Unedited Event Transcript

A Positive NAFTA Renegotiation: Part 2

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Introductions

Adam Posen: Good morning, ladies and gentlemen. Or as a certain rock band was wont to say, welcome back my friends, the show that never ends. Making something good of NAFTA. I'm Adam Posen, President of the Peterson Institute for International Economics and I am as ever proud to say that, but particularly, as we continue the Institute's legacy of work right at the frontier of analytics and relevance to make the trading system work sustainably in both political and economic senses and beneficially for all involved.

We have had an ongoing project here at the Institute primarily with internal authors -- well with some very distinguished external authors, some of whom will be speaking today, led by my colleagues Fred Bergsten and Monica De Bolle. We are publishing today officially a PIIE briefing: A Path Forward for NAFTA. We're trying to be trade and environment, so the copies are available for download from the website for free. I'm not passing out heavy card stocked colored copies.

The important thing to say is that a bad trade deal is a very strange concept. And Fred Bergsten's chapter which as some people have already seen, that we've seen cited in various places and already released talks about the mistakes in conceptually and in the U.S. interest of the Trump Administration makes if it were to go down this road of thinking, even in NAFTA in bilateral terms. Self-defeating would be one word. Wasteful would be another.

But there are things that must be done to make NAFTA sustainable and again, in both the political and economic senses, that is to have the full buy-in of people and to reflect the fact that it is 25 years since the agreement. Now, there had been an effort to get those things done in TPP. That's not going to happen right now, but we are going to make the effort to say what those are, to explain why they are in the U.S. interest, why they are largely win-win for Canada and for Mexico, and why a

renegotiation for NAFTA is a positive-sum game or putting it bluntly, good for the American consumer and worker.

It is also, of course, critically important to our relationship with the U.S.' two neighboring democracies and countries with millions of people and millions of workers integrated with our economy and in our security interest. And I am delighted to have my colleague, our friend, John Hamre today who will be giving an opening keynote on the security aspects as we look beyond the simply narrow economic aspects of this. You know, it is cheap talk and some of my friends on the serious left got very offended when people would invoke the security reasons for trade deals even though FDR and Cordell Hull and others starting way back had taught us that that's for real.

And so we had a lot of poupouing about, well, if TPP is for security reasons, that's just the last refuge of those desperate neoliberals. Well, we're very quickly finding out visibly, what it means when the U.S. withdraws from regional agreements, when the U.S. withdraws from global leadership, when the U.S. leaves its allies hanging. As I'm sure John will make the case in a far more sophisticated fashion, leaving Mexico and Canada hanging is about the worst thing the U.S. can do. And causing disruption in Mexico would be a natural result of an ugly breakup or bad renegotiation of NAFTA and would have tremendous repercussions.

Part of the background on NAFTA going back and forth and why it becomes so controversial is there was the drama of the overselling from both sides, 20-plus years ago, about what would happen to U.S. jobs to Mexico. Nobody ever talked about Canada, but it was going to be good about for Canada as well. But we've now reached the ridiculous state of affairs, which unfortunately, the President and others of the administration sometimes seem to echo as well someone on the left of the Democratic Party of, saying since NAFTA did not transform Mexico into the Netherlands and did not create a manufacturing sector far beyond what any technology could support these days, therefore, it must be to blame for Mexico's problems and to blame for the decline of the manufacturing sector.

And when I stayed at this way which I think isn't accurate summary of some of their contentions, it shows you the fundamental illogic of the position. Trade alone will never be enough to save Mexico from all its issues. Just trade alone will never triumph over technology and the need for rationalization and global integration in our manufacturing chains, notably the auto sector. But trade alone is a necessary condition to get Mexico on the right track to keep our auto sector competitive, to keep our economy competitive and to keep stability in North America.

And so it is again with pride, with pleasure, and frankly with determination that the Peterson Institute has undertaken this major project and we're glad to have you with us here today for the second round as we go beyond. A month ago, we had a number of discussions of specific sectors, rules of origin, modalities of the trade agreement and today we move on to the security, environment, energy, new issues. I do want to thank a couple people. Obviously, Monica and Fred whose leadership and editorial drive has shaped this project. I want to thank our partners from CIGI Center for International Governance Innovation in Canada who we partnered with on a number of issues, but what's obviously the logical choice for us to work with in NAFTA.

Domenico Lombardi is here with us today. Patrick Leblond will be speaking later. And I want to thanks CSIS, which of course has partnered with PIIE in the past on such issues such as the China Balance Sheet and Russia. When economics and foreign policy come together, the two leading non-partisan think-tanks can come together and say this is in the U.S. interest. This is in the world's interest. And I hope that combination will resonate.

Finally, but not least, I would like to thank the Chubb company and our new board member, Evan Greenberg who had the vision to say to us, "Go big on your NAFTA project and we will support your trying to get the word out. And we are doing so through every means we have and if we can help any of you get the facts out about NAFTA, about the U.S. trade, please let us know. We're eager to help." With that, I turn to my colleague Fred Bergsten who will introduce this morning's keynote speaker.

Fred Bergsten: Thank you, Adam, and welcome to all. As Adam implied, all economic events, certainly trade events, occur in a political context, and so we thought it would be essential, as well as appropriate, to try to set the political and security dimensions within which NAFTA is taking place and in which the renegotiation discussion will take place. It's particularly appropriate because when you look back at the history of U.S. international economic policy, throughout the post -war period, you will discover that every major initiative was undertaken fundamentally for foreign policy and national security reasons.

