Peterson Institute for International Economics

**Trade 360 degrees: Trade Winds LIVE from DC!**

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**[00:05:15.18] - Adam S. Posen**

Good morning, everyone, and welcome back to the Peterson Institute for International Economics. I'm Adam Posen, the Institute's president, and we're here to remind you that trade matters even during IMF, World Bank, G7, G20, V20, G24 week. And it does. This is actually a special edition of Trade Winds live from DC. As all of you, I hope, know, Trade Winds has been exploring the future of international trade since 2020, initially under our friend Annabel Gonzalez, our longtime friend and colleague who's now a vice president at the Inter-American Development Bank, and led for the last several years by Cecilia Malmström, our fellow, former European Commissioner for Trade who represented the EU and the WTO in various negotiations. She negotiated and led to later bilateral agreements between the EU and many countries. And as the real insiders know, she almost got us to a subsidies accord with Japan and the US, which would have saved us all a lot of trouble. We're very proud of Cecilia, we're very proud of Tradewinds, and we're very, very proud of the entire trade team that we rely on here at the Peterson Institute. And what I think is important and that we're going to display today with our 360 view of the world of trade is that it's not just about accumulating a bunch of memos saying tariffs are stupid.

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They are, but we have people here who are doing much more than that. It's not just about the US, it's not just about mistakes, it's about positive developments, it's about constructive proposals, and it's about actual evidence-based analysis rather than just asserting things on first principles. And for that reason, we're delighted to have in alphabetical order for incredible colleagues joining Cecilia and myself today. Chad Bown, who is the Reginald Jones Senior Fellow at the Peterson Institute and who of course is the host of Trade Talks, which is its own rockstar event every time. Chad spent time as the Chief Economist at the US Department of State in the Biden-Harris administration, spent several years at the Institute before that, and has a book forthcoming with his co-creator of Trade Talks, Maya Keynes, How to Win a Trade War.— or I should say, How to Win a Trade War. That we are looking forward to having the launch event here at Peterson in a few weeks' time. Second, we have Mary Lovely, who's the Anthony M. Solomon Senior Fellow here at the Peterson Institute. Mary has become the public face and voice of sanity in a highly partisan Washington, appearing before Congress, sought after by people of both parties, and even talking sense to the I Hate China Congressional Committee.

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But of course, Mary's main claim to fame is that she's an outstanding empirical researcher, and in recent years, to the benefit of Peterson Institute and the world, has focused her energies a lot on supply chains and industry and transformation of those supply chains and only partial transformation of those. Supply chains. We also are delighted to have Mari Elka Pangestu, the Minister Special Advisor International Trade and Multilateral Cooperation for Indonesia.

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She is—

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she was a distinguished visiting fellow at the Peterson Institute. She's on leave for government service, and we hope to have her back with us when that— whenever she finishes. Mari has been, again, like Chad and Mary and Annabel, but perhaps even more so, more like Annabel, a practitioner, a policymaker like Cecilia, leading at the World Bank, leading in the Indonesian government, um, as Indonesia's Minister of Trade, and, uh, brings the combined force of analysis and political leadership to our discussions. And we're very grateful to have here. And then finally, but never last, our third named senior fellow, Arvind Subramanian, who occupied— who was the Dennis Weatherstone Senior Fellow at the Institute and then went on extended leave for public service as the Chief Economic Advisor to the Government of India between 2014 and 2018. Again, like his colleagues, Arvind has spectacularly combined actual policy leadership with serious scholarship. His recent book on A Sixth of Humanity, with a true in-depth political historical analysis of India's development, has become already not just a bestseller but the touchstone book for understanding India's economy for years to come. And meanwhile, he is still churning out incredible work for the Institute, and we're looking forward— we have a new paper by him that will be out shortly, building on some remarks he gave here last fall, that China Shock 2.0, notwithstanding the Financial Times' excellent reporting and notwithstanding the G7 global imbalances, is really about what it's doing to the developing world.

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It's not about Europe or the US. And I think this is a very important perspective. I'm gonna turn it over to Cecilia and my colleagues to speak. I just wanna say two things of substance. The first is two things can be true at once. Tariffs can be stupid and the world doesn't end. So there is a bunch of people out there who, and I say tariffs as the shorthand for unilateralist, capricious, nationalist, reactive, short-sighted international economic policies. And even if a US can continue to grow, even if a world economy can continue to grow, that doesn't ipso facto prove that those short-sighted, self-destructive, unilateralist international economic policies did any good. And the analysis coming out from here, but also from many other think tanks, universities, government officials, shows that. Second, what I do think is important to know is how resilient world trade has been and how restrained the rest of the world has been. They have not— governments have primarily not followed the U.S. down self-destructive paths. They have not retaliated to their own harm to escalate matters. They have not stopped pursuing opening and trade with others, and this has proven to their benefit.

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And so these two themes do not in any way summarize what my colleagues will say, but I think they put a floor, a structure on understanding the resilience of international trade and international integration, even when the US and others are not providing the kind of citizenship, let alone leadership, that we should expect. So there is actually a cheery message here. The world goes on. Cecilia, to you.

**[00:13:00.31] - Cecilia Malmström**

Thank you very much, Adam, for these kind words. Thank you for hosting us here today. Good morning, everybody. Welcome to Trade Winds. Welcome to you in the room and welcome to you online. This is, as Adam said, live from Washington. We have spring week and we are taking advantage of having having so many of our fantastic fellows in town as well. So this is almost a year ago, last spring week more or less, there was the Liberation Day. And since then, quite a lot has happened in the world, definitely, but also in the trade world. There's been quite a drama with tariffs of different kinds. We have seen divergent industrial policies, rising protectionism. We just concluded the ministerial conference of WTO, Yaoundé, unfortunately with very little result at a time when the world needs multilateral solutions more than ever. And there has been, as Adam said, also this at the same time, this resilience of the world. Trade is continuing. Trade is a little bit like water. It finds new ways all the time. But how do— what do these new ways look like? What strategies have been taken from different countries, different regions? And this is what we will discuss today.

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We will hear from, from the US perspective, the Chinese perspective, the Indonesian perspective, and the Indian perspective, and also different regional corporations that they are involved with. I will just start to say something about Europe as well. The European Union, like most countries, did a deal with the US administration after the Liberation Day, the so-called Turnberry deal, setting the level of tariffs to 15% and the European Union promising to abolish most of the tariffs on US goods and on some agricultural products as well. So 15% is, of course, much better than 30%. That was when it was at its peak. But it is much more than the average 3.5-4% that was the tariff line between EU and US before Liberation Day. And in addition, there are very high tariffs on steel and aluminum. The EU also promised to buy energy and weapons from the US and estimated investment of European companies in the US to an amount of roughly $500 billion. And there was an agreement to discuss some of the regulations in the EU, notably in the climate area and in the tech regulation. The agreement is actually not in place yet, even if it was concluded between leaders already in August last year.

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The European Parliament needs to approve it, and they have been dragging their feet, and they suspended the deliberations under the Greenland crisis. After that, they resumed negotiations, they added a few sort of suspension clauses and precautionary clauses if the Greenland issue should come up again, etc. This has now to be confirmed by the members of the European Union. They are looking at it right now, and my prediction is that The agreement will enter into force end of the month. Will this calm things down? Let's see. That was, of course, the hope of European negotiators, that they would lead to stability in the trading relations. Of course, the transatlantic relationship is a bit tense for a lot of other reasons as well. In the meantime, the EU has been busy finding new partners and new deals in addition to the ones that they have. There was an agreement on the Mercosur agreement, the 4 countries in Latin America, Argentina, Brazil, Uruguay, and Paraguay. That deal will now enter into force the 1st of May. It's been negotiated for a very long time. Deals have also been agreed with Australia, Indonesia, and India. So I'm excited to hear that you are here today.

