The Lowdown on Showdowns:
Piloting around Partisan Divides in Immigration, Infrastructure, and Industry

Washington, DC | March 13, 2018
Agenda

Welcome & Overview

Jeffrey A. Sonnenfeld, Senior Associate Dean, Yale School of Management

Trading Places between Parties: Fairness and Diplomacy

OPENING REMARKS
Wilbur L. Ross Jr., 39th U.S. Secretary of Commerce
Stephen A. Schwarzman, Chairman & CEO, Blackstone
Jim Himes, Congressman, 4th District, State of Connecticut
Kevin Rudd, President, Asia Society Policy Institute; 26th Prime Minister of Australia
Ashton B. Carter, 25th U.S. Secretary of Defense
Mark A. Weinberger, Global Chairman & CEO, EY

COMMENTS
John D. Negroponte, Deputy Secretary (2007-2009), U.S. Department of State
Robert D. Hormats, Under Secretary (2009-2013), U.S. Department of State
Blake D. Moret, Chairman & CEO, Rockwell Automation
Nicholas T. Pinchuk, Chairman & CEO, Snap-on Incorporated
Bob Diamond, CEO, Atlas Merchant Capital
Steve Miller, President & CEO, International Automotive Components Group (IAC)
Tamara L. Lundgren, President & CEO, Schnitzer Steel Industries
Timothy J. Sloan, President & CEO, Wells Fargo & Company
Keith E. Williams, President & CEO, UL

RESPONDENTS
Eddie Tam, CEO, Central Asset Investments
Pericles Lewis, Vice President & Deputy Provost, Yale University
Jane Harman, President & CEO, The Wilson Center
Fr. Manuel Dorantes, Strategic Advisor, Vatican Secretariat for Communication
F. Scott Kieff, Principal, McKool Smith; Commissioner ITC (2013-2017)
Quinn Mills, Professor Emeritus, Harvard Business School
Maury Peiperl, Dean, School of Business, George Mason University
A Bridge to Somewhere: Infrastructure in Reality

OPENING REMARKS
David P. Abney, Chairman & CEO, UPS
David M. Rubenstein, Co-Founder & Co-Executive Chairman, The Carlyle Group
John Yarmuth, Congressman, 3rd District, State of Kentucky
Stuart A. Miller, President & CEO, Lennar Corporation
Harold L. Yoh III, Chairman & CEO, Day & Zimmermann
Marc B. Lautenbach, President & CEO, Pitney Bowes
Michael J. Kasbar, Chairman, President & CEO, World Fuel Services Corporation
James D. Taiclet Jr., Chairman, President & CEO, American Tower Corporation
Richard C. Adkerson, Vice Chairman, President & CEO, Freeport-McMoRan
Matthew K. Rose, Executive Chairman, BNSF Railway Company
Ajita G. Rajendra, Chairman & CEO, A. O. Smith Corporation

COMMENTS
Joel N. Myers, Chairman & President, AccuWeather
Alan B. Colberg, President & CEO, Assurant
Tom Rogers, Chairman, TiVo
Teresa Carlson, Vice President, WW Public Sector, Amazon Web Services
Benjamin A. Breier, President & CEO, Kindred Healthcare
Steve Odland, President & CEO, Committee for Economic Development (CED)

RESPONDENTS
Stephanie Ruhle, Correspondent, NBC News; Anchor, MSNBC
Beth Van Duyne, Regional Administrator, U.S. Department of Housing and Urban Development
Marc Rotenberg, President, Electronic Privacy Information Center
Stacy J. Kenworthy, CEO, HellaStorm
Courtland L. Reichman, Managing Principal, McKool Smith

Safe Cultures vs. Party Etiquette

OPENING REMARKS
Elizabeth H. Esty, Congresswoman, 5th District, State of Connecticut
Joe Straus, Speaker, Texas House of Representatives
Grover Norquist, President, Americans for Tax Reform