You had to get the economics right. Obviously, the economics had to be positive and therefore supportive, but the fundamental drivers for foreign policy and national security, particularly when it came to getting Congressional approval.

And in this case, there's the famous story, which is true, that when the NAFTA legislation was teetering in the balance in the Congress in 1993,

the decisive blow was struck by General Colin Powell at the time Chairman of the Joint Chiefs of Staff. General Powell said to a group of undecided senators, "Gentlemen, if you do not sign this agreement, one of my successors may have to put five U.S. divisions on the southern border." At which point the senator said, "Where do we sign, General?" And the bill passed.

Today, we're going to discuss that set of security issues in some depth. Nobody better to do in than John Hamre. As Adam said, our close colleague and frequent collaborator from CSIS. He was inspired by our small building to build a beautiful large building. And it was right about at the time that he and I were together working out the China Balance Sheet Project where we collaborated very successfully between our two.

John has been President of CSIS since 2000 and made enormous strides there and CSIS, of course, plays really a dominant role in the discussion of national security and foreign policy issues in this city and more broadly. Prior to that, he had been Deputy Secretary of Defense. Before that, Undersecretary of Defense, and from 2007 forward, while he was at CSIS, he served as Chairman of the Defense Policy Board serving four Secretaries of Defense in that context. Prior to his Pentagon experience, he spent 10 years at the Senate Armed Services Committee.

Prior to that, a number of years at the Congressional Budget Office where he was a Deputy Assistant Director for National Security and International Affairs. All of these after having done his PhD with distinction from SAIS just two doors down the street. So this is old home week for John. It's a great pleasure to welcome you back to the podium of the Institute. We look forward to your setting the national security and foreign policy context for the NAFTA renegotiation. Thank you for joining us.

Keynote by John J. Hamre (CSIS), "NAFTA as a National Security Priority"

John Hamre: Thank you. Well, I must say, I did take my inspiration for our building from this facility. This is a splendid facility and, of course, it reflects the wonderful work that you've been doing here for so many years. Congratulations to you, Fred. And Adam has done a terrific job of keeping things moving forward. And it's been exciting to watch. The program says I'm supposed to talk for a whole long time. I'm not going to. It's going to be a lot shorter, but your introduction did inspire me to add something I had not planned to talk about, and that was TPP.

I worked very hard with the national security community to try to get TPP adopted. And then, I think TPP was and is still probably the most important security initiative that we can do for the United States and Asia.

Asians want America in Asia. It isn't simply the by-product of World War II. They want us there, but they don't want us stomping around in 12 league boots throughout Asia. They want us walking around in carpet slippers, you know. They want us there. They know what we are. They know the depth that we bring, but they don't want us to be there as a military presence. They want us to be there as an economic presence.

And we are in the largest competition conceivable as we see the rise of China. It is a competition. It's not a hostile thing, but it could become hostile. And it's very important for us to be able to shape that environment. That is not going to be done through naval presence. That's not going to be done with boots on the ground, military boots. It's going to be done through America being engaged economically in Asia.

Far and away, the most important security initiative is TPP, because TPP establishes the norm under which the future will evolve. There are three great questions. China now knows the first question that they cannot push America out of Asia. America now knows that we cannot contain China. Honestly, we've never tried but there'd been some people who would like to, which is clear, that's not possible. We're now dealing with the third question. And we do not have answer for the third question. And that is what is the relationship that China and the United States have together as it relates of everybody else in Asia?

The Chinese are looking for vassal states. We're looking for allies. We have the upper hand but it's not an upper hand that you're going to sustain through military force. It's an upper hand that we've sustained by building economic relationships -deep profound economic relationships and establishing the norms of how those relationships will live off. That's what TPP was about.

I don't personally know the details of TPP in terms of what it meant for the auto industry or for others, I don't know what that is, but I do know what the procedures are like and how are we going to deal with conflict inside TPP. I do know about that, and it is absolutely in Americas' interest, long-terms structural interest, for us to be championing TPP. We're going to regret it if we walk away, and I think everybody else in Asia is moving forward with TPP.

They're hoping that we'll, at some point, catch up. I hope we do, too, but it is a profoundly important national security imperative. As I had not intended to -- Fred's introduction and Adam's introduction led me to want to say that and I think we have to start talking about this in terms of its fundamental contribution to our security. And that isn't just building a

stronger economy. It's establishing the norms of cooperation throughout the world. That's fundamental.

Now, let me just shift to talk a little bit about NAFTA. I must admit I'm preciously limited in what I know about NAFTA. Much of it really comes from a trip that I took with Evan Greenberg down to Mexico in the spring. We went to Mexico City. He invited me to go with him. I'm embarrassed to say I'd never been to Mexico before. I've been to Europe, maybe 80 times, 90 times, been to Asia 70 times, 60 times, never been to Mexico. Isn't that typical? I'm probably pretty typical of a lot of Latin-Americans. It's our neighbor and we don't know a damn thing about them. At least, I didn't.

And so it was a remarkable experience for me to go down and to see this Mexico. I don't know the Mexico that existed prior to NAFTA, but I did have a chance to see this Mexico. And it was a remarkable experience.

