Peterson Institute for International Economics

Book launch: World War Trade: Conflict, Containment, and the Emergent World Trading Order

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[00:05:24.03] - Adam S. Posen

Good morning, everyone. If I could ask you to take your seats. Hello to our audience worldwide and our friends here with us in person, our distinguished local audience. Welcome back to the Peterson Institute for International Economics. We're delighted today to host the US book launch for World War Trade: Conflict, Containment, and the Emergent World Order, a new, sometimes physical, broadly available ebook by the uber distinguished Richard Baldwin. And my colleague Mary Lovely The original Jones— no, excuse me, the Anthony M. Solomon Senior Fellow here at the Peterson Institute will moderate a discussion with Richard. It's my privilege just to give a brief introduction. This book represents an important topic and an important take because it tries to bring and I think largely succeeds to bring an analytical perspective to the chaotic trade policies and related reactions, both within the Trump administration and of other countries around them. And as mentioned, Emergent World Trade Order, Richard makes a, I think, both thoughtful and fresh projection of where in some ways the world is going and that it's not complete disorder and certainly not intellectually unknowable. And that is a major contribution. As I think everyone in our audience knows, Richard is the incredibly prolific author of major books, which for some reason the titles are not on here.

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Um, but on Globotics, on international service trade, and on changing the world system. He also writes academic papers of great distinction, and then he writes in-between policy books on a regular basis as well. He's professor of international economics at the IMD Business School, and he is the founder and still editor-in-chief of VoxEU, He joined us here at the Peterson Institute as a nonresident senior fellow in June of 2023, and it's been a privilege to have him. We're always delighted when he's able to engage with us. He was a professor of international economics at the Graduate Institute in Geneva from 1991 until joining IMD in 2023, and he was director and then president of CEPR, the European NBER equivalent, from 2014 to 2018. He has had government service in the U.S. as a senior staff economist to President Bush's— first President Bush's CEA, many distinguished appointments, and has been a visiting professor at many universities. But today he's going to take us through, again, World War Trade, and it is hopeful message while very realistic, which I appreciate. Again, we are delighted to have our colleague Mary Lovely, the Anthony M. Solomon Senior Fellow at the Peterson Institute, leading today's conversation with Richard after his initial presentation.

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She's of course a distinguished scholar of trade, one of the world's leading experts both on the Chinese economy and on global supply chains. And previously was the Melvin A. Eggers Economics Faculty Scholar at the Maxwell School at Syracuse. Richard, thank you very much.

[00:09:32.05] - Mary E. Lovely

Slight interlude before you get to Richard.

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So this is a book that argues that globalization is not dying. It's being rebuilt. It's being changed. And for many of us, that's actually a hopeful message. In coming to this conclusion, Richard offers an open-eyed assessment of the events that unfolded dramatically after President Donald Trump entered the Rose Garden on April 2nd, 2025. For many of us, last year was an agonizing year. Those of us who have studied trade and believe in the benefits of trade, But reading Richard's short history is actually a joy. Those of you who are familiar with Richard's other books know he has a lively style. And we were discussing earlier, Richard said it's like a diplomatic cliffhanger and a diplomatic thriller. For those of us who'd met with some of the delegations that were coming through Washington, it might have looked like a diplomacy killer at the time. So it's nice to see it in this thriller form. So it's great you're all here. Who better to take us on a journey, this journey this morning, than the man who chronicled the development of global value chains and the great unbundling forces that propelled outsourcing, permitted China's quick rise, and created bountiful but unfortunately unequally distributed wealth.

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Factors that Richard points to as the pre— prologue to what he— what we find after The Rose Garden. Richard's also well equipped to guide us because he's the man who advises us to keep our eye on the future, on trade and services, the unsung hero of modern job creation, and who points us toward a world that is being transformed by technology. In 90 short pages, Richard Baldwin places the year the U.S. turned away from globalization into its proper perspective and helps us see where the ship is now sailing. Richard, I welcome you to the podium to discuss your new ebook available from the Center for Economic Policy Research.

[00:11:41.38] - Richard Baldwin

Well, thank you very much for those kind words, both Adam and Mary, and my thanks to the Peterson Institute for hosting this launch. Of the book today. I really have always appreciated the Peterson Institute, even before it was called the Peterson Institute. I used to come here when I was an intern on Capitol Hill when I was an undergraduate and follow international trade. So it's really truly an institution that I'm proud to now be part of. While I still have your attention and most of you aren't on your phones yet— most of you, anyways— I want to do 3 things this morning. First thing, I want to explain the title, why I called it World War Trade. And that was to send a very distinct message. I think there is a certain amount —presumably present company excepted—who think of what happened as another US-China trade war. And that is wrong. This is not a US trade war. In fact, it's not even a trade war. It's a war on trade by the largest country in the world and reactions by the second largest country in the world. Those two reactions have weaponized trade on a global basis in a way that they have never been weaponized in peacetime.

