

Peterson Institute for International Economics

The EU's new era of trade and geopolitical challenges

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[00:00:40.14] - Anjali V. Bhatt

Hi, and welcome to PIIE Insider Live. I'm Anjali Bhatt. I'm a research fellow and communications manager here at the Peterson Institute for International Economics. I often say that one of the best parts of my job is that I can just walk into the office of some of the world's top economics experts and ask them anything. And then they answer. So with PIIE Insider Live, you get to come with me to ask those questions and get those answers. Today we're speaking with Cecilia Malmström, a nonresident senior fellow here at the Peterson Institute and host of our virtual series Tradewinds. Cecilia is in town all the way from Sweden and has had a long career in European politics, serving in the Swedish government and at the EU level, and most recently was the European Commissioner for Trade from 2014 to 2019. We're going to start with covering trade first, and then we'll move into sort of the broader geopolitical challenges that, that the EU is facing. A quick housekeeping for our live audience. There will be time for questions at the end, so go ahead and submit those via the Q&A function thing. Please don't use the raise hand, just the text box, and then make sure that your name is visible and included with the question.

[00:01:42.14]

So with that, hi Cecilia, thanks for joining us. Good morning.

[00:01:45.27] - Cecilia Malmström

It's a pleasure.

[00:01:47.02] - Anjali V. Bhatt

So when was the last time you were in the US and what is it like now and what's it like in Europe?

[00:01:54.03] - Cecilia Malmström

Well, I was here in October. I left just a couple of days before the election. So, of course, a lot of tensions there. Now I'm back. It's great to be back, as always. I think lots of people here and in Europe are trying to cope with all the enormous speeds of executive orders and tweets and statements and decisions and so on, trying to sort out what is happening, what's— how will it affect us and so on. And that's the situation in Europe as well. We are following with some concern, some of the decisions, and also see, well, you know, what, where is all this leading?

[00:02:32.21] - Anjali V. Bhatt

Yeah, we also want to do that. Okay, so let's start with trade. Broadly speaking, how do Europeans view trade and how does that differ from Americans? And particularly, how does that differ from the Trump administration's approach to trade?

[00:02:51.11] - Cecilia Malmström

Well, I'm not going to start from the beginning, but Europe and the US together built up the institutions that we have today under American leadership, the World Bank, IMF, GATT, that later became WTO, because we thought trade was a good thing and interaction, and that led to economic growth and more jobs and investments and prosperity. And it has. And even if we have, of course, people who are skeptical to trade, we have sometimes demonstrations, mainly the farmers who are concerned, and we have pop populist parties who are exploiting this. But overall, I would say that people are rather in favor of trade. The EU has more trade agreements than any other person, any other country. We, we are very supportive of the multilateral trading system, the WTO, and the whole internal market now covering more than 450 million people is built on the idea that you trade freely with each other with the common rules and common concepts. So trade has been very good for the European Union and both for us internally and reaching out to other partners. As well. And I have seen that not only under this administration, but, you know, the last— trade is something that is not seen as a good thing here.

[00:04:01.14]

And that's a pity because we need each other. We have a very strong trading relationship with each other across the Atlantic. It's been good. It creates jobs and investments and growth. And it also unites people in a way that is very, you know, cooperate on so many other fields. So it's— we I would say that we are probably much more in favor of trade.

[00:04:25.29] - Anjali V. Bhatt

So a trade war between the US and the EU has happened before, and you were right in the middle of that as, as commissioner. So at the time in 2018, the US put tariffs on EU steel and

aluminum, but then there were other sort of trade spats at the same time. What was that sort of like when you were commissioner?