It all came home in a very painful way two weeks ago. One of wonderful young professionals that works for me, his sister and her boyfriend were travelling to a rather rural remote part of Mexico unbelievably hot day. Their vehicle went off the road. They survived that but they were 12 miles away from— they knew there was a rest stop that were 12 miles away, decided to walk and the young woman died on this path, combination of dehydration, heat stroke, and she died. And we went full scale to try to get her body repatriated. They were orthodox and you know the tradition - you bury it as soon as you possibly can. And of course, someone has to accompany the body, her mom went down. And she was stuck.

I don't know how many of you ever dealt with trying to repatriate a body. It is complicated any place. And what changed this situation was we called someone at the Department of Homeland Security and they said, "Do you have anybody that you can work with on the Mexican side to help us clear customs?" They said, "Sure. We'll get right back to you." It took about 20 minutes for the body to pass through customs because it had all been worked out because of this relationship.

Now, it's a little thing; in fact, would never have happened 25 years ago. That would never have happened 25 years ago because we didn't have those relationships. Those relationships were built by people working side by side helping each other on the little things in life, not just the big things.

The big things obviously are— which I learned about on this trip is astounding. We have the deepest most intimate security relationship with Mexico more than any other country in the world. We talk about the

special relationship with the United Kingdom, but it is nothing compared to the depth of this relationship we have with Mexico.

We stay on side by side in intelligence fusion centers. When El Chapo was arrested, that came from an American intercept passed to Mexican authorities in one of our joint facilities to be able to apprehend him. We jointly stand together on the southern border of Mexico. We helped construct 13 facilities on the southern border to help intercept migrants that are coming from Central America. Our connections with Mexico on security are profound.

I spent a couple of hours with the Finance Minister in Mexico. He was delineating all the ways we worked together on money laundering. I mean, the depth of cooperation on true hard security issues is deep and profound and it's 24 years old. None of this existed before NAFTA. And the reason is because NAFTA gave Mexico pride of place to stand with us on a range of issues.

We have a complicated history in security with Mexico. We'd probably be pissed, too, if we were on their side thinking about what happened, you know. We marched in, fought our very difficult war and took away half of their country, made it our own. That's the backdrop. Americans don't think about that. That's the backdrop that every Mexican is aware of. And so we had— when I was in government and I was in the Defense Department, we had virtually no relationship with Mexico. Virtually none. It was a very early days of NAFTA and it was not in time for any of this to show up while I was there. We couldn’t even arrange for the Chief of Staff to come to Washington. We tried.

It was just very difficult relation because of this long history, very difficult history with Mexico. All of that is gone. Every bit of that is gone. We now have the most intimate relationship with our southern neighbors we have long had with Canada. You know, now we did, you know, we had our tough moments with Canada. Everybody talks about the British, you know, how pissed we are that they burned down Washington. You know, they did that in retribution because we burned down York, which was the capital of Canada. I mean, we started it.

We had difficult relationship with Mexico, but was long long ago. With Canada—and when Canada became an independent nation 150 years ago, they had to figure out what was going to be the relationship with us. And that started a long history of collaboration, which we’ve never had with Mexico until NAFTA.

NAFTA is that foundation. It is, I heard many times now, it is an exoskeleton of cooperation. NAFTA gives us a chance to work side by

side with dignity with a country that really had a legitimate chip on its shoulder. We're now working through it and I would argue it has been a booming success. More Mexicans returned to Mexico then came to the United States over the last three years because of economic opportunities.

This has long been the theme that if you're going to solve a problem with a very poor neighbor on your border, you have to help them grow their economy. And that's what everybody in Europe is now realizing they have to do about North Africa. So we pioneered the way. It's been a security issue. It's been unbelievably valuable to us, and we cannot afford to let it collapse. We'll be far less secure if we do. Thank you for listening to me and Fred, I think we're going to talk. Okay. Thank you.

Panel Discussion and Question and Answer Session

Fred Bergsten: All set? Yeah, I think so. John, thank you very much for those remarks. That was bringing home—- very close to home, in fact, some realities that people don't know about and need to know about. Before we focus on NAFTA, which we will today, I can't resist picking up your initial reflections on TPP and how much weight you give them, and I suspect most of the group here today cares about TPP also. So let me ask your advice on what is now a crucial operational issue concerning TPP. President Trump dropped the U.S. out for the moment. There is quite an effort among the other 11 to keep it going. What's your advice in terms of what's best for U.S. foreign policy and national security taking the long view should they go ahead, create the TPP of 11 and then leave an open door for the United States, or would that, in some way, be adverse for us.

John Hamre: No, I, unequivocally, we should ask them to move ahead. They should push forward as fast as they can. And what brought that to home was about two weeks ago, we hosted four Ambassadors from South America on something called the Pacific Alliance. I'd never heard of it before. I don't know what the hell Pacific Alliance was [inaudible 00:25:38].

Fred Bergsten: You're obviously not a trade guy.

John Hamre: I'm not a trade guy, and so I didn't know anything about it. And that morning, the Ambassador from Chile led the conversation. The first thing he said was, "We want the champion the rules are in TPP." That is the foundation for us going forward with the Pacific Alliance and then he started to delineate the observer membership. I think they're 49-50 countries that have official observer status and there are several who are right in the queue that they're going to start allowing in to Pacific Alliance, all with the foundation of the ground rules of TPP. It is far more important, I think, for the TPP signatories to move ahead. Now, to keep

this norm, to establish this norm and to keep strength behind that norm and then at some point, were going to have to have this conversation in America. We're going to be left behind. We are being left behind every day, because we're not willing to do anything on trade. And it's going to hurt us in the long run, so I absolutely think we should encourage them to move forward.

