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“Trade priorities for Congress: A conversation with Rep. Rick Larsen”
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Washington State’s 2nd District

DOLLAR: Hi, I'm David Dollar, host of The Brookings Trade Podcast Dollar and Sense. Today our guest is Congressman Rick Larsen, Democrat of Washington State's 2nd District. We're going to talk about what trade means to his district and about some of the trade issues that are going to come up in front of the new Congress.

Congressman, you're the first member of Congress that we've interviewed on our relatively new podcast so thank you very much for joining us.

LARSEN: Thanks for the honor, I appreciate it.

DOLLAR: So perhaps you could start by just telling us a little bit about your district and what international trade means for your district.

LARSEN: Yes. So, Washington State's 2nd District, the best way for your listeners to think about it is it's north of Seattle and none of Seattle. A lot of folks when they think Washington state think Seattle, but my district is essentially Everett, Washington up near to the Canadian border.

It's the district that is the home of the very large Boeing aircraft manufacturing plant, so the men and women who work at that plant—about thirty, thirty-five thousand of them every day—assemble the 787, the 777, and the new 777x. They also do military aircraft, the Air Force tanker based on a 767 model, and they still make a few 747s largely for the cargo market.

The way to think about this though as well, is two studies during the 2016 presidential election found that if there was a trade war with Canada, my district, and Snohomish county, the county I was born and raised in, would be hit most by any trade war with China, losing up to 5 percent of all the jobs that exist there, largely because of our dependence on trade.

DOLLAR: Congressman, I know that you were the founder of the China Working Group in Congress and you're co-chair of the China Working Group. You're quite an expert on China. Obviously, we have intense issues and negotiations going on likely to continue

for a long time. What do you see as the main issues between the U.S. and China in the trade arena? And in terms of a realistic agreement, what would you be looking for, what would be a good agreement between China and the United States?

LARSEN: Yeah, I want to pull back a little bit on that question before we get into specific issues because the number one issue when it comes to trade between the United States and China is that there is a lot of good that has come from it. And the debate right now on U.S.-China trade is largely focused on its challenges. But, I think it would be irresponsible to have a conversation about this trade relationship without considering some basic facts about how important the trading relationship is between the two countries. It creates jobs in China, but importantly it creates jobs in the United States. Certainly creates jobs in Washington State and in my district. So that basic tenet always seems to be forgotten when we talk about China trade.

Now having said that, there are four or five key issues that are fundamental and structural, in my view to the U.S.-China trade challenge. One is the large state-owned enterprise involvement in the Chinese economy. Second would be intellectual property rights and IP theft. A third issue would be just basic market access—U.S. companies', or non-Chinese companies', market access into the Chinese economy. Forced technology transfer and finally forced joint ventures or forced JVs.

Those are the five main issues that are largely the structural concerns that the U.S. has with China. The reason I want to underline those five is because there is a bipartisan recognition that these are the five big issues. The debate gets into how best to address those five issues. And I along with some other Democrats and Republicans do have a difference with the current administration's approach to addressing those issues.

DOLLAR: Right. I'm on panels occasionally about what does a good trade agreement look like, and I often start by saying we should stop shooting ourselves in the foot because we're using instruments that are hurting our companies and our consumers.

LARSEN: I think on that point, that's an interesting point because right now the U.S. and China are trying to work toward some March deadline to come up with a way out of the potential trade war, and folks who are using the term "trade agreement." What we end up with won't be a trade agreement. It will be a cessation of hostilities, I think. I don't see where there's going to be an actual trade agreement that is a document that outlines fundamental changes that both countries are undertaking in order to improve upon the trade relationship. The most I see coming right now is the classic, "You buy more of our stuff and we'll drop tariffs," getting back to square one and calling it victory which is frankly not a victory at all.

DOLLAR: All right. So those are very good points. Your district obviously bumps up near to Canada are right on the Canadian border, is that right?

LARSEN: Yes, it does.

DOLLAR: So, I want to ask you about the renegotiated NAFTA.

LARSEN: Yes.