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And I'm going to argue that this is not going away. The political economy in the domestic arena of the US and China will not allow this to slip away as an unfortunate episode. It's an era, not an episode, and I think we have to change our thinking because of that. The second thing is the weaponization of trade has been normalized. Certainly in 2025, between the US and China, the idea that you can weaponize your exports or your imports to coerce or change things is now normal. And more recently, Iran has normalized the weaponization of shipping. Now, in this environment, I'm not going to say that what China and the U.S. did made China— made Iran do what it did. But given that this weaponization of trade has been normalized by the two great powers, I suspect that every middle power in the world would be remiss if their foreign security people aren't thinking What kind of chokehold do I control that I could help reduce coercion if it comes my way? In other words, proliferation of weaponization as a Plan B, I think, is something that's likely to spread. And as we've seen in history, when many, many people get ready to go to war, the world becomes a more fragile place.

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So that's my first message, is I think it's really important to say something different is going on now. The second point is that this was contained, at least in the US. The US tariff aggression was contained, but by domestic forces. Nothing the foreigners did, in my view, had anything to do with the fact that the US has been lowering its effective tariffs since the fall against China, against a whole set of countries. It's because of domestic forces. So our usual political economy models of trade war, where I restrict your imports to hurt your exporters, then you restrict your imports to hurt my exporters, that's not what's going on here. In fact, for example, when Trump put tariffs on both Canada and Mexico. Canada retaliated, Mexico didn't. They both got exactly the same treatment in that all the NAFTA things were exempted. So it's a new political economy as well, at least in the United States. And lastly, and this is a hopeful message that Mary picked up, I think the world is rebuilding on autopilot. I think the domino theory of regionalism is back, and I think it will recreate multilateralism, regionalism up. And when we're done, what we'll have is two levels of multilateralism.

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There are ones that are based on the rules of deep regional trade agreements, which essentially cover value-added supply chain trade, which includes investment, short-term movement of people, intellectual property, services, et cetera, et cetera. Very deep rules. Including rules that are intrusive to sovereignty, in essence. And countries involved in supply chains will be in that, what I'd like to call WTO 2.0. Everybody else will be in WTO 1.0. And I think that will— is something that will emerge all on its own. Okay, so should we just go to Q&A now? Or you want to— no, I spent a lot of time on these slides, sorry. A lot of time on these sides. I have cartoons. You guys have no idea what you're in for. Okay. That's the outline of the talk. I already gave it. What is World War Trade? So, first of all, if tariffs were missiles, April 2nd would be known everywhere as the day the Third World War started, because Donald Trump put aggressive tariffs high and broad on almost everything on almost every country. In a way that wasn't explained or rationalized. It broke every trade promise the US had ever made to anybody everywhere, every trade agreement, every WTO commitment, without excuse, without justification.

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It abdicated world trade leadership very definitively, and it shifted the US from trade law to jungle law. Very explicitly ignoring international trade law. And then China, the day— the next day in Beijing time, responded with precision weapon export controls. It put export controls on everybody on these critical things, especially rare earth magnets. And it was WTO compliant, and it was a system that they'd been years in the making. But here's one thing you should ask yourself. Why didn't China do it when Trump put the fentanyl tariffs on in February and March? Why didn't they do that when Trump and the US went to war in 2018, 2019? What was different? And that's one of the things I wanna explain in the next segment, that things had changed. Just, in this audience, you will have all seen how dominant China is in rare earths, especially rare earth magnets, and how it's— how it can use that to essentially counter. So here we go. Largest importers had put tariffs on the whole world. Largest exporter who put export controls on the whole world. And this is the question I've posed: why is so different from 2018 US-China war?

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Plus now the global shipping has been weaponized by Iran. So although that didn't happen before I finish the book, I think there's an argument that world war trade isn't over and may be spreading beyond these two antagonists. Okay, what I wanna do in the next few slides is argue why I think this is gonna stay for a long time. And I'm gonna do that by looking at the motives of the US and China. First of all, this is where the cartoons are. So, I know most of the people here are trade policy analysts or know trade policy analysis. And it's almost impossible of us not to hear a tariff and start thinking protectionism, manufacturing, income distribution. And I want to disabuse you of that. This is theater, tariff theater, not trade policy. And I did that with cartoons exactly to move us out of the normal way we think. So why did America vote for tariffs? And do not forget that we had two candidates in 2024. One wanted to go to war with the whole world on trade, the other one didn't. And the one who wanted the trade war won. So US people voted for it, maybe not knowingly, but they voted for trade war.

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So here's my idea. In the 1990s, there were shocks, which I call the globotics shocks, globalization and robotics. Workers were competing with China abroad, robots at home. Jobs move overseas, very unhappy. Notice of layoffs because of the automation, very unhappy. And then there was a missing safety net. Without government help to adjust, middle class become the forgotten men and women. And middle class anger builds. So this is a country where they don't protect the workers and they don't protect the jobs, and they got very angry about it. The rest of the advanced economies had active labor market policies, social policies. You didn't lose your healthcare when you lost your job, for example. Now, that has been building for a long time. Nothing is new about this. And initially, when the financial crisis happened in 2008, this malaise got a name, and that was the elite did it to us, the middle class. And you'll remember at the time, Occupy Wall Street, the 1%. There was American anger in the middle class against the American elite who had rigged the system against them. The bankers got bailed out, people lost their homes. Then Trump came along and politicized, took that anger and oriented towards foreigners.

