

THE TPP AND AMERICA'S STRATEGIC ROLE IN ASIA

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*“The stakes for U.S. trade policy have always reached beyond the economic realm...Trade is what most of international relations are about. For that reason trade policy is national security policy.”*

Thomas Schelling, Nobel Prize winner

*“What is remarkable about Schelling’s observation is that it was made during an era when economic power was viewed largely as an ancillary power to military power...But the world has changed dramatically since Schelling’s time, and the sum of those changes has brought economic and strategic aspects of trade into even closer alignment...At a time when there are crises on multiple fronts, TPP can demonstrate that the United States is and always will be a Pacific power and be a concrete manifestation of our enduring commitment to the region...TPP is a central component of America’s rebalance in Asia.”*

U.S. Trade Representative, Michael Froman, remarks at a CSIS-U.S. Chamber of Commerce conference, September 18, 2014.

### Introduction.

Trade policy stands at the intersection of a nation’s diplomatic and security strategies and its broad economic goals. Decisions regarding trade agreements, with both individual nations and groups of nations, are calculated to advance national strategic interests as well as the fortunes of domestic

corporations and workers. Though not necessarily in conflict, security imperatives and economic realities exist in two very different universes, inhabited by very different constituencies and interest groups.' With the exception of multilateral negotiations in the World Trade Organization – which deal exclusively with trade issues – bilateral, sub-regional, and regional trade negotiations inevitably are influenced and guided by collateral, compelling national priorities. Thus, in the case of the U.S., the Executive Office of the President, with input from diverse public agencies and private interest groups – for example, from the U.S. State, Defense, Commerce, and Labor departments, as well as the U.S. Environmental Protection Agency, and from outside groups and industries in manufacturing, services, agriculture, labor unions, and NGOs – calculate the economic and political tradeoffs inherent in the decisions to go forward with a particular bilateral or regional FTA. Though prime responsibility for the nitty-gritty of negotiations is in the hands of the U.S. Trade Representative, these officials fulfill their responsibilities against a background of larger political, diplomatic, and security goals.

Political scientists also often refer to trade policymaking as a two-level game: that is, national leaders strive to forge an internal consensus on US trade negotiating goals and then must further attempt to achieve those goals at the international level. Inevitably, there are compromises in this process, forcing national leaders to return to the domestic level to defend the negotiating package. The recent history of U.S. trade negotiations provides telling examples of the sometimes uneasy juxtaposition of diplomatic/security priorities and the two-level game in which domestic economic interests must be accommodated. For the United States, indeed, the difficult process of completing and ratifying FTAs with Colombia and Korea itself are cases in point. In both instances, there were strong diplomatic/security rationales to buttress an important ally in a dangerous region. Yet in both cases, U.S. domestic conflicts delayed the advancement of U.S. national interests for some years.

This brief paper will use the history and current status of the Trans-Pacific Partnership (TPP) agreement to illustrate the inevitable conjoining of both economic and political/security goals in the formulation and execution of bilateral and regional trade agreements. The first section of the paper will trace briefly the broadening of U.S. trade negotiations beyond the multilateral system, illustrating that from the outset geoeconomic purposes were combined with geostrategic ends. The second section of the paper will focus on U.S. policies toward East Asia under the Obama administration. It will describe both the economic and the strategic motivations behind the TPP. A final section will briefly put forth possible pathways toward a successful conclusion of the TPP negotiations, as well as the implications both of success and failure.

#### U.S. Trade/Security Policy

From 1945 through the end of the 1980s, the U.S. largely adhered to a two-track trade policy: multilateralism, embodied in membership in the GATT; and unilateralism/bilateralism, dictated by the substantive reality that the GATT disciplines did not include important trading sectors and issues. Thus, powerful domestic interests demanded that U.S. policymakers pursue independent bilateral negotiations with key partners such as the European Community and Japan to achieve trade policy goals not covered by multilateral disciplines.

