

Peterson Institute for International Economics

**Transatlantic trade relations face a bumpy road**

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**[00:00:47.18] - Cecilia Malmström**

Good morning, good afternoon, good evening, depending on where you are. Welcome to this episode of Trade Winds. My name is Cecilia Malmström. I'm a non-resident senior fellow at the Peterson Institute for International Economics. There has been some interesting weeks since the inauguration of President Trump. Different speeches, different announcements, different executive orders. For those of us interested in trade, we have witnessed a lot of things happening: tariffs being threatened, tariffs being imposed, tariffs being postponed. And various times in the campaign, President or then-candidate Trump said that tariff is the most beautiful word in the dictionary, implying that with tariffs, he would impose new economic strength in the United States of America, and they would also pay for tax reform, pension reforms, and other things. It's a quite transactional way to look at tariffs as a mean to not only balance trade, but also obtain other things, everything from migration and deported migrants to narcotics, to Panama Canal, to Greenland, etc. So trade policy is not any longer about market access. In the European Union, this has dominated the debate quite a lot the last weeks, ever since the inauguration. Last time President Trump was president, he installed tariffs of 25% on steel and 10% on aluminum, motivated by national security concerns.

**[00:02:24.07]**

And later there were also threats about, on tariffs for German cars, French wine, etc. This time in the campaign, there were talks about 10-20% tariffs across the board, but there have also been discussions including on this, that that could depend on whether you buy gas or oil or weapons, if there is a deal with Ukraine, etc. Two days ago, we saw tariffs globally on steel and aluminum, 25%. They will come into office as it is said today, mid-March. And the European Union is right now discussing what to do, what will happen next. Last time there were retaliatory tariffs imposed on goods such as blue jeans, whiskey from Tennessee, peanut butter, orange juice from Florida, and other items. They were later suspended under President Biden in the attempt to find a solution, but that solution was never found. So those suspended tariffs are still there, and the suspension actually runs out in only a couple of weeks. There is no trade

agreement between the EU and the US. There has been attempts to negotiate one, the so-called TTIP agreement. And for full transparency, I have to say that all the participants in this program were involved in that process.

**[00:03:52.13]**

It could have been handy to have one, but it is in the freezer and not likely to resurrect soon. So what is going to happen? What will the US demand from the EU? What can it get? Is this the first step of something bigger? How should the European Union react? These are questions that are debated in this very moment. In just 1 hour, there's an extraordinary meeting between the trade ministers of the European Union, and of course it's debated in many capitals as well. We have two fantastic guests who will help you understand and speculate about what could happen. I'm really proud to introduce to you Michael Fuhrmann, who is President of the Council on Foreign Relations, but also a former US TR. And in Europe, in Strasbourg, I think we have Bernd Lange, who is a politician from Germany, a longtime chair of the powerful Trade Committee in the European Parliament in Brussels. So welcome both of you. It's great to have you. So let's start with some speculation on what will happen in this trade relationship. It is important. The EU and the US trade a lot with each other every second, actually.

**[00:05:05.25]**

And that transatlantic economy supports millions and millions of jobs. So what do you think will happen in the short term and in the long-term perspective? So, Mike, why don't you start? Where are we today when it comes to tariffs? What's the aim of all this?

**[00:05:22.26] - Michael Froman**

Well, first of all, Cecilia, great to see you and Bernd and to be together again. And let me first say, I don't think anybody should be terribly surprised that we are where we are. As you said, Cecilia, Donald Trump as candidate emphasized how much he thinks tariffs are a critical tool, not only for trade policy, but for broader foreign policy. And he laid out really quite specifically ideas that he had for how to use tariffs. People around him, for example, said that he would look at bilateral trade deficits between the US and other countries. And where there were those deficits and the other country had higher tariffs on our goods than we had on theirs, he would raise tariffs until that bilateral trade deficit was gone. And he points to Europe in particular and says, why should they have 10% tariffs on our cars when we have 2.5% tariffs on their cars? It's an interesting question. And so that's one of his motivations. As you said, he also has discovered that tariffs are a very useful tool of leverage more broadly. It brought Colombia to the table on the issue of taking migrants being delivered by military airplanes.

**[00:06:38.03]**

It brought Mexico and Canada to the table on dealing with border issues and fentanyl issues. And I think he— because success breeds success, he sees that in fact it works. I think he will continue to use them, including vis-à-vis Europe, on issues that he cares about there. And I'll come back to that in a moment. You know, the third issue with the two other ways, two other reasons why he says he wants to use tariffs. One is to raise revenue and even as a potential substitute for income taxes. I think the challenge of that is, and it relates to the fourth reason, which is to drive production to the United States. If tariffs work in driving production to the United States and actually reducing imports, then it's not good raise much tariff, much, much revenue. If tariffs don't work in terms of driving production to the United States, then it might raise some, some revenue, not enough to take the place of, of our income tax. But, and what we saw in the, in Trump 1 is it raised about \$65, \$70 billion of revenue, 92% of which went to pay off the farmers who had been retaliated against by China.