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So here we, Trump channels their pain into populism, turning victimhood into a trade policy. Tariffs equal jobs, America first. And that was based on what I call the grievance doctrine. So here it is. The grievance doctrine is based on a myth. Powerful myth. Here's the US and the foreigners. America played by the rules, and you'll notice the foreigners have knives behind their back. Thieving foreigners. America got played. The workers got humiliated. Jobs got ripped off. And then the myth comes with a mandate to stop the steal. It's payback time. Tariffs as vengeance. Not tariffs to reindustrialize America. Not tariffs to close the trade deficit. Not tariffs to shift the income towards the suffering middle class. It's vengeance. Retribution. The bill is paid. And a great deal of how the trade war was rolled out was to garner victorious headlines that made the suffering middle class of America think the president is finally standing up to them. Or at least that's how I'm thinking about it. Okay, so it's political theater, not economic policy. Trumpian trade policy is about sounding like he's standing up for the forgotten middle class. And this is when he did, you can read it.

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For years, the selfish and corrupt political class betrayed the people of Pennsylvania. Career politicians like Joe Biden lied to you. Biden's a servant of the radical globalists, the wealthy donors, the big money special interest groups who shipped your jobs away and shut down your factories. This is not a man who's saying, my trade policy will make you better. This is a man who's saying, I will get retribution for you. OK, China's motives. For a long time— and by the way, I'm working— I'm not a China expert. But the China experts I read think a lot of the way you understand what China is doing is it's the Chinese Communist Party trying to stay in good with the Chinese people. They're trying to keep legitimacy with the Chinese people. So for a long time, that legitimacy was performance-based. For several decades, the average GDP growth rate was 10%. And who needs any more legitimacy than that, than 10%? But after the global financial crisis— this is a 5-year moving average— that growth rate started moving down. Therefore, there was a need to supplement the performance legitimacy with patriotism. That's what I interpret this. Xi takes office in 2012, and those are all the patriotic outward-leaning things to make Chinese proud that China is coming back into its normal place in the world, which is the largest economy in the world and the center of civilization.

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In essence, they were using these, I believe, to build legitimacy. And a key part of that was ending the century of humiliation and the gunboat, uh, Opium Wars, where Britain and others forced them to do things. Now, I— those two things set China up in 2025 to react differently than they did before. And the last thing is that China's intolerance to bullying had to do with their macro situation. So their growth became very vulnerable to a world trade war. So if Trump just kept putting tariffs on China alone, that was the cost of doing business. But when Trump attacked the entire trade system and we potentially might go into a 1930s spiral, that would've seriously undermined China's legitimacy. So exports were the critical swing source of aggregate demand in 2025. As you can see, this is the exports to GDP ratio. They're actually more dependent in 2025 than they were in 2018. So with the pivot to patriotism, Trump's bullying became intolerable, and China had prepared the weapon. So my argument why they answered so differently was the bullying reminded of the Opium Wars, and their macro situation required that the world exports do not collapse.

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Okay, so now I'm going to do this one quickly. The sudden trade war and slow containment. This is where the diplomatic thriller or killer is going through. And you know, the guy is a reality TV show producer, so it actually wrote itself because every episode ends with a cliffhanger which leads to the next one. So there we go. So I'm going to just argue that there was a containment. That Trump's tariffs, that the president's tariff aggression has been contained with 4 types of tacos. So in February and March, when the president put tariffs on Mexico, Canada, and China, there was an immediate taco, which I call the Rust Belt taco. So as soon as he put these 25% tariffs on, CEOs, of car companies and others called him up and said, Mr. President, we couldn't make cars in America competitively unless we can import parts from Canada and Mexico. So he exempted that. So instead of a 25% tariff, the effective tariff rate went down to about 2% or 3%. That was a TACO driven by domestic concerns. Nothing what Mexico did, nothing what Canada did, no threat to American exporters. It was domestic. It was a Rust Belt taco.

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Then we had the Rose Garden tariffs, which led to a financial market taco, the market taco. So these tariffs were so high, so weird, and so broad, the markets flipped out. It looked like it might have a meltdown. And so there was a steep, quick reversal because of market forces. Again, domestic. We were worried about what would happen in the in the US. And then a little bit later, except on China, a little bit later in May, there was a China taco where they went from the 125% tariffs down to 10% each. Again, worrying about the cost to domestic consumers, what was happening to imports from China, not what was happening to American exporters to China. Then we had a lot of— we went into the 90 in 90 days, and there was tariff threats up and down. This blue line is the tariff theater. And then we had some of the tariff letters, we got tariff agreements, and there was some of them rising up a bit. But then we came into the affordability taco, and the Virginia election triggered the idea that maybe this can't be high. Now, in each of these tacos, every retreat was combined with a recasting of history to make the withdrawal look like a win.