This truncated policy framework broadened greatly during the George H.W. Bush administration, when the end of the Cold War and the rise of regional economies around the EC and Japan produced a rethinking of the boundaries of U.S. international economic policy. Then-Secretary of State James Baker emerged as the driving force behind a major reorientation of U.S. trade and security policy. First, Baker stated that although the GATT would remain the top priority for U.S. trade

negotiations, “bilateral and minilateral systems may help move the world toward a more open system.” NAFTA negotiations were the most immediate symbol of this U.S. shift. In Asia, which is the primary focus of this article, Baker quickly responded favorably to a joint Australia-Japan proposal leading to the creation of the Asia-Pacific Economic Cooperation organization, or APEC. And he was immediately hostile to a proposal by then-Malaysian President Mahathir Mohamad for an East Asian Economic Caucus that would include only Asian nations and exclude the United States.

It was in response to Mahathir that Baker famously set forth what became an enduring U.S. strategic position with regard to the region, when he vowed that the United States would oppose any “plan that drew a line down the middle of the Pacific,” with the United States on one side of the line and Asian nations on the other. Baker stated later that while there were no immediate security challenges to U.S. hegemony in Asia, his statement was intended as a declaration and projection of diplomatic and security power as well as a statement of national economic interest. Since Baker’s original pronouncement, U.S. economic and diplomatic/security goals in Asia have been inextricably linked.

The Clinton administration was fortunate to preside over the so-called “unipolar moment” in postwar history. The Cold War had ended; and in Asia, Japan had begun an extended period of stagnation, while China’s subsequent economic and political power was still just over the horizon. In international relations, economic goals took priority, and the United States led in the upgrading of APEC and the establishment of the Bogor goals of free trade in the Asia-Pacific by 2010 for developed APEC nations, and by 2020 for developing APEC nations. It should be noted, however, that in concluding NAFTA and pursuing a Free Trade of the Americas agreement, the Clinton White House espoused strong political aims to buttress economic interests: to wit, supporting the emergence of viable democratic systems, first in Mexico but later throughout Latin America.

For the themes developed in this paper, the George W. Bush administration stands as a central focal point, in that more explicitly than prior administrations (and moreso than the Obama

administration that succeeded it), Bush administration trade policy directly and publicly tied trade policy initiatives to broader U.S. foreign policy and security goals. The administration also included Zoellick, who served as the U.S. Trade Representative (USTR) during George W. Bush's first term and was a protégé of James Baker, who naturally viewed trade policy through the wider lens of U.S. diplomatic goals. In speeches and congressional testimony, he candidly stated that in choosing FTA partners, the administration would seek "cooperation – or better – on foreign and security policy...Given that the U.S. has international interests beyond trade, why not try to urge people to support our overall policies." Under President Bush, the U.S. negotiated some 17 FTAs (bilateral and regional), in some cases largely for economic reasons (viz., Chile, Peru, and CAFTA); in other cases, clearly for political/diplomatic purposes (Bahrain, Oman, and Morocco, as well as others for a combination – viz., Singapore and Australia). Three FTAs (Korea, Colombia, Panama)—each of which represented a combined economic/security imperative—were negotiated by President Bush but went unratified by the U.S. Congress at the end of his term.

#### The Obama Administration and the Asian "Pivot"

Though in many ways the foreign policy of the Obama administration has differed dramatically from that of the Bush administration, in both administrations diplomatic and security considerations played a large role in shaping trade policy. This was underscored by the decision of the Obama White House to assign major strategic and political trade decisions to the National Security Council, and not to the USTR. Further, the role of individual leadership in shaping US Asian policy forms a key element in the Obama administration, with Secretary Hillary Clinton's central focus on Asia providing a bookend to Secretary Baker's guiding vision two decades previously.

Asia: Trade and Economic Policy. As he entered office, President Obama seemed an unlikely candidate to push forward with a bold US trade agenda. Famously, in the campaign he had boasted that he opposed the NAFTA agreement and subsequent bilateral FTAs, and he led a Democratic party deeply

divided by trade liberalization and globalization issues. Thus, for almost a year the US in effect had no trade policy. But by the end of 2009, a combination of economic imperatives and foreign policy challenges would impel a major turnaround on the trade front.

Though the financial crisis ebbed during 2009, the recession dragged on; and despite continuing Democratic congressional opposition, Obama turned to trade—and exports—to boost the flagging US economy. This resulted in a major National Export Initiative to boost US exports around the world, but particularly in the rapidly expanding Asian economies. Under the initiative, the president promised to double US exports over a five-year period.