DOLLAR: Do you have a view on this? Is it likely to get through this new Congress? And if there are going to be continuing issues, if there's a push to renegotiate, what would be some of the main things to renegotiate on?

LARSEN: Yes, I think largely most of the agreement as we've seen it here in Congress is that there's a lot of comfort with it. One of the biggest issues I had was when the administration was threatening just to do bilateral trade agreements and then doing one to Mexico first and then doing Canada, maybe leaving Canada out. Look, being from Washington State, doing a trade agreement, renegotiated NAFTA, that doesn't include Canada is a clear no vote from me. So, it was going to be dead on arrival as far as my view without Canada in it. And now that it is a renegotiated NAFTA with all three countries we can take a look at what is in it.

I think some of the upsides of the agreement, one would be the migration of TPP

provisions into updated NAFTA, cross-border trade in services, dropping the de minimis levels for trade. There's just a lot of things that migrated from TPP, making this a much more modern trade agreement that needed to get done.

I think where some of the challenges are overall, maybe not necessarily with my office, but overall in Congress will be looking at the auto provisions, specifically on the rules of origin and what that actually does mean for wages. Whether or not Mexico moves forward on the reforms that they say that we're going to move forward on them making policymakers here in the U.S. more comfortable with a yes vote. And I think that we're going to take a look at the labor and environment provisions of the agreement as well, again and to see if they are enforceable enough. There may be some other issues on dairy that we're going to look at and so on, a lot of cats and dogs on this thing. But I think the environment, labor, rules of origin, and enforcement are going to be the key topics that members of Congress look at. And, as a result, will be the area where the Democratic leadership in looking at implementing legislation will maybe try to shape how the bill is implemented to make it a comfortable vote for members of Congress.

DOLLAR: Right, as you say some of the provisions that were negotiated as part of the Trans-Pacific Partnership basically have just been pulled into this new NAFTA agreement. The labor chapter, IPR, environmental chapter. The labor chapter requires Mexico to make revisions to its domestic labor laws to make union organization easier and collective bargaining easier. So, what you say makes sense, focusing on whether this is really going to be implemented and what kind of assurance Congress can get that this will be implemented.

LARSEN: Yeah, and I think all of this is important because I guess from my perspective there wasn't a lot of argument about whether an agreement that was done in 1994 needed to be updated. It's the content of the update, and then addressing classic issues, if you will, on enforcement. It's hard to make this case that if we just take care of

enforcement issues then members of Congress will be satisfied. But it's one of those necessary but maybe not sufficient elements of the bill. Just understanding that this administration and subsequent administrations will in fact take enforcement of trade agreements seriously and then getting proof of that will go a long way to assuring members of Congress that the people in their districts are going to be, you know, somewhat protected or have the opportunity to be competitive under a new trade regime with Canada and Mexico.

DOLLAR: Since we pulled some of the Trans-Pacific Partnership chapters into this new NAFTA and that seems to be favorably viewed, generally, it naturally raises the question: why did we pull out of Trans-Pacific Partnership? Should we perhaps rejoin? The other 11 countries have gone ahead. Some of the chapters of that TPP address exactly the structural issues with China that you were talking about, state enterprises for example, there's a state enterprise chapter in the TPP that's implemented by the 11. There're about 15 countries now that are angling to get into TPP, so this could really be the foundation for Asia-Pacific trade, and the United States it's not present. So, do you have a view on TPP in a sense of whether the United States might reconsider?

LARSEN: My view of where the U.S. is probably best exemplified by Homer Simpson's classic line, "D'oh!" And it's just one big mistake to pull out of TPP for a lot of reasons, and we see that I think more so today. In fact folks who I talked to a couple of years ago when we're debating TPP, and these are folks back home who are opposed to the Trans-Pacific Partnership, have now come to me given that they see the U.S.-China trade relationship and this trade war going on, and they've come to me and said, "oh now I see what you meant by the U.S. having, you know, leaning forward in Asia and providing an alternative to these other countries, providing a different place to go other than have to deal with China all the time. Now I understand the argument behind TPP." It's, you know, three years a little late, but better late than never sometimes.