Fred Bergsten: And if they do and I agree with you, I think most of our folks here agree with you. If they do that, should they at some point reach out to China to see if it could join?

John Hamre: Yes. I think again, we wanted to. We wanted to bring China in to TPP.

Fred Bergsten: But we said, we did.

John Hamre: We said we did. I mean, but I, again, if we're trying to establish the norms that are inside TPP as part of the connective tissue that establishes western values in Asia, and around the world, I mean, they're firmly grounded in Europe. They are actually quite broadly based in Asia by the signatories. We need to expand that. That is so incredibly in our national interest so I would say, absolutely.

Fred Bergsten: Let me turn to NAFTA and before opening up to the audience, ask one or two questions on that.to me the big overriding question going into the NAFTA renegotiation is whether it will succeed in keeping NAFTA alive. In less than 3 months ago, the President quite proudly said he had decided to withdraw. He got a lot of pushback, fortunately, from his own people, from constituents here from the other countries, and so grudgingly said, okay, I'll renegotiate, but if I don't get what I want, I'll still hold the possibility of withdrawing.

And as Adam missioned elliptically, the President's focus has been on things that are just unrealistic, inappropriate, and in fact bizarre from trying to get out a trade negotiation namely, a big change in your trade balance. Won't work can't work particularly when you're delaying with two countries who have bigger trade deficits than you do. Both Canada and Mexico have current global account deficits bigger than that of the United States, so it's not as if we're dealing with some countries which have a lot of flexibility to bring down their surpluses.

All of which says that if the President was dissatisfied with the outcome, he could conceivably blow it up. Now, I quoted General Powell from over 20 years ago saying that if there was no NAFTA then, some successor might have to put five divisions on the border. What if NAFTA did blow up, John? What if take the worst case, but it's not, I think totally unrealistic case by any means, what if it did blow up. What if President Trump was

dissatisfied with the outcome withdrew from the agreement and all the things you talked about were put at least into suspense. How would you imagine things evolving from that point?

John Hamre: Well, I think a pulling out of NAFTA would also trigger political developments within Mexico that would have the largest impact. I mean, we've enjoyed a constructive relationship with Mexican governments for the last 23-24 years. There is a very strong [inaudible 00:30:13] that these political parties are in some trouble, you know, because of corruption, honestly. And one of the things I heard repeatedly in Mexico when I was down with Evan was how much Mexico wants a revitalized NAFTA to help deal with corruption issues. It was a very interesting argument. I had not anticipated that.

But if NAFTA fails, we pull out. NAFTA collapses. It's going to put energy behind a progressive left government or possibly having a progressive left government that has a lot of animosities revolving around us. So I would see suspension of the cooperation and the intelligence centers. Undoubtedly, we would pull back from the forward posture we have with customs and immigration, and we would be much more in a reflexive stupor at the border, you know.

Now this is an emotional problem that Americans struggle to get over because we have had such a long history of being such powerful country. We had the impression that we can literally stop things that are border. Well, like Ebola. If you think about it, all the really tough problems in the world are horizontal and all the governments are vertical. So how do you deal with truly complicate problems that have their origins outside of your sovereign agreement? You have to find patterns where you're cooperating with each other.

We're going to have to come up with some new formula if this were to happen, because we cannot afford to have because of our insatiable desire for illegal drugs at this country. We cannot afford to have the countries in Central and South America be overwhelmed by drug traffickers. And we know that illegal criminal activity tends to be the logistics backbone that terrorists use around the world, because they already have networks. They know how to move money. They know how to covertly move people. We will have a much worse time if NAFTA were to collapse on hard security issues, not just emotional uses, and hard tough security issues. It will be a lot tougher. That's where I don’t know if we put five divisions on the border. I would— but I have no doubt that we would mobilize the guard for permanent mission, I’ve no doubt of that.

Adam Posen: Okay. Floor is open for questions, comments and reflections on any of these live range of issues that John has put on the table. Yeah, so go to the

standing mic, or there's a traveling mic. Introduce yourself and tell us where you're from.

Rolin Hoss: Rolin Hoss from University of California, Occupy Mexico as they say. I'd like to ask a question about migration because this is an issue that is outside of NAFTA. It was never a part of NAFTA, but currently the potential for the policy shift that is being already carried out, and is attempting to think about a much more Draconian path could have very severe consequences. Sherman Robinson and I here at PI, we just finished at paper looking at the economic impacts of following through with the deportation of just the undocumented, just the Mexicans, the other undocumented.

It's basically multiples of wiping out all the positive impacts that have come from trade liberalization or could come from it, let alone the impact in terms of poverty and the likely scenario of large-scale refugee migration to the border. Then you're going to need a lot more than the National Guard, at that point, and Central America the same story. How do you begin to put this picture together in terms of how we need to also address the immigration issue in an intelligent way in the same way that we're thinking about averting a disaster on the trade side?

John Hamre: I probably don't have conventional views on immigration. I would take as many immigrants in America as I could. I think it's a very good thing. I think we're the luckiest country in the world that we're populated by people that wanted to come here. And it's created the foundation of a very innovative society. It's unequivocally good.

And that includes illegal aliens. We do need to find a way so that they can become legal. Now, I think, somehow, we're going to have to develop a guest worker program, you know, in America so that we can take care of a big part of it and then find this pathway to citizenship. Very disappointing that both political parties are not really interested in solving this problem. Republicans can't solve it internally because of the civil war that's going on inside the Republican Party. And honestly, the Democrats love to have the problem rather than the solution. It's good for them, you know.