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So, for example, the taco with the financial market tacos, immediately it was spun as part of Plan A. It was the art of the deal. And they came up on the fly that this was really just to get the foreigners to the table. Made that up, Bessett made it up like that. And then, when, for instance, when the China one happened, that was, history was recast to make it look like the US won on points. But the main thing is with this affordability taco is it didn't look like a withdrawal because headline tariffs didn't change. It was very technical changes in which things were covered, rules of origin, stuff like that, very technical that did not make the happy headlines. So the president could still look strong and wise, and yet the cost domestically was falling because of it. And I think you can see that came down came down substantially even before the Supreme Court pulled the rug out on the Emergency Power Act. Here you can see with China, the tariffs have been following. This is effective tariff rates. Most people didn't know that the headline tariffs on China were falling. That was not what you hear, but they were because of various exclusions and exceptions.

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Same thing is true of the others from the fall. What we see, and this is the average for the whole US, two different versions of it, you can see since October they've been falling for mostly affordability tacos. And even when the Supreme Court took it away, they were replaced at approximately the same level. So that's my guess is that even when all the 301s come through and they start putting tariffs back up, it's not going to go much higher on effective rates because this is the equilibrium between having fun with tariffs and not having them too unaffordable. OK, so the future trading order. We have 6 minutes for the future. That's plenty of time. You guys don't get my humor yet. You know what I could do is I can kind of explain when I'm going to tell a joke. Would that help? No? Probably not. OK, good. I just wanted to wake you guys up again because we're going on to the third part. This is what I find is the most important thing. So the future world trading order is already emerging, and it's happening on autopilot. I believe that regionalism will rebuild multilateralism, and it'll do it through the domino theory of regionalism, where countries acting independently in their own interest will essentially reconstruct the system.

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That's where I want to go with this. So 3 key facts are important in making this argument. The first is US tariffs backfired. It was domestic forces that contained US tariffs. So that was a cartoon many of you have seen from the first administration, but it's still very much true. The tariffs were supposed to be hurting the foreigners, but the misunderstanding that foreigners pay the tariff meant it hurt American interests. The second is that jungle law is now only practiced in the US. So if you look at that map where jungle law is and where not law is, it has not spread. And that's super important, because the rest of the world has not taken inspiration from the lawless behavior that pretending the trade law doesn't exist. In part, because the whole rest of the world likes the multilateral rules-based trading system, none more so than China. The third point is China's export controls did work. They dampened anti-Chinese aggression and indirectly protected the WTO system. So that's probably the most controversial thing I say in the book, especially here in Washington, that China is not selflessly defending the world trading system, but because they rely on a macroeconomic perspective and the legitimacy of the Chinese Communist Party depends upon growth staying up, They can't let the system fall down into a 1930s thing.

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And they have been using export controls, not just against the US, but other countries to prevent anti-Chinese coalitions from appearing. Now, why is that important? If we walked back just to spring last year, one of the scenarios that many people thought about where it would go is the whole world would spin out of control and go into fighting trade blocs. The primary way would be you would have a US-oriented bloc and a Chinese-oriented bloc. This was before April 2nd. That's what people thought. So in some sense, if a whole bunch of countries ganged up on China for doing things, and then you had to choose between China and US, that could have led to kind of a 1930s Commonwealth preference area and all that sort of stuff. China didn't let that happen. Because once people started doing it, the US tried to put in anti-China things into some of their trade agreements, but China reminded them that they could shut down their auto factories just like that if it— so very subtly, it was de facto defending the world trading system outside of the United States. And then the domino theory started to work. So how many of you remember the domino theory, by the way?

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OK, one or two. All right. That was my really big hit in my '30s, so I'm desperately disappointed that nobody remembers it anymore. But anyway, so there's a little more value added. Here's how it goes. An external shock leads to a new free trade agreement. It could be political, could be whatever. That new free trade agreement creates new trade discrimination for non-joiners. Because if you get a preference into a market, your competitors don't, you are better off and they are actively worse off. Moreover, the largest preference gains because you've joined, if you join as well, the gains from joining rise, the cost of staying out rise. And if there's a number of people who are close, the non-joiners, exporters lobby their governments to join, and one of them may actually join. Now, if they join, we're back again. So the dominoes, one knocks over the other by creating political— new political economy forces in non-joining countries that can lead them to do more. And I would argue that at least some of what's going on with this very rapid signing of free trade agreements since April 2025 has to do with the initial shock where the US market became unpredictable and people started signing free trade agreements often trade agreements that they've been talking about for years, because they wanted the extra predictability.

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Now, this thing, I believe, will create a domino effect. I'll give you a couple. The very classic example is when Mercosur and EU finally signed, because each stepped back in their demands so they could have replacement for the US market. Australia and the EU signed. Up until that point, Australia was demanding very high access to beef into the EU. But once Brazilian beef got access to the EU, Australia backed off and signed a free trade agreement, one right after another. And that's exactly how the domino theory kind of goes. UK joined CPTPP, for example. And now there's a discussion between CPTPP and the EU. A number of other countries are lining up to join CPTPP. And ASEAN, for example, number of countries are trying to sign new ASEAN+1, and the ASEAN+1s are deepening. All of this in the last 18 months. So I'm arguing that that spread, which is uncoordinated, by the way, there is no committee, there's no Bretton Woods here, it starts enlarging the zones of predictability. So the new world trading order is emerging via domino theory of regionalism on autopilot, the Trumpian shock, new free trade agreements. And there's two ways this is happening.