COMMENTS
Rich Lesser, President & CEO, The Boston Consulting Group
James P. Keane, President & CEO, Steelcase
Adam M. Aron, President & CEO, AMC Entertainment
Mark Penn, President, The Stagwell Group; Former Clinton Campaign Strategist
Nels Olson, Vice Chairman, Korn Ferry
John B. King, 10th U.S. Secretary of Education
Tom McMillen, Member of Congress (1987-1993), State of Maryland
Johnnetta B. Cole, President Emerita, Smithsonian National Museum of African Art
Brian A. Gallagher, President & CEO, United Way Worldwide

RESPONDENTS
James Firman, President & CEO, National Council on Aging
Richard J. Berry, 29th Mayor, Albuquerque, New Mexico
Sally S. Simpson, Professor, University of Maryland

Legend in Leadership Award: David M. Rubenstein, Co-Founder & Co-Executive Chairman, The Carlyle Group

PRESENTATION
Stephen A. Schwarzman, Chairman & CEO, Blackstone
The Lowdown on Showdowns: Piloting around Partisan Divides in Immigration, Infrastructure, and Industry

Overview

While the U.S. economy is performing well, business leaders are concerned that democracy and free trade are in retreat across the globe, and worry about America’s behavior internationally. Unilateral tariffs by the United States, protectionist attitudes, and rhetoric about abandoning NAFTA have the potential to damage already frayed international relationships. Erratic, impulsive, unpredictable behavior by the President concern both U.S. and international leaders, and heighten the possibility of a misinterpretation or a miscalculation, with troubling consequences.

There is agreement on the diagnosis surrounding trade issues, but not the solutions.

In focusing on steel and aluminum, Secretary Ross explained that there is a problem of global overcapacity, with China having much of that excess capacity. As a result of that excess capacity, China is engaged in dumping. At times, China ships steel to other countries, which ultimately comes to the United States.

Secretary Ross explained that a great deal of the steel that enters the U.S.—even if originally produced in China—is coming through other countries. Therefore, tariffs can’t just target China; they must be broad, with limited exceptions. The need for tariffs is justified by the Administration through claims that steel and aluminum production are vital to national security.

The United States is in favor of free trade, argued Secretary Ross, but it hasn’t existed. Many other countries have been waging a trade war against the U.S., have provided limited access to their markets, and are guilty of numerous trade violations. Mr. Ross does not believe that imposing tariffs will lead to a trade war.

“Most other countries are far more protectionist than we are. Their actions don’t match their rhetoric. The U.S. is the least protectionist country. We are not protectionist; we are just trying to level the playing field.”

In addition to concerns about trade and international relationships, business leaders see a crumbling domestic infrastructure, and see little progress in addressing it. Business leaders also worry about the outsized political influence of the NRA. In response to these challenges, and others, the majority of participants believe it is incumbent upon business leaders to take positions on social issues.

The economy is humming along.

Secretary of Commerce Wilbur Ross described the U.S. economy as performing very well, which he attributed largely to regulatory reforms. He expects strong continued economic growth over the next several quarters as tax reforms kick in. Further, he sees the tax changes as benefitting all Americans, including the middle and lower classes. More than four million people have received $1,000 bonuses, driven by the tax cut, and people are just starting to receive their first paychecks where less money is being withheld. These changes are positively affecting the psychology of working class people, which will help propel the economy forward.

Additional economic improvement—now and in the future—comes from increasing workforce participation, which is assisted by various government programs. These programs are having an impact, such as apprenticeships and workforce training, and are improving individuals’ marketable skills.

In addition to the recently announced tariffs on steel and aluminum, Mr. Ross also commented that NAFTA renegotiations are at a sensitive point. Many smaller chapters have already been completed, but the three countries are now dealing with harder issues—and are running out of time, with upcoming elections in Mexico and Canada, followed by the U.S.’s November elections. If a revised deal is going to get done, it probably needs to occur in the next few weeks.