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And an updated agreement with Mexico will be signed in May. Negotiations are ongoing with Philippines, Thailand, Malaysia. There's been update in the trade relations with the UK and Switzerland, and there has been a rapprochement between the EU and CPTPP on a more institutional level. The EU has agreement with most of these countries, either done or in the making, but they have launched a process of trade and investment facilitation where they engage to work together to reform WTO rules, but also strengthen supply chain resilience address tariff barriers, streamline borders and regulatory process, and a digital trade agreement is in the making, hopefully to be announced in a couple of weeks. And this is interesting because this is a group of like-minded countries, very much pushed also by Prime Minister Carney from Canada. Is this an alliance of like-minded or a coalition of the willing remains to be seen. The EU is also struggling to find a common line with China, struggling with coping with, with overcapacity, with subsidies, etc., but also wanting to maintain trading relations in many areas. And this is an area where potentially they could emerge a new area of cooperation with the US, trade agreements on overcapacity, mainly steel, and also agreement or cooperation on critical minerals, where there's an interest to diversify the dependence from China and to look at new solutions.

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So this is more or less the state of play in Europe. These trade agreements are, of course, the traditional trade agreements as you used to do them, but they're also very much a signal of geopolitical cooperation, which is important to take into account into this new context. We might come back to this. This is a bit the state of play in Europe. I would like to start by calling Chad to the podium to explain to us a little bit of what is happening in the US and what can happen. And then we will have Marie, Arvind, Mary, and then Ada will come back to explain if— is there a new pattern coming up here and helping us to see the big picture. So thank you very much. Welcome, Chad.

**[00:19:35.30] - Chad P. Bown**

OK, thank you, Cecilia. Thank you, Adam. And I'm going to cover, as Cecilia mentioned, the US piece of this. But as she also mentioned, only a little bit, because there was just so much that happened last year in the United States on tariffs. It's impossible to cover it all in 9 minutes, which is what we're going to do. OK, so what happened? A lot of tariffs, right? A lot of tariffs. Just so many tariffs. How do we think about this? Well, the first thing I do as an economist and as a data nerd is to look at the data. What actually happened? So I'm going to organize my thoughts today along 3 dimensions, 3 topics. So the first is going to be trade flows. The second is going to be trade deals. And the third is going to be the look ahead, trade policy in 2026. OK, so trade flows to start. Surprisingly, perhaps, with all of those tariffs in place in 2025, US imports from the world actually grew last year. How is that possible? Right? Well, that requires nerds to look under the hood and to trace things down to actually how the tariffs were applied.

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So let's do that. The first thing to notice is not only did US imports overall increase by 5% or so, But there was a massive decline in US imports from China. They fell by something like 25%.

How do you reconcile these seeming contradictions? Let me give you a couple of examples. First is the one that we all know and love, maybe, the iPhone, right? So in the first Trump administration, products like the iPhone— there were a lot of these types of products out there, about a third of US imports from China at the time— were never hit with tariffs in the first Trump administration. And even by the time they started the second term in, in early 2025, we were still importing 80% of the smartphones that come into the United States from China. No tariffs. Why should Apple and these other suppliers bother to move their supply chains? Well, in February, March last year, suddenly that was no longer the case. The AIPA tariffs that were imposed for fentanyl purposes were on every single product that we import from China this time, suddenly at 20%. Well, what companies like Apple had done is they had set up alternative supply chains that were ready to go if this scenario emerged.

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And so what they were able to do quite amazingly was to pivot and suddenly start sourcing their iPhones from India instead. And by the end of the year, it's something like 40% of the smartphones we're now getting, see this in the trade data, are coming in from India. So quickly pivoting to that. And it wasn't just, smartphones, same patterns for laptops, monitors, other types of consumer electronics that these big giant multinationals have set up supply chains in alternative places to source differently. Oftentimes it wasn't India. I think iPhone is the India example, but in many other instances, it was Vietnam, which was the new source of those imports. And that helps to explain a lot of what happened. So for those products, Basically, US imports of a lot of those consumer electronics, despite massive tariffs on China, were flat last year. We continued to import them as if nothing had happened because firms were able to source differently. But the reason why they were able to source differently is because of how the tariffs were applied. And that was despite the Liberation Day tariffs that went on everybody in April of last year, there were massive product exemptions.

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Smartphones and computer monitors and laptops, all that kind of stuff was exempted. So all of a sudden, it made sense for you to source it from somebody somewhere else in India or Vietnam. Even India, later on in the year when they were hit with those additional 25% tariffs for importing oil from Russia, there were still these exemptions, right? The details of the tariff policy mattered. And there were just huge, huge holes for certain products. Okay, second example of a trade flow that really helped drive things last year was AI, right? And we all know the story now. AI chips designed by NVIDIA, AMD, manufactured by mostly TSMC in Taiwan. Okay, what happens there? They come out of the fabs in Taiwan. They're, you know, they're then put on printed circuit boards, oftentimes by other Taiwanese companies, Foxconn. They're then put onto racks, data servers, Usually, often in Taiwan, but increasingly also in countries like Mexico as well. All that sort of contract manufacturing and assembly takes place, and then they're shipped to the United States for the massive buildout of data centers. You look at these AI-related inputs needed for the buildout of data centers, huge.

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And a lot of that is Taiwan and Mexico. If you strip out those products, it's basically US imports from the world would've declined last year., right? A lot of the story is about AI. Again, another example though of all of those inputs that you need for AI exempted from the tariffs last year. So the details of the policy matter. Okay, second, deals. Second topic, deals. Lots of threats of tariffs, much higher tariffs. The administration then went out and negotiated lots and lots of deals. And in exchange for that, they wanted stuff. What kinds of stuff did they want? Well, in the case of The European Union, as Cecilia just mentioned, tariff cuts. So getting the European Union to cut their industrial tariffs toward US exports. For other countries, it was less of that and more of investment commitments. So Japan, Korea, Taiwan, investments by the governments in collaboration with the private sector to do more in the United States. We'll see how that plays out. And my Peterson Institute colleagues, Greg Auclair and Adnan Mazharaj, are doing an amazing job tracking that and seeing what the actual follow-through on that ultimately is. But that's something that's novel and that we will continue to be interested in.

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Now, the challenge is then we have the Supreme Court decision of February, right? And so all of those deals, lots of other countries as well, South Asia didn't quite get the same deal as a Japan, a Korea, or Europe did. What is the status of those deals given that we don't know what their future tariffs are going to look like because of the Supreme Court decision? So there is some uncertainty there. And that leads me to my third topic, which is trade policy in 2026. Because as you'll notice, there are three major economies that are important for the United States that don't yet have deals. Canada and Mexico, we're currently embarking on the process of review, renegotiate something with the USMCA. That's going to play out over the course of at least this summer. What is that ultimately going to mean? Even if there weren't the craziness of all of the tariffs last year, the review of USMCA was going to be very different this time around in this new era of economic security.

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we don't know what the administration's priorities are going to be. They haven't been very public about what those. But reading the tea leaves, I see 3 things. One— and they're all related to economic security— potentially increased alignment or requests for increased alignment on things like foreign investment screening, export controls. When you're thinking about chips that need to be— we worry about where they might go anywhere around the world. And tariff policy. And again, the alignment of tariff policy. And again, the underlying concern in all of those cases is China, right? And the worries about potential Chinese investment, whether it's in the automobile sector in Mexico or other things as well. But even if that's the interests, of the administration, which they haven't really articulated, getting Canada and Mexico to agree to what they might be requesting would seem to be tricky, especially when it's been nothing but a rancorous relationship over the first 14, 15, 16 months of their term in office so far. So we'll see how that plays out. And then finally, of course, the last major deal that we're waiting for in 2026 is what's going to happen in the next stage of the US-China relationship.