[00:04:50.01] - Cecilia Malmström

Well, there have been trade conflicts during decades between us, and they're always very sour and annoying, but we solve them and then we move on. But last time there was these tariffs on trade in aluminum against the whole world. So not only the EU, 25% on steel and 10% on aluminum. And that was, we tried to find a solution before they were imposed. I had daily contacts, always almost with the, with the Department of Commerce to try to find a way, because our common concern was overproduction from China. It wasn't really the European production that was a threat to national security, which many Europeans thought as very insulting. How can we be a threat to national security when we're allies and friends? Those negotiations and talks, they led nowhere. So the tariffs were there, and we took it together with 11 other countries. We took it to the WTO. And then after some time, we imposed counter-tariffs, um, on, on orange juice from Florida, on whiskey, on peanut butter, on Levi's jeans, on, uh, Harley-Davidson motorbikes, and a few others. And that was you? That was me.

[00:06:00.22] - Anjali V. Bhatt

You decided that?

[00:06:01.28] - Cecilia Malmström

But yeah, well, together with the staff at DG Trade, obviously. Yes. Now, we calculated that.

[00:06:06.04] - Anjali V. Bhatt

So what was the strategy there for the the whiskey and the orange juice and what— why those products?

[00:06:12.29] - Cecilia Malmström

Well, I think they were iconic products that would, you know, raise attention and of course targeting at that time some of the Republican states, but also chosen in a way to minimize the harm done to European consumers because tariffs are taxes. They lead to higher prices for consumers, they lead to inflation, and they cause disturbances in the economy. So we wanted to minimize the effects of European consumers finding products where we could have replacement from other countries so that they would not be, you know, so they could find other alternatives. And then there was a discussion about other tariffs. We talked— the administration

at that time talked about cars and wine and so on, like today. At that time, we— and then the tariffs were in place, the countermeasures. So we, together with my boss Jean-Claude Juncker, who was the president of the Commission, we went to the White House and we met with President Trump and several of his secretaries. I think there 4 or 5 in the room, and we tried to make a deal. And there was a deal. It was a very small deal, but it was a deal where Europe committed to buy more LNG gas and soya beans.

[00:07:25.12]

We agreed to cooperate on a few areas more directed vis-à-vis China in the WHO, and there were some promises to eliminate tariffs, which happened a little bit later, on seafood, lobsters from Maine. And so a small deal, but a deal. And the other tariff never came. Was that because of the deal? Maybe. Was it because it was late in the mandate? I don't know. But now we're together. Now we are back in the same situation.

[00:07:52.07] - Anjali V. Bhatt

Yeah. So the retaliation package that you had put together in the first Trump administration, those are coming back.

[00:08:02.25] - Cecilia Malmström

Yes, because they were suspended under the Biden administration because we were trying to find together a solution to— because the tariffs on steel and aluminum were transformed to quotas. Which is less bad but still harmful for industry. So we were trying to find a solution. So they were suspended, but that solution never came about. And now the suspension deadline ends very conveniently. So now the Commission, new Commission, has decided to, you know, they will enter into force as a response to the new tariffs on steel and aluminum that have now affected the EU and the rest of the world as well.

[00:08:39.23] - Anjali V. Bhatt

So the, the retaliation package that was suspended during the Biden administration at that time, it had already been decided that they would go back into force at the end of March 2025.

[00:08:52.21] - Cecilia Malmström

Well, there are several deadlines. It's a bit procedural. They would suspend it twice, actually. So there's a special deadline and there's a special— and if, if there's no active new decision, they

enter automatically into force the 31st, the 1st of April this year in a couple of weeks. Remarkably timely indeed.

[00:09:10.07] - Anjali V. Bhatt

Yeah. What a coincidence.

[00:09:12.05] - Cecilia Malmström

And so in French, we have an expression saying, plus ça change, plus c'est la même chose. The more it changes, the more it's the same thing.

[00:09:21.08] - Anjali V. Bhatt

Yep. And then just this morning, it was reported that on that retaliation package, the EU will be delaying— that's going back into force. The EU will be delaying some of these really high tariffs. Only on the American whiskey. And when I called you this morning to mention this to you, you said, oh, this is just how it is now. What does that mean?

