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Press Briefing by Secretary of Commerce Wilbur Ross on an Executive Order on Trade Agreement Violations and Abuses

James S. Brady Briefing Room

MS. STROM: Thank you, guys, all for being here. This is a briefing on executive order on addressing trade agreement violations and abuses with Secretary Ross. It is on the record, off-camera, embargoed until 9:00 p.m., Eastern Time. And if you guys please would speak up when you ask your questions, make sure we can all hear you over here, that would be great. And with that, I'll kick it on off to the Secretary. And remember to keep your questions on topic.

SECRETARY ROSS: Thank you. It's me again. (Laughter.) I notice the audience is dwindling. I hope that's due to Friday rather than to the speaker. But in any event, this is the executive order addressing specifically violations and abuses under existing trade agreements. So that's what differentiates it from some of the earlier ones that we had. This is *focusing more narrowly on the agreements themselves*.

Now, not all of the free-trade agreements that we have result in deficits. But some of the larger ones also result in some of the larger deficits. In all trade relations with companies, other than free-trade companies, are governed by the WTO, the World Trade Organization. So that's really the grandparent of all trade arrangements that we have.

And as far as I can tell there has never been a systematic evaluation of what has been the impact of the WTO agreements on the country as an integrated whole. So it's trying to find violations and abuses. It calls for a report within 180 days. But this particular report, it calls for not just outlining the problem or problems, but also proposing the solutions -- alternative solutions to them.

So that's the guts of it. Now, why? What is it really all about? I think everyone here is generally aware that we do have a big trade deficit. It's some $700 billion -- not counting our trade surplus in services, just counting the trade deficit in goods; and it's $500 billion, counting the trade deficit in -- after netting out the benefits of the exported services. So that's the general parameters.

This order involves the Department of Commerce and the U.S. Trade Rep jointly to conduct that review.

And so maybe it would be useful to you to hear where are some of the big deficits so that you can put it into perspective. China alone is the number-one deficit. It's $347 billion. This is on the goods part alone. So the base is $700 billion. And China is 47.2 percent of that.

Japan is next at $68.9 billion, which is 9.4 percent.

Germany, $64.9 billion -- 8.8 percent. I might point out that Germany doesn't negotiate separately trade agreements. It negotiates them as part of the European Commission.

Mexico, which is obviously part of NAFTA, $63.2 billion, or 8.6 percent.

Ireland, $35.9 billion, 4.9 percent -- also part of European Commission.

Vietnam, $32 billion, 4.3 percent.

Italy, again, part of the EU, $28.5 billion, 3.9 percent.

South Korea, $27.7 billion. We do have a free-trade agreement with South Korea. And that's 3.8 percent of the problem.

Malaysia, $24.8 billion, 3.4 percent.

India, $24.3 billion, 3.3 percent.

So that's the top 10 of the agreements. But for the most part, as you can tell from that, the largest portion is with the countries that are really just covered by WTO rules, as opposed to countries that are covered by individual free-trade agreements.

What are some of the problems under WTO? Its 160-some-odd countries are participants in the WTO, and the vast majority of those are countries that export to us, and in most cases, export more than they buy from us.

The U.S. only has 20 free-trade agreement partners, and that's a very small number. Those of you who have been at some of the earlier briefings know Mexico, for example, has more than twice as many free-trade agreements by number as we do, and has them with the most important areas, such as the European Commission, which we do not have.

So it's anomalous that the U.S. with its huge trade deficit has relatively fewer free-trade agreements than do much smaller countries like Mexico. And I think that points out one of the issues with our current relationship with the World Trade, namely Mexico and others have had very big external tariffs on many, many goods. U.S. is the least protectionist country. Many goods come in totally free, and others have little, tiny tariffs, like 2.5 percent. Countries like Mexico frequently have 15, 20 percent, even more than 20 percent tariffs.

The implication of that is, when they negotiate a free-trade agreement with another country, they can give something important to that country by way of tariff relief. If we, for example, only have a 2.5 percent tariff on autos, and no tariff on steel, what is it that the other country gains by making a free-trade agreement with us?

So in a weird way, the fact that we have been so free-trade oriented historically actually impedes our ability to make new free-trade agreements. And that's something that I don't think is very well understood, so I think it would actually do your readers a very good service to point out to them that the fact that we have made so many unilateral concessions impedes having more free-trade agreements with other countries. It's an oddity of the way that we've behaved in the past.