So it's a cynical problem that we have, but we have both parties for different reasons are not trying to solve this problem. It is a solvable problem. Of course, there are going to be questions of injustice and all that. Well, there are. Every complex political problem is that, but it isn't going to get better with the current stalemate that we have, you know, so we should try to find a pathway. Now, and again, this came from talking to the Chief of Police in Los Angeles. He said, "You cannot protect the people if you make them afraid. It's not possible to do quality policing if you have a population that's afraid of the police." That's fundamental. I

can’t overstate how important that is. So are we going to be safer on the streets any place in America if we have 20 million people afraid of their own government? Not at all. It's impossible.

So in my mind, it is part of a seamless hole. We do need to solve the problem. It is a solvable problem and I love having immigrants in America. I think it's the best thing that we have. And so I’m not afraid of this issue. I'm not, you know— politicians are. And they have a very angry constituency that is looking just paper thin deep about the problem rather than looking deeply about the problem. From a security standpoint, we need to solve it without making Americans afraid of their police authorities and ultimately of government security authorities.

Fred Bergsten: Okay. Next question. Very bashful audience today. Come on, more questions.

John Hamre: They're rally here to talk— to hear the panel.

Fred Bergsten: But I’ve got another one for you, then. I want to go back to where you started with how all this trade stuff fits into our overall foreign policy. And this is broader than both NAFTA and TPP but includes them both. This administration's trade policy, as a whole, has scared the bejesus out of the rest of the world. So at the G20 last week, we've seen it repeatedly. So what's the tangible result? Well, there are a couple one can point to. I want to ask you for your reaction to them and what you think they say and how you think we should react to them.

One is the TPP 11 which is going ahead seemingly with your advice to continue the arrangement, put it in place, and maybe expand it to bring in the Pacific Alliance, but to have an agreement without the United States. The second that I thought very interesting was this rapid acceleration between the European Union and Japan. The other two big economies or two of the other three big economies in the world who had been negotiating in a desultory way for several years and all of a sudden didn’t resolve all their specific details, but made a big show out of coming together to demonstrate that the rest of the world was not going to be deflected from an open trading system by the Trump Administration.

So those are two kind of big developments by big countries major parts of the world reacting not as some people feared to emulate the protectionism of our administration, but to the contrary going the other way. In fact, some Machiavellian free traders might say, great thing. This was the way to get the rest of the world to overcome their hang-ups and start pursuing free trade.

But what about the foreign policy implications? And throw in Chancellor Merkel's acid comments from her recent meetings with the President. How does all that, in your view, affect the overall U.S. role in the world, our security posture, and indeed our national security in a world which suddenly seems to be, at least on these this issues and throw in climate change, going its own way without the United States?

John Hamre: For other reasons, I had on occasion, go back and look at the historical origins of the Marshall plan. And of course, we had the 70th anniversary about a month ago, but the Marshall plan was— it was not a brilliant conceptualized design. It was an emergency. The economies of Europe were lower in 1947 than they were in 1945. There was deep crisis because of the tensions with Russia. Russia discontinued allowing food to be imported from Eastern Europe, which had historically been a bread basket for Western Europe. It was a crisis. We knew we could not, and we saw the cold war in front of us. We knew we couldn't afford to do it with military alone, so we needed allies and we needed healthy allies.

So we made what was by the sweep of the goal, a relative modest investment in today's dollars, $150 billion to create what we now see as the foundation of a free and progressive western system built around progressive liberal values. By that I mean traditional liberal European sense values, not in the American politic sense. It was the foundation of societies rule of law, where its representative governments -- it's accountable.

Governments accountable to courts. Transparent journalism. Honest journalism. That was the foundation that we created. We needed it because we knew we couldn't afford to fight the Soviet Union and all of its allies, which just military force. It was a brilliant move, which we had to stumble into because of this crisis -- this economic crisis.

That's really the foundation of us in Asia. We have tremendous support in Asia, and what do we have in military in Asia. Well, we do have about 40% of navy in terms of floating navy, but we have one army division, you know, and yet we are able to sustain this not because of the military might, but because of the values that we espouse. And they're primarily grounded around economic values, you know.

I mean, there's rule of law which is something that progressives champion is predictability of contracts for businessmen. You have a predictable, manageable— you could evaluate the risk because you've got this legal framework. And that grows out of the values that we've created. So in my view, and look, I was in the defense business for 25 years, we play a supporting role for America's power. It's an important role because we have to ensure that we and our allies are not vulnerable to acts of

intimidation, but we didn't win the cold war because the military was in Europe. We won the cold war because our ideas were superior. And they were carried by business and civil society. And so I think this is even more the case in Asia. We're not going to invade China, for crying out loud, but we could stumble into a crisis with them. We're never going to win it militarily. We're going to have to do it by prevailing with the quality of the ideas we champion.

Fred Bergsten: Okay. Back to questions. Bill Lane.

Bill Lane: Thank you, Fred. And great presentation. I was struck by something Adam said, which was both sides played a role in the NAFTA debate, as did Gary and a lot of people in this room, but the statement that Adam said was he oversold NAFTA. And so here we are 25 years later, 7 billion people live outside the United States. 155 million of those 7 billion people live in Canada and Mexico and yet they represent 1/3 of the whole American exports. The number one tourist destination by Americans is to Mexico by country.