[00:09:43.03] - Cecilia Malmström

Well, you know, the tariff policies, they're on, they're off, they are delayed, they come back, they're 10%, they're 50%, there are exceptions or maybe not. I mean, we have seen a very random policy from, from the administration. And of course, in the EU, we don't want these tariffs. But if there has to be a way to also show countermeasures and with this old package entering into force, there has also been a call for consultations with the stakeholders to prepare a longer list of counter tariffs or countermeasures when and if the reciprocal tariffs will be probably announced the 2nd of April. But I heard this morning as well that whiskey has been taken off the list, maybe to show some goodwill that we are ready to talk to. And that has been from On the very first day of this administration, the US said, we are willing to talk. The problem is, what shall we talk about? I mean, there's a lot on the agenda. It's not only tariffs. We can discuss the level of tariffs, and they are put on a certain level because of WTO commitments and so on. And we don't have a trade agreement between the EU and the US.

[00:10:50.05]

I tried to negotiate one, TTIP, or we tried during many years. Unfortunately, that never came into fruition. I still think it's a good idea, but it will not happen in the near future. So that's, you know, the EU is sort of preparing itself for countermeasures if necessary.

[00:11:09.10] - Anjali V. Bhatt

There's so many interesting things that we could cover there.

[00:11:12.10] - Cecilia Malmström

You can read about it in my memoirs.

[00:11:14.17] - Anjali V. Bhatt

Excellent. Before we get into the reciprocal tariffs, because I do want to talk about that, this consultation practice process that the Commission is doing now for the longer list of tariffs, what other kinds of products do you think would be included in that?

[00:11:30.17] - Cecilia Malmström

Well, everything is on the table. It's goods on the first term. It's, I think I saw a preliminary list, it's everything from textiles to woods to different agricultural products, plastics, what have you. And anything could be discussed on this. And then of course there are other measures that could be used if the conflict becomes really nasty. The EU has a new instrument called the anti-coercion instrument that has never been used. The idea emerged after conflict between one of our member countries, Lithuania, and China, when Lithuania wanted to open a kind of Taipei office in Vilnius, its capital, and that, that made China very angry. So they interrupted all trade with Lithuania. And then as the EU has a common trade policy, the Lithuanians and others thought we need to have some sort of measures where we can act when there is kind of tariff measures or trade measures taken against the EU that are not, that could be of different kinds, not only tariffs, it could be other kinds of export restrictions or coercion, as it's called. And that gives the EU the power to, you know, could be export restrictions, it could be limited access to the internal market, which is important, or public procurement market, IP issues, and so on.

[00:12:57.02]

So that can be quite a harsh instrument. But it's never been used. So it will be, you know, very carefully designed to make sure that it is legal and comprehensive and so on. But that needs to be consulted by mem— with member states, of course.

[00:13:09.11] - Anjali V. Bhatt

It was created to, to deal with China, but—

[00:13:13.05] - Cecilia Malmström

and the first time it might be used might be with the US.

[00:13:17.15] - Anjali V. Bhatt

Yeah, times are changing.

[00:13:18.27] - Cecilia Malmström

It's very sad, all this. I think— I mean, the best thing would be if we sat together and tried to find a way, because there are many areas where we should facilitate trade between the EU and the US. And we could do that even if we don't do a trade agreement. And there are areas where we could cooperate. We have similar views on some of the problems related to China, on overcapacity, on subsidies, on forced technology transfer, on dual use, and so on. And we have areas where we could deepen our cooperation when it comes to our joint dependence on rare earth and critical minerals and so on.

[00:13:57.27] - Anjali V. Bhatt

There are lots of opportunities for cooperation.

[00:14:00.04] - Cecilia Malmström

There's lots to talk about in a constructive mood.

[00:14:03.08] - Anjali V. Bhatt

Yeah. Well, we talked about April 1st, April 2nd a lot, and that means the reciprocal tariffs. What does that mean to you and what do you think is going to happen?

[00:14:17.18] - Cecilia Malmström

Well, this is what everybody's trying to figure out, and this is what I meant in the beginning. We're trying to sort of make sense of all these statements, what's real and what's just you know, for the political debate. And it seems as if this administration sees everything that is unfair as not reciprocal. And that is VAT, which is traditionally—

[00:14:40.12] - Anjali V. Bhatt

Explain VAT.