**[00:07:54.07]**

And so there wasn't much of a net gain for, for the US, for, for the US Treasury. On that final issue, driving production to the United States, which is a fundamental motivation of his, you know, as he says, you produce in the United States, you won't be subject to a tariff. Canada becomes the 51st country, it won't be subject to a tariff. 51st state, it won't be subject to a tariff. If it's produced in the United States, then it's free of tariffs. The problem with that is, as you know, these kinds of decisions about where to site supply chains, where to site production, how to deploy capital, particularly in manufacturing, these are long-term decisions. They take years, sometimes decades to make, and you need a certain degree of certainty. And so, and one thing we've noticed so far is that there's no certainty in what the president has announced. He announces something on a Monday morning, and by Monday afternoon, it's different. And so it's very hard hard for companies to decide, okay, I'm going to move production, I'm going to change my supply chain, if they're not really sure what the tariff situation is likely to be going forward.

**[00:09:02.22]**

Last thing I would say, I'm sorry for going on for so long. Last thing I would say is, you know, with regard to Europe, I think there'll be issues around economics and trade and what he views as the disparity. There is a manufacturing trade deficit that we have. With, with the EU. And there are higher tariffs, higher average tariffs by the EU on the US and higher tariffs in very specific manufacturing categories. And I think there'll be a certain amount of focus there. This

might also be a tool he uses to encourage Europeans to pay more for their defense. This is the NATO issues going from less than 2% on average to up to 3% or 4% or even 5%, particularly given what's going on in Ukraine and with regard to Russia. And, And there may be other issues where he's looking for European support and a change in European policy. Far be it for me to give advice to the Europeans. We can talk more about that maybe a little bit later. But certainly, you know, I think the real issue is how does Europe maintain its own competitiveness and deal with its own— getting its own house in order as a primary issue versus how it responds to the immediate threat of terrorism in the United States.

**[00:10:20.13] - Cecilia Malmström**

Thank you. We come back to some of the things you said, but Bernd, how, from a European Union perspective, you are right in this debate this very moment, how can Europe respond to this and keep the balance between some sort of retaliation possibly, but not escalating to a trade war? What's the latest?

**[00:10:40.18] - Bernd Lange**

Yes, thanks a lot, Cecilia, and Michael, good to see you again. And all three of us, which were really deeply involved in the TTIP negotiations. So it would be great if we could really agree on this agreement. It would be helpful even today. But look, we see the policy of President Trump, I call it homeland economy, really trying to get investment, as Michael Aus said, into the United States, closing the borders and then trying to export something. And the room for maneuver for the United I would say it's a little bit bigger than for the European Union. The relation of trade to the GDP is about, I guess, 13%, and in Europe it's 40%. So they are a little bit stronger in this, and therefore it's so important that on the other side, on the European side, we stick together as Europeans and have a united answer. And then looking to the tariffs of President Trump, indeed, and I underline what Michael said. We think it's really directed in on two tracks. One is more the economic situation. So to reduce the trade deficit in goods. By the way, Michael, if we look to the services and to the investment, then the difference is not so big anymore.

**[00:12:11.18]**

And there I guess we can have some kind of room of maneuver to look how to reduce it by including more LNG, buying a little bit more military equipment. And this is in the discussion. And we will come to the new Secretary of State— Commerce, Mr. Lukenick, quite soon when he is approved by the Senate and also on the tariffs. But Michael, yeah, there is a difference between 10% import tax tariffs in Europe for cars and 2.5% in the United States. But the most sold cars in the United States are the pickups, the Ford F-150. And this is a light-duty vehicle.

And light-duty vehicle has tariffs of 25%. So this is also the truth. So yeah, let's see if we can really align this situation a bit. Therefore, I think on the poor economic front, there might be possibilities to negotiate and we will do it. But nevertheless, Cecilia, you're quite right, as an answer to the steel tariffs, there are still the counter-tariffs suspended and they will come into force on the 1st of April and we will have a similar situation as we had in 2021. More problematic is the second element, Maite mentioned it, and we are really discussing our consequences quite seriously that Trump is now— and that's perhaps the difference to Trump 1— is using tariffs as a political instrument for giving political pressure to countries.

**[00:13:56.28]**

Michael mentioned Colombia, but also regarding Canada, it's on controlling the drug traffic. On Mexico, it's the question of migration. So what is it regarding Europe? Is it really defense spending? Or is it perhaps the good legislation in the digital area? So the Vice President was not able to sign a declaration on trustful AI in France this week. So there is a fear that we are— we could be confronted with terrorists as a political pressure. We have a new legislation the anti-coercion instrument, where we have a whole basket of different possibilities to react, and we will use it. And I guess the trade minister today will discuss this as well. And I hope that we can avoid this, but I, I fear that we will have to use it for the first time. And then certainly, yeah, we have to prepare our industry for a much stronger competition situation. So the question of bureaucratic burdens, the question of energy price, the question of innovation, we have to do much more than before.

**[00:15:23.06] - Cecilia Malmström**

But we are discussing and trying to understand what's in the administration's mind and how President Trump will conduct. Of course, he's not here, but it's useful for both sides of the Atlantic to try to understand how the others reason, because you mentioned, Mike, that Maybe the revenues that the president is imagining will not come from these tariffs. And most economists of the world, and including my colleagues at Peterson, has, has showed that this, if they are implemented to this extent, it will lead to higher consumer prices and inflation as well, of course. So do you think this is really the tariff that is the tool, or is it to push for other things, to lower some of the tariffs in Europe or to buy more of this and this? Because so far, as opposed to when with Canada and Mexico a couple of weeks ago, there hasn't been a clear demand directed towards Europe and all the other countries because this is a global tariff. So we don't really know where to start possible negotiations, so to say. How do you see that?

