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A New Reality for US-China Trade? (with transcript)

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Steve Barnes: Welcome to Case in Point, produced by the University of Pennsylvania Law School in collaboration with Bloomberg Law. I'm your host, Steve Barnes. Today we'll be talking about what the election of Donald Trump means for U.S.-China trade and for the global economy.

We're pleased to be joined by two experts. First, William Burke-White, who is the Richard Perry Professor and a Professor of Law, as well as the director of the Perry World House here at the University of Pennsylvania. Joining us from Arlington Virginia, we have Jerome Ashton, who's the managing editor of Bloomberg Law.

So we'll start with you first, Bill. Clearly a lot of ground to cover here, and still much to be determined and to be seen. But, Donald Trump has publicly articulated what seems to be some protectionist policies or stances and as well as stated his opposition to the TPP. To start, let's just define our terms. What is the TPP and where in the big picture of U.S.-China trade does the TPP fit in?

William Burke-White: Sure, Steve. The TPP is the Trans-Pacific Partnership. It is an agreement that has been negotiated over the past ten years among countries on the Asia Pacific Rim, ranging from the United States to Chile to Singapore, Vietnam and Japan. When it was concluded, it would have been the largest trade agreement outside of the WTO in the world, covering about 60% or more of world trade.

It's important because it really was going to be the future trade but also kind of political alliance. It's about trade, it's about investment. It's also about regulatory harmonization. Bringing these countries together. And Donald Trump has said that on his first day in office, he will withdraw. We haven't actually ratified it, but we'll withdraw from the process of ratifying it and tear up the Trans-Pacific Partnership.

Steve Barnes: Very quick follow-up. And the general idea, or thought I guess, behind his position is that he wants to keep U.S. jobs, is that the general idea?

William Burke-White: So you've mentioned that Trump has talked about protectionism. In his view, ripping up the TPP is a way of keeping jobs at home. Because if there are more trade barriers, then he thinks those jobs won't leave the country. What he misses is the fact that we already have free trade agreements with many of these countries, and that

this is about more than trade. It's also about politics and really the future of the international system in a much broader way.

Steve Barnes: Well, we'll get to the future of the international system in a moment. But for you, Jerome, so recently China has been discussing a rival trade agreement. A free trade area of the Asia Pacific. So if President Trump does not ratify the TPP, what do you think the prospects are for China's alternative, like a free trade area?

Jerome Ashton: There are several countries that are part of TPP and part of the regional agreement that China's trying to pull together. The experts that we talked to seem to think that if the U.S. pulls out of TPP, it will make the China-led agreement a virtual reality, as countries in the Asia Pacific that are sort of straddling between the two are much more likely to move closer to China. China's trade influence and strategic influence.

Steve Barnes: Right. And because you're so close to Washington, DC, sort of what are you hearing in terms of what might be a more traditional GOP or Republican position on trade, which tends to favor free markets?

Jerome Ashton: Exactly. It's interesting now that we're past the election. We'll go back to normalcy, whatever that is. It appears that there's some early word that some of the Trump positions on trade beyond pulling out of TPP as Professor White just mentioned may meet with some resistance.

You've seen the stories in the last couple of days about the 35% tariff rate and all, and that's already getting some pushback from Republicans on the hill. So this is still to be played out, because it's such an unusual situation. But it doesn't look like it's going to play out the way that, envisioned during the campaign by President Trump.

Steve Barnes: Your thoughts, Bill?

William Burke-White: Yeah, I think that first of all, Jerome's totally right in the sense that these countries have undergone huge sacrifices to join the TPP, and they're frustrated at the United States at the moment. And I do think they're going to find themselves in China's ambit. I also think, though, that there will be some pushback. Maybe not on TPP. TPP has been so politicized in this campaign that it's going to be hard to resurrect it on both the left and the right. But on some of

the other trade issues, Trump's going to have a lot harder time for things that he can't simply do as a matter of executive power.

Steve Barnes: Right. So there's been a lot of talk about the possibility of a trade war. So how likely do you think that is, just given the way free trade has evolved, even during the last couple of presidencies within the U.S.? And in terms of a trade war, what would that actually potentially look like in more concrete terms?

William Burke-White: So I am less worried about a trade war than I am about America losing its strategic position as a leader on trade. And I think that's what's going to happen. One of the reasons I'm not so worried about a trade war, I got back from China yesterday. The last thing the Chinese want is a trade war. They have actually been fairly restrained in responding to some of Trump's more provocative statements. Because a trade war hurts them as much as it hurts us.

What I do think we're going to see is that Trump will impose tariffs in certain key sectors that are politically salient, on steel for example. Those tariffs would be a violation of the WTO and eventually the WTO will come to the United States and say that's illegal. China might reciprocate on some things. But I don't see this spiraling into a kind of 1930's era protectionism because it is in so much U.S. and Chinese interest to avoid that trade war. So I think Trump will play some politics but hopefully not lead us into a full on trade war.