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Presidents Trump and Xi are going to meet in the middle of May. Ambassador Greer has talked about a board of trade increasingly, maybe managed trade. Well, we saw how the first Trump administration attempted that with the Phase One agreement in terms of US exports. It sounds like this time might be a little bit different, maybe some combination of that on the export side, but maybe they are also thinking about managing US imports from China for nonsensitive goods differently than through the just normal, quote unquote, normal use of tariffs. Maybe managed trade would be something like quotas or tariff. Anyway, a Board of Trade, we're still waiting on details, but I think that's an important relationship to watch out for. That's just on the nonsensitive products. But then, of course, what we're really worried about too are the sensitive products. We talked about all the tariffs last year, but the other major set of trade restrictions were China's export restrictions that impacted the United States negotiations, at least, but also had the potential to impact US economic activity when things like rare earths and permanent magnets and— that's the dance that tells me my time is over— were imposed last year that really affected US or had the potential to affect US automakers.

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Suddenly cut off from these inputs, days away from having to shut down factories, furlough workers, with potentially huge impacts across the automotive supply chain. There is currently a truce on those types of issues, but I think we have to worry about those over the long term. How are the US and China going to negotiate together over these really sensitive areas where China at the moment has market dominance, um, and it, it really does hold a lot of the cars. So for that, maybe we'll have Mary tell us more for a moment, but I will stop. Thank you very much.

**[00:30:00.50] - Mari Elka Pangestu**

Slightly shorter than you, Chad. Good morning, everyone. I'm here to present the Indonesia Southeast Asia perspective. And Adam actually stole my message, my main message, which is that turbulence in the global trade is real and we are facing it. Especially since last year, but it hasn't been catastrophic so far. The responses matter more than the shock itself. Trade continues to grow, and the real risk is overreaction that fragments the world into competing trade blocs. And this is what we, in the response of Indonesia and Southeast Asia, have been trying to avoid. And also, as Adam said, We have been more resilient, the rest of the world, including ASEAN, has been more resilient and has not reacted by increasing protection with each other. And in fact, the opposite perhaps is trying to happen. So let me make 3 points just to understand how does the trade turbulence, what does the trade turbulence mean for Indonesia and ASEAN. And you know, in a way, it's not just what happened in 2025 with the reciprocal tariff. It started in in 2018, especially with the first Trump tariffs on China, and then the impact on our part of the world was actually positive.

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It's what they call the conduit countries. A lot went to Vietnam, Malaysia, Thailand, and some of it also went to Indonesia. But that caused us problems in the second Trump tariff, reciprocal tariffs. And of course, you have the rise in economic security all throughout this period before April 2nd. So the nexus between economic security economics and security was very real. I'm sorry, I'm going to get my— I was going to boast about what we did, you know, all of the last few years and especially last year. So last year, I was very involved with ASEAN, where we came up with an ASEAN Geo-Economics Report, which really was input into the leaders and the ministers to see, well, how does ASEAN respond to the fact that this time it is different. It's not just about, we're not going to go back to anything normal. And how does economics and security nexus affect us? How should we be responding to the US reciprocal tariffs and so on? So, the analysis that we did around this, and this is semi-official, if you like, it's Track 1.5 feeding into the official process, if that makes sense to you. We actually did what Adam was mentioning earlier.

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We did some evidence-based analysis and data. And the analysis is actually not surprising. And we did use GTAP modeling. We used Warwick McKibbin's model. And basically, it shows that if you actually implemented the US reciprocal tariffs, it was very high for us. It was like between 20s to 40s, the initial April 2nd one. You would have had a negative impact on GDP and so on. But if you reacted by increasing protection against each other, if there was a trade war, the negative impact gets worse, much worse. But if you didn't do that and you in fact increase regional integration, you could offset the negative impact of the US tariffs. That was basically the result of our analysis. And it was actually intended to give the message to the ministers and the leaders. The way you react is by deepening your regional integration. And the second aspect that we looked at was we interviewed, we had a survey of private sector. What are you going to do to respond to all these risks that you are facing? And the answer was actually relatively positive. 60% said they would continue to expand in ASEAN. They got used to dealing with risks with COVID So how are they going to respond?

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Basically diversify sourcing, increase inventories, use efficiencies with AI and digitalization. And what did they want from governments? Because we asked the question, okay, what do you require from governments or regional integration for you to really diversify your supply chain? Within the region? And the answer, for trade wonks, this would be really not surprising perhaps. What was the number one issue that they faced? Rules of origin. We had kind of thought that was one of the issues, but to have it reinforced by private sector was interesting. And that they didn't want subsidies or incentives from the government, they just wanted the government to implement the reforms and implement the commitments in the regional agreements, which is about, you know, removing all the trade facilitation, its rules of origin, and so on. So it, again, this was to reinforce the need to accelerate the regional integration. So that was kind of our exercise that we did. And what was the outcome? So what was the response? This is my second point. The response, we hope that we helped to craft the argument and convince the ministers and the leaders that this would be the response that you needed to do.

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So, what emerged was what I call the three-prong response of Indonesia and ASEAN. The first prong, you got to deal with the tariffs, even you don't like it and you know it's unilateralism, you know it's all the bad things that is violating what we know as the multilateral rules and disciplines that had made our region grow, but we just got to deal with it. It is what it is. I think, Chad, Chad asked me a lot of questions about, you know, how did we respond. So we agreed we are not China, so we don't retaliate. We each deal bilaterally with the US because the US wouldn't deal with us as ASEAN anyway. But we do it in a way which has a few principles that we try to implement. First, do no harm to each other, do no harm to your other trading partners. Second, as much as possible, try to come up with some common policy positions, especially with the really onerous demands that were in this template of agreements. And probably the two I would mention that we were able to perhaps manage not to have in the joint statements or in the ARTs is the very restrictive rules of origin that was intended to contain the content from China.

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And second, kind of very heavy-handed economic security— sorry, not economic security concerns inside the ART, such as South China Seas. That was— we were able not to have those in there. That's the first prong. Second prong, I think, as Cecilia mentioned, let's— the US is a problem, but hey, let's expand trade with each other and with the rest of the world. And this is exactly what we did. So you build domestic resilience and regional resilience. Domestic resilience was about doing the domestic reforms. And from our private sector survey, that also came across very strongly with certain areas identified. It's not just tariffs, obviously, non-tariff measures and other investment and trade-related issues. And then in the regional agreement, it was about accelerating a lot of what we have to implement within ASEAN, as well as RCEP. RCEP is ASEAN plus Japan, China, Korea, and Australia and New Zealand. And there's actually where you want to have the rules of origin be addressed. The issue of effective implementation of RCEP was that we don't have yet cumulative rules of origin. CPTPP actually has cumulative rules of origin. So this is one, and there's agreement last year from the minister and leaders level that effective implementation of RCEP, as well as all our ASEAN agreements, is number one priority, and this is being tasked to ministers.

