TRANSCRIPT
The Trade Guys Podcast

“Calling It War”

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

Bill Reinsch: I’m Bill.

Scott Miller: And we're The Trade Guys.

Bill Reinsch: And we're The Trade Guys.

Andrew Schwartz: You're listening to The Trade Guys, the podcast produced by CSIS where we talk about trade in terms that everyone can understand.

Andrew Schwartz: I'm H. Andrew Schwartz and I'm here with Scott Miller and Bill Reinsch, the CSIS Trade Guys.

Andrew Schwartz: Trade talks between the US and China have broken down. The two countries are readying more tariffs, Wall Street is getting hammered, coming back and getting hammered again. Who knows?

Anderson Cooper: The DOW plunging just below 600 points on the news that Beijing will retaliate.

Andrew Schwartz: But the president is willing to stand his ground.

President Trump: I love the position we're in. There can be some retaliation but it can't be very, very substantial by comparison.

Andrew Schwartz: Where do things go from here? Find out on this episode of The Trade Guys.

Andrew Schwartz: All right, guys. What do you feel like talking about? China?

Scott Miller: Do we have to?

Bill Reinsch: I don't think we have any choice.

Andrew Schwartz: I mean, like, what else is there to talk about? I guess we've got to talk about China. What is going on? Yesterday was a blood bath in the stock markets. Chinese struck back, like the empire strikes back, after Trump struck first and we've got an all out trade war, it seems.

Bill Reinsch: It seems that way, although the good news, for those of you that invest, is the market's on the way back up.

Andrew Schwartz: As we speak today, it's Tuesday around noon. The market has recovered about half of what it lost yesterday, so not quite the bloodbath that we saw, unless you sold yesterday, which would've been ill-advised.

Bill Reinsch: Still time for a disaster.
Andrew Schwartz: Yes. Not that the trade guys are picking stocks.

Bill Reinsch: Oh, no. And we certainly wouldn't be giving financial advice. And anybody that took any financial advice from us would be insane.

Andrew Schwartz: Yes.

Bill Reinsch: So the whole thing is not good news because it's just that this is going to be around for awhile.

Andrew Schwartz: What's going to be around for awhile, Bill and Scott?

Bill Reinsch: The dispute. The trade war and the tariffs.

Scott Miller: Yeah, in fact, China started using the phrase "trade war." The escalation of tariffs on both sides.

Andrew Schwartz: So, Scott, when did China start using those words?

Bill Reinsch: Yesterday and today.

Scott Miller: In our news, today, yes.

Andrew Schwartz: And who used that term? Is it [inaudible 00:02:18]? Was it-

Bill Reinsch: It was the Chinese media, but the Chinese media doesn't say things unless they've been told what to say.

Andrew Schwartz: Right. Okay, so, Chinese are using the phrase.

Scott Miller: And then, so this round of escalation has taken us further from where we were two weeks ago when we had all the happy thoughts about a landing zone. An agreement is not going to land anytime soon. There are major differences placed in how the structural reform part of any agreement might go forward, but at the moment, I think it would be a loss of face for either side to concede anything pretty quickly. So that's probably the reason more than anything else for this to continue.

Bill Reinsch: The Chinese had a funny ... I don't think they meant it to be funny, but they have three problems with the agreement, and the problems are they don't agree on the package of stuff they're supposed to buy, they don't agree on the commitments they're supposed to make on the structural issues, and they don't agree about our position on getting rid of the tariffs, which is about 90% of the agreement. If you add all three of those things together-

Scott Miller: I'm not sure what else there is to disagree with.

Andrew Schwartz: Okay, so this is a flat-out disagreement.
Bill Reinsch: It sounds increasingly like there is a serious issue here. Two weeks ago, the President was tweeting "agreement is imminent. We're getting close. Happy ending."

Scott Miller: We have two cabinet officers in China trying to find these landing zones.

Bill Reinsch: And to the extent there were leaks about that, there were some fairly specific things that it was coming down to, and it's very clear, I think, as we said last week that the Chinese pulled back. At least, pulled back from what we thought they had agreed to, so it's not like we're making this stuff up, but it sounds like there are more things unsettled than we thought two weeks ago certainly. To me, the worst sign is I always thought what to do about the current tariffs would come down to the end with something for the presidents, but the easiest thing in this whole package is what the Chinese commit to buy. And if they can't agree on that, then, I think, we've got problems.