While several participants agreed with issues surrounding overcapacity, and concurred that much of the excess capacity is in China, they disagreed with the best approach for addressing the issues.

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<th>CELI Polling Question</th>
<th>Yes</th>
<th>No</th>
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<tr>
<td>I am in favor of the steel and aluminum tariffs as originally proposed last week</td>
<td>14%</td>
<td>86%</td>
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<td>I think the new exemptions are an improvement in the tariff proposal</td>
<td>81%</td>
<td>19%</td>
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Comments surrounding trade included:

- **Concerns of a trade war.** Despite Secretary Ross not having concerns that tariffs will spark a trade war, many participants are concerned that even Europe might retaliate. Comments from President Trump saying, “We are going to have a trade war,” are not helpful.

- **A more international approach.** Several participants believe there are more effective ways to deal with anti-dumping than imposing tariffs. Tariffs could increase the cost of goods for American consumers, could spark a trade war, and may not cause a change in China’s behavior. A more effective approach – in the view of many – would be to put together an international coalition to collectively combat dumping. U.S. actions undercut a multinational solution.

  “The big deal [of unilateral U.S. tariffs] is possible collateral damage to the global trading system. If the country that led the way towards free trade embraces a position of protectionism, it could affect the culture of the global trading system.”

- **Putting the WTO in jeopardy.** If as a result of imposing tariffs the U.S. is taken to the World Trade Organization (WTO) and loses, and then choses to ignore the ruling, it could effectively spell the end of the WTO.

- **National security.** While some question using national security as a justification to impose tariffs, others believe that national security is an appropriate justification and that the United States needs to protect the domestic steel industry. Still, while steel is important, there are other industries – particularly those with sensitive intellectual property, like AI – that are even more important to U.S. national security. In a modern economy, these areas should be what the government focuses on, not archaic industries like steel and aluminum.

Due to the importance of technology and IP, 64% of participants believe that President Trump was right to block the Broadcom purchase of Qualcomm.

- **CEO reactions to tariffs.** In a survey among CEOs, 53% indicate that they are uncomfortable with tariffs, but 30% think tariffs are a good move. This shows there is not a consensus. Many CEOs are not terribly concerned, viewing tariffs as a negotiating tactic.

- ** Worries about NAFTA.** While there may not be a consensus among CEOs on tariffs, there is greater agreement that scrapping NAFTA would be tremendously challenging to U.S. businesses. For many industries, North American supply chains are far more integrated than many political leaders realize. Creating trade barriers within North America would hurt companies and regional competitiveness. The hope among CEOs is that Trump is merely showing bluster and that changes to NAFTA will be minor.

Instead of creating barriers and breaking apart NAFTA, participants see an opportunity in Canada, Mexico, and the United States joining together – with a population approaching 500 million – to compete with other regions of the world.

- **The politics.** A savvy political analyst said that imposing tariffs is exactly the type of policy that Trump promised in his campaign. The United States has lost 10 million manufacturing jobs in the past two administrations and there are a large number of disenfranchised voters. Trump promised to push back on China, Iran, and North Korea, and talked about a trade war. He is doing what he said in the campaign. In addition, these policies are approved by 50-70% of the public. To business, Trump can say, “You just got billions in tax breaks, so you might suffer slightly through some tariffs.”

  “This is a give to the core constituency. It is not about national security. It is somewhat about economics, but it is mainly about politics.”

There are significant doubts about U.S. foreign policy, especially relating to China.

Uncertainty about U.S. foreign policy starts with lack of alignment between the President and the Secretary of State. While 72% of participants believe President Trump was wrong to replace Rex Tillerson as Secretary of State, others said that the Secretary of State can’t be effective if the President doesn’t trust the Secretary to represent him. Trump clearly didn’t trust Tillerson to represent him.