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Deep mega-regional trade agreements, like the EU. And the EU has signed with India and signed with Mercosur, which are really big deals. And more and more countries want to sign. Maybe the GCC will come along. But in any case, it's sort of spreading. Now, the interesting thing about these deep mega-regionals is they have rules that go way beyond WTO discipline. In terms of investment, intellectual property rights, capital flows, short-term movement of people, business regulation, arbitrage. They go way beyond the WTO because they're underpinning supply chains, not just trading goods. And as that— and CPTPP is another one— as these expand, you're kind of creating a higher level of multilateral trading system. And just, I don't have time to go through this whole thing, but These deeper rules don't have rules of origin on them, so they're not discriminatory. There is no trade diversion from these things. Often it's exactly the opposite, that exports from the outside, it goes up. Then the shallower ones like ASEAN and maybe even RCEP are expanding as well. In my last minus 1 minute, let me point out that This should be familiar to you. Before the global financial crisis, the world was about to do this, the merging of the mega regionals.

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Obama started TPP to do Trans-Pacific. And then the idea that should be Trans-Atlantic. So we had TTIP, Trans-Atlantic, and the US was at the center of it. And if TTIP and TPP, with the US at the center, had got done, there would be a WTO 2.0. With much deeper rules. Not exactly the same, but still much deeper discipline. And then more people would want to join that. Like my country, Switzerland, we follow the EU even though we're not in it, because our exporters don't want to have two sets of rules. So eventually, it spreads like that. And that's what would have happened. Now, Trump killed TPP, and TTIP went to sleep. But essentially, TTIP and— TPP is re-emerging without the United States. Maybe Canada is the center role here. That's my argument of potentially where it's going to go and my hope. That's like a solar system. If you have a better idea for a graphic, please come up and tell me. This one's not perfect, but anyways. I'm going to stop right there. Thank you for participating.

[00:39:38.10] - Mary E. Lovely

Well, thank you, Richard, for that really interesting overview of your book and the great graphics. It was most enjoyable. Start with some questions, maybe a conversation. So in the book, you write that US protectionism is structurally rooted and politically durable. Yet the US-led multilateral system lasted for 40 years. If you date it from the formation of the WTO, much longer if you go back to the GATT years. So why did this system persist for so long if protectionism is part of American DNA?

[00:40:17.25] - Richard Baldwin

Well, I think it comes with the first sequence of cartoons. I think there's globalization and automation. Automation came really in the '70s and started going, replacing factory workers. And then in 1990, the communication aspect of ICT allowed the offshoring. And the offshoring was essentially, as you— in the book that you kindly mentioned, the offshoring was not feasible before because you couldn't coordinate complex activities over distance. But once it became feasible because of the technology, it became profitable because the wage differences were so great. And what was most shocking was that US companies and all G7 companies took their firm-specific technology and combined it with low-cost labor abroad. So American workers, among others, were competing with robots at home and China abroad, and this through offshoring as well. Now, without a social policy to help people adjust, that led to this lingering malaise. And due to the mantra of low taxes, small governments, it was not possible to have active labor market policies or universal healthcare or old age pensions that guarantee you won't die poor. That was not possible in the United States. It was in other countries. And that's why I think that forgotten men and women theme got so strong and stayed so long in the US.

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There was elements of it in the rest of the world and populist backlash as well, but nowhere near as large. So I think it was a combination of the globotic shocks, which were common, and the lack of a social policy, which was unique.

[00:41:54.48] - Mary E. Lovely

So these seems like institutional features that could potentially be changed.

[00:41:58.58] - Richard Baldwin

Yeah, except that low— I'm not 100% sure why, but low taxes, small government seems to be a winner. In the United States.

[00:42:09.26] - Mary E. Lovely

So you talk about this new era. And this seems to be really important in thinking about the future. So just going back a little bit, you argue that world war trade will not end with a new president, no matter who— Democrat, Republican, whoever gets elected. I wonder how sure you are about that conclusion. Those who share your viewpoint often would point out to PIE experts, hey, if tariffs are bad, why did President Biden keep them? They must be good. Aren't they here to stay? But Biden himself originally saw himself as a transitional leader. And we all know that what we transitioned back to was President Trump. And more protectionism. But that doesn't mean that a transition isn't coming in the future. So if there are real gains from trade and there are real commercial forces that drive regionalization, for example, why won't those forces come to the United States and push us back toward a more open trading system?

[00:43:22.04] - Richard Baldwin

So I mean, it's— I have this bad habit of sounding— I believe everything I say. When I say, when I talk about the future, of course I don't know. We're just making it up. But I think we have an obligation to be kind of clear about what we think about the future. And that was me being clear. Anything could happen. But here's what makes me relatively confident in what I said. First of all, the tariffs have come down to a sustainable point. US imported GDP is about 10%. The effective tariff rate is about 10%. That is not really disrupting American economic dynamism. And so it's at a sustainable level. On the other side, to explain free trade agreements with low-wage countries, all that was okay, would be to spit in the eye of the suffering middle class without giving them something else to change, which I also don't think would be a vote winner. So I think very much like in, Brexit in the UK, many people now realize it was a mistake, but the Brexit people who voted for it would be so upset if it was reversed that that would be something nobody wants to go to.