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And there is also a general review of the RCEP in place to really address many of the issues. So the notion is you want to have more regional diversification of the supply chain, which addresses your security concerns about concentration of China and so on and so forth. It will involve investments coming from China. So that's kind of the regional response. So let me close with what is the current situation. Can somebody— I've been trying to keep track of time, but 2 minutes? Okay. What is the current situation and what do we see moving forward? I think trade is resilient, exports continue to grow. In fact, For overall ASEAN, our export growth doubled in 2025 compared to 2024. And to the US also, it increased, except for Philippines and Cambodia. And the reasons Chad mentioned, exceptions, and a lot of that is semiconductors from Malaysia and Singapore that got exempted. And it is also front-loading. Everybody was exporting a lot and building up their inventories before the July deadline. And I think it was also continued demand from the US. So, from our exporters and buyers, they were telling us that they were sharing the burden of the increased tariff.

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You know, some is being imposed on the producers, some imposed on the buyers, some imposed on the retailer, depending on the product they they come to some agreement. And has it hit the US inflation yet? Is it hitting your consumers yet? I think maybe not. I don't know. Maybe it's product-specific. I know it hit your coffee and that's why you had exemptions and we got an exemption for coffee. So where it hurts, it seems to be the exemptions. But I think for general consumer goods, probably the impact has not been felt. I don't know whether there's a lag effect or not. But that's the issue. The other issue, just let me close with two more issues. One is the worry about transshipment and redirection of exports from China. Lots of press saying, "Oh, we're being flooded by Chinese goods, tsunami of Chinese goods." But in fact, I was using Simon Evernett's number. He decomposes the import. There is increase in imports from China from general Chinese export expansion. He uses like 3-year average rich from before, and redirection from the US. And his numbers show that yes, there was an increase in what we call a redirection of exports, about $63 billion out of our $598 billion exports— imports from China, but it was very highly concentrated in Vietnam, Thailand, and Indonesia to a lesser extent.

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And then he links it to the US imports, and this is This is actually transshipment in a way of redirecting the exports. And his conclusion is that this is not the time to panic and just have— try to us also have onerous protection against China. We can address it with using WTO valid instruments of anti-dumping and so on. And in fact, Indonesia just got a countervailing duty from the US on solar panels. Of 143%. And actually, I would say probably it classifies as transshipment because it was coming from China to Vietnam to Batam Island. And maybe there was some little investment there and little value added. Then it came to the US. And guess what? Increased our— the import of US solar panels from this particular location in Batam increased, I think, by 100% or something like that. So of course, alert, right? Just to show you that there are still instruments that you can use for that. Apart from exports, investments also continue to be robust. About the future, despite the robust current robustness and relatively positive results, we are not out of the woods, of course. Uncertainties already outlined by Chad, especially what will happen with the China-US and then the spillover effects to us, and the whole uncertainty uncertainties that are ahead and that the supply chain reconfiguration is happening, but we don't quite know where it's going.

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And obviously, it will take time to adjust. And with the uncertainties, I think investors are also having a headache as to how they would actually do the reconfiguration. So let me close there and thank you for listening.

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To me.

**[00:44:07.42] - Arvind Subramanian**

Thanks, Adam and Celia, for inviting me. Great to be here. So I want to make two points and offer one conclusion. The two points are respectively about India which is based on an Economist piece I wrote a month and a half ago, and a comment on China based on a forthcoming Peterson working paper that Adam kindly mentioned. So the point about India is the following. I think when we speak about Trump's Liberation Day tariffs and the rest of the world adjusting to it, doing trade deals, not becoming protectionist, et cetera, et cetera. In the Indian case, it went even further in the sense that Liberation Day tariffs had a profoundly positive impact on our Indian trade policy. How so? I think, to be a bit provocative, I think it punctured the pretensions of two entities, namely the European Union and India, their pretensions to being global superpowers were punctured. And so, tails between their legs, they both came to each other and negotiated a free trade agreement, which was 20 years in the making and would have been 20 more years in the making had this not happened. Second, I think the US 50% tariffs on India was hurting Indian exports quite badly, even though, as Chad rightly said, iPhones were exempted, but lots of, 50% of Indian exports were affected, leading to job losses and so on.

**[00:45:59.44]**

So I think that made India then also negotiate an agreement with the United States. And that agreement is still in limbo because it depends, it's going to depend upon how Section 301 plays out and what's going to happen. But the net effect The effect of President Trump has been to kind of convert an economy that prior to these was actually becoming much more protectionist than previously. So there was a 20-year consensus, 25-year consensus in India in favor of gradual opening up. In 2018, the Indian policy turned protectionist, culminating in these absolutely horrendous non-tariff barriers called quality control orders, which were a hark back to the worst of the Indian license quota raj. So the Liberation Day tariffs, I think, have had this very, you know, salutary effect. And as I wrote in The Economist, I mean, to imagine that India, Indian trade policy at the end of this could actually be quite open and amongst maybe the most open in the world. I mean, if all this goes through, I think Indian tariffs, Except for trade with China, tariffs are going to be very low. I'm particularly keen on the India-EU agreement because A, unlike other agreements that India negotiated, it's less Swiss cheese.

**[00:47:39.53]**

It's not your gold-plated FTA that I think the IMF always talks about, but it's a kind of reasonably, you know, reasonable obligations, reasonable timeframes. And it's less Swiss cheese and also, you know, it's going to be more enforceable than other free trade agreements where enforcement mechanisms are a bit loosey-goosey. You know, the European Commission is some, it's tough when it wants to enforce its trade rules. And so on. So I think the overall impact, and part of the reason that India moved was because India has this once-in-a-lifetime China-plus-one opportunity of actually rehabilitating manufacturing in a way that it never could. We write about this, Devesh Kapoor and I, in our book. And what Chad mentioned about the Apple resourcing, changing its kind of sourcing to India actually predated the Trump tariffs. It's happening for a long time because I think Apple saw the signs on the wall. But what's, I think, incredible was that Apple said, maybe India is a place where we can set up factories and plants and invest in manufacturing in a way that it couldn't do before. So that China-plus-one opportunity, I think, lies behind, combined with the shock of the Trump tariffs, combines to explain what China did.

**[00:49:10.41]**

So that's on India. Point number 2 is on China. Paper with Soumitra Chatterjee of Johns Hopkins, which is going to come out. I think that this is a necessary corrective to the debate on the China shock. Now, see, we saw China shock 1.0 was about the United States. Author Don Hanson, whether you believe it or not, it captured the narrative. China shock 2.0 is being seen as very much through European, the European lens, i.e., the decimation of, you know, the German internal combustion engine model is under threat. But I think what Sumitro and I argue is that actually the real puzzle is not why China is becoming competitive in panels and EVs and batteries. You know, you would expect it to. The real puzzle and the problem is that China continues to occupy space in low-skilled goods, which are of concern to a vast swathe of the developing world. If you look at China's global export share in labor-intensive goods, it's kind of declined in gross terms, but in value-added terms, it hasn't declined at all. And we calculate that if you, rough and ready numbers, China, I think its excess exports of low-skilled goods is in the hundreds of billions of dollars.

**[00:50:39.23]**

And we argue that it's a significant constraint to economic development, especially for those who want to do the old manufacturing export-led model of development. I think China is squeezing that strategy out for a lot of developing countries. So China— so India, So, point number 1, very positive effect of President Trump. Point number 2, I think China remains a problem for development prospects. And I'll conclude by saying that yes, trade flows have not been affected. Yes, countries are coping with trade deals and so on. But let us not underplay the serious and abiding threat threats, twofold threats to the global trading system, which is US protectionism, you know, in the broader sense of the shredding of the world trading order and the uncertainty that's going to persist. So let's not get too sanguine saying, well, it's not had a big impact. Yes, all that is true, but this remains an abiding threat. And the second threat is Chinese mercantilism, whether it's to the German industry, but more to, you know, what it's doing to low-skill exports of developing countries. So US protectionism and Chinese mercantilism remain serious and abiding threats, and I think we should not in any way become sanguine about either of those.