**[00:16:27.04] - Michael Froman**

I think it varies a little bit from piece to piece of this. I think what we saw in the context of Canada and Mexico is tariffs being used purely as a source of negotiating leverage. And I think there's an element of that that may be true vis-à-vis Europe as well. Now, steel and aluminum have always been particularly sensitive. They were sensitive in the first Trump administration and the desire to reach an agreement on steel and aluminum. But Cecilia, I think, and this goes to a point that Bernd made, there is a fundamental difference. And we've talked about this for years. I think the Trump administration is sort of bringing it to a head. There is a fundamental disagreement over Europe's regulatory approach that the US administration is likely to be pushing back on. And whether it's on the digital sphere and artificial intelligence and the like, there is. You know, we used to debate about our different approach to regulatory issues, prudential versus cost-benefit analysis, things of that sort. But there was a fundamental view that the US economy is doing exceedingly well. It's extremely resilient. It's highly innovative. It's the place where every entrepreneur in the world wants to build their company for a whole variety of reasons.

**[00:17:53.19]**

Uh, uh, our bankruptcy laws, our risk capital, our deep capital markets, the relationship we have between research universities and the private sector, a whole number of unique elements of our ecosystem. And that the European approach, which is more to regulate than to innovate, has created this gap between us. And my guess is that's going to be an issue that's put on the agenda. You know, that if to the degree that the tariffs are partly to get negotiating leverage is to get the attention of the Europeans saying, You know, we're not going to be comfortable with this approach to regulation. And what I fear for Europe, which of course, you know Europe's issues much better than I do, and the Draghi report has laid them out yet again, is that the most innovative companies in the US, the ones that are creating these tools that could enhance productivity very significantly, which Europe very much needs, are simply going to write off the European market. That's, that's not a market right now for them. So they're not losing any revenue. And, and the US market is sufficiently robust and we'll say we're just not going to introduce our tools into Europe because we're not going to live by that regulatory regime.

**[00:19:12.16]**

And that will leave Europe further and further behind. And so I would be prepared if I were Europe to have a conversation about this, because I think, you know, we have very different approaches, carrots versus sticks, incentives and subsidies versus regulation, and I think it's leading us in quite a different direction. People talk about decoupling between the United States and China, between China and the rest of the world. But there's a certain degree of decoupling

that is potentially there between the US and Europe when it comes particularly to regulation and high tech.

**[00:19:45.20] - Bernd Lange**

But, Mike, I think so bad is the performance of Europe not. Otherwise, the situation of the trade flow would not so bad for Europe, specifically on the cars, on machinery. I guess we have really a big advantage in Europe, and on pharmaceutical and so on. But you're quite right, I guess we have to do more for startups. And on this AI regulation, we have specifically for startups a system where they are not covered by the regulation. They have the possibility to develop new, uh, tasks, new possibilities, so that this promotion of startups is, is in there. And of course, we need also more, uh, risk capital. And one-third of the risk capital worldwide is spent in Silicon Valley, and that's of course a big advantage. Then we have to modernize this as well. So, um, yes, there are deficits, no doubt about But on the other side, still, the industrial production in Europe is well advanced compared to others.

**[00:21:00.12] - Cecilia Malmström**

But there are so many different items being discussed here. I mean, Europe has also been discussing maybe lowering the car tariffs on cars from 10%, which is the global tariff that Europe has with all countries with whom there are no trade agreements, from 10% to 2.5%. Whether that would really change The trade patterns or not remains to be seen, but that could be seen as some sort of gesture that is— but if you want to negotiate these things, it's really hard if you come with AI, with the digital regulations, with NATO and weapons because they are different. Europe is so complex that there are different people responsible for different items. And also the digital regulations, whatever you think about them, is the product of 5 years of negotiations with member states, the European Parliament, and so on. They cannot be changed over a week just because Elon Musk don't like them. So it's complex. But could this be, if we try to be a bit optimistic, could this be a moment where we could sit down and address a variety of issues and try to come with something constructive for, because Europe is engaged in simplification and to a certain extent deregulation and facilitation of the rules as well.

**[00:22:16.00]**

So this will will certainly push Europe to get its act together, I hope. Let's see if that's the case. Do you think there could be something positive coming out of this, Bernd?

**[00:22:26.15] - Michael Froman**

You know, I do. I'm sorry, I'm sorry, Bernd. No, no, no, whoever. No, no, no, start, little player, after you.