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So they just don't touch it. So I can see very much that the tariffs will stay relatively low, like what Biden did with Trump's tariffs, more or less kept them. And maybe there'll be a continued erosion through exemptions and things like that. But I can't see somebody running for president in 2028 saying, let's go back to signing free trade agreements with low-wage countries. That stuff with China, it's all good. So the other alternative is potentially go back to only anti-China. So that's really the— China is a problem. We have to do something about China. So maybe they would exempt the allies a little bit. But anyways, that's my hypothesis.

[00:45:12.29] - Mary E. Lovely

So you end the book with a key question. Was containment the prelude to fragmentation or renewal? Where containment— now you say we prevented a collapse of trade, but we leave behind an unbalanced system. And that's where you take as your starting point to talk about the dynamic— dynamo regionalism. So this is kind of an optimistic, I think, view, as I said in my opening remarks. With the EU, the CPTPP, and ASEAN the largest blocks within this overall ecosystem. A lot of people will be tempted to think, well, this is going back to the old system. But you describe a world where it is optimistic because more countries are joining into ever bigger FTAs, but there's still a lot of trade frictions in a world like that. There's different rules of origin within those blocks. Are we turning to something that looks like the old system? It's kind of a suggestion that you're leaving, or is it really something that's less welfare-enhancing?

[00:46:17.16] - Richard Baldwin

I think the way I think about it is it's restoring this old system outside of the United States. Because the rest of the world didn't have the beefs that Trump in the grievance doctrine. Many people have grievances, especially with China and all sorts of, and with the EU. So those grievances were the steady state over the last 50 years. And just going back to that level of grievance would be just fine with most people around the world. Now, when I'm saying this is a system that's going to come back, I'm not saying it's optimal. I'm saying it's going to happen. It's a positive analysis, because each country seeking pools of predictability for market access are signing free trade agreements. And you don't sign free trade agreements in a vacuum. Once other people start signing them, you start signing them. And so it spreads. But I would point out, like I said, before 2008, that idea that regionalism was going to merge into mega-regionalism, I think that was something that many people thought wouldn't be so bad. Because after all, there is a— group of countries who are involved in manufacturing supply chains, where because things are going back and across the border, all sorts of tangible and intangible assets, you need much deeper disciplines.

[00:47:36.45]

But that's probably 30 countries in the world. The rest of them aren't interested in that. So the idea that we would come up with a world trading system with a much deeper level of disciplines and a more shallow level of disciplines That, I think, was mainstream before the global financial crisis when trade got a bad name altogether. So I think we're just going back to where we were before. And because deep regionalism is not discriminatory, you can't get rules of origin on services or investment or intellectual property rights, or at least not rules that a clever lawyer can't offset. They're not discriminatory. And so we're not working into the stumbling blocks versus building blocks, the Fred Bergstein versus Jagdish Bhagwati thing, which was all about tariffs, and they were distortionary. This is a different thing. So that's— I'm not sure I answered your question, but—

[00:48:30.24] - Mary E. Lovely

It was an interesting answer nonetheless. I wonder if you're not underestimating the ability of the United States to upset the apple cart. And in particular, I hear— I think here about how the US Trade Representative, Jamie Greer, and his deputy have both publicly said that they want to give President Trump back his tariffs. A key feature of the tariffs were that they were different for different countries. In fact, we saw them coalesce into 3 levels. One was 15% on other advanced economies. Around 19%, 20% on middle-income countries in particular that would serve as pieces of the global value chain, like Vietnam, and then a couple of countries which he had particular ire for, in particular China. If this is what's happening with the current Section 301 investigations, a return to that world, does that change your conclusion at all?

[00:49:33.23] - Richard Baldwin

Well, let me answer the first thing that was implicit in your question, is that it is possible that US, in particular President Trump, would take umbrage to being excluded from these things, and therefore attack in some sort of try to destroy it, either using whatever. But so far, he doesn't seem to worry about trade diversion affecting US exporters. The second thing is that the idea that— this is why I pointed out the containment happened due to domestic forces. So I think President Trump would like to have higher tariffs, but can't deal with the affordability crisis that comes with it, and also the supply chain disruptions that comes with it. So I think there's a domestic equilibrium for where they are now, about 10% effective tariff rates. But what he wants is the ability, the law, the jungle law, to get back to enforce these agreements, which were not signed, which are not legally enforceable. But right now, he doesn't really have an ability to punish one particular country if they violate the agreement. If we get back to 301s, which are individual, he can do whatever he wants going up and down. So I think it's more to get back the jungle law power that he was planning to use to enforce the agreement rather than actually establishing higher tariffs.

[00:50:50.44]

I mean, the Supreme Court really took away his ability to enforce jungle law. And that, I think, was what they're trying to replace. I agree with that.