Is the issue that we oversold NAFTA or is it the issue that we quit selling NAFTA? And I would say, is the business community selling NAFTA now. Business sis pretty good just in time lobbying, but maybe we lost that, and that we're doing just in case lobby, but we need to do something different, and right now, I would say most Americans don't realize the magnitude of exports to our NAFTA partners. Few knows that it's the number one tourist destination. Few understand the service surplus that we have with Mexico and Canada. So my question is what should we, in the business community, be doing better?

John Hamre: Well, again, I'm looking at an audience that knows a hell of a lot more about business than I do. I'm a government guy, a defense guy, but it seems to me that what NAFTA really did was it helped the American economy stay competitive at a time when China and other countries were rising and had such a radically different price point for labor. How are we going to compete and sell goods unless we could broaden the base of the cost of input to our products? And that was where NAFTA became essential. The entire U.S. economy benefited because we were able to take advantage of less expensive labor in Mexico. Now, that came at the expense of blue collar workers in the United States.

And that was unavoidable and shame on us for not doing a better job of helping them with transitions over a difficult period. We are now living with this terrible terrible opioid thing which is highly concentrated in places where you have a lot of poor people without hope, and we allowed that to happen, but that shouldn't be seen as undermining the value of NAFTA. NAFTA was crucial for the rest of the economy. Everybody else.

So I think the business community has not done a strong job. To be candid, most of the business community that's represented here in Washington, they're all transfixed by tax reform. I don't see them championing NAFTA. I see them trying to survive a NAFTA debate, but not championing NAFTA. And the way they are championing tax reform, they're preoccupied with it right now. I can understand that, but there's so much at risk if NAFTA were to collapse.

Fred Bergsten: Excellent. So that compounds the risk, you're saying.

John Hamre: It compounds that risk, and the business community needs to be more aggressive. This is one of the things I admire with Trump. Trump has taken this on to push the business community forward to say we've got to be more engaged in NAFTA, not just pretend that it's going to play out well through its own forces. You all know if it carries into next year, it's going to be problematic what Mexico can do in an election year. You know, so we've got to come to a framework this year, and I say that from a national security standpoint.

Fred Bergsten: A question from one of our colleagues from Canada and former Congressman Boustany.

Patrick Leblond: Patrick Leblond from the Center for International Governance Innovation. I think from the business perspective, if I may just make a comment, I think mostly why business, and it's not just here in the US, it's in Canada, I think it's all over the world has now made the case for free trade. It's taken it for granted, basically since we got NAFTA, since we got the WTO, the job was done. The rest was just kind of small issues, but free trade was taken for granted. Now, maybe with the U.S. withdrawal from TPP and potentially withdrawal from NAFTA, now, maybe it's helping to focus the mind, but that's true, the business community certainly has a job to do in terms of convincing the wider public as to the benefits of free trade here in North America and even more widely.

My question going back to the security issue, and you mentioned how NAFTA's been important in terms of the security relationship between the United States and Mexico and Fred mentioned Colin Powell kind of trying to convince congress people to favor NAFTA back in 1993. If the security argument was compelling back then, why is it not compelling right now? I mean, certainly, you've made the case in terms of TPP. How important as an agreement it is for U.S. security interest and certainly how NAFTA remains relevant for U.S. security interest. So notwithstanding the economic benefits, which might be a little harder sometimes to convince, and certainly in terms of distribution issues, but security is kind of a broader thing which should be easy to convince both maybe the President,

but also other people around the White House and in Congress. Why is that argument not resonating this time whereas it did 25 years ago? Thank you.

John Hamre: Well, I don't think so many people are making the argument. I think it should be more widely discussed. I think the dilemma on NAFTA is the President's ally on this are the democrats. And the Democrats don't want to do anything to help Donald Trump and Republicans are afraid of bringing something up where Trump is aligned with their opponent. So it's a remarkably limited debate on NAFTA.

There have been a few hearings, nothing terrible. Nobody's really beating the drum. So which is part of the reason why we're so important for us to do this conference. I mean, we've got to start putting these issues on the table, and say, pay attention to this. It's crucial. But it's because of the artifice of this politics and how NAFTA's being displayed. The Democrats are wrong on trade. I just hate to say it.

They're just wrong on trade. They view this thing very narrowly because of the way that constituencies have made it a litmus test for them. But when you talk to them and you lay out national security arguments, they agree. They nod their heads, yes. But we're not doing that on NAFTA. And we need to do more of that, actually. Part of why we're here.

Adam Posen: Charles?

Charles Boustany: Thank you. Great conversation and discussion. I wish the rest of America could hear this kind of conversation. And that's the fundamental problem. We're not getting the message out. I've been in number of think-tank events around town talking about trade and about how it links up with our foreign policy, but were in closed doors, and we're not getting that message broadly out. Business situation, as you pointed out may -- I've dealt with that for 12 years. Everybody comes in with trade issues or the very specific issue. We're not making the compelling case.

Since the fall of the wall, we went form a situation where we knew what the foreign policy was. It's basically a containment policy in a binary world. Since then, we're dealing with a situation that we don't have a paradigm to think about. That's why we need to get back to the things that drove foreign policy, starting in the 1930s after we overcame isolation and then put together a construct that both sides of the spectrum politically could agree to -- Presidents on both sides, as well as the business community. We're linked.

I would submit there's energy security in trade. The expansion of trade integration of economics in energy security broadly where its open

market, again linking up with trade. Last point. I know there's a group that came together in the late 1930s to fight isolationism. There were people on academia, former government officials currently serving people in government, as well as the business community, they came together to do that.