**[00:22:32.12] - Bernd Lange**

Yeah, of course we will negotiate. Remember, Mike, and Cecilia, we had this famous agreement on tariff and quota-free access from ham from lobster from the United States into European Union. This was economically not so important, but perhaps it was important to de-escalate the situation. And therefore, yeah, we were trying in on the tariffs. Yeah, look, right, right, we are reflecting to lower the 10% tariffs for cars, um, and of course on the MFN basis, so for all producer of cars worldwide. But this is not so economically important for us because the main producer from Japan and Korea are in, in Europe. And I guess only Mazda, one, one car type, is really totally imported from, from Japan. So it should be possible to, to find some agreement because such a Trade war is not in the interest of nobody. But let's see what is possible. But it's totally clear that we are not negotiating European legislation. That's also for sure. And therefore, it's two sides of the coin, trying to negotiate and find a solution. But on the other side, we're strong to use our possibilities as well. And yeah, the question of competitiveness and also make some kind of simplification is on the agenda.

**[00:24:21.19]**

We will have a fleet, as Waldis Dombrovskis said, fleet of omnibus regulation to make legislation much more simple and coherent. And this might be help also to stabilize industrial production in Europe. Mike, before you answer, I have one question. There is a suspect that coming back also to the question of Cecilia, that the income of this external revenue agency, this new one, is not part of the budget but is really in the hands of the president. Is this true or is this a bad suspect?

**[00:25:02.13] - Michael Froman**

Well, first of all, I think it's all theoretical at this point in terms of the creation of this external revenue service. But I think there's been talk about how the US should develop a sovereign wealth fund, and as many other countries have, and that the sovereign wealth fund could be funded in part by tariff revenue. But even that, of course, is highly speculative, would likely require legislation, and how that would be governed, I think, remains to be seen. It varies from one, you know, from one country to another in terms of how sovereign wealth funds are dealt with. You know, I think the point is a good one, which is, look, Europe for its own reasons will decide how much deregulation, simplification, etc., it needs to go through in order to address its productivity and growth challenges. You know, these figures are slightly misleading, but in 2014,

2015, the US and the eurozone economies were exactly the same size, \$14.5 trillion. The US economy is now 70% larger. Now, there's the strengthening of the dollar. There's a variety of other things, but there is a productivity and growth problem in Europe that I think everyone recognizes.

**[00:26:26.27]**

And that's what, again, Draghi and the Commission, von der Leyen and others have been so focused on. And I think addressing some of those issues could address some of the concerns that the US also has about the regulatory regime. But those are going to be issues that Europe's going to have to, I think, Europe's going to have to deal with. I think, Cecilia, on your question of what positive could come out of this, I think one thing positive, we are more similar in our views towards China now than we have been in the past. I think before the US was raising concerns and Europe felt, oh, well, we don't want to get pulled into a US-China dispute, we can do our own thing. Particularly Germany felt like, you know, we can do our own thing vis-à-vis China. Now we see that market share of German autos in China is shrinking as China puts pressure on it through domestic preferences. And that Chinese market share of the auto sector in Europe, including in Germany, is growing very fast. I mean, the last figures I saw went from 4% to 14% in a year. There's a real issue there for Germany and for Europe about the future of the auto sector and other manufacturing sectors.

**[00:27:47.14]**

And I think, you know, we've been ringing the alarm bells for a while, but I think instead of trying to chart a third way, figuring out how, where we have common views and how to pursue them together would be a very positive development. Now, Europe will take a different approach than we do. Europe seems quite open to Chinese investment, in fact is encouraging Chinese investment in the auto sector in Europe, which may come at the expense of traditional German and European auto manufacturers, but will create jobs in Europe and conceivably bring in innovation from, from the Chinese electric vehicle sector. US is a little more schizophrenic about whether we want Chinese vehicles, even those made in the United States, or whether we're concerned about the data practices and the like. And so that's a conversation I think worth having between Europe and the United States to see to see, you know, are we on a common strategy towards dealing with what is a common challenge.

**[00:28:51.08] - Cecilia Malmström**

How do you see that, Bernd?

**[00:28:55.25] - Bernd Lange**

I guess Mike is right, there are a lot of common interests, and in this famous TTC, this Trade and Technology Council, we discussed a lot of issues, and there are also an understanding for example, regarding export control. And if we can organize something in real partnership without any unilateral pressure, then of course it's workable. And we have a comment specifically in digital devices that we have also some security doubts. Or regarding the foreign direct investment, as you know, we are reviewing our legislation at the moment. So that we can be sure that we can— that we only accept investment which is in our political and economic interests. So there are a lot of elements where we can really work together, but of course we are still a member of WTO, and China as well, and we expect respecting the rules, and we are fighting, as you know, with our anti-dumping, anti-subsidies regulation, the International Public procurement regulation, which is now for the first time used also against China regarding the restrictions in the public procurement on medical devices. So the methods to tackle the unfair competition from China is indeed a little bit different.

**[00:30:30.29] - Cecilia Malmström**

There are, even if there are different approaches for the more de-risking policy from European Union and decoupling at least has been from the US. There are, as you both have mentioned, common interest on some export control and dual-use exports with China. In Europe, we are very concerned about the trade between China and Russia, obviously, as well. That has not been spoken so much about yet by this administration. But one area where we are both very dependent on China is in the area of critical mineral and rare rare earth. Could there be a possibility to do something there jointly, some joint investments in other countries to diversify, to maybe reduce the dependence from China, but try to work with other countries? These are complicated matters. They take a long time. It's very expensive to invest. We know that China controls and processes a lot of the production worldwide, but that also the benefits of that is not given to the host So maybe there could be a different approach there. Canada has voiced some of these ideas as well. Is this something when the immediate tensions now have calmed down a little bit, is this an area where there could be possible cooperation?