**[00:52:09.55]**

Thank you.

**[00:52:18.58] - Mary E. Lovely**

Well, good morning, and I want to thank Cecilia and Adam for inviting me to this panel, and I want to ask them why they put me after 3 superstars. So I'll do my best after that. 3 fascinating discussions. A lot has been said about China, and we can think about China as basically causing 4 or more problems. One, it has weak demand in the face of the bust in its property sector. And that has led it to rely increasingly on net exports, and Arvind just spoke quite passionately about the impact on developing countries. The second is its use of industrial policy, not just in the new sectors which one might expect because there are economies of scale and other good reasons why, but continuing to offer a variety of support to industries that may be more contested have fewer spillovers to the Chinese economy, and other countries could step in based on their growing comparative advantage in those sectors. The third is, of course, China's willingness to use economic coercion. We've seen it especially in its neighborhood, urea for South Korea, other types of actions that it has taken. And lastly, growing security concerns Fear about Chinese, especially as voiced from the United States, but also shared by the European Union and other countries, fear of Chinese surveillance, Chinese still intellectual property, and other security concerns related to military-civil fusion.

**[00:53:59.19]**

So we have a growing problem that is shared. What is the US, or at least the Trump administration, did was it came in, saw lots of problems with people with the same problem, and basically said, move aside, you guys are the problem, and we're going to solve this unilaterally. And I think that has caused a problem on top of a problem. So the US is a large source of disruption right now, and I think that the negative that is not often discussed enough is that it's keeping us from actually finding solutions to real problems. It's not just the US is pushing its allies, or if not even friends, allies, anyone that does business with the US to accept the US view of economic sanctions, to accept the US view on investment screening, and I think what we're going to see in the future is accept US diktats on rules of origin, which I think is particularly pernicious, but the Trump administration, Trump 2, is clearly setting up the apparatus to do that through the Section 301 cases that are now, uh, being investigated. So what has been the impact on the United States? Um, many of us would say largely negative.

**[00:55:14.12]**

Why?

**[00:55:14.56]**

Well, if we think back to the Biden administration, it became familiar to talk about three things: reshoring, friendshoring, and what I think of as restrictions, mainly on China. China, but on a few other countries as well. On reshoring, we do have investment promises which will bring certain types of industries to the US. We've already seen, starting under the Biden administration, a big development build-out on semiconductors, but we're seeing it now in Trump. Most of the promised investments are in energy sector, shipbuilding, batteries, some other areas. So there's a few sectors that are going to be winning. And we may see some reshoring there, but otherwise we don't. Manufacturing jobs have declined month after month since early 2023. Now we see declines also in construction and warehousing and transportation. So the reshoring evidence is just not there. What about friendshoring? What we have done with friendshoring is actually made the world safe for Chinese friendshoring. And this is where we get to the great reallocation. That Laura Alfaro and Davin Shore have talked about in their papers. Yes, in the United States we see less goods directly from China, but we're seeing a lot more trade with connecting countries.

**[00:56:36.21]**

These countries are obviously increasing their imports from China, and we see that that value-added is then being sent largely to the United States. So US trade with China, if we look at a value-added basis, has fallen much less than many of us would like to think. So less comforting. The last point about what's happening in the US and these connector countries is that it's really only happening to the United States. We're not seeing it in other parts of the OECD. So what we're seeing increasingly is China— US supply chains becoming not less Chinese, somewhat, but not as much as we think, longer, less transparent, and more idiosyncratic. So that means more hidden risks, less transparency, and higher costs for American companies and American exporters that won't be shared by others. They're not joining this. What about the rest of the world? Well, we've— I've talked about the fact that the U.S. blindness to the rest of the world has prevented it from seeing the reallocation that necessarily would have happened if you thought about what would go on when the U.S., um, engaged in this process. China holds very important cards in this game, as we saw last year with its move to restrict the exports of permanent magnets.

**[00:58:03.55]**

That really, I think, led to quite a humiliating session for the United States in Busan that led the US to say, okay, yeah, we're going to have this truce. We continue to paint it as a win. It was not a win. What happened there? I think we've known that we have to take steps to increase economic security for a long time. We decided to do it, you know, not walk— we took a big stick and we decided not to walk softly. We decided to walk very loudly and use the stick against everybody. The option to wait, to build, to plan, to target was not taken. Clearly, we see that that is what's needed now. How do we see that? Well, we kind of have, you know, roused the beast. So there's an interesting report in Bloomberg this morning about Reliance, an Indian manufacturer, trying to set up battery plants inside India. It cannot get the equipment from China that it needs because the Chinese refuse to give permission. Now we can point and paint China as the bad guy over and over again. China did X, China does Y, but we failed to see how we have provoked that, how we are basically the source of the problem.

**[00:59:13.47]**

That equipment was coming from China freely for years, right? But instead we decide to say, hey China, you're out. We're going to get— try to get every country in the world against you with these rules of origin. And oh, by the way, would you give us the means to do that? Ask yourself, would you do it? So I think we've seen that this path is not taking us where we need to go, which is to increase economic security. We need to take a step back, build, build serious alliances, as we are beginning to do with critical minerals, but we'll see how that goes, um, and plan decide what key sectors we need to have active industrial policy in the United States, and join with our friends and allies to do that. Thank you.

**[01:00:09.48] - Adam S. Posen**

No, Mary, I'm the one following 5 rock stars, so I've got the real problem. Um, look, I, I, my colleagues all made, I think, trenchant, well-said, policy-relevant points. I think it was incredibly important to have Cecilia and Mari and Arvind talk about the progress and the constructive responses made from three major economic regions, to have Mary present, I think, two very important points that some of the actions the US takes, particularly towards China, do engender a response, and that should have been thought through, just as if you attack the Strait of Hormuz, you should have thought through what happens next. I tried to warn our government that a year ago in an article, it's easy to lose a trade war. But apparently no one read it outside the White House or inside the White House. And Chad again forced us to be nerdy and look under the hood and the reality of trade and why it's so resilient because comparative advantage is very powerful. So I want to take this and make a couple additional points. The first one is, and Cecilia in particular has been partnering with me in this for almost 2 years now, is to keep telling the governments of the world, starting with Europe, but also India, also Indonesia, also Latin America, and especially ASEAN, that there is space, there is agency.

**[01:01:59.44]**

The world is a worse place when the US disrupts the system, them, but there's a very wide range of possible outcomes. And the actions that these other entities take play a huge role in how good or bad the world is. And we're already seeing that. And if anything, I've been positively surprised, particularly in the trade sphere, by how constructive that's been. We should not— similar to what Arvind said— we should not rest on our laurels, but that is the way it should be, and we should lean into that, and we should recognize and encourage that. The US is— makes a better world when it chooses to play, but it cannot deny us the range of outcomes for the rest of the world, and frankly for the US people, simply by misbehaving. There is constructive space and agency. The second point I would make is I talked about in an article called The New Economic Geography some months ago conceiving of the main thing the US is pulling away is insurance. And that as a result, things become more expensive because people have to self-insure or they have to get partial insurance, whatever. And I think Mary's very insightful thinking on supply chains, which was paralleled by Chad's remarks, that you get a world where Yeah, the trade still gets through.