Steve Barnes: And Jerome, your perspective?

Jerome Ashton: Yes, I agree exactly with all of that, that a trade war, a full-blown trade war is unlikely. But skirmishes are likely. We've had those over the year. The U.S. imposing duties on steel and other imports from China. China retaliating with duties on chickens and other commodities. So, look for more of that. But I think the professor is absolutely right.

A full-blown trade war would be disastrous for both economies and for the international economy. So it would be interesting as the Republicans on the Hill and others on the Hill get more involved in the trade process, what you'll really see. And I think it will be something less than a full-blown trade war.

Steve Barnes: Given the fact that none of this is happening in a vacuum on the global stage, what do you think this means for the Transatlantic Trade and Investment Partnership, and for the U.S./E.U. trade relationship overall?

Jerome Ashton: Good question. I think all of this, and I'll backtrack if I could for just a second. I think with TPP and TTIP, the transatlantic deal and the others, you'll have a period of sort of settling out where you won't see a whole lot of activity on this. The area is just so toxic publicly. But trade is such a vital area, so vital to the economies, that what you'll see is that trade will come back I think maybe wrapped up in different packages such as a jobs bill or infrastructure and other things that you may not see a big initial effort.

But trade's not going away. And certainly from the early reports on the Hill, there's many Republicans who still like TPP. They still want to push for a deal with the European Union, and other deals beyond that. Because this is such a template for future deals. It would be surprising if it all fell apart.

Steve Barnes: What about the prospects of the TPP passing? Do you think that's a possibility, Jerome?

Jerome Ashton: I don't see it passing. Certainly not immediately. Because again that would probably bring rebellion in the ranks. But I certainly see elements of it somehow being used in other trade agreements or parts of it being pulled away, because the importance of this is that the business groups have worked hard on this.

And this is almost like a wish list of intellectual property and labor and environment and procurement and so many areas, that they were so close to actually getting and bringing home. I think TPP, the title TPP is dead. But TPP in another fashion, in another sense, I wouldn't be surprised if you see that somewhere down the line.

Steve Barnes: Bill, your thoughts on that or the U.S./E.U. trade deal?

William Burke-White: So I think we have to frame this in a broader construct, of a populist, protectionist uprising around the world. We saw it with Brexit. We saw it with Trump's election. We saw it in Italy and the most recent voting there. And that I think makes it politically hard to do trade anywhere in the world at the moment. I think the transatlantic agreement is dead for another reason, which is that the E.U. is in a moment of inward looking crisis with the Brits pulling out, with Italy's future uncertain after the recent referendum.

There's no new trade deals with Europe until Europe gets its house of cards together and negotiates the terms of exit for Britain and then sees where it's going. On TPP and the United States, it is

worth remembering that no major trade deal has ever been both signed and ratified under the same president. It usually takes time. I think TPP is absolutely dead in the Trump administration. But four years from now, it's still going to be sitting there and could be resurrected. I hope it is.

Steve Barnes: So the forecast then for you both seems to be TPP is dead, and for you Bill at least, the U.S./E.U. deal is also not going anywhere. So, how do you think these or potentially other more protectionist policies would impact American businesses and through that the American consumer?

William Burke-White: I think they're designed, or intended as Trump frames them, to protect the American consumer, particularly the American worker. I think in the short term? Sure. It may be good for a few American workers if their jobs stay in the United States. In the longer term, I think this is bad for American workers. I think it's bad because those jobs are not going to stay here forever.

And this prevents the sort of natural need to change the economic basis of some of these regions and communities. And that's painful. But that may be in people's long-term interest. For American consumers, it's another bad. It's bad because goods are going to cost more if there are high tariffs on them.

And for American businesses as we just heard, part of what TPP would have done is raise these other countries up to the level that our businesses have to operate at, and would have created a more equal playing field for our companies that already meet these standards. And we've just given up the chance to bring these other countries up to the standards that we abide by.

Steve Barnes: Jerome, your thoughts please?

Jerome Ashton: I agree 100% that the, what was contained in TPP was so important for business groups that you won't see anything immediately. But the idea that the labor and environment and procurement provisions will be resurrected at some point is hard to say because of world advance, you know, whether that's one year, four years, six years.

Business groups have worked on this for such a long time, I think you'll see a continual push. And also as consumers feel a pinch of goods, say there is a mini trade war or trade barriers or other protectionist measures. As consumers feel the pinch of goods that they've been used to buying at fairly low prices, the public

sentiment could start to shift. Which would possibly work its way to Capital Hill.