Scott Miller: Yes, the market access part of this has been offered repeatedly, and it's never been seen as sufficient by the US side, but there's lots of offers out there. It is, I think, a reflection of the gaps particularly in the structural areas that the Chinese are basically saying "We agree to nothing at this point." So tough spot.

Andrew Schwartz: So what are we going to do here? I mean, is a deal before the next tariff hike occurs in four weeks possible?

Bill Reinsch: Well, only if our president is willing to settle for a lot less than what he's demanding. I mean, I think he's in a difficult political position. I think we talked about this last week. He can either accept less, in which case the Democrats will accuse him of being a poor negotiator and being soft on China, or he can continue what is now the war, which we're calling a war. He can walk away, or keep the tariffs in place, in which place the Democrats will accuse him of failure, poor negotiation, and what's worse, causing an enormous amount of collateral damage and producing nothing.

Bill Reinsch: The whole refrain from the administration has been short term pain, long term gain, and a lot of people, particularly the farmers, buy that intellectually, that this is a hard thing to do, it's the right thing to do, and we're prepared to pay in the short term to get the long term benefit. But if he walks away, what we've got is short term payment, and nothing.

Andrew Schwartz: Right, and you know, I still, as of last night, have listeners and readers of my evening newsletter, The Evening, writing me that this is just short term pain, and we're in it for the long haul. We're playing the long game. President Trump's playing the long game, and just buckling your seatbelt. Everything's going to be fine. It doesn't seem like everything's going to be fine here.

Scott Miller: Well, everything's going to continue. I don't expect a settlement in the short term. For me, the main signal was when the President began talking about
basically taking tariff revenue and actually going out and buying farm products to support farm prices. That would be a state of mind of somebody who sees a resolution off in the distance, if you've got time to muck around in farm markets.

Andrew Schwartz: Does he have time though? I mean, the political clock is ticking here.

Bill Reinsch: First, on the Chinese side, something similar. They've started to play the nationalism card. The Chinese people will fight back. This is about our country. This is about defending our country.

Andrew Schwartz: And they can play the long game.

Bill Reinsch: There's a trade war, and they're very good at the long game. They've been playing the long game for 5,000 years, but when they play the nationalism card, that indicates that they see a long game here, that they're trying to whip up the people. The danger for them is sometimes when you do that, you can't turn it off quite as easily as you can turn it on. Big country, a lot of people. So, but it's a sign they do not see a quick resolution of this.

Bill Reinsch: Does he have time politically? I don't know. The question has always been where will we be a year from now, not where are we today.

Scott Miller: Sure, and I don't think we actually know. I mean, keep in mind, there were dire predictions of disaster from the first round of tariffs, which I'm sure upset supply chain managers all over the country, and has made their lives miserable, but it's very difficult to find those tariffs in consumer pricing. Difficult to find harm to the economy caused by the tariffs, so we don't know.

Bill Reinsch: That's going to change though.

Scott Miller: I think it will change as we're escalating tariffs and broadening the scope of tariffs. You would think it's going to hit sometime. Math is pretty unforgiving in these circumstances, and so at some point, it's going to have an effect. But once again, we've got a huge, we've got a $20 trillion economy, and our total trading relationship with China, imports and exports, is $600 billion of $20 trillion. So the scale would mitigate the effects to some extent, plus if you've got other net positives in economic growth.

Scott Miller: So it's not clear to me that this can't work. I mean, there's been a lot of doom forecasts about the first set of tariffs that haven't come true, and the President seems to have continuing political support, even from the people directly harmed by the first round of tariffs, like agriculture.

Andrew Schwartz: Let's talk about that for a second. Joe Biden said yesterday a very simple message. He said, "The only people this is hurting is working people and farmers." That's a pretty simple, clear message. That's the first time I've heard a Democrat say it so succinctly and so directed at the President.
Bill Reinsch: Certainly manufacturers, too.

Scott Miller: Yes.

Bill Reinsch: Not just working people and farmers, but he’s right about that.

Scott Miller: And manufacturers are working people, by the way. But

Bill Reinsch: Some of them.

Scott Miller: Some of them. But having said that, look, I think as a political dynamic, the Trump elevator speech was, "Look, if you want somebody to give in to the Chinese, elect this other guy, okay? I’m not going to do it." Okay? While former Vice President Biden's comment is not wrong, I don't think it really effects the politics.