**[00:31:42.23]**

What do you see, Mike?

**[00:31:44.18] - Michael Froman**

I think that's— I think that is an area that's ripe for cooperation. We have common interests. As you know, these critical minerals, rare earths are actually not very rare. They're found all over

the for the world, including parts of Europe and North America. But it's the processing. It's messy, including from an environmental perspective. And so China's been willing to do it for the world up to now. And we do need to diversify our supply chains in that regard. And I think having, you know, there was talk, I believe Europe came forward with some ideas about a critical minerals club of some sort. I think, I think there is, I think that is worth pursuing.

**[00:32:30.06] - Cecilia Malmström**

You think this is something the administration could consider? A little bit further into Monday?

**[00:32:34.21] - Michael Froman**

I think so. I mean, things that are sort of de-risking, diversifying, creating more resilient supply chains, reducing dependency on, on a single source of processing. I think that's all very positive. But these things take time too. I mean, and I know in the US, our environmental environmental regulations take a lot of time to work through. And this administration has declared it's going to roll back some of those environmental regulations or permit more active permitting. I imagine in Europe, some of the same issues. You know, right now we're talking about Ukraine, where there's a lot of critical minerals and rare earth, some of which is in eastern Ukraine, but some of which is spread around the rest of Ukraine. And Ukraine, you know, the President Trump announced the other day that he thinks there's a \$500 billion deal to be made compensate the West for its support of Ukraine by taking advantage of its mineral resources. So I think there is work to be done together in that area.

**[00:33:33.13] - Cecilia Malmström**

How do you see this, Bernd? Is this something that's being discussed in the Parliament and with the political leaders of Europe?

**[00:33:40.23] - Bernd Lange**

Not really discussed, but the doors are open, no doubt about it. We need really to diversify our supply chain, that's for sure. And as you know, we made this analysis that 5% of products coming from China are in risk because they are really high-risk products. And we have only one supplier, and that's China. And in this product basket, we have to really look for other suppliers. And as you know, we really had this discussion with Chile on the double pricing for lithium so that we can really give added value and processing for lithium in Chile as well. So it makes no sense to transport the lithium to China and have the processing there and having only 70% worldwide supply only from China. So there is a need and there is of course possibility to work together. And I spoke in the last weeks a lot with big mining companies, also not so easy and so

fast to go for mining and having a processing structure as well. So, Rio Tinto, for example, is quite interesting in having support in new processing possibilities, not only in Europe or the United States, but also in other reliable partner countries like Canada, like Australia.

**[00:35:10.20]**

And Australia is also for us quite interesting. We As you know, Cecilia, we negotiated also this Australia trade agreement. Unfortunately, it was not concluded because of the agricultural sector. But they have, I guess, in May elections, and after the elections, we will come back. And you mentioned at the beginning that might be there will be an exception on these tariffs for Australia. So also Australia is in the mind of President Trump. Perhaps we can have a look together on this reliable partner, Australia.

**[00:35:44.21] - Cecilia Malmström**

These trade agreements that you referred to, and just before Christmas it was formally concluded with the Mercosur countries between the EU and Mercosur, Argentina, Brazil, Uruguay, and Paraguay. It's been negotiated for 20 years back and forth, but now it's at least concluded on a political level. Now it has to be formally ratified, of course. And also with Mexico, an agreement has been in the making for quite some time, and I know that Negotiations have been launched with Malaysia and you refer to Australia, which should be able to overcome the difficulties there. So this is also a strategy of spreading the dependence, so to try to have more friends if there are complications in the US-EU trade relation and other trade, other relations, obviously. But from the Trump administration side, what it did or had threatened to do towards Canada and Mexico is of course something that would affect the trade relationship that is in the USMCA and that is soon up for revision as well. Do you see any possibilities again on a little longer term, Mike, for the US also actively engaging in trade, or is it just tariffs and tit-for-tat? Could there be something more long-term there?

**[00:37:00.05] - Michael Froman**

If you mean engaging in big new free trade agreement negotiations? My sense is probably not. There might be an exception here or there. You know, every once in a while they talk about the UK.

**[00:37:13.02] - Cecilia Malmström**

Ja, they talk a lot about it, at least.

**[00:37:15.03] - Michael Froman**

Or picking up Kenya, which we flagged at the end of the Obama administration and the first Trump administration sort of kept on conversations with regard to Kenya. But, you know, I think the USMCA is up for review. My sense is, on one hand, President Trump was very proud of the USMCA, took credit for the significant renegotiation of—

**[00:37:44.04] - Cecilia Malmström**

That you did a long time ago.