[00:50:58.13] - Mary E. Lovely

But I do think he's trying to get the jungle law back with 301. That gives him the negotiating power to cut these sort of side deals, right? So I noticed you didn't really talk about RCEP, the Regional Comprehensive Economic Partnership, which includes China much. But RCEP is deepening. The China-ASEAN relationship, for example, is being upgraded. We know that most of the countries that are key to supply chains are actually increasing their integration with China in terms of their export shares and import shares. So two things. One, I found it very interesting that you described China's actions as acting to cut off anti-Chinese coalitions. I think that's a very valuable insight because a lot of people always say, well, if they're mad at the US, why did they put these export controls on everybody? And in your view, it's a warning. Don't do this, right? Yet we see the US, I think, actively moving in that direction with one wild card, big wild card, which is President Trump, who is scheduled to meet President Xi very soon. Except for that wild card, we have a pretty hawkish stance still in the United States on China. We have a Section 301 case going forward on forced labor, which looking at the set of countries that are listed is on the face laughable if we're talking about most of those countries.

[00:52:27.39]

But it includes supply chain aspects. So I can go after a country if I think that it's getting inputs from a country that I'm going to list as a country that engages in forced labor, which I think it would be not an unusual or an unwise jump to say that is going to be China. So the US may be doing, trying to make the split that you say the world is trying to avoid. How is this going to play out? I don't, I think it kind, in my view, it's a challenge to your domino strategy because it's going to say, hey, hey, hey, stop this dominoes. We want to make sure that the world is divided into two groups. And I think that just to push it a little further, since you're, you know, writing so much on technology, technology makes this much worse. The national security issue becomes central to that. So how is the domino theory going to stand up to a theory that says no, actually the United States is going to make sure that the world splinters into two blocks.

[00:53:40.56] - Richard Baldwin

Right. Well, so my view of what President Trump wants with his trade policy is completely domestic theater to make the suffering middle class think that he's standing up for them. That's it. You could imagine all sorts of goals, including national security, which he might have done. But then probably there would have been a study. Of how his tariffs are going to affect this. There would have been deadlines. There would have been, we're going to close, we're going to bring back this many jobs by this year. As my father used to say, a plan without a deadline is just a hobby. And this was all, in my view, was just happy headlines without a clear plan. And people are trying to project onto this relative tariff chaos, this tariff theater, some sort of 3D chess that's going on. Now, I don't deny that there are elements of the US body politic, and maybe the next president, who would pursue these national security things against China. I don't deny that at all, but I think this president has found his equilibrium and has moved on to other things. That's my view, and I think the 301 is simply allowing him to get back to being able to threaten countries bilaterally.

[00:54:57.58]

And that's my interpretation of it. But I admit that there's other interpretations possible.

[00:55:03.34] - Mary E. Lovely

Yeah, and that we won't know the future. But threaten but not use, it sounds like you're saying. Well, yeah.

[00:55:08.58] - Richard Baldwin

I mean, as long as he does them— so let's suppose some country like the EU doesn't fulfill their purchase commitments. Then he could torture them on this, that, and the other thing.. And that would then make them inhibit. So when I say don't use, I don't mean on a macro level. I don't think it's going to go higher than 10% effective tariff rates, at least soon.

[00:55:35.39] - Mary E. Lovely

Good news. Do we have some questions from our in-person audience? We have about 10 minutes here. Would you please step to the microphone and identify yourself? Microphone's back there. Or Jessica is coming around with a hand mic. Nick?

[00:55:55.17] - Nicholas R. Lardy

Nick Lardy-Peterson. I didn't hear you mention much about the various exemptions that have been coming and going. When you tell us and show us slides with average US effective tariffs, does that take into account the various exemptions that have been issued? I don't see much transparency on that. On this process.

[00:56:17.22] - Richard Baldwin

Yeah, exactly. So first of all, I think the lack of transparency is the point. He's essentially withdrawn the negative economic effects of tariffs without admitting he's withdrawing the tariffs. And the graphs that you saw there, all they do is they take the tariff revenue that the US collects by month, divided by the imports by month. So they're just a bold average. And so it takes account of everything, exemptions, reclassifications, different tariffs on different countries.

[00:56:47.22] - Pierre-Olivier Gourinchas

Pierre-Olivier. Pierre-Olivier Gouanchat from the IMF. So I wanted to come back to the end of the book on domino regionalism, because I think that's really the hopeful bit and the one where we really want something like that to happen. But I want to question it a little bit. And so let me step back first. And if I think about what the US has done in the last year, year and a half. And as you illustrated, this was a disengagement from world trade and not just China. But I think there was a battle inside the US administration itself about whether this was that or this was China containment. And depending which day of the week and which hour of the day, one of the factions was in the lead versus the other. Now, we might say, you know, we land with 10% effective tariff rates, not going to break the global economy, everyone can live with that. When all is said and done, it's basically the US raising taxes on itself in a very roundabout way. And maybe that's the only way in which they can raise revenues, so no big deal. But I think the fact that it creates this uncertainty, you know, the rest of the world is not going to wait to see which way it's going in the future.

[00:58:09.04]

And so it is indeed trying to reorganize itself. So I very much, very much agree with that view. On the other side of this, you have China. You said China did something as a warning shot, you know, please don't try to come against us because we have means of retaliation. Again, from the point of view of the rest of the world, that was heard loud and clear. But it also means we need to protect ourselves. We are vulnerable here. So what I see for the rest of the world is a situation of extreme vulnerability. Now, you're coming at this and you're saying, oh, the rest of the world can rebuild. We can do the EU-Mercosur. All of this is accelerated. But it doesn't remove the coercion threat. And so what I'd like to hear a little bit more from you is it's not enough to have an FTA, to have a deep trade agreement. If somehow the US, for whatever reason, or China, for whatever reason, decides that they want to exert coercion, So what are the ways in which you protect yourself? You know, President Macron, I think in a famous quote, said, you know, we cannot be herbivores in the world of carnivores.

