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Our next speaker will be Richard Cooper. He is working as a professor of economics at Harvard University. I do not need to give any further introduction, because he is so popular. Last year, you observed the then-President-elect Trump as having no clear ideas on foreign policies, because he was too obsessed with domestic policies. I wonder if you have changed your observations over the year and would love to listen to your own stocktaking on other issues if possible. Mainly, I expect that you will focus on economics.

Richard COOPER

As you reminded us, we met last year just after the American election. We have now had 10 months of the Trump Presidency, so we can compare what he has actually done as President, with what he hinted he might do when he was a candidate. What I want to do is spend some time on that comparison.

Before I do that, I want to answer your question about the S&P and Moody's downgrade of China. To make it simple, these firms do not know what they are talking about. I have had experience with them for over 30 years, and one of them involved the Korean crisis in late 1998. The S&P downgraded Korea at that time, after the crisis broke. That indicated to me, because I had just written about the Korean economy, that these two institutions, particularly S&P, did not know what they were talking about. They had no notion of the Korean public sentiment towards repaying debt. As it is pejoratively sometimes said, they are run by 40-year olds, supervising 25-year olds. They run their models, which may be inadequate. Typically, they are limited by data and they just do not know much about the institutional and social context. They downgraded US debt in 2011. We have serious problems in the United States, but not paying the US public debt is not one of them and will not be in the foreseeable future. I think the downgrading of China's debt is trying to correct for their mistakes on the upside in grading mortgage-backed securities too highly in 2006 and 2007. The general lesson is, do not pay much attention to their ratings, at least their sovereign ratings. By the way, they were not very good on Greece either; they downgraded it after the crisis. Anyway, that is a side comment on this. I attach zero significance to this downgrade in terms of their understanding of the Chinese economy. I do not know the model, but it is probably based on just the high debt levels in China, by developing country standards, without looking at what the debt is. As we were told yesterday, it makes a difference who holds it and what it is, etc.

Back to Trump. As I hope I said last year, he campaigned on what I call slogans or sentiments, Tweets. Unexpectedly, he became President and then he faced the challenge of translating slogans into policies. That turns out to be a big problem. I will come back to BRI at the end, where China has a similar problem. After 10 months as President, how has Trump responded to his campaign sentiments? I guess the first surprise is that he actually took them seriously and he has made attempts to translate these slogans into policy. I want to divide my observations into four headings and I will give just a few illustrative examples under each heading: where he has tried and succeeded in translating his slogans into policy; where he has tried and failed to translate the slogans into policy; where he actually reversed his position, or his administration did with his acquiescence; and, fourth, issues that are still open after 10 months in the administration, where we do not know. By the way, these issues all continue to be open, but I am going to classify them up until now.

Under the first heading, attempts which were successful, in the first week he said publicly that he was not going to submit TPP to Congress for enactment. Under the arrangements of the Trans-Pacific partnership, he needed to do that; no guarantee that it would go through the Congress, but he said he was not going to submit it. In effect, the US withdrew from TPP and that was no surprise. He said it was a terrible agreement; he has actually used that phrase for many agreements. That was one early on. With a five-month lag, he also said that he was going to withdraw from the Paris agreement on climate change. There was much more discussion within the administration over doing that, but

he had indicated that he would withdraw from the Paris agreement. Those are two examples where he expressed sentiments about these issues during the campaign, and he followed through successfully.

Under the second heading, where he expressed sentiments and followed through unsuccessfully, I will again mention two. One concerns immigrants from Muslim countries. Muslims, he made clear, are terrorists and he did not want terrorists entering the country, so he decreed by executive order that the citizens of seven countries, no matter where they were living, could not enter the United States for 120 days - so it was limited. Within a week that executive order was suspended by a district court judge. That was a big shock to Mr Trump, he discovered that the federal judges do not work for him. The order was very badly drafted, and they came out three weeks later with a much better drafted order, reduced the number of countries to six, and a different set of judges declared that was invalid also. By the way, the merits of the case were not decided by these judges. They said it sounds like it is unconstitutional and therefore they suspended the order, which judges can do, and the courts can decide later whether it is unconstitutional, but we do not want a presumably unconstitutional order to go into effect. That is the American system. The second issue concerned an entirely domestic issue, the Affordable Care Act, passed under President Obama in 2010, which is hugely controversial, especially among Republican's wide sentiment for repealing it. After the election, but before he became President, he revised his verb from 'repeal' to 'revise', which in itself was interesting, and then he challenged the Congress to revise it. I will not take you through the many agonising details, but the Congress failed, in particular the Senate failed. President Trump discovered that not only do the American judges not work for them, but neither does the American Congress. Being President of the United States is a very high-status position, but with limited authority under the system of American checks and balances.