Bill Reinsch: See, I don’t agree with that. I think Trump is painting himself into his own corner, but the Democrats are playing this very nice, I think. Go back to what I said earlier. What is Trump’s choice? Accept less than he wants, in which case he’s weak and soft; continue the war, in which case he’s a failure. For the Democrats, this is a bonanza. No matter what happens, they can attack.

Andrew Schwartz: And doesn’t this seem like the President’s got a little bit of his own ego invested in taking on China versus helping working people and farmers?

Bill Reinsch: [crosstalk 00:09:31] just a little?

Andrew Schwartz: No, I'm asking. I'm asking.

Scott Miller: No, I think that's probably the case, but keep in mind, the bumper sticker is short term pain, long term gain. What's the short term? A week, six months, two years? Undefined.

Bill Reinsch: If there’s still no gain a year from now, I think it's a big political minus.

Scott Miller: It's a different problem.

Andrew Schwartz: I mean, I don't know about in China, but this is an ADD society. Very much instant gratification society. So last time I checked, we want it fast, we want it now, and we want it the way we want it. So I don't know if a long term gain ... How much patience do we have for that?

Bill Reinsch: Well, if you look at it at 40,000 feet macro level as Scott did, you can say this is not a big deal, but what you’re going to see in the media is story after story after story of people going bankrupt, farmers losing their farms, and really heart-winding human interest stories, and they're going to say "I can't sell my soybeans, and I can't make my bank payments, and so I've got to give it up." And that's what's going to populate the media for the next year if he doesn't come up with something.
Scott Miller: Much like when the steel and aluminum tariffs first hit, we had the story of the Missouri nail manufacturer, and so this will happen, and this will affect the politics as it plays out.

Andrew Schwartz: So what do you think, Scott, President Trump is likely to do in the short term here?

Scott Miller: In the short term, I think he sees how this plays out. He’s not going to back down in the short term. We’re not going to reduce our demands, and I think, in particular, he has been persuaded by his team, including Ambassador Lighthizer, that these structural changes are vital. You have to get them if we’re going to have any chance in the future of a reasonably equitable relationship between China and the United States.

Bill Reinsch: In CSIS, I’ve had some discussion with China colleagues on this, and I think we all feel that if he has to make the choice I describe between a weak or mediocre agreement and continuing the war, he’s better off making the agreement because if he walks or keeps the tariffs in place, then there is all the pain, none of the gain.

Scott Miller: Yes.

Bill Reinsch: You know that if there’s an agreement, no matter how bad it is, he’s going to say it’s great, and he’s going to do nothing but say it’s great for the next year, and his base is going to believe him. And then the Democrats are going to have to ... For them, it’s going to be complicated to explain why it’s not great. So he’s probably better off actually folding at some point. I don’t know that he sees it that way.

Scott Miller: Well, certainly, when you declare victory, it’s a pretty short expression to say how wonderful things are. It’s a longer statement and probably the elevator is way past ground floor by the time you could describe what’s specifically wrong with it.

Andrew Schwartz: Right now, he’s got a decision to make, too. He’s got to decide whether to slap tariffs on the rest of China’s imports, which totals roughly $300 billion.

Bill Reinsch: And that will be a big consumer impact. Going from 10% to 25% on the $200 billion, which is what happened last week, that’s going to have a consumer impact that’s noticeable.

Scott Miller: Yes.

Bill Reinsch: If you cover the rest of it, the $300 billion, which is like everything else, then you’re getting iPhones, you’re getting laptops, you’re getting a whole bunch of electronics-

Scott Miller: Toys, furniture ...
Bill Reinsch: Toys, furniture, and apparel. Anybody that goes to Walmart is going to see a very clear and fairly ... Well, not immediate, but couple month impact.

Andrew Schwartz: Right. You don't want your kids' toys to cost a fortune. I've seen what that looks like Brazil, by the way, when, because of their hyper inflation, and it's not pretty.

Bill Reinsch: Do your kids still play with toys, Andrew?

Andrew Schwartz: Oh, yeah. I still have a sixth grader.

Scott Miller: He has sons, for goodness sake.

Andrew Schwartz: Yeah, I have three sons. A big truck is a big truck, right? You know that, Bill.