**[01:03:26.44]**

The necessary objects still need to get through, but it's less transparent, it's more transactions, it's more attenuated, it's less dependable. You are having to build in redundancies. So again, is it the end of the world? No, but I think it's important to have that concept there that this is essentially people are paying higher insurance premia for less coverage. You're still getting some insurance, but not as much. And so part of when we talk to the Indian or the Indonesian or the European or the Chilean or the Costa Rican governments about what to do with your agency, it's about can we help provide more insurance for each other? Third point underlying all this, it came up several times. Is what to me is the biggest concern with China, which is the bullying through export restrictions and critical whatevers. And the what is critical will change over time. As Mary said, for example, it's the components for battery production outside of

China. As our colleague Colin Hendricks has written and spoken about, From a technical perspective, replacing some of the so-called critical minerals is actually not that hard within a finite amount of time. So it's more about that behavior.

**[01:04:59.29]**

And again, I don't fully make China responsible. Some of that is inherent, especially given US behavior, but China is somewhat responsible. They're not absolved of responsibility. And so I think, and Chad has devoted a lot of his work over the last couple years to this, I do think that to the extent we can get the US to be more constructive and forward-thinking, progress in this area, some kind of anti-coercion thing on the European model, but perhaps this is where CPTPP and EU can come together, is in a joint anti-coercion instrument, maybe Canada, maybe UK. The more people, the more economies you have in an anti-coercion instrument, The more of a collective pact, the more deterrence. And again, this is insurance. Finally, I'm very proud to have this set of partners and teammates here at the Peterson Institute and proud to have many friends in the audience who are very influential and do good work on trade. And we're all reaching out and trying to do our part. This takes place in the context of a G7, G20, IMF, World Bank, yada, yada, yada week. Where the buzzword is global imbalances. We're going to have a very distinguished event here at Peterson later this afternoon.

**[01:06:26.28]**

I'm speaking at the main stage at the IMF on the— with the MD and others on global imbalances. Global imbalances sometimes get seized upon by politicians who are too clever by half. Who think, okay, this is how I can fix the trade issue and buy off the angry people about trade displacement without actually having to do any trade negotiations or do any in-the-weeds things. The exchange rate's somehow going to sell me off, and maybe if it's good, I can keep the protectionists and bring them into the tent because I say I'm doing this. And then the protectionists in the other 6 parts of government all say, "Hehehe, those stupid macroeconomists. If we can just get them to talk about global imbalances, we can get them to do stuff on subsidies and industrial policy that they would never otherwise approve of. We can co-opt them. Hehehe." And meanwhile, as Arvind and others, but particularly Arvind, has emphasized, there's absolutely nothing in this agenda for the developing world. So I think what we need instead, and I'm going to try to say this at multiple places this week, is instead of trying to be too clever and lumping together the trade and the macro, we need to keep them separate.

**[01:08:00.28]**

We need to actually work the problems. We need to actually work the bad behaviors of US and China in the trade realm. We need to actually work trying again to get a subsidies code. We need to actually work what is the issues of displacement and fear in the trade realm directly and not hope for an exchange rate to fix us. And we need to actually work irresponsible macroeconomic policies by the US and China directly, and since we can't put leverage on them over their fiscal policies, we need to do things that move money out of the US steadily over time by creating alternative assets. Ultimately, for the trade realm, I'll repeat something I said with tacit support from our mutual friend, uh, Ngozi Okonjo-Iweala, the Director-General of the WTO. We have to move forward plurilaterally in a multilateral spirit. We have to not let things be vetoed, whether it's by Brazil or India or China or the US. We have to do things, but in a way that is still rules-based and transparent and what our co-founder Fred Bergsten used to call open regionalism, which in a sense is what the EU and the CPTPP are.

**[01:09:27.10]**

That's the way forward. And again, to circle back, as all my colleagues have said in their own way, the non-US, non-China governments of the world and the people of the world are moving forward with this. So let's keep it up. Thank you very much.

**[01:09:54.40] - Cecilia Malmström**

Thank you very much, Adam, and thank you to all the panelists for your very interesting thoughts and for sharing them here with us. We will have some time to discuss with the panel, and then there's also possibility to put questions as well. Is there a seat for everybody?

**[01:10:10.42] - Audience**

Yes.

**[01:10:16.29] - Cecilia Malmström**

Yeah, careful there. We're live. Arvind, I wanted to ask you, you spoke about the external pressure from Trump that actually led to so many transformations in Indian policy making, but also pushing EU and India closer and getting this deal finally done. I completely agree with you. Does this also mean that India is willing to embark on also more regionalist adventures, as Marie spoke about, joining RCEP or joining other regional initiatives and also taking a more active role in the WTO?

**[01:10:57.24] - Arvind Subramanian**

Short answer, unlikely.

**[01:10:59.42] - Cecilia Malmström**

To all of it? To all of it? Okay.

**[01:11:02.37] - Arvind Subramanian**

To all of it, yeah.

**[01:11:03.24] - Cecilia Malmström**

Well, that's—

**[01:11:04.23] - Arvind Subramanian**

And the reason, I think, just to elaborate in one second, is that, you know, as I said, India was turning protectionist protectionist by conviction. And so the Trump tariff is a jolt to shake India, the opportunism getting slightly the better of conviction. But without that jolt, the instincts are still more closed and protectionist than open, and that's why I think it won't translate into necessarily into more open on other fronts.

**[01:11:41.58] - Cecilia Malmström**

That's interesting. Indonesia has chosen the totally opposite path. Of course, India and Indonesia are two different countries, but you were talking about the— and I know that you have played personally a very important role in that— the engagement in ASEAN, in RCEP, and how Indonesia is trying to work with others to coordinate policies also vis-à-vis the US. And I know that Indonesia has applied to join CPTPP, as many others as well. So, is this sort of a— how much Trump was it behind this strategy? This changed a little bit before, right? So, it's more a conscious strategy to move on, because Indonesia also used to be quite close to protectionist country.

**[01:12:26.28] - Mari Elka Pangestu**

I think to pick up on Arvin's point when he was speaking earlier, you know, how much did this pressure from the US lead us to undertake policies that are actually more open. I would say it precedes Trump because maybe if you take Trump 1.0, had some impact. But basically, we are acceding to OECD and it was promoted, it was in the previous government as a way to push domestic reforms. And then we have been negotiating with the EU for many years. Actually, it started even when I was still a trade minister. That's how long it was.

**[01:13:06.16] - Cecilia Malmström**

That was a long time ago, yes.

**[01:13:07.28] - Mari Elka Pangestu**

Actually, the Trump, the reciprocal tariffs accelerated it, both on both sides, more so maybe from the EU side. So, it was completed last year, actually. And I just wanted to agree with what Arvid was saying, the impact of the US, what we had to respond to in the US, is actually helping us also with our domestic reforms. Because a lot of what we agreed to do in terms of, especially on market access and on some of the other issues, are actually things that we want to do and we should do for domestic reforms. And it is also similar to what we promised in the EU-Indonesia agreement. So I think there is that positive element. And the final thing I would say is that I forgot to mention the third prong of the ASEAN response last year, which was talking to Adam's last point just then, because if you look at the title, it says ASEAN's Agency in shaping the new global agenda. The third prong was actually leaders and ministers reaffirmed their commitment to the multilateral rules and discipline and agreed that we as ASEAN should take a more agency role, whether it's in the WTO reforms, whether it's in plurilaterals, or in what we call open regionalism.

**[01:14:20.00]**

The way we undertake regionalism should not be at the cost of multilateral discipline.

**[01:14:27.17] - Cecilia Malmström**

Chad, I know that you cannot put yourself into the head of the administration, and I'm not asking you to do, but this development is quite positive in many ways. And Adam also summarized it that it has had positive ways. But if you listen to not only the administration but also the opposition, there's this claim that trade has fundamentally changed and it must change because the way we used to do it is wrong. And then tariffs, and then there could be different rhetorics, but And then China plays a lot of, has an important role in that as well. But do you see in the future, maybe with the new administration, not a coming back, but a more engagement based on these patterns that are happening, these regionalization of trade, these new reforms that are actually being and had been pushed by the US as well. Is this something that could be, maybe Trump can claim credit for it, Maybe.