So, I think that the idea that these 11 countries went forward anyway with the TPP, 11, was the right thing when they did they jettisoned some provisions that were more or less U.S. led provisions. But, it does provide the opportunity for the U.S. to come back in with those provisions and try to get those back negotiated into a TPP 11 to make it the original 12. I don't see it happening under this administration, but it does change the dynamic in, say, a 2020 presidential election a little bit. It changes the dynamic of a TPP, say, for a potential Democratic candidate to talk about trade and talking about leaning forward in the Asia-Pacific region when it comes to the economy and trade being another option for countries to trade with the United States as opposed to just relying on China. You know, we'll see where that goes. But I think that again we made a mistake of pulling out in the first place. We need to correct that in the future.

DOLLAR: You mentioned, congressman, that we're not really negotiating an agreement with China and we're not negotiating a trade agreement or investment agreement. You know, looking far down the road do you think there's a prospect for, if the U.S. gets back into TPP, if it's expanding with countries like Indonesia, South Korea—China, I should emphasize to our listeners, was never part of this negotiation, they're not part of TPP. You know, is that a good strategy to try to create an incentive for China to want to join somewhere down the road? And one more part of this question, I heard you talk about a bilateral investment treaty between the U.S. and China, perhaps as an intermediate step, so can we think about agreements going beyond this immediate potential truce we might have in the U.S.-China trade war?

LARSEN: Well, you know the BIT, or the Bilateral Investment Treaty, discussions started moons ago and it is a bilateral trade agreement. And, so, given the desire of this administration, the current administration, to focus on bilaterals seems to me that the BIT could be an avenue for them to use to actually get a trade agreement with China using the BIT as the reason for that. They've chosen not to do that as well. It's not all on us. The

Chinese haven't been easy negotiators. But the point I want to make is that I have found, and there are people smarter than me on this, but any trade agreement takes time, it takes patience, and it takes planning some long game and this administration does not seem to be the one to practice that patience or that long game view.

But I think, then, pulling back a little bit to the first part of your question, I think that the Chinese leadership would probably say something along the lines of "we go our own way, we don't do alliances, we don't do regional trade agreements." They do bilaterals a lot, which is fine. I still think that the TPP as the U.S. envisioned it under the Obama administration was a trade agreement, but additionally it was a mechanism to show the Chinese leadership that there was a different model, that there were 12 countries in the region who were willing to create their own trading bloc, and then that was going to push China to make its own changes as well. Whether or not they join the TPP wasn't as important as whether it gave the Chinese leadership the incentive to make some of the changes that we even today want them to make and the administration is trying to get Chinese leadership to make using tariffs. But instead if you had a 12 country trading bloc with preferential treatment for those folks in the trading bloc and China is sort of seeing itself a little bit on the outside of that trading bloc, maybe if they didn't want to join then they would at least then move towards being more like playing by the rules in the trading bloc, the TPP, as opposed to what they're doing now.

DOLLAR: Right. I mean one of the big things in the TPP negotiation is that Japan has made quite a few concessions to open up more markets, typically agricultural products, beef probably not relevant for your district. But by not being in TPP, you know, we've definitely put some of our producers at a disadvantage. Australian beef can go to Japan. American beef is being taxed at a much higher rate. The administration has talked about doing a bilateral agreement with Japan. Again, it raises the question, why aren't we just in TPP? But let's put that question aside. Do you have a view on whether we should

be developing a bilateral agreement with Japan?

LARSEN: I'm okay with that. It doesn't get me as excited as going big because we were that close on TPP. If there's one country to start with on a bilateral after we get through the NAFTA 2.0 debate, if there's one country to really focus on it would be Japan. But Japan, I think, has been waiting to see what happens, one, with NAFTA. It's been my impression that what we come up with NAFTA 2.0, the rest of the world the sort of look at that as a model of how the U.S. would approach a trade agreement. And, second, the content.