Bill Reinsch: There's a country-western song about that. "I got my first truck when I was three years old. I drove 100,000 miles on my knees."

Andrew Schwartz: Yep. That's about it.

Scott Miller: Boys like toys. That's all there is to it.

Andrew Schwartz: Oh, yeah. Well, looking at the way this has transpired, it's not odd to see the Chinese today calling it war in their media. It feels like war.

Bill Reinsch: It is. For me, it's a signal that they think this is going to last awhile. I think if they thought this was going to wrap up, that this was a blip and they could get back on track, the rhetoric would be different. This is long term rhetoric.

Scott Miller: Yes, and this is despite the fact that it's still in the interest of both parties to find an accommodation somewhere. Both parties would be better off with the deal, but they're getting further away from it, not closer.

Andrew Schwartz: Our colleague, Scott Kennedy, says in Politico this morning watch for even more retaliation from China. He says, quote, "We should expect China this week to signal its intention to retaliate in kind in potentially other means, the most likely being harassment of American companies in China's operations."

Scott Miller: Nationalism is a very powerful force in China, and if it's deployed, it shows up almost everywhere. I had a chance to on a Congressional delegation with a member of Congress. This co-del happened to be the first in country after we accidentally blew up their embassy in Belgrade-

Bill Reinsch: Which was 20 years ago this week.

Scott Miller: 20 years ago this happened, and I was with a member of the House of Representatives Ways and Means Committee on a congressional delegation,
and we called it the Apology Tour, because ... This was Nancy Johnson. Mrs. Johnson of Connecticut. She managed to apologize to a Deputy Assistant Secretary of agriculture for bombing their embassy, but the entire tour was predicated upon the nationalism that had been spiked by that one event. And it's a powerful force. It's hard for us to deal with that given the differences in society.

Bill Reinsch: The Chinese play on this because of a confluence of events. You've got the 20th anniversary of the Belgrade bombing. You've also got the 100th anniversary of the May 4th Revolution, which was not a communist revolution, but it was actually ironic because it was very much like Tiananmen in '89, except this is the one that the communists like. It was the Chinese people standing up to the-

Scott Miller: To the emperor.

Bill Reinsch: Well, no, this was after the emperor, but to the warlord government, basically.

Andrew Schwartz: One of the things that President Trump's doing here at home is he reiterated his intent to spend $15 billion to boost farmers that are going to be affected by China's retaliation. So what does that do?

Scott Miller: Well, look, you can affect farm prices. In fact, we do it all the time. There is apparently a mountain of cheese somewhere in US government warehouses.

Andrew Schwartz: Really?

Scott Miller: There's a price stabilization program for cheese-

Bill Reinsch: Probably Wisconsin.

Scott Miller: Okay, and it's part of our dairy programs run by the Department of Agriculture, and there apparently is a mountain of cheese somewhere that is cheese that we bought to stabilize prices. So the USDA has many tools for doing that-

Andrew Schwartz: So we're hoarding cheese in the name of national security.

Scott Miller: I don't know what we're doing with it. I would think you'd want to eat it before it went bad.

Bill Reinsch: When I was growing up, it would end up in school lunch programs, and they'd give it to schools, and you'd have grilled cheese sandwiches, or you would have this horrible, horrible canned barbecue beef that was the product of some surplus at some point.

Scott Miller: But we have many tools for price stabilization in agriculture, shall we say.
Andrew Schwartz: So that's what we're going to do with it.

Scott Miller: I imagine.

Bill Reinsch: Well, there's been debate about that. I think the economists would say if you're going to use it to bail out the farmers, the simplest thing to do is do what they did last year. Just give them a check. Give them the money.

Andrew Schwartz: But this is the second time that Trump has hinted that he was going to give $15 billion in aid and it hasn't happened yet.

Bill Reinsch: Well, he gave $12 billion last year, and that actually did happen. It ended up being, like everything in life, complicated. But they got the money out.

Scott Miller: and late and inefficient, but still.

Bill Reinsch: And the soybean farmers got most of it, and the fruit and nut people, who happen to be in California, got very little and are not happy about it because they suffered. So there's all these distribution issues that come up, but most economists will tell you that's cleaner and more efficient, giving them money, than trying to buy products and then turn them into foreign aid, or resell on the foreign market, in the marketplace-

Scott Miller: Dump them in the Gulf of Mexico, or something.