Perhaps, now's the time to start thinking about how we link those kinds of forces together to overcome all the misinformation that's out there on why we've lost a lot of jobs in this country because of automation and other aspects of globalization, not necessarily trade. We've got to get the facts out. We've got to do it in a compelling way, and we've got to have a vehicle to do it. I think that's what's missing. I'd like your comments on that.

John Hamre: I absolutely agree. And I also believe that we should be going back to the fundamentals. We don't have that transcending paradigm of a single opponent that made it easier. But I would argue the conclusion it came to deal with the Soviet Union. Is just as legitimate today as it was then, which is we don't want to do it with just a military force, and we want to have allies? It's a hell of a lot- I mean, think of how fortunate we are that we had allies.

It was Carol Brown who once famously said, he thought it was very fortunate that it was Soviet Union and not America that was surrounded by hostile communist powers. I mean, nobody likes them. And we had the great advantage that people generally welcomed American leadership in the world. I think we should strive for that again. What do we do? It isn't to sell our products. It is to champion the ideals that are good for us and good for everyone. And I think we've neglected that.

You know, we've been so boastful about America, we haven't really been willing to champion -- it can be other forms of representative government. It doesn't have to be our version of democracy, but we should say rule of law. We champion the rule of law. We champion accountability of governments. We champion a free press. I mean, everybody in the world will resonate to that, and we should be embracing those values again. I think we're a little confused right now in America. This election showed that we were confused. And I think we have to reclaim this space. It's exactly the same space that we were fighting for in 1947-48. Let's go back. Let's reclaim it, and argue to the American people why it's important for us.

Fred Bergsten: And I think those coalitions that Charles mentioned in the late 1930s actually included labor unions who were very concerned about U.S. role in the world, and played a very constructive role on that, so one would hope that that inclusivity could expand today. Now we've got a number of

questions. Okay. You've warmed everybody up. One, two, three, four, and maybe we'll take them all and then John can answer them all.

John Hamre: Sure please.

John Mullin: John Mullin, McCarthy Associates. I would point out that Ash Carter said several times that TPP was worth an aircraft carrier to him. The world seems to be organizing around the United States without United States leadership. What I'm wondering is the linkage of the western hemisphere with Asia. The first meeting with the TPP 11 was organized by the Pacific Alliance in Viña del Mar, Chile. And they, of course, invited the Chinese and the Koreans as well.

You're right. There are observers in the Pacific Alliance and some of them are negotiating for permanent membership. New Zealand is one of the first in the queue. We were the champions. Fred Bergsten was one of the champions of the free trade agreement area of the Asia-Pacific or FTAP, the Bogart Goals 1994?

John Hamre: Yup.

John Mullin: I think so. The Chinese raised that again in Beijing APEC Summit in 2014. My question is should the United States be championing that again as a way to link the western hemisphere with Asia? Last comment on that, Joe Biden gave a speech at George Washington University a number of years ago when he was going out of his way to connect everything from India to, at least, the Pacific side of the western hemisphere. That seems like a possible path for me which is big picture, and important for the US.

John Hamre: Yup.

Don Kirk: My name is Don Kirk. I spent a lot of time in Korea and Japan as a journalist. There's a lot of talk -- consensus here seems to be TPP and NAFTA and KORUS are too probably are great, but there's also a sense of lot of non-tariff barriers that are obstructing KORUS and would make TPP unviable as well and maybe NAFTA, too. So I haven't heard the word non-tariff barrier come up in this conversation. Maybe I missed something, but I wonder if you could comment on that aspect.

Fred Bergsten: Well, hang on for the next panel because they will be disusing non-tariff and other barriers at length and try to come to grips with --

Don Kirk: Dr. Hamre's comments would be very --

Adam Posen: Come to grips with the economics of the agreement. We can ask Dr. Hamre to do that, but whatever he wants to say. Lila.

Lila Ofoss: Hi. I'm Lila Ofoss with Toyota. I was in a meeting last week and heard some administration officials saying they wanted to prevent another Venezuela on the southern border so I think they're understanding the security implications of the breakdown in negotiations, but how can we broadcast that across the country. Much to that, how can we broadcast the benefits of free trade. But also since you mentioned, you know, sort of coming out of the devastation of World War II and the Marshall plan, when the greatest generation set up these institutions, the generation after didn't really keep them going, and keep them viable.

And then when we saw the financial crisis sort of decimate our country and countries that are still trying to claw their way out of it, I think that really resonated with people in terms of this isn't working, the system isn't working and the finance industry is one of the most regulated industries in the entire world, even more than my industry in the auto sector. But how can we revitalize those institutions, and what role do international institutions beyond just the WTO play in sort of moving forward and helping revitalize sort of the benefits of globalization, and looking at it with those security aspects as well.

Adam Posen: Gary?

Gary Hufbauer: Well, thanks very much for a most interesting session. I'm Gary Hufbauer here at the Institute. Today, if they stick with the schedule, Lighthizer is supposed to tell us what the U.S. objectives are. We'll see. But my question for you, John, is how close is the administration, in your judgment, to pushing Mexico and possibly Canada, but let's concentrate on Mexico, to take a preemptive move and terminate NAFTA because the U.S. demands are so extravagant.

Fred Bergsten: Four easy ones for you, John.