With the WTO Doha Round hopelessly stalled, this also meant a belated about face to free up pending bilateral FTAs with Colombia, Panama, and Korea, and a commitment to join TPP negotiations. Administration economists played a role, most particularly Lawrence Summers, one of the president's most influential advisers. Summers had long pressed for “all lateral reductions in trade barriers, whether they be multi-, bi-, tri-, or plurilateral.” “Global liberalization,” he had argued, “may be best, but regional liberalization is very likely to be good.”

Asia: The Pivot. Though economic factors were important, what more decisively shaped the course of Obama administration Asia policy was the rapidly shifting diplomatic and security conditions in the region. As former British Prime Minister Harold Macmillan is said to have replied when asked what could steer a government off its current course: “Events, dear boy, events.” “Events” indeed explain the decisive “pivot” by the Obama administration in Asia, as well as the forward movement on the trade and economic front.

Within months after assuming office in 2009, North Korea heightened tension on the Korean peninsula and threatened South Korea, a US treaty ally, by first conducting an underground nuclear test,

and then shooting off two rounds of short-range missile across the Sea of Japan. Pressure mounted immediately for a show of support for South Korea, resulting from the administration's own accounts in a decision by the president to announce a goal of completing negotiations on the stalled KORUS

On a broader scale, even before the Obama administration took office, mainland China had hardened its attitude and diplomacy on a raft of disagreements and conflicts with its East Asia neighbors. Though not repudiating the mantra of a "peaceful rise," China's leaders became much more assertive in their relations with individual nations—as well as ultimately with ASEAN as an organization. In May 2009, just after the administration took office, Beijing published a map of the South China containing nine dashed lines in a U-shape that laid claim to over 80 percent of this maritime area. Subsequently, it clashed repeatedly with its neighbors inside this self-proclaimed perimeter—particularly the Philippines and Vietnam. In addition, the PRC grew bolder in contesting the claims of South Korea and Japan, respectively, in the Japan and East China seas.

Finally, in a move whose reverberations are still rippling outward, in July 2012, the PRC nakedly intervened in the deliberations of ASEAN foreign ministers. Behind the scenes, Beijing diplomats leaned heavily—and successfully—on Cambodian officials to block publication of a joint communiqué alluding to the clashes in the South China Sea and calling for a united ASEAN front on these issues. Resentment against the PRC for this move is palpable among ASEAN nations, and the brazen intervention put at risk Beijing's careful cultivation of an "ASEAN-centric" regional diplomacy. Still, it remains to be seen just how much the PRC has really jeopardized its decade-long "peaceful rise" campaign.

Though more details are beyond the scope of this paper, the point is that escalating tensions and the growing potential for armed confrontation between the nations of north- and southeast Asia provided the larger context out of which President Obama and his team has attempted to assert and make real the proclaimed "pivot."



*The US Response*—Secretary of State Clinton’s first trip abroad was not—as had been traditional—to Europe, but to Asia. In speeches and testimony during the first months of the Obama administration Clinton proclaimed with some bravado that the United States was “back” in Asia, vowing to pursue a “more rigorous commitment and engagement.” To that end, she beefed up the economic resources and mission of the State Department and pressed for forward movement on US regional trade and investment issues. Within months, the US signed the Treaty of Amity and Commerce with ASEAN, paving the way for membership in the East Asian Summit. Since 2009, the secretary has made nine trips to Asia, more than to any other region of the world.

With Clinton leading the way (backed strongly by two successive secretaries of defense), the US took firm positions on the fractious maritime issues—and steadfastly refused to back away from those positions despite a drumfire of criticism from Beijing. At the 2010 Shangri-La Dialogues, US secretary of Defense Robert Gates affirmed that the US would not take sides on the individual territorial disputes, but it would oppose any action that “threatened freedom of navigation in the South China Sea.” Later in July 2010, Secretary Clinton reiterated the US non-position on the sovereignty issues, but much vexed Beijing with an offer to mediate among the contending parties.

*Obama’s Trip to Asia*—Statements and visits by secretaries of state and defense are important, but both the symbolic and substantive capstone of the US “pivot” came with President Obama’s nine-day trip to Asia in November 2011. Starting in Hawaii as host to the APEC Leaders Meeting, the president went on to make major pronouncements and policy advances in Indonesia where he met with ASEAN leaders and became the first American president to join the East Asian Summit.