**[01:15:24.21] - Chad P. Bown**

So I don't know. I'm not optimistic at the moment that that's going to happen. But I think, yes, at some stage, in the United States, we will step back. We will assess everything that's happened since we started on this escapade nearly 10 years or so now, realize what the real problems were. Right now, everybody's got a problem with trade in the United States. And I like very much how— Adam characterized it. You've got all these strange bedfellows that are suddenly getting together when it comes to protectionism. And I think until we step back away from that and we look at the data, we think about what it is that we are really worried about, and it's a challenge that we have to address, we're not going to make progress. Will we get there eventually? Yes. I'm optimistic. I have to be that evidence will ultimately get us there. Can I say one other thing quickly, which is I forgot to the land the punchline of my earlier talk, which was on US, what's going to happen in 2026 with all these Section 301 investigations. So thanks to Arvind for reminding me. Forgot to mention it.

**[01:16:25.55]**

And that's why I introduced all of the data in the first place, is if you think that basically the administration wants to replicate the pattern of protection that they had in place last year, we need to understand what its impact was and why they might want to do that. And so it's really important to understand the details, all the discrimination across products, across countries, to see what the implications were.. And that might help us understand why they may ultimately get to a Section 301 investigation for all these different countries for the reasons that Mary articulated that might lead us back to that outcome as well. And that's sort of what I'm anticipating, where they're going to ultimately try to end up.

**[01:17:05.04] - Cecilia Malmström**

Mary, a question to you as well. On China, you didn't mention the upcoming US-China summit. If you have any views on this and how China sees all these happening in the world. They analyze it. They base their strategies on it. How do you think the Chinese government will, or the Chinese leaders will sort of use these changes for their own benefit? For instance, China has been very vocal and say, well, we really deplore that the WTO isn't working for us, trying to portray themselves as the big multilateral at least in words, if not in deeds. How would you see this coming, the coming months, and also if the summit can play any role in that?

**[01:17:51.58] - Mary E. Lovely**

It's a big question.

**[01:17:52.59] - Cecilia Malmström**

Yeah, it's a big question, sorry.

**[01:17:55.17] - Mary E. Lovely**

I think that we saw with the latest 5-year plan and the meetings in China around that, that China's main concern is the Chinese economy and its own development. And it will continue to pursue, pursue the same course that it has before, which is to really continue to emphasize support the development of technology-infused development. And that is, of course, in what we think of as Made in China 2025. So mastery of certain high-tech sectors, achieve the commanding heights, but also the diffusion of that to the broader economy and increasing attention given to services, which of course is now half of the Chinese economy and desperately in need of productivity improvements. So I think they'll continue to look inside They see— they have been very successful in reorienting their trade flows. They have managed to do this partly by increases in outward FDI. So many of these countries that have benefited from new manufacturing opportunities as a result of US actions against China is in fact powered by Chinese foreign investment. So I think that in lots of ways, they've capitalized on this. They have not retreated or become sort of a connoisseur of soft power like many people expected.

**[01:19:31.46]**

In fact, we still see China acting pretty vigorously on the international stage to remind us all that it does control choke points. And that remains a warning to, I think, all of the countries that are seeing their engagement with China increase. This is an opening for the United States. United States. Other countries do share our concerns, and China hasn't, hasn't changed that through their behavior. So I think mainly they're focused on themselves. The upcoming summit for them, I think their expectations are rather low. Even on the U.S. side, we're not sure what's going to be in the package of agreements that happened before the summit. President Trump himself is always a bit of a wild card. We don't know what will come out. We have guesses that will have absolutely nothing happen to have some investment deals signed. So it's really wide open for the Chinese. If it's a successful summit that continues the current truce in the trade war and permits increasing, remains stability in the relationship, that's a major win.

**[01:20:35.58] - Cecilia Malmström**

And then there are a few security concerns to discuss as well, of course, apart from tariffs. There is a possibility for you in the audience to put questions. There's there.

**[01:20:46.38] - Adam S. Posen**

Can I just—

**[01:20:47.11] - Cecilia Malmström**

Yes, I'm just going to tell about the mic. And while you are thinking about your questions— Yes, Adam, I wanted to come back to you.

**[01:20:54.19] - Adam S. Posen**

I just wanted to make an institutional note. We are very fortunate to have Mary speaking about the Chinese actions and intentions. This is not because of some arrogance on our part that China cannot speak for itself. This is because particularly this, this week. We try very hard to invite Chinese speakers and officials, and during this week, who gets to speak seems to be extremely tightly controlled. That said, with the support and engagement of our China-focused colleagues Tianlei Huang, Yeling Tan, Martin Trezempa, Nick Lardy, and others of us working with Mary, I think Mary gives us fair, evidence-based, and clear-eyed view of the Chinese policy intentions and actions as anybody in the West does. So I just want to be explicit that we would happily still have Mary speak, but we would have happily had in my seat a Chinese official or academic if we could have gotten one.

**[01:22:00.33] - Cecilia Malmström**

Thank you for pointing that out. Yes, Hector, you have to stand up Mike there.

**[01:22:06.58] - Audience**

Thank you. My question is— thank you for Mary and yes, too. You mentioned rules of origin and you mentioned preferential trade agreements, and indeed rules of origin are indispensable to guarantee preferences. Now, how do you deal with digital trade and rules of origin? Because we have rules of origin for trading goods, This is trade in things that can be at only one place at a time, therefore shipped from only one place at a time. But what about the kind of trade that is growing faster, which is trade delivered digitally? Bytes can be anywhere, replicated n times and shipped from everywhere. So how do you deal with this? There's no rules of origin on digital trade to my knowledge.

**[01:23:01.30] - Mary E. Lovely**

That's a great question. I'm going to turn this over to the people who actually do the negotiations. Mari, have you dealt with this?

**[01:23:09.26] - Mari Elka Pangestu**

No, not in the context of rules of origin, but certainly on how we should be dealing with digital trade. And there is an ASEAN digital economy framework that's in place, but it talks more about, you know, data flows, how to manage data flows, privacy, and so on. I think we haven't got to the rules of origin aspect of it, but certainly I think as in what we call emerging issues that need to be in trade agreements, digital comes up as number one. And I don't know whether CPTPP— we tend to think of CPTPP as kind of at the moment the benchmark, and certainly something that we need to look into more carefully.

**[01:23:52.32] - Chad P. Bown**

Ted? This is just purely speculating, but I think one of the other trends that we have seen in crafting rules, regulations impacting trade over the last— this even dates back to TPP— is defining things based on ownership and control. So it may be the companies that are doing that, and where their headquarters are, and who's sitting on their board. And if you look at the— the TPP chapter on state-owned enterprises. But I think recently in the Inflation Reduction Act, defining foreign entities of control and using ownership and who's influencing corporate decisions, things of that nature. It's speculative, but that may be another area that we tend to see this pop up in.

**[01:24:39.35] - Cecilia Malmström**

Any other question? Yes, Laura, please.

**[01:24:43.32] - Mary E. Lovely**

Thank you.

**[01:24:44.05] - Audience**

A couple of things on China.