[00:59:13.09]

So that is not addressed directly by having a deeper trade agreement. And so I kind of would welcome your thoughts on that.

[00:59:23.10] - Richard Baldwin

Sure, thanks. So I think that's chapter 8 in the book, just in case. But what I say, the other countries reacted in 3 ways. Restraint, they didn't retaliate. Building bunkers, trade bunkers, to address exactly what you're saying. So a number of countries are developing anti-coercion tools, new legal ways of countering attempts to coerce, whether from China or the US or anyone else. And then also, a lot of the industrial policy in chips and medical supplies and other things are a way of insulating themselves from the weaponization of trade. So I think there has been a quite large defensive move by the rest of the world in this weaponized world. And that changes equilibrium. It's not a good thing, but I think that's quite systemic. And then signing free trade agreements is another way of doing it. But the bunkers, I didn't talk about in the talk, but it's a big part of the book. And I think, by the way, that's— something the IMF or World Bank could do would be to find a list of the new policy reactions since April 2025 that looked like they're anti-coercion and see if the collection of those is actually making trade worse, even without needing to be.

[01:00:40.43]

So I think it would be an interesting thing.

[01:00:44.29] - Mary E. Lovely

I have a question back there.

[01:00:47.57] - Raul Hinojosa-Ojeda

Yeah. Hi, Raul Hinojosa, UCLA. I agree with you that it's very much theater, but we also have to understand that there's the preview and then there's a really bombing movie that's coming and that's following up. We've seen this movie before, 2018. What's interesting in the book we did, The Trump Paradox, he lost 40 seats. Those 40 seats were exactly the seats most open to trade and migration. The people that have very little trade and hate migrants also continue with the coalition. This moving this middle class does not buy this as a long-term political sustainable, and I think our prediction is that we're going to have those things.

[01:01:32.52] - Richard Baldwin

Is there a question here? Yes.

[01:01:34.55] - Raul Hinojosa-Ojeda

Two points, but— Okay, actually the question is about North America because we see a very divergent reaction, Mexico and Canada. Is that not also possibility that could happen in other regions. Some countries have more options, like Canada versus Mexico, and whether that's going to determine how the US also evolves in its regionalism.

[01:02:00.18] - Richard Baldwin

Thank you very much. Well, I mean, I think the trouble with both Mexico— the problems they face is they're so dependent on the US market. And there's basically have to get along to give along, just the reality of the gravity equation. Means that they face a different problem than lots of other people. So both of them, I think, are— Mexico already has a huge system of regional trade agreements. Canada is trying to expand it. But ultimately, they're never going to be able to reorient their economies away from the US, just given the size. There's your—

[01:02:36.22] - Mary E. Lovely

Morris, I think last question.

[01:02:42.39] - Morris Goldstein

Maurice Goldstein, uh, former— Turn it off.

[01:02:51.38] - Mary E. Lovely

Yes.

[01:03:06.54] - Richard Baldwin

That trade policy will start to stay as it is.

[01:03:11.53] - Morris Goldstein

I mean, I buy the retribution story, but I think America, not too long, may well say, well, we've been there, done that. Don't really like it. Too chaotic. Gotta have something else. Democrats will say, the theme will be end the chaos. So why not? Well, one of the problems is adjustment. You haven't talked too much. I mean, trade adjustment assistance has not been very, didn't sell very well. Unions see it as burial insurance. But the question is, well, you've also got AI, you're gonna have employment losses going on. So why not group those together, try and get some kind of better adjustment system? That's really a problem for the labor economists more than the trade economists. Well, if they come up with something, well, then maybe you've got something to try and reverse it. Do you think that's a lost cause or do you talk about that in the book or what should I think about that?

[01:04:15.01] - Richard Baldwin

No, I don't think about that in the book. I mean, but I can tell a scenario that just spins out. Let's suppose that a suffering middle class realized that they didn't get what they voted for. In fact, just the opposite. And a left-wing populist comes in who promises Medicare for everybody and promises guarantees for this, that, and the other thing. So that might be one way it could go. But having watched the political system for so many decades from Reagan on, justifying low taxes and small government, Democrats, Republicans the same, left, right. I can't see that switching. But maybe a Mandani kind of thing could happen. But that would be a real revolution. And that would change things. So I don't put that at a high probability. But who knows when populism starts going wrong. It can swing lots of different ways.

[01:05:18.41] - Mary E. Lovely

Well, we're going to have to wait and see where World War Trade goes. Thank you so much, Richard, for being here today, for letting PIE launch your book here in the United States. Thank you. Wish you all the best with the book. It's certainly been fun to read and talk about, and I'm looking forward to trade being boring again, but certainly not in your hands. It's a great read, and thanks so much. And thanks to our audience for being here this morning and to those of you online. Thank you. Thank you.