A foreign policy expert said that other countries don’t know how to assess the U.S. under President Trump. Countries are uncertain and confused, as foreign leaders see the U.S. retreat economically into a protectionist regime. Asia continues to see a strong U.S. military presence, but with the U.S. walking away from TPP, the U.S. is not engaged economically. The signals that the U.S. is sending to the world don’t increase confidence. The U.S. is not distinguishing between keeping enemies uncertain and keeping allies confident; there is uncertainty among both, which is not good strategy.
“China sees a vacuum as the U.S. retreats from its global leadership role. China is eager to take up that role.”

A former political leader believes that foreign leaders see the United States as erratic, impulsive, and unpredictable. In this context the greatest risk is a miscalculation that triggers some type of reaction or overreaction, possibly leading to a conflict.

The U.S. has given China a $100 billion wish list of trade improvements to address the trade imbalance. This is seen as somewhat of progress on infrastructure.

CEOs are disappointed with the lack of political overreaction, possibly leading to a conflict.

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CEOs are disappointed with the lack of political progress on infrastructure.

Once again there is general agreement on the problems: America’s infrastructure is decaying, and roads, bridges, airports, railroads, and seaports are all in need of repair. In addition, CEOs are worried about the cybersecurity infrastructure, the energy infrastructure, and the water infrastructure.

And, participants are disappointed with the progress being made; 89% of participants agree with the statement, “The administration should already have proposed a comprehensive infrastructure plan.”

The key question is how to pay to update America’s infrastructure. To finance the highway trust fund, the majority of participants favor a gas tax (60%), followed by tolls (19%) and privatization (14%).

Other comments about infrastructure financing, which showed the dissension on infrastructure that prevents progress, included:

- **Gas tax, if . . .** Leading transportation companies are accepting of a higher gas tax if the funds from this tax are solely dedicated to improving the transportation infrastructure.

- **Bring back earmarks.** One participant favors bringing back earmarks and pork barrel legislation. This allowed Congressional representatives to add to bills and get things done in their districts.

- **Limit federal funds.** A participant noted that federal funds devoted to infrastructure are not well spent, and argued that federal funds should not be devoted to infrastructure.

- **Public-private partnerships.** The amount of financing required is more than taxpayers can afford, necessitating other models. Across the world there are a host of effective public-private models that the United States can adopt.

- **Lots of infrastructure is not investible.** A Congressman noted that 80% of the President’s infrastructure plan relies on private or local investment. This means that infrastructure is driven by what investors are willing to invest in. However, investors are not interested in investing in much of what states and communities need, because there is no corresponding revenue stream to provide a return to investors. This includes critical infrastructure repairs and infrastructure in rural areas. Because these needs won’t attract investors they require public funds.

- **Regulatory approvals.** Financing is not the only issue. It is important to get states and localities to expedite the approval process for building new infrastructure.

CELI participants believe the NRA has too much influence, but expect the youth movement to fade.

In some ways, the comments of CELI attendees about guns reflect the divisions in America. A Congressman from Kentucky declared to the NRA, “Your time is up.”

But an NRA board member criticized the media and the Democrats for using violent events to politicize gun control, which would not have prevented violent outbursts. Per this NRA board member, 17 million Americans have a permit to carry a concealed weapon. These individuals have made a decision to carry to protect themselves and won’t give up this right.
These comments didn’t sway most CELI participants who believe gun safety should be non-partisan and believe that the NRA has too much political influence. However, participants believe that the “Never Again” youth movement which has garnered so much attention will soon fade.

Yet among this environment of controversy, 80% of participants believe it is the right and responsibility of business leaders to take positions on guns.

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<tr>
<td>Gun safety should be non-partisan</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>We have had better gun safety laws in our past</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>The NRA has too much political influence</td>
<td>74%</td>
<td>26%</td>
</tr>
<tr>
<td>The “Never Again” youth movement will soon fade</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>Business leaders are right to take positions on this matter</td>
<td>80%</td>
<td>20%</td>
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