The president chose Australia to deliver his most important and far-reaching address reaffirming the US commitment to Asia—and to the Australian alliance. “The United States is a Pacific power, and we are here to stay,” he averred, adding: “In the Asia Pacific in the 21<sup>st</sup> century, the United States of America is all in.” Later in Darwin, the president and the prime minister announced a new security pact

by which the US would deploy a rotating group of 2500 marines, establishing an important symbolic presence in maritime Southeast Asia.

From the outset of the trip in Hawaii, however, it was the TPP that created the “buzz,” would continue throughout remainder of the president’s journey. With the (premature) announcement that a “framework” had been agreed to, the TPP moved to center stage as the most concrete symbol of renewed US leadership in the region. As noted above, this symbolism came with high risks. While a framework had been announced, TPP negotiations had yet to tackle the most difficult economic and political negotiating issues. But whatever the future outcome (see below), the president’s imprimatur and his repeated reference to the negotiations as a cornerstone of US renewed leadership meant that the success or failure of these negotiations would be taken, for better or for worse, as a central symbol for the success or failure of US leadership and the long-term impact of the “pivot.”

After the 2012 presidential election, President Obama underscored the importance of the TPP by personally identifying the agreement as a signal priority of his second administration and of his ultimate political legacy.

TPP. The Trans-Pacific Partnership negotiations grew out of the four-nation (P-4) agreement, concluded in 2005 by Chile, New Zealand, Brunei, and Singapore. The TPP was—and is—unique among FTAs in that it allowed additions to membership during the negotiating process. Thus, subsequently, in 2008, Australia, Peru, Vietnam, and the US signed on—followed in 2010 by Malaysia, Canada and Mexico in 2012, and then by Japan in 2013 (Korea is now standing in the wings). Detailed negotiations began in early 2010, and since then there have been 23 formal negotiating sessions. If successful, the TPP (including Korea) will represent 40 percent of world GDP and one-third of total world trade.

This paper is not the place for a detailed description of the provisions of the TPP. From the outset of the negotiations, however, the trans-Pacific pact has been hailed as the new model for a 21<sup>st</sup> Century trade agreement.” The goal is to negotiate terms that go well beyond traditional FTAs and

write rules for major inside-the-border barriers to competition’ Thus in terms of the themes developed in this paper, the TPP has large geoeconomic implications: that is, if successful, it will provide the template and model for future FTAs around the world and, ultimately, for multinational negotiations in the WTO.

The most significant new (21<sup>st</sup> century) issues being debated include: new rules for state-owned- enterprises (SOEs); labor and environmental rules; intellectual property strictures; regulatory reform and coherence; government procurement liberalization; trade facilitation measures; supply chain management; and measures to promote trade by small- and medium-sized businesses. On regulatory reform, the overarching goal is the harmonization (or at least mutual recognition) of regulatory barriers that exert a major influence on international trade. Among the proposals discussed in the negotiating sessions are procedural rules for transparency; elimination of duplicative or overlapping regulations; restriction on anticompetitive practices; mutual recognition agreements for services and for health and safety measures. On SOEs, the goal is to promote “competitive neutrality” between commercial enterprises and government-owned entities, particularly in the areas of subsidization and regulatory discrimination.

Ironically, some of the most difficult substantive and political issues involve traditional “20thCentury” points of contention such as existing tariffs and barriers on textiles and apparel, shoes, sugar, dairy products and cotton. For the big picture, the tradeoffs will consist of balancing 21 century demands by more advanced TPP members against the political needs of the less advanced TPP nations regarding these more traditional trading barriers.

THE ENDGAME

At this writing in the fall of 2014 after 24 negotiating sessions, TPP negotiations have reached the endgame. President Obama has set the November APEC leaders' meeting as his personal deadline for the broad outlines of a deal. The 12-member TPP nations have previously blown past similar deadlines in 2012 and 2013, but this time the political calendar and negotiating ennui dictate that a continuing stalemate going forward into 2015 could deal a crippling blow to a successful outcome. With regard to the negotiating dynamic, failure to achieve major substantive breakthroughs by early 2015 could well evoke the dreaded "Doha syndrome" image (The WTO's multilateral Doha Round has dragged on for twelve years and has become the symbol of the failures of the trade negotiation process).