[00:14:41.16] - Cecilia Malmström

VAT is a sort of value-added tax that Europe has. Not the same, it differs between the member states, but everybody has to pay it. Our consumers pay it, our companies pay it, and also, of course, our trading partners pay it. Greenland seems to be on the agenda. And tech rules that are perceived from the US administration as unfair. And in the EU, we have struggled many, many years to get some, some rules that also would put pressure to the big tech companies to take responsibility of what's on their platforms. And you can discuss, you know, the details of this, but this is very comprehensive laws that have taken many years to get through. So they're not going to change like that. It's a very complicated procedure. So that makes it also a bit difficult. So what's— what should we talk about? What's on the agenda? How can we negotiate if everything is on the agenda?

[00:15:37.14] - Anjali V. Bhatt

So, I mean, I guess all of those policies that you just said are also counted as unfair trade practices or according to the administration.

[00:15:47.15] - Cecilia Malmström

And the administration think that the EU is taking advantage in a bad way of the, the, um, the US because we have higher tariffs, uh, and that, that is true and not true. I mean, on average, the tariffs are quite low between the EU and, and the US, uh, but as we do not have a trade agreement, these are the tariffs that we have with the world with no trade agreements. And the EU's tariffs on cars are 10%, for instance, and the US are 2.5%. But the US have tariffs on trucks 25%, and I think ours are 6.5%. So if you take all the products or the goods together, I think the average tariffs from the US are like 3.9% and the EU 5.1%. So a little bit higher, true. Yeah, but not a dramatic difference. And that's what we tried to address when we negotiated TTIP, which was this big trade agreement. And the EU, my successor, Commissioner Mare Šefčovič have said, you know, we can look at these car tariffs if that is the problem. But then there has to be a give and take in a negotiation. You just don't give, you take as well, right?

[00:16:56.25]

So we'll see.

[00:16:59.28] - Anjali V. Bhatt

Let's talk about TTIP for a second. I know that you worked a lot on that.

[00:17:04.05] - Cecilia Malmström

Yeah, under several administrations. I mean, both under the Obama and the Trump one.

[00:17:08.21] - Anjali V. Bhatt

So that would have been a free trade agreement between the US and the EU. Would it cover most products?

[00:17:15.05] - Cecilia Malmström

Well, the intention was that it would cover everything.

[00:17:17.17] - Anjali V. Bhatt

Wow.

[00:17:18.24] - Cecilia Malmström

All the goods and the services and, you know, public procurement, energy disciplines, sustainable development, everything. A trade agreement typically has like 30 different chapters, and that would have been— it was difficult because we are two big economic powers who don't really want to give in. I mean, on agriculture, we both subsidize our agriculture. And then there are different ways of making rules. That was complicated as well. We might have, you know, gotten there at the end. Maybe someday.

[00:17:55.12] - Anjali V. Bhatt

Maybe someday.

[00:17:56.00] - Cecilia Malmström

Maybe someday.

[00:17:57.04] - Anjali V. Bhatt

So during when you were trade commissioner and then also now, the EU has been concluding quite a few trade agreements with other countries. Which ones did you work on? What did that look like and what is the EU pursuing now?

[00:18:12.13] - Cecilia Malmström

Well, we concluded quite a lot actually with a group of very successful negotiators as well. So we were able to conclude when I was Trade Commissioner with Canada, with Japan, Singapore, Vietnam, several in, in regions of Africa, Central America. We launched Chile, Chile and New Zealand are now into force. They were concluded a little bit later. And we launched negotiations on several others. And now, Mexico has just been concluded. Mercosur, we almost concluded it, but then, well, lots of geopolitics and the Amazonas came into this as well. So that is now being in the process of ratification. It has to be decided by member states, obviously. There are very advanced negotiations ongoing with Indonesia. They have just relaunched stalled negotiations with Malaysia. I hope that Australia will also take part, and I would hope that the EU could either join formally the CPTPP, this big organi— this big trade agreement with 12 countries in North America and in the Pacific that Obama launched in his time, and many countries have since signed up so that the EU could either join or at least align because these are our partners. So lots of things are going on there, actually.