Steve Barnes: Right. And as a follow-up Jerome, given the fact that there is, business groups have a good deal of amount of influence on the Hill, and in American politics on both sides of the aisle, what are your thoughts on how this impacts the way Congress does its business vis a vis these trade policies. Meaning again, the orthodoxy in the GOP has been traditionally pro-business, pro-free trade market economics. So, how do you think in the short term this is going to play out in Washington?

Jerome Ashton: In the short term, you'll have to look more toward the bilateral trade deals. The Republicans on the Hill are anxious to do a deal with the U.K. as Professor White said, once it's out of the E.U. But initially what you'll see is maybe some revisions to NAFTA.

Assuming that deal is opened and Mexico and Canada both feel that they actually get something out of a revised NAFTA, because it won't be a one-way ticket. We'll open it only to appease U.S. interest. So you may see some revisions there. You may see some movement on bilateral trade deals with other trading partners. But the big multi-lateral deals for now are pretty much on the back burner.

Steve Barnes: Right. So on that note, the big multilateral deals and multilateralism generally, the U.S. has typically been in the lead as a global player on the world stage. How do you think this somewhat new trajectory, or new trajectory for the United States is going to play out not only in the international economic arena, but also diplomatically.

William Burke-White: I'm sad to say but I think it's devastating. When I was in Asia this past week, I talked to government officials from Singapore, from Chile, from Vietnam and these are countries that have made these enormous sacrifices to join the TPP, and now we're the ones who back out, so we're undermining our credibility with those countries.

The only people I talked to who were happy were the Chinese who see a real opening here to have their trade agreement be the lead agreement, to begin to pull the United States away from or separated from its allies in the region and to establish their own leadership on international trade issues.

I fear that we will look back on this moment in 20 years as the

moment that the United States said fine, we're happy to cede our leadership of the international institutional order that we built after World War II, and that has allowed for the last 70 years of prosperity and opportunity. And I worry that we're going to let that slip away.

Steve Barnes: Sure, but that is also that the discontent with globalization and its impacts domestically also contributed to voters handing Donald Trump the White House. So what isn't working then about globalization for the U.S. and others?

William Burke-White: Two things. The first is that a lot of people have been left behind. And we have not done enough to keep those people, giving them opportunities. Making sure they're not left behind. Structuring deals that have mechanisms in them to help people whose jobs may be dislocated, and we have failed at that.

And secondly we failed at communication. We failed at showing that we, the elites who sit in law schools and other places, but also the trade officials and government officials, of showing people that these opportunities are really in our collective best interest. They make the U.S. economically stronger and on TPP particularly, politically stronger in a very fraught region. And we have to rethink the entire communication around trade at the same time as we make sure that it does more for those who will be dislocated in the process.

Jerome Ashton: I agree, especially with the communication piece. During the election when trade was being paraded as the worst thing out there, you didn't here voices standing up from you know, across the board saying wait a minute, remember the benefits as well. So while there's dislocation, while there's shifts in jobs and employment, the U.S. and every other country benefits from trade. We benefit from goods coming in. We benefit from jobs, from products that we send to Europe, to Asia, to Mexico.

So the communication part, I think, is a key and that's why I think there is still a little hope, the idea that people can be informed of the idea that hey, this is not all bad. That there's good and the part about helping those displaced by trade I think is the other key. Those two things, seems like if they're able to get a consensus on the hill, and with the administration, then you could see a shift in sentiment on this. Because there are many benefits that were never really spoken about during the election.

Steve Barnes: Any other areas of trade we should be thinking about? Jerome?

Jerome Ashton: Yeah, I think Cuba is a major topic that could change the order and the dynamics of trade and international economics and policy. The death of Fidel Castro has suddenly taken away an impediment in many ways. It hasn't ended all that, so we won't be opening up trade, especially with the sentiment of the president and many on the Hill.

But this is interesting, now that Cuba is on the forefront again. China's dealing with Cuba. Canada's dealing with Cuba. And so's the E.U. I think that's something to watch. Because we may be forced as a country to do something as far as taking action, as far as trade and other developments there, that we didn't intend to because of the international dynamics.

Steve Barnes: Bill?

William Burke-White: I think the thing that strikes me the most is just the domestic politics of both on the left and right, the attack we've seen on trade. And figuring out where new leadership is going to come from around these issues is going to be a real challenge. It's not going to be from the Elizabeth Warren side of the Democratic Party or the Donald Trump side of the Republican Party.

And we need that leadership domestically. Because other countries have that leadership and are willing to push forward and are sitting there laughing at us as we're fighting with ourselves. And so we've got to get our house together. And the time to do so is really limited.

Steve Barnes: Okay, well great. So as of this taping we're still a few weeks away from the inauguration. So to be determined, and it, I think clearly there's a lot more to talk about after January 20th. So Jerome Ashton from Bloomberg Law, Bill Burke-White here from Penn. Thank you so much for joining us for this episode of Case In Point.

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