Bill Reinsch: Yes.

Andrew Schwartz: So what's the response on the hill about this? What are Republicans and Democrats saying about this on the hill?

Scott Miller: Publicly, the President still has support, and he still has bipartisan support for the China policy he's pursuing. But we'll see where it ends up.

Bill Reinsch: Yeah, this is going to be fun to watch. I'm a little bit cynical about this-

Andrew Schwartz: No. Not possible.

Bill Reinsch: The Democrats are going to goad him-

Andrew Schwartz: Bill Reinsch is cynical.

Bill Reinsch: Yeah, well, it's probably from experience on the hill. 20 years up there taught me about how this works.

Bill Reinsch: The Democrats are going to goad him into a tough line, so that when he fails, they can criticize him later. They've got to be salivating about this. It's convenient. First of all, a lot of them believe it anyway, so it's not like a stretch. I mean, Schumer certainly thinks we should be tough on China. It's
very easy for him to say that. At the same time, he’s not blind to the politics of this, and the realization that if Trump doesn’t pull it off, this is a huge talking point of the Democrats.

Bill Reinsch: The Republicans are unhappy, nervous. Most of them are free traders anyway. Most of them think this is all a mistake, and they’re all afraid to take him on. It’s what Scott said about his support in the party.

Scott Miller: Until the President’s performance with Republican voters is called into question, he won’t hear from Republicans. He has about a 90% approval rating among Republican voters, and that keeps the criticism in the kitchen instead of out front in the media.

Bill Reinsch: Yeah, his base has become their base. We gave a talk this morning, and Scott had an excellent phrase for it, that essentially what Trump has done is he’s hijacked the Republican party, and taken a party that was-

Scott Miller: I considered it a hostile takeover. [crosstalk 00:19:11] style sort of-

Bill Reinsch: Yeah, here’s a party that-

Andrew Schwartz: It’s definitely his party.

Scott Miller: It’s his party now.

Bill Reinsch: It was balance budget. It was free trade, and look what we've got now. Who cares about the budget?

Scott Miller: It's a different world.

Bill Reinsch: A boatload of protectionist policies, and nobody’s complaining. That’s what’s astonishing about it.

Scott Miller: But it is the President’s party at this point.

Andrew Schwartz: Well, it's his part, and it reflects his style. Whether they like it or not, they're behind him.

Bill Reinsch: And they're going to either go with him, or go down with him. We'll see.

Andrew Schwartz: We will have to see. Something tells me next week at this same bat time on this same bat channel, we’re going to be talking about China.

Scott Miller: Wouldn’t surprise me, but then again, it’s a story about trade.

Bill Reinsch: It sucks up all the oxygen. We got a question from one of CSIS’s supporters about Europe, and what was going on with Europe, partly because the 90 days to make a decision about auto tariffs runs out this Saturday. Friday or
Saturday. But the actual question was about bigger than that, because Europeans were in town last week to negotiate, and it was a low level negotiation about regulation. But I hunted around. I couldn't find a single word about this anywhere, and all the trade publications that follow every time somebody sneezes in the trade world, there's an article, absolutely nothing. It's all China all the time. There really are other countries in the world, and there really are other issues going on. The auto tariff thing is actually an important question.

Scott Miller: Yes, and we have important issues contested with other trading partners, but nobody's talking.

Andrew Schwartz: Well, Godzilla against King Kong is a good story.

Scott Miller: It is. Draws some eyeballs.

Bill Reinsch: The movies, Godzilla is going up against Mothra, and several others coming up. I saw the trailer for it over the weekend. They pull Godzilla out of storage in order to save the world from the other ones that are worse. So this is the new something. Godzilla has become the good guy.

Scott Miller: So he's a tragic hero now.

Bill Reinsch: I don't know how the movie ends, but he is still very large and very green.

Andrew Schwartz: I'm still stuck in the Marvel Universe. You guys have lost me. But until next week, I guess we will be talking about China all this week and all next week. Stay right here on the Trade Guys. We'll be back with you next week.

Bill Reinsch: Excellent.

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.

Andrew Schwartz: 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.

Andrew Schwartz: Thank you, Trade Guys.

Scott Miller: Thanks, Andrew.

Bill Reinsch: Thank you.

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