[00:19:36.25] - Anjali V. Bhatt

I think the EU is also trying to do something with India.

[00:19:39.07] - Cecilia Malmström

Yes, there are talks with India. There is a sort of trade and tech council and there was a meeting trying to see a smaller agreement because, of course, a full free trade agreement with India is difficult, but a smaller, more limited one is in— it's in the making. And there was also a smaller one concluded with South Africa just a week ago, focusing on clean tech and and, well, trade in the green technology area. So maybe smaller agreements like that could be done.

[00:20:13.01] - Anjali V. Bhatt

Is that trade and technology council with India, is that similar to what the EU had with the US?

[00:20:18.26] - Cecilia Malmström

It's the same idea. Yes, same idea.

[00:20:21.29] - Anjali V. Bhatt

Yeah. Well, and where's the EU-US trade and technology council now?

[00:20:26.04] - Cecilia Malmström

I haven't heard about it since the election, so I presume it's dead. Boring for mom.

[00:20:32.13] - Anjali V. Bhatt

Yeah, let's say it's on ice. Okay, so we have about 10 minutes left. Earlier when we were talking, you know, we were saying that the trade war is happening or is being threatened on both sides. The EU is preparing countermeasures against the US, which you don't really want to do, but are going to do it anyway. But you did also, you've told me that rather than the tariffs, it's the Trump administration's approach to Ukraine and to Russia that has really changed the transatlantic relationship.

[00:21:12.21] - Cecilia Malmström

Yes.

[00:21:14.02] - Anjali V. Bhatt

So, yeah, tell me about that.

[00:21:15.01] - Cecilia Malmström

That's true. I mean, this tariff conflict is very unfortunate. We have had in the past, maybe not as vast, But I think with a bit of goodwill, it could be overcome. It would create a lot of problems and economic chaos for a while. But the big concern in Europe and what has led many European leaders to say that the transatlantic relation is, you know, severely harmed is because of this administration's view on Ukraine. And, you know, to have the same view on the war from Moscow and Washington has really shocked Europe. Ukraine is just around the corner. And, you know, The solidarity vis-à-vis Ukraine is very, very strong in Europe. And this has affected the credibility of the relationship. And that's very sad. And I don't know what will come out of this. I mean, of course, everybody wants peace, but peace has to be, you know, made with Ukraine on Ukraine's condition, not dictated from Moscow. Moscow is the aggressor. They started the war. And Zelensky is not a dictator. He did not start the war. Hundreds and thousands of people have died. So this is really worrying. It has led to a massive sort of determination in the EU to invest more in defense and to scale up, which is needed, has been needed for a long time, but now it's happening in an unprecedented speed to see, can we, if the US is withdrawing from this support to Ukraine, can we replace it?

[00:22:47.06]

It will be difficult because also all these, I think they cost enormous amount of money, but it also takes time. It is not done over a weekend. So this is, as we speak, there is what we call a summit where heads of states and prime ministers of member states are meeting in Brussels right now to discuss these issues. There have been several proposals on how to increase the— shall we have common loans on this or bonds? How can we improve the interoperability between What's currently there? How can we lighten up the budget disciplinary rules so that countries can invest without being punished with the rules that we have? How can we cooperate with other partners such as the UK, Canada, and so on? Other countries in NATO are also supportive of Ukraine, and that discussion is going on right now. So this is something good coming out of it. But of course, we would have preferred to do this with the US as well.

[00:23:45.05] - Anjali V. Bhatt

So I think something interesting that you said there is that the level of solidarity among Europeans for Ukraine is very strong. I think that that's something that Americans don't— I mean, it's so far away from us.

[00:23:58.02] - Cecilia Malmström

But for us, it's really close.