**[01:24:48.20] - Cecilia Malmström**

I—

**[01:24:48.21] - Audience**

there seems to be a change in the modality of industrial policy or industrial control, and that is very aggressive competition once again in the regions and powerful cities. And, and indeed, uh, Xi himself has been concerned, for example, about overinvestment in electric vehicle and the creation of a number of companies, not of all, are going to survive. So we have a kind of, I think, important blend here, and I just wanna emphasize this, between competition in China, which is very, very, it's powerful, it's powerful. It's a source of innovation. It's a source of development of supply. It's separate, it's not just the state, or not even anymore primarily the state and industrial policy. At the China level. So I think we, we need to think about that in terms of change in the China situation. I wanted to emphasize something Adam said and then maybe also go back to Cecilia here, and that is I think the Europeans are really— they, they are, yes, the focus in the discussion this week is on current account imbalances, but they are trying to combine greater domestic policies to actually speed up investment, increase investment, get at the current account, that problem by the Draghi report and by investment.

**[01:26:38.41]**

That's a very positive thing, but also that has implications for trade. So the fact that the Europeans are doing all of these integrative agreements, you could bring this together. So they're bringing some of their trade policy and emphasis on industrial growth in Europe together, dealing with both current account and trade accounts. So I think, at least in Europe, my sense is the discussions are not separate. Adam, and, and that it's important therefore to, to note what the Europeans are trying to do. Thank you.

**[01:27:15.16] - Cecilia Malmström**

Thank you, Mary. Adam, you want to answer that?

**[01:27:18.53] - Mary E. Lovely**

I think your, your point is very well taken, Laura. Um, there is intense, almost rabid competition in some sectors, and, you know, the Chinese economy really did grow, uh, on the basis of competition. I used to call China the wild, wild East because of the rapid job destruction and job creation. One of the secret sauces of the Chinese economic miracle was rapid entry and rapid exit, where new startups could come in and really drive productivity growth. So it's important to keep that in mind. However, I think there is a big concern that the competition is being put into overdrive by access to cheap financing. And a lot of this is controlled through the provinces. The central government, as you mentioned, has been trying to get it under control. That cheap financing, of course, played a major role in the investigation by the European Union into EV, the need for countervailing duties and anti-dumping on EV trade between the EU and China. Just to push the competition idea one stage further, I have a new working paper out looking at the kind of history of importance of US-China trade relations, the importance of US market and multinationals as well as global multinationals to China's emergence as an export power, and the role that this takes when we look ahead where China is going to be competing with head-to-head with, with US on the most tech-advanced products.

**[01:28:52.37]**

So we always think of this as some kind of race or a zero-sum game, but in fact competition can actually make both sides better. And so how do we get to that kind of cooperative outcome? Chad has some ideas in the same volume that's just been released on how those cooperative outcomes might be negotiated. So competition is really important.

**[01:29:17.10] - Adam S. Posen**

I know, um, I, I want to strongly I strongly endorse Laura and Mary's point about Chinese internal competition. A scholar who once spent some time here, Changtai She, at Chicago Booth has also written about how the competition between regions has had positive effects. But what I do think we have seen in recent years, just amplifying Mary's point, is we're seeing less exit. We're seeing a lot of competition but less exit of firms in the Chinese sectors, and that is a problem. It leads to what J.P. Morgan in the late 19th, early 20th century called ruinous competition. And so one has to be a little careful. And I would also recommend, although it's a blunt instrument, I think it's very useful our colleagues Tianlei Huang and Nicola Véron publish a tracker here at the Peterson Institute about the relative shares of fully state-owned, partially state-owned, privately owned enterprises. Now obviously in China, as they clearly acknowledge, partially state-owned and privately owned don't mean exactly the same thing as they do in Europe or the US, but they do behave somewhat differently. And so tracking that, I think, I think is another way of keeping track of this.

**[01:30:43.23]**

On the investment point, again, this goes to discussions I and others have been having with a lot of our friends from Europe who come to visit us right now. I, I think I, I agree with some of the things Laura said in principle, um, but I would, I would change the balance a bit. I think if it was about welfare state or it was about public investment, Europe should be in much less trouble than it is. And I'm sorry, Cecilia, but I mean, there's been, compared to the US, a lot of institutions to provide welfare state and retraining and a lot of institutions for public investment. And I'm not saying this as some libertarian type saying I don't want them to do that, it's always wasteful. I don't think So that's not what I believe. It's more that even if I think there's a bit of a misdiagnosis here, that it's not really just about that. And so this comes into some discussions, again, tooting my own work for a moment, that came up and Nicola and I and others have been involved with here at the Institute over the last couple of days. I think Europe runs the risk of getting into an arms race with China and the US in terms— I know you're not advocating that, Laura, I'm just saying, I think this is important to say— of trying to play China and US's games.

**[01:32:17.34]**

And it cannot win those games. And I think there's some aspects of the Draghi report and occasionally some of the things that Draghi said that fall into that trap that it's all about scale and national champions or supranational champions. Whereas Mary just said, and you indicated, Laura, it's about competitive dynamism. That doesn't mean laissez-faire, but it also sure as heck doesn't mean scale at all costs and national champions. So I think Europe has to lean into, if I can still use that phrase, lean into being the rule of law place, the place making deals with India and Mercosur, the place where intellectual property is not being subverted for national security reasons, the place where there is a lot of public investment in science as the US cuts back. These are the things Europe should lean into. And I worry that for understandable reasons of both politics and misunderstanding that Europe may instead foolishly try too hard to compete directly with China and US on their own terms, which I think is a lose-lose.

**[01:33:33.26] - Cecilia Malmström**

Well, we'll see where the newly presented Industrial Accelerator Act lands, because there is a balance there whether it should be made in Europe or made with Europe or by Europe. But with Europe is also opening opening up for partners into the value chains. But that's the subject of another episode of Trade Winds. We have room for one last question. Cullen.

**[01:33:55.34] - Chad P. Bown**

Thank you. Cullen Hendricks with the Institute. Adam, I really like your framing of recession from the United States providing insurance. Where are you most concerned that other countries or firms are going to underself-insure? And are there places where you think that the move to self-insurance poses really grave risks for the international trading system?

**[01:34:18.22] - Adam S. Posen**

Cullen, I'm actually more optimistic in line with my colleagues and the thrust of today's session. I'm actually more optimistic about the resilience of the trading system than some other parts of the international economic order, including treatment of debt to developing countries, including free navigation of the seas for commerce right now, including the depth and accessibility on a non-discriminatory basis to liquidity, whether through US Treasury markets or through the IMF and other organizations. I view those in some ways as more fragile and more subject to politicization, and particularly, as you know better than I, in the security realm, the places where if you start having self-insurance, everybody feels they need to have their own minesweepers and their own guns and God forbid, as you and others have written about, their own nuclear weapons, the international economic effects wouldn't be too good in addition to a few other things. So I'm sorry, I'm not trying to be cute, but in a sense, I don't know, and my colleagues, I'm sure, have informed opinions that Cecilia can talk about on future trade winds. I don't know how much the resilience of international trade is due to the wisdom of the trade community, is due to due to the overwhelming power of comparative advantage, is due to the adaptability of the supply chains that Mary and Chad talked about.

**[01:35:46.53]**

I think it's all of these things, but I view a lot of the other aspects as actually much more fragile, and that's why I focused as Chad did, and in other ways others did, on the issue of export controls, 'Oh, does NVIDIA ship the best chips?' but 'Oh, can anybody make batteries outside of China?' That's where I get most worried.

**[01:36:16.01] - Cecilia Malmström**

Thank you for that. We are coming to a close. There's so much to discuss. Thank you for giving me a long list of possible new episodes of Tradewinds. Thank you for joining online and here. And thank you to Adam, Mary, Arvind, Marie, Chad, for being such a marvelous panel.

**[01:36:31.40] - Adam S. Posen**

And thank you, Cecilia.