**[00:37:50.05] - Michael Froman**

And I think Bob Lighthizer, I think, successfully secured broad bipartisan support for it. Which I think is a significant achievement. You know, I think the question is, one issue that will need to be put on the table is how China is using Mexico in particular as a platform for exports to the United States, and whether it's formal transshipment or indeed whether it's— even if it's not transshipment, if it's production in Mexico, but as a way of avoiding the tariffs being imposed on China, one could see a situation where we move from what we traditionally know as rules of origin, what countries the products are coming from, to rules of ownership and what companies they're coming from. And you can see a new form of protectionism where we're going to let in products from Mexico except those from Chinese companies that what we have tried to impose tariffs on in China, because we've seen Chinese investment now move to Malaysia, Vietnam, Mexico, elsewhere in an effort to, to try and avoid the tariffs that are on, on China itself. So my guess is it's going to be a tough negotiation with, with particularly with Mexico, but, but also with Canada.

**[00:39:12.19]**

Hopefully it will stay in place, the, the renegotiated NAFTA, and then you know, we'll see what that does with the— with supply chains.

**[00:39:24.03] - Cecilia Malmström**

You referred just— yes, Bernd, you wanted to comment on this.

**[00:39:26.26] - Bernd Lange**

This has, of course, also a lot of implications for European producers based in Mexico. Also, about 400,000 cars are produced in Mexico from European producers for the United States

market, also small and medium-sized companies. Are there. So it's not just targeting Chinese producers in Mexico now.

**[00:39:52.08] - Cecilia Malmström**

No, it becomes complicated. You mentioned before, Bernd, the importance for the EU to also stay within the WTO rules. And I know it's very popular now to talk about the weakness of WTO and the difficulties, and we know that that has been going on for a long time, but still 166 countries is a member of the WTO and most trade is still performed under its rules. But do you think there is a risk that the EU, because of the current political debate where everything is on the table and where the traditional rules and political order doesn't really work, that the EU as well sort of is tempted to do things that would not be compliant with the WTO?

**[00:40:38.21] - Bernd Lange**

Luis is there, Cecilia? No, but I had just before a discussion about local content in the automotive industry. We have this CDIC dialogue about strengthening our automotive industry, and one element is really to require local content in the supply chain. And then of course we are really hard at the border with WTO rules, and let's see how we can overcome this with clear criteria so that we're not excluding other countries on that. But the risk is there. But nevertheless, we are really trying to stabilize this organization. And of course, also the United States is until now involved in negotiation on, on e-commerce and on investment facilitation agreement and so on. The main problem is of course regarding the dispute settlement mechanism, but nevertheless there is still a movement. And the main issue we have with WTO is of course India. So it's a partner which is not so proactive as expected, and therefore we have a lot of contact to India. Even the whole Commission with Ursula von der Leyen and the Commissioners is going to India to discuss bilateral relations, but also the multilateral issue.

**[00:42:09.27] - Cecilia Malmström**

Do you think, Mike, that there is any option at all for the US to engage on a lower level in the WHO? The last 10 years we have seen a presence, but not a very strong leadership role. Since you left actually, Mike, in the WTO, do you think that there hasn't been an ambassador appointed yet, but it's still early in the this season? Do you think there's any scope at all for some engagement in WTO? Because there are things that would really be in the US interest there as well.

**[00:42:43.09] - Michael Froman**

You know, look, I think the WTO is very much, as you said, Cecilia, in a weakened state and some degree of crisis, institutional crisis in terms of what its role really is. We're sort of pretending it's not, but it really is. You know, it plays 3 roles: a forum for multilateral negotiations, a place where they review trade policies, and a dispute settlement procedure. There are no major, real, meaningful multilateral negotiations going on. There's no dispute settlement really going on. There's, of course, the voluntary stuff, but the global system has broken down. And even the review of trade policies, you know, countries don't report everything they should be reporting. And so, you know, countries have had to report on each other because they've not really participated actively in that process. I think, you know, and I look, I note that the EU has been consistently committed to multilateralism and the WTO system, rules-based system, even when others have raised skepticism about it. But I think we are misdirecting our efforts if we focus on the WTO as an institution right now. What the WTO is only going to be as strong, it's only going to be as functional as the political consensus of the major trading powers that are members of it.

**[00:44:16.06]**

And we have no such consensus between the US, the EU, the other advanced industrialized countries, China, India, Brazil, et cetera. And we need to find a way to have a conversation about what is it we want from the global trading system? Can we reach agreement on what that is? And then what role an institution like the WTO plays in it? It, it's not gonna get done by fixing an institution without developing a new consensus. And right now it's hard for me to imagine the US and China, India, EU, all sitting down and having a consensus view of what they want from the global trading system. Because the Uruguay Round, while it advanced multilateralism and global governance a great deal, was— created an institution that was not really prepared to take into account an economy as big and important as China that follows a fundamentally different set of rules. And that's the fundamental issue. And, you know, we've all tried, you know, our collective strategy between the US and the EU and others had been for decades to engage China, to bring them into the global system with the goal of making them more like us from a trade perspective.

**[00:45:35.26]**

And there was good reason to believe that they would become that way because the reformers of Jiang Zemin and Zhu Rongji and others, you know, that was a direction direction they were heading in. Rightly or wrongly, we did not anticipate the U-turn represented by President Xi, which demonstrated that Chinese economic reform is not linear. It didn't go as far and as fast. And in fact, in many respects, it has been reversed. And that has created, I think, a crisis where rather than them becoming more like us, we are now becoming more like them. So, you know,

having lectured them for years about protectionism, restraints on foreign investment, and subsidization and industrial policy. Uh, they've ignored us, and now we've responded through protectionism, restraints on foreign investment, and subsidization and industrial policy. Because if you can't beat them, you know, what we've seen, if you can't beat them, then if you don't join them, you're going to find yourself without a manufacturing sector. And they don't care. China is very good about pursuing its national interest narrowly defined. It's got tremendous discipline around that, even when it comes at the expense of its trading partners. And, you know, the US has woken up to that.

