mean, I can see phase two doing a little bit more on intellectual property. I can see them making some broader concessions on removing equity caps and removing joint venture requirements because they’re doing that anyway and that would actually matter.

Scott Miller: That’s good for them to do it.

Bill Reinsch: Yeah, it’s good for them. But it’s also good for us-

Scott Miller: It’s good for us, yes.

Bill Reinsch: ... because it would help us resist forced technology transfer. If they agreed to do that, Trump could legitimately say, "This is important." I mean, he’ll say it regardless, but in this case he’d be right that it’s important and significant. So I think what we’re going to see is maybe it’ll be 1.5, 2.0, 2.5,
we’re going to see a series of these things leading up to the giant reveal in October, which won’t really be a reveal, it’ll be a victory.

Andrew Schwartz: So you guys are not expecting a breakthrough agreement when Trump and Xi meet next month? You’re expecting more of the same?

Scott Miller: No, that’s pretty much, you know, you’re right.

Bill Reinsch: They’ll probably talk past each other like they did in Osaka. A good outcome would be that they don’t misunderstand each other like I think happened in Osaka and each leave the room thinking the other promised to do something that he has no intention of doing. Hopefully I think the best thing that could happen is they’ll sign something that embodies phase one and say, “Now onto phase two.”

Scott Miller: Yeah and let Ambassador Lighthizer and his counterpart do the pre-work, make sure they sign the right thing and have the same statement coming out and will probably do little harm in the a meetings in Peru.

Andrew Schwartz: All right. Finally, China and the WTO. China is said to be about to use legitimate WTO retaliatory tariffs as bargaining chips in the U.S. trade war negotiations. What do you guys make of this?

Scott Miller: Well, the teeth of the WTO’s dispute settlement understanding, when it comes to using what they call suspension of concessions, or using retaliation to settle a trade dispute, really is authorized by the appellate body. Sometime in December, the appellate body will lose its last quorum. The United States has been, for some time now, blocking appointments to the appellate body. They’re down to three, which is what it takes to form a panel and one of the terms expires, I believe December 12th.

Bill Reinsch: 10th.

Scott Miller: 10th, I’m sorry.

Bill Reinsch: Two of the terms expire on the 10th.

Scott Miller: So at that point, there will be no way to convene an appellate body and therefore no way to get to, as the rules would require, a judgment, a decision from the appellate body that would lead to suspension of concessions. So it’s a long bureaucratic-speak way of saying that they may do something based on a panel dispute. They may do something unilaterally like we’ve been doing, but probably not under WTO authority.

Bill Reinsch: Well, on this one ... I mean, they’re kind of, I’m not quite sure why ... Well, it’s a little bit like the Airbus case. It’s semi-coincidental. I mean the genus of this case was-

Andrew Schwartz: $2.4 billion from the Obama era.
Bill Reinsch: They brought one against us. We assessed countervailing duties against them on a variety of stuff alleging subsidies. They brought a complaint. As I recall, we won in the end game. It’s been through the appellate body. We won in part, they won in part and the part they won, it forces us to either comply and change our procedures, or they can retaliate, and their assessment is retaliation and $2.5 billion. I think what the United States will probably do is say, "We think it’s not that much." It’s like Airbus. "We think it’s a smaller number," that’s what the Europeans said.

Bill Reinsch: So then there’ll be an arbiter who will decide and then at that point, that’s pretty much it. He’ll pick a number and we’ll have to pay, but it’s going to take a while to work its way through that. I don’t know. I don’t view it as a really significant tactical move in the great scheme of things.

Scott Miller: Well, just in order of magnitude it’s relatively small, given the size of the trading relationship and it’s one of these things that is more bookkeeping and putting a few points on the board than it is [crosstalk 00:24:20] each other’s economy.

Bill Reinsch: Well, yes.

Andrew Schwartz: An off-brand strategy.

Bill Reinsch: No.

Scott Miller: But that’s important because the point they want to put on the board, what this helps them with is, "We China are the good guys. We are the people that are reinforcing the system. We are the people that obeying the rules. Here’s a case where the United States is not obeying the rules. Now let’s see if they pay up or not." [crosstalk 00:24:39] the rules again and they’re speaking ... This is directed at the rest of the world, not to us.

Andrew Schwartz: All right gentlemen. Well, this is all stuff that we’re going to watch, until next week when we get back to USMCA and other things, we will adjourn.

Bill Reinsch: All right.

Scott Miller: Thanks.

Bill Reinsch: Look forward to next week.

Andrew Schwartz: To our listeners, if you have a question for the Trade Guys, write us 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.

Bill Reinsch: Thank you.
Scott Miller: Thanks, Andrew.

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