So, I think Japan has probably been pulling back a little bit which is why Vice President Pence has been in charge of outreach to the Deputy Prime Minister Asō. And those conversations haven't resulted in anything resembling even a call for a trade agreement or agreement to move forward on a trade agreement. You know I'm not totally ambivalent about it, it's just that the Japanese, in my perspective, yet don't see pursuing a trade agreement the U.S. as the first thing on their list of things to do. The flipside is that we don't see joining TPP 11 as the first thing on our list of things to do. And it might take some changes in the administration and it might take a change in the strategic or economic environment for that to occur. But, that said, I'm not totally ambivalent. It just doesn't seem to be as high of interest to either the U.S. right now or Japan.

DOLLAR: Right. What I hear from Japanese sources is they would be willing to do a quick agreement with the U.S. where they give the tariff treatment to the U.S. that they're giving to the TPP 11. But they don't want to get into structural issues for fear the U.S. is essentially going to reopen a lot of complicated structural issues. Your sentiment makes sense.

You started our conversation by talking about how your district has benefited a lot from international trade. But clearly there are some districts around the U.S., particularly in some parts of the Midwest, that have been hit by imports, by international trade, and there

are always going to be individual workers, even in your district they're bound to be some individual workers. It's hard to tell who lost their job because of trade, who lost their job because of technology, who lost their job because of demand shift. Traditionally we've had trade adjustment assistance to try to help workers affected by trade. But, the general sense among researchers [is it] hasn't been very effective. Is there anything we can do to make this more effective? Is this something on the agenda?

LARSEN: I think it is a great question and I think the answer lies somewhere in reform. Using the same TAA, or Trade Adjustment Assistance Act structure, it just isn't working. Putting more money into it, just isn't working. I mean, I've jokingly said, and someone sarcastically said that calling TAA a fig leaf is an insult to fig leaves everywhere because it just doesn't really work all that well. So, I think the answer is more in the investment that we can make into U.S. workers themselves who don't have a very robust, effective worker training, much less retraining, a worker training and apprenticeship system in the U.S. like we should. My view is that putting more time and energy into reforming that side of the ledger as opposed to waiting until the job loss is a much longer term, effective route to take.

And we can do that I think because the economy is changing and rapidly, and we can take advantage of that, but we still need to be thinking and rethinking what apprenticeships are like. In Washington State and generally the United States, we do apprenticeships for the trades, for construction, and the trade crafts very well. There are registered apprenticeships, they have accountability to them, the folks [who] come out of those apprenticeships are really well-trained. I have visited many in my district but they're mainly folks in manufacturing. Our governor has introduced some program for technology apprenticeships using the same model but they're registered apprenticeships, so they've got their quality control on top of that. Health care is a growing part of the economy and there are routes to take on health care, health care training so that the folks who go into

those jobs have the skills necessary to do the job, so they can command a higher wage than if they were just being trained on the job without supervision.

So, I think the answer on Trade Adjustment Assistance, we need to really turn that prism and look more at how we train workers in the U.S. to be flexible, to be aggressive, and competitive in their own minds. My son is an engineering student at a small college here in the U.S. And I tell him, when you graduate you're not competing with the kids you graduated with, you're competing with kids who graduated 9,000 miles away. That's the economy that you are growing up in, I tell my son. And that's what we have to train towards.

DOLLAR: Right so that makes a lot of sense. Researchers were very aware that this antitrade sentiment which you see in the U.S., you see in a number of other countries, but you don't see it in Germany, you don't see it in Japan. There are other advanced capitalist countries that seem to deal with this whole issue of retraining people and labor mobility more successfully.

LARSEN: Yeah. I think, you know, the anti-trade sentiment is really "and I don't want to lose my job and I'm pro wanting my kids to have a job." That's what the anti-trade sentiment is right. And so maybe we ought to be addressing the issues of how to create the opportunities for that next generation of workers and the next generation of innovators here in the United States to have a fair opportunity and be competitive. And we don't do that as well as we should.

DOLLAR: Thank you, congressman, that's really a great place to end.

LARSEN: Okay. Thank you.

DOLLAR: Thanks a lot.

LARSEN: Appreciate it.

(MUSIC)

DOLLAR: Thank you all for listening. We'll be releasing new episodes of "Dollar and

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