**[00:46:52.20]**

And I think Europe is beginning to wake up to that. And I think that is the question that needs to be addressed. That's the substantive issue underlying the future of the rules-based system. If we can't resolve how to deal with each other over that issue, then we're not going to have a global rules-based system. We may have two systems, we may have three systems, we may have no system, but it's not going to be a multilateral rules-based system where one country gets to grow any way it wants to grow, even at the expense of others.

**[00:47:25.00] - Cecilia Malmström**

How do you see that, Bernd? I mean, I think it's difficult to have that conversation now on a short-term basis. At least, but WTO has been useful for the world and lifted many people out of poverty. And there has been attempts to work on more discipline when it comes to subsidies and so on. And there are ongoing discussions with smaller, medium-sized countries who actually want the WTO to function. Do you think the EU will be strong enough to continue to have a leading role there, or is it just sit and wait for better times?

**[00:48:04.19] - Bernd Lange**

No, we have a vital interest in WTO. You mentioned at the beginning we have round about 50% of our trade based on WTO rules and we have a lot of diversified trade sectors. We have an interest that this organization is stable and therefore we are, I guess, the most engaged partner at WTO at the moment and will do it in the future as well. Of course, Michael is right, the differences are there, and such a dialogue about the future is important. And I hope that CTG will also go ahead in, in discussing this and have the next MC in Cameroon specifically regarding the developing world, um, uh, a discussion in this direction and And Mike, this is also the question that because of the development in the last 20 years, we have together only less than one-third of global GDP, the United States and Europe together, and one-third of trade. So we are not the master of disaster alone anymore. And therefore it is also in our vital interest to

have a relation with other countries, even we are not happy about the political system or their behavior. But if we really give up, then I guess we will have a situation where specifically the countries in the Global South will choose a different way.

**[00:49:41.26]**

And looking to the BRICS and the development in BRICS and the extension of BRICS, and also looking to some economic activity in BRICS, there is a big risk But at the end of the day, we are standing alone.

**[00:50:00.01] - Cecilia Malmström**

I saw that the new Trade Commissioner, Maroš Šefčovič, visited WTO very early to convey that message. He was there in early January. He is the Trade Commissioner, but he is also Commissioner for Economic Security and Trade, and I have looked comes up in every document I could find, including his mission statement. What does that really mean? Does this mean that the EU is like— I think Mike insinuated a little bit in the beginning that the EU needs to think more broadly about economic security, about its own interests, about foreign policy in a broader context than the traditional way of looking at trade, which fewer and fewer countries are doing right now. Has there been any definition of that? Is it just a title or does it mean a new direction?

**[00:50:53.24] - Bernd Lange**

You are quite right, Cecilia, that is in the mission letter of Mariusz Šefczyński, this Economic Security Policy, and of course the link between foreign policy, security policy, and trade policy is there. But what does it mean exactly? In the mission letter there is the formulation that Mariusz should come up with the Economic Security Doctrine. And I was a little bit surprised. I know the Truman Doctrine and some other doctrine. So they have always the clear approach to validity for everybody. And I asked him, what is the Šefcovič Doctrine now? But at the moment, there is no clear answer. So reflecting, there is a link I think there's a necessity to have a coherent approach, but what does it mean in practice? It's in the air.

**[00:51:50.08] - Cecilia Malmström**

But could this, if it brings us back to the first minutes of this conversation, where according to the Trump administration, everything is on the table, tariff is just, you know, a debating tactic maybe, or just the start of the conversation, we talk about NATO contribution, we talk about deregulation in the tech area, we talk about Greenland, we talk about lots of other things. So if the EU now has a more economic security approach to this, would this actually facilitate

conversation on a much broader point of view? Do you think that the EU has been a bit too naive, Mike, to try to stick to the traditional way of doing trade?

**[00:52:29.24] - Michael Froman**

Well, I think on one hand, the EU's been more ideologically committed to that than than, than the US has. Certainly, I won't, I won't, I won't say naive. I'll leave that to others to judge. But I think what's happened in the meantime is that there has been the convergence of national security and economics, and they're really not two completely separate fields anymore. And so whether it's over the, over technology, and which countries are going to be leaders in critical technologies, technologies that are critical to national security, military intelligence, as well as broader economic competitiveness, which, of course, at the heart of national security is the competitiveness of our economies, um, uh, or whether it's over specific actions that need to be taken to protect You know, this chip, this model, this kind of capability. I mean, these are the kinds of things I think we now need to think about. And I'm, you know, I spend a fair amount of time in this job with, with folks from the US military. I'm amazed at how seriously they are delving into issues like supply chains and thinking about economics and how this has to affect how they do their job, you know, as well as when you go out to Silicon Valley and you— where there used to be a bit of an aversion by some in the technology field to working on national security issues.