John Hamre: Yeah. Well, first, I mean, it was interesting what happened when the President was going to pull out of NAFTA I think back in March. And the first phone call that went out was to the Secretary of Defense. Secretary of Defense was the first guy to weigh in and say, "I got to come over and talk to you, I can't let this happen." And then it led to some others, and ultimately, I think, the real transformation is when the Secretary of Agriculture came in with a couple of charts, you know.

Fred Bergsten: Vote charts.

John Hamre: Yeah, but the secretary of defense was the first guy to call in and say, "I got to talk to you about that." I don't think that's going to change. I think that the security establishment knows how much we need— we'll always

have Canada for other reasons. You know, because we have structures with Canada- NORAD, et cetera. But with Mexico, it is dependent on NAFTA, and you're going to see, I think, the secretary will weigh in and I think you're going to say the secretary of state will weigh in. I think you'll see quite an active push. I don't personally think that the idea of a preemptive withdrawal is likely. That would be my guess.

This question about lack of commitment to institutions, I think, is very interesting one. There are really two forms of internationalism -- structural internationalism, which depends on a treaty, in an institution; and then the coalitions of the willing. You know, in many ways, Pacific Alliance is interesting, because it's kind of a hybrid in a sense. But it's still a coalition of the willing.

Structural internationalism like the United Nations system is a very powerful because it's normative. It establishes norms that get handed to the next generation. Popularly we've lost interest in the UN, but the UN is overwhelmingly authoritative in every place in the world, except United States, you know.

We have a preference for coalitions of the willing because they are so easy to establish compared to treaty-based structural internationalism. The problem with coalitions of the willing is they're not normative. So a coalition that will come together to deal with migration is not one that's going to come together and deal with trade. I mean, the coalitions of the willing are very much tied to the emotions of the leadership of the countries and an immediate urgent need, but it doesn't tend to be normative over time.

What's really interesting about Pacific Alliance is that it really is turning into a hybrid. It really started off as a coalition of the willing that's gradually bringing more structure because the signatories are starting to pass or harmonize their legal environments, you know, to represent the agreement in the Pacific Alliance. I think that's likely to be the pattern going forward. I mean, that's what TPP is. TPP is, again, it's a coalition of the willing but it does have things that we're willing to bind ourselves. And I think that's probably going to be the more dominant pattern of internationalism going forward just because it's too hard to create omnibus institutions anymore. The question is can we revitalize them? Can we revitalize the United Nations? I think we should. I think we should try.

It makes no sense to have the people with a veto, the five nations that have a veto in the United Nations, three of them are European. It makes no sense to not have India or Japan. I mean, so but trying to make that shift is so hard, you know. It's virtually impossible.

So I think we're going to be in a world where coalitions of the willing that evolve into more standing structures are going to be more likely and trade is leading the way. Trade is leading the way on that, so I think it's a good thing. That's another reason why I support it from a national security standpoint. I think the more we see structures that are based on fair process, you know, due process, is a foundation for not having to use military all the time. We've way overused the military over the last 15 years, in my view.

You know, I don't know a darn thing about non-tariff barriers. I hear them and I should listen to the guys that are coming too. I know exactly what you're talking about. I'm heading for Japan tomorrow, and we've got a wonderful relationship with the Japanese, better than any time in history. You don't ever see American cars in Japan. So there clearly are ways that markets are being constricted through internal regulation, and that's something for you, guys to talk through.

Woman: We'll talk about that later.

John Hamre: Okay. You talk about that later. You guys talk about that later. And so I think I got all of it.

Fred Bergsten: Yeah, the one other thing that you quite legitimately didn't try to answer was this question about the free trade area of the Asia pacific.

John Hamre: Yeah.

Fred Bergsten: - Should the U.S. go for that. Well, the original visionary strategy of some folks in this business was that after you got the TPP, and maybe after the Asians did their RCEP, their Regional Comprehensive Economic Partnership, that then, the next step will be a decade later, will be some fusion or amalgamation or somehow pull together the whole region into an FTAP.

Now, that progressions has obviously been interrupted, so the question is disruption of the TPP from the U.S. standpoint puts all that on indefinite hold, maybe forever, or this would be the hopeful interpretation, where there may be the President having rejected the TPP, but then facing all these backlash, including the rest of the world going on without us, would suddenly say, well I have to find a way to recoup without acknowledging I made an error by dropping out of the TPP.

Well, the big picture way to do that would be to say, sure FTAP, and take credit for it. Good enough. If he wants to do that, I'd say, go for it. That would be an optimistic rendition of what would go on because the FTAP would include China and it wouldn't deal with trade balances and all that.

So it would have to overcome a lot of hurdles. So I would say, at the moment, the idea is in suspended animation at best, but one could at least conceive a route back, if one wanted to be farsighted and optimistic.

I want to thank John Hamre. This was enormous help to us sharing your experience, your wisdom, your knowledge about all these things. We thank you enormously. Adam's back. We're going to go to lunch and then proceed.

Adam Posen: Adam comes back for lunch and to thank John.

John Hamre: Thank you.

Adam Posen: Just a quick reminder that this is the first barrel of the double barrel set of substance. After Fred and John, we're going to have 15-minutes for lunch break, our friends online, of course, can go get whatever takeout they want and then we will have a high-level panel with Chad Bown on Trump Approach to the U.S. Trade Law, Dan Esty on environment and NAFTA, Patrick Leblond on modernizing NAFTA including issues of gender and human rights, and then our own Gary Hufbauer, of course, on energy and NAFTA critical sector. Again, thanks to Fred. Thanks especially, to John. We convene shortly.