In coming weeks, both negotiators and outside observers see the outcome of a crucial tussle between the US and Japan over agricultural issues—rice, sugar, wheat and barley, and dairy products—as the key to breaking the TPP negotiating logjam. A successful compromise that forces Japan to substantially reduce trade barriers (though not reducing all tariff to zero on these products) is deemed to be the key to unlocking compromises on the 21<sup>st</sup> century issues such as SOEs, IP, regulatory reform and services liberalization, among others. As noted above, President Obama has called for a broad agreement in the November leaders' meetings, leaving detailed legal texts for later.

Assuming that breakthroughs are achieved at the international negotiating level, there is still the formidable US domestic level in the aforementioned two-level game. This paper is not the place to set forth an extended analysis of the politics of trade in the United States. The following paragraphs briefly lay out the most important facts and realities.

First, President Obama faces Democratic party deeply divided on trade issues—key union and environmental members of the Democratic coalition are much opposed to the current model of trade negotiations as embodied in the TPP. In the crucial House of Representatives, it is likely that a large majority of House Democrats will oppose the president and the TPP if and when it comes before that body. Thus, the president will be dependent on Republicans in both Houses of Congress to put his trade

agenda over the top. While Republicans deeply and personally oppose the president, both the Senate and House Republican leadership has steadfastly maintained that they will support a TPP that includes central US negotiating objectives. It is likely that two-thirds of House and Senate Republicans will support such an agreement.

In the near terms, the following hurdles must be overcome. First, the president must negotiate with leaders of his own party and the congressional Republican leadership over passage of Trade Promotion Authority, under which Congress agrees to give the administration an up or down vote on trade agreements, without amendment and within a time certain. Thus, far the Senate Democratic Leader, Sen. Harry Reid (D-NEV), has adamantly opposed bringing a TPA to the Senate floor, not wanting to expose Democratic senators to a highly divisive vote on an issue that key Democratic constituencies vehemently oppose.

It will be up to the president personally to persuade Reid unblock the legislation during the lame-duck session after the midterms. Beyond Reid's obduracy, there are other potential large complications. If the Democrats retain the Senate, then Sen. Ron Wyden (D-OR), chairman of the Finance Committee, has announced his intention of putting forward his own version of the TPA bill, rather than accepting the bipartisan bill crafted last January by his predecessor, Sen. Max Baucus (D-MONT), with congressional Republican trade leaders, Rep. David Camp (R-MICH), and Sen. XX (Rep-UT). Because the president will have to count on Republican votes for a TPP majority in the House, and a substantial portion of the Senate vote, he cannot allow Wyden to stray too far from the provisions of the existing bipartisan bill. This difficult intra-party negotiation can only be handled by the White House, and most likely with the president's personal intervention.

Adding a further wrinkle, at this writing it is quite possible that the Republicans may take over control of the Senate. This presents a different complication. There will be the temptation for Republicans to wait until they control the new Congress to move forward with the TPA. A better

outcome—which again will need personal presidential intervention—would be to persuade the Republican leadership in both Houses to line up behind the original bipartisan TPA bill and push to pass it during the lame-duck session. Such action would greatly enhance the administration's position as it pushes the TPP negotiating partners to place their final offers on the table and move toward concluding the agreement sometime in the first months of 2015.

#### THE STRATEGIC OVERLAY

Over and beyond the fascinating—and necessary--domestic interplay of the two-level game are larger geoeconomic and geostrategic forces, with wide-ranging implications for continued US leadership of both a more liberal trading system and the regional order in the Asia Pacific.

RCEP: Geoeconomic Competition. Standing in the wings as competition for the TPP is the Regional Comprehensive Economic Partnership (RCEP), pushed by the PRC as an intra-Asian alternative.

Launched in 2013—though negotiations did not begin until well into 2013—RCEP is composed of the ASEAN Plus 6 nations: ASEAN, China, Japan, Korea, India, Australia and New Zealand. There is some overlap in membership with the TPP: Australia, New Zealand, Singapore, Malaysia, Brunei, and Vietnam are participating in both sets of negotiations.