The other thing about it, the President has talked a lot about reciprocal concept; namely if we have a country that has big trade barriers against us, we should logically have similar trade barriers against them. And if there's a country that has relatively few barriers against us, we should have relatively few against them.

The only problem is, the World Trade Organization has what's called a "most favored nation clause," meaning that of all the countries with whom we do not have a free-trade agreement, we must charge the same tariff on the same item to those -- each of those countries as we charge to the others. So that's a significant impediment toward getting to anything like a reciprocal agreement.

The second thing is the WTO doesn't really deal very much with *non-tariff trade barriers*, and it doesn't deal very effectively with intellectual property rights, and doesn't deal very much effectively with the whole digital economy. So there are some real gaps within it.

But there are those problems that I mentioned, then there's also *the structural problem of the dispute resolution mechanism*. Takes a very long time, and given the composition of the WTO panels, often we're defeated when people come and appeal it. Because if the people on the panel are mostly people who are doing the same thing as what you're complaining about, it's a little bit hard to get them to vote for you.

So those are just a few illustrations of the kinds of issues that we're liable to come up with and try to figure out some solutions. Also, WTO is a very, very bureaucratic organization. Their main meetings occur four times a year. Well, when you think about how dynamic trade is and how rapidly it changes, the idea of a leisurely four-times-a-year meeting schedule, it's really not very consistent with dealing with problems.

And then the last thing -- if you look at the last annual report that the WTO published, it's filled with complaints that there are more trade actions, more actions alleging violations than there used to be. And they lament that as protectionist. It apparently doesn't occur to them that perhaps the cause of it is more violations by more countries. But that's the reality. That's why the trade actions are being brought, is that there's more and more dumping all over the place, but there's an institutional bias on their part toward the exporters rather than toward people who are being beleaguered by inappropriate imports.

So that gives you a little flavor for where this study may be heading.

Q I have two quick questions for you. When is the executive order going to be signed?

SECRETARY ROSS: I believe it has already been signed, has it not?

MS. STROM: Tomorrow.

Q Where? And will it be a public ceremony?

AIDE: It will be signed at the Ames Tool Company. I think it's Camp Hill, Pennsylvania. It will be done prior to a rally at --

SECRETARY ROSS: Yeah, I'm going out there with the President tomorrow.

Q Mr. Secretary, just one follow-up on the structure of the report that will be issued in 180 days, you talk about having also solutions, not just identifying the problems. Will this be product-based, country-based, a combination of the two? Can you talk a little bit about how you're looking to structure this report?

SECRETARY ROSS: Well, some of the issues will be product-based, such as those industries where there's global overcapacity. You really have to deal with that on a

product basis. Some will be more country-based because they'll be based on behavioral issues of individual countries. And some will be both.

Q Sir, if you find the outcome of this study as an <u>institutional bias against the U.S.,</u> would a retaliation move be to -- from the United States -- to recommend a withdrawal from the WTO?

SECRETARY ROSS: Well, we haven't done the study and we haven't presented the President with all of the alternatives. Certainly, as any multilateral organization, there's always the potential for modifying the rules of it.

Q You mentioned that many EU countries -- because the way the EU works in negotiating as a bloc, versus negotiating individual trade deals -- could the United States and President Trump consider a separate bilateral deal with the EU? That's sort of correlates to what he was asking about, withdrawing from GATT. I mean, if GATT is so unfair and this dispute resolution process is so unfair, and the "most favored nation clause" keeps us from making these bilateral trade agreements, why isn't withdrawal on the table?

SECRETARY ROSS: Didn't say it was on the table or off the table. What I said is the report hasn't yet been done, hasn't yet made recommendations, and therefore neither has the President taken action based on it. But there's always the potential for amending organizations' charters, like the WTO. And particularly when you're in the position that we are -- look, we're the number-one importer in the whole world. Our deficit exactly equals the cumulative surplus of the rest of the world. We're also the number-three exporter in the world. So it would be kind of a funny-looking World Trade Organization not to have its number-one importer and its number-three exporter. But I wouldn't dismiss the potential for, in all of these -- in the bilaterals, in the multilaterals, and with the World Trade -- I wouldn't dismiss the potential for seeking modification.

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SECRETARY ROSS: Well, the difference here is it's focusing on the agreements themselves rather than on behavior of individual countries. So the agreements are part of the target.

Q The agreements, including the WTO?

SECRETARY ROSS: Yeah, yeah, sure. The WTO is the biggest of all trade agreements. There's 164 countries.