The issues where he reversed his position first concerned the US alliances. He said in the campaign that NATO was obsolete. He did not use that term, as far as I know, with respect to Japan and Korea, but he implied that they were also obsolete. It is worth noting here that this Trump position agrees with the position, as I understand it, of the Chinese government, which is that these military alliances are relics of the Cold War and are, to coin a term, obsolete. Therefore, Trump actually agreed with the Chinese position on this. We have a big security conference in Munich, Germany, every March. US Defense Secretary Mattis went to it, as well as Vice President Pence, and both senior officials had a lovefest with NATO. Mattis also later travelled to Japan and Korea, and said that they were very fine allies and, of course, our partners must pay more, to be sure, but these alliances are very fine. As far as I know, Trump never repudiated his sentiment of the campaign, but his administration did with his acquiescence. That is therefore an issue of reversal of his campaign slogans. The second example directly concerns China. Trump said in the campaign that if elected, on his first day in office he would declare China a currency manipulator. He said that in the campaign. The first day went by, the first week went by, the first month went by and no comment on China's currency manipulation. Then an astute journalist asked the new Secretary of Treasury, what about China being a currency manipulator? Secretary Mnuchin responded by saying we have a well-ordered process for making such a judgement. The Treasury report will be out at the end of April and we will decide then. The report duly came out at the end of April and China was not declared a currency manipulator, correctly in my view. Again, Trump did not actually repudiate his earlier statements, but his administration did, again I assume with his acquiescence or maybe even lack of knowledge.

My fourth category is the issues that are still open. A major domestic issue with some international implication is tax reform and that is current top agenda of the administration. They hope Congress will pass a major tax reform and tax reduction by the end of the year. That is currently very much in the discussion in Washington and in the American business community, especially as we do not know how that is going to come out. It does not concern this seminar especially, although it will have important international implications. Much more directly applicable is Trump's trade policy toward China. I am sure that most of Trump's statements during his campaign with respect to China were well-reported in Chinese newspapers and on the TV. What I am equally sure that his even worse statements about Mexico were not reported in China. In Trump's view China is terribly behaved, but much less badly behaved than Mexico. What was probably not reported in China is that China is only second on Trump's list of countries to condemn (apart from North Korea and Iran, for very different reasons). One of the condemnations was for the trade surpluses of China and Mexico with the United States. He has since added Canada, Germany and South Korea to the list. China has lots of company. In fact, one of our panellists yesterday said that 100 countries have trade surpluses with the United States. On the analytical merits, Trump lacks fundamental understanding both about the system we have and about the accounting that is associated with trade surpluses and deficits. He is engaged in a huge conceptual mistake. I am told by Doug that it has been on his mind for decades. On his instruction, his administration has investigated three



rarely used clauses that give the President some authority under American trade legislation. But so far, there has been no action – what will eventuate is still uncertain.

Back up a minute. Under the US constitution, the real policymaker in the United States is Congress. The President only executes the laws. However, from time to time, Congress delegates authority to the President, and under the trade legislation going back 40 years to 1974, the President has certain authorities with respect to trade. He has had them investigated, but what is noteworthy is that he has taken no action, so far, in these trade issues, except to open a revision of NAFTA, beyond the TPP rejection. Again, we could go into details about why there has been no action, but the point for us here is that we still do not know what the Trump trade policy is going to be. I have been around long enough to see many trade negotiations and we will not now about the NAFTA renegotiation until it is done. The guidelines they presented initially were not bad, in fact they were drawn from TPP ironically, but our chief negotiator has said several quite aggressive things publicly. Whether that is for show or whether it is real, whether it will or will not materialise, remains to be seen. Remember Trump's campaign, he said at one point, he wanted a 45% duty on Chinese goods. We have seen nothing like that. We do not know, and it is still too early to tell, even 10 months into the administration, what his trade policy will be. He has been heard to have said, on at least four occasions involving very different issues across the area of policy, that, 'It is a much more complicated issue than I thought it was'. He is discovering that slogans are not policy.

A complicating feature is that he has been very slow to appoint officials., An American President can appoint many officials with Senate confirmation, who actually frame policy in the United States. Decisions are at the top, but policy is framed not by the civil servants, but typically by Assistant Secretaries and Undersecretaries and Deputy Assistant Secretaries, and many of those positions are vacant, so he is not getting the full information about policy options. That is just a complicating factor.

I will finish by talking about BRI. We have not colluded, but I agree with Doug, I was one of those who were appalled when Obama, or his unnamed official, objected to AIIB. Having been involved in the creation of the ADB 50 years ago, I thought it was a very positive initiative, and so it has turned out to be, so far, though it is still at its early stages. BRI was announced by President Xi four years ago in 2013. I do not read Chinese, but I am told there is a famous Chinese four-character slogan. I tried at the time to find out what it meant, and I failed. I know several Chinese academics and think-tanks have been asked to fill out what One Belt, One Road might actually look like. I know that at least some things that long predated BRI were included in it, although they were started many years before 2013. Before the very elaborate summit conference in May, there was frenetic activity to find out what it might include. It is gradually settling down. Statements have been made about financing and soon we will learn about some of the projects, other than the ones that were started years ago. Again, it is complicated for China also, as well as for the United States, to translate slogans into policy. It takes a long time and lots of thought. However, potentially I think it is a good idea. There are a number of American international relations specialists and others who are very suspicious that this is a Chinese strategic grab, whatever that means. I think the US government should embrace it and emphasise the positive. These are poor countries west of China; they can use some help, and if China is willing to give the financing, we should applaud it so long as it turns out well.

PARK In-kook

Can you wrap it up so we can continue? Maybe One Belt, One Road and TPP could be discussed during the presentations of other speakers.