In substance and in negotiating modes, TPP and RCEP stand in contrast to each other. First, unlike the TPP where individual ASEAN nations negotiate separately, in RCEP ASEAN is represented as a single economic and political entity. Thus, RCEP from the outset will include the less developed ASEAN members (Laos, Cambodia, Myanmar) as well as somewhat more developed members such as Thailand, the Philippines, and Indonesia. In part, this membership difference—as well as the inclusion of ASEAN as a distinct entity—has dictated different negotiating ground rules. First, there will be a great deal of flexibility in the negotiating mode, which will be accomplished in a sequential manner or a single

undertaking, or thought some other mixed modality. RCEP will also provide special and differential treatment to less-developed ASEAN member states. Finally, in contrast to the TPP, membership in RCEP is fixed and limited to the present 16 members (from outset TPP membership has been open-ended, allowing it to grow from five to the present twelve members).

Substantively, as compared to the deep integration goals of the TPP, the initial aims of RCEP are much less ambitious. Three negotiating subgroups have been established in goods, services and investment; but it is not expected that the agreement will contain many of the “behind the scenes” nontariff barrier liberalization that are the objects of the TPP negotiators.

RCEP nations have pledged to reach agreement on major issues by the end of 2015, though most observers hold that this goal is unrealistic. However, even if real substantive advances only come in later years, RCEP stands as a serious, intra-Asian regional alternative to the TPP should those negotiation falter or fail.

Strategic Challenges. Over the past several years, even as TPP negotiations have deepened and moved toward an endpoint (whether successful or not), the strategic and security situation in East Asia has become ever more fraught. Further, as new challenges have arisen, there have been growing concerns among allies and trading partners regarding US steadfastness and staying power in the region. These fears have stemmed from disparate sources. Despite the vow to “rebalance” US security forces toward the Asia Pacific, with 60 percent of US naval assets in the Pacific by 2020, Asian leaders are fully cognizant that this is 60 percent of a declining US defense budget. They are also aware of the political stalemate that has often produced a paralysis in domestic policymaking.

Beyond this reality, over the past year—and certainly over the past few weeks and months, distractions and crisis in other regions of the world—the Ukraine and Russia, and at this writing direct military actions to counter ISIS in Iraq and Syria—have driven home the fact that the US worldwide obligations can overwhelm its strategic regional goals in East Asia.

Meanwhile, in East Asia itself recent, China's challenges to the existing order have risen sharply. Seemingly unconcerned about its political image and the contradictions to its often proclaimed "peaceful rise," Beijing has picked or exacerbated quarrels with a number of its East Asian neighbors. Many of these controversies, with accompanying Chinese bullying tactics, have centered on disputed maritime borders and jurisdiction, including jousting with Japan over the Senkaku Islands in the East China Sea; with Vietnam over the Paracel Islands in the South China Sea; with the Philippines, Vietnam, and Malaysia over the Spratly Islands; and with the Philippines over the Scarborough Shoal. In recent months, China has upped the ante by sending a semi-permanent oil rig into waters around the Paracel Islands. Throughout the period, Beijing has adamantly refused to call a halt to development of the disputed maritime territories or to seriously enter into negotiations for a code of conduct or some form of joint development of the disputed areas.

Finally, with the unilateral declaration of an Air Defense Identification Zone in the East China Sea, the PRC has directly thrown down the gauntlet not only to its neighbors in Asia but also to the United States and its long-standing defense of the doctrine of the freedom of the seas. The US has refused to recognize the Chinese ADZ and declined to notify Beijing of flights across the disputed area.

The point of this brief diplomatic and security rundown is to underscore that, with the TPP as a central and most concrete symbol of the US "pivot" to Asia, the repercussions of a failure to carry the trade agreement to a successful will ripple out well beyond economic consequences.

Singapore and its leaders, going back to Lee Kuan Yew, have always exhibited the most savvy and sophisticated understanding of the US leadership role and the symbolic and concrete importance of the TPP in the East Asian firmament and order. This tradition was carried on several weeks ago, when Singapore Prime Minister Lee Hsien Loong, warned of the consequences of TPP failure. He stated: "We have promised to conclude...three years in a row, I think this is our last chance to fulfill our promise...(or)face further delays of an indefinite nature." He further stressed that the US Asian pivot



must have an economic as well as military component: "If you don't finish TPP you just giving the game away (to China)...If you don't promote trade what are you promoting? What does it mean when you say you are a Pacific power? That just does not make sense."

He's right, and he does make a lot of sense.