**[00:54:08.15]**

Now what we call defense tech is one of the fastest growing areas of venture capital investment because the nexus of AI and autonomy, autonomous vehicles, vehicles and drones, et cetera, are creating all sorts of opportunities both in the commercial field, but also in the, in the national security field. So I think, I think this is a critical area. It's a real challenge for policymakers to understand what are the parameters, what are the limiting principles of economic security? Like when should the government intervene in the market to put constraints on technology or to, to disallow investment? You know, how do you do it in a way where it doesn't become a slippery slope or a Pandora's box and suddenly becomes an excuse just for protectionism? But what are the legitimate needs, the legitimate economic security needs that require government intervention on everything from, as I mentioned, export controls, foreign investment constraints, but also industrial policy? You've seen it in the US, the CHIPS Act. It's all about a recognition that, you know, chips are absolutely critical to our overall economic competitiveness, but also our national security. We cannot be completely dependent on Taiwan for production, particularly given Taiwan's precarious position.

**[00:55:29.25]**

And therefore, we need to have at least some capacity to produce in the United States. And it's the CHIPS Act, which has dispersed close to all of its \$50 or \$60 billion, has crowded in hundreds of billions of dollars of investment now. Into the US to build out. It's going to take years. We're still going to be dependent largely on Taiwan and others, but we'll have more capacity than we have now on a critical technology that is critical to our national security as well as our economic competitiveness.

**[00:55:59.15] - Cecilia Malmström**

Some of these are global problems. So doesn't that underline in a way the need for some basic global rules in order to deal with this so that it doesn't totally become the strength of the mighty. Obviously, we're not there right now. It will be difficult, but these rules have served the world rather well the last decades.

**[00:56:24.10] - Michael Froman**

You know, on that point, I'm sorry, just to say, on that point, let me just add that I think a really interesting area of dialogue between the US and Europe could be how do you make the notion of friendshoring real, or trusted partner, I think, as you or Bernd used earlier. We can't do everything ourselves. Europe can't do everything itself. Having a real understanding of what the division of labor might be and what we can rely on each other for, I think, would be another useful thing. The critical minerals is one idea, but my guess is on a number of other, particularly technology issues, there may be opportunities there as well.

**[00:57:11.07] - Bernd Lange**

But we have to have really a clear definition what national or economic security is. I had a wonderful lunch with a Republican senator, and he said, yeah, national security is the economic development of the United States, so more or less everything. And that, of course, with such a broad definition, it's complicated to identify every concrete measure.

**[00:57:35.23] - Michael Froman**

But I'll give you an example. You know, we, uh, the U.S. made a major effort to convince other countries not to deploy Huawei or ZTE as their telecommunications infrastructure and try to explain to countries what they would be putting at risk by doing so. The US produces none of that infrastructure ourselves. We don't produce any of that equipment. The beneficiaries are Ericsson and Nokia largely. So that's a good division of labor. It's a recognition that this wasn't about the US economy. It was US saying, this is a serious national security issue that the rest of the world is not taking seriously. By the way, it's interesting. Germany still uses Huawei.

**[00:58:16.12] - Cecilia Malmström**

Sweden doesn't.

**[00:58:18.00] - Michael Froman**

Sweden doesn't.

**[00:58:18.23] - Cecilia Malmström**

Totally banned.

**[00:58:19.22] - Michael Froman**

But the beneficiaries of that were not were not US companies, they were European companies, and that was fine because we don't have that capability in our economy anymore. So I think there are areas like that where we could partner and have stronger division of labor.

**[00:58:37.11] - Cecilia Malmström**

What do you mean that?

**[00:58:40.07] - Bernd Lange**

Military mobility, I guess, is also underestimated in Europe, and this is also linked to trade, the ships and the transport So there is a lot to do and there is of course this link, but we have not a proper definition what does it mean. But of course, the coherence is necessary and coming back to our first discussion about President Trump, also in the Commission, Cecilia, we have now a task force with different DGs sitting together and how to react on some threats. So there will be a change in trade policy in the direction of a more coherence with other policies.

**[00:59:21.18] - Cecilia Malmström**

Well, maybe that is ending on a slightly positive note. Of course, the EU has a very long to-do list to do independently, who sits in the White House when it comes to simplification, when it comes to innovation, competitiveness, and looking over its own rules, work that is ongoing and needs to be speeded up. And even if it will be bumpy the coming weeks and months, maybe, probably new tariffs will be coming as well. There are some areas where we potentially could sit down and talk together over the Atlantic that would be mutually beneficial. So let's see. I think the last word has not been said on this. There will be lots of other new declarations and threats

and maybe some invitations for a conversation as well. It's been fascinating. Thank you so so much for your time. Michael Froman, President of the Council on Foreign Relations, a former USTR, and Antti Lajne, who is Chairman in the European Parliament of the INTA, which is the trade committee. Thank you so much for joining us this morning or this afternoon, and thanks to you who have been listening.

**[01:00:30.09] - Michael Froman**

Great to see you.

**[01:00:31.01] - Bernd Lange**

Thanks a lot, Cecilia.

**[01:00:32.16] - Cecilia Malmström**

Thank you.