[00:23:59.18] - Anjali V. Bhatt

Yeah, it's right there. And so this has really hastened that solidarity, right? And really strengthened how Europeans—

[00:24:08.17] - Cecilia Malmström

Because they're fighting for us. I mean, we do not trust Putin a minute. And I live in Sweden, there's Finland, and then there's Russia. And if he's given, if Putin is given Ukraine, what's next? It's Moldova, it's maybe the Baltics, Finland, Poland, who knows? So that's what's scary. So Ukraine is fighting for democracy and they're fighting for us as well.

[00:24:32.29] - Anjali V. Bhatt

So one of the things that you also said is that it's changing spending. And how member states are approaching defense spending. I know Germany, they just passed a very large—

[00:24:45.24] - Cecilia Malmström

They just passed a very difficult decision that they can relax what they call the Schuldenbremse, which is an old concept in the constitution that they cannot just borrow. They have to have very strict budgetary discipline. It's complicated. But that has now been an agreement that they will invest massively in defense. And it comes from all over Europe. My own country have in 4 years doubled our defense expenditure, which is a lot, and preparing to do more. But of course, you know, it will come at the expense of other things that could hurt, you know, healthcare, education, and so on. So it's a complicated discussion.

[00:25:27.21] - Anjali V. Bhatt

Is that something you see being a real danger to especially a lot of the larger EU member countries that are increasing a lot of their defense spending, are other public services going to suffer?

[00:25:41.12] - Cecilia Malmström

Well, that is a risk. So it has to be done carefully and with a very close and transparent dialogue with the citizens while we're doing this.

[00:25:53.15] - Anjali V. Bhatt

See. So we have a question here from Francisco Perez Gonzalez. He says the prevailing modality of diplomacy is now bilateralism. What is the role for multinational organizations? And how should we approach that now?

[00:26:11.22] - Cecilia Malmström

Well, multilateral organizations have served us well. I mean, everything from the United Nations to the WTO and all the other international organizations. Some of them are weak and they need reform, absolutely. But we should do that together because there is a global interest in having some global rules and norms and standards. It's protecting smaller states and is also protecting us from having the total rule of the jungle. And that's why the EU is a strong supporter of multilateralism, not denying that there are flaws, that the WTO should be strengthened and reformed. We would like to do that with the US and others. But, but so far, well, I think that this is not very much— this is not fashionable right now to do this. And the EU is also a kind of multilateral or international organization. In trade, it is the EU who has competence. So if there are tariffs against Denmark or Slovenia or Portugal, it is the EU who will act jointly on this.

[00:27:17.04] - Anjali V. Bhatt

Is there an opportunity, do you think, for the EU and like we've been saying at Peterson, for other like-minded countries that aren't the US to work on strengthening some of these multilateral organizations?

[00:27:29.02] - Cecilia Malmström

I think there is. And this might push countries because it did last time when there were these global tariffs on national security, it pushed countries together. We did all these trade agreements. I think this is also what's driving that, that we need to diversify our trade and we need to sort of establish a broad network of friends that we can trade with, but also cooperate. And, you know, doing things together with a group of countries who are willing or middle powers or however you want to define them and trying to say, okay, that we will at least stick to the rules between us. And yes, the US is a very important partner, But there are 203 other countries in the world, and most of them want, want there to be some, some rules and some, some predictability. And business, if business wants one thing on their Christmas list, it's predictability. And this tariff chaos is not predictable and it will not lead to increased investments and so on. So, you know.

[00:28:26.17] - Anjali V. Bhatt

It would be nice to have a little bit of certainty.

[00:28:28.29]

Yes.

[00:28:29.08] - Cecilia Malmström

Yes.

[00:28:30.13] - Anjali V. Bhatt

Okay, we are almost at time. So Cecilia, thank you so much for coming. I would just like to ask you now to wrap up, what's going to be on your radar in the next few months? What will you be looking for?

[00:28:43.08] - Cecilia Malmström

Well, I think the whole world is waiting for what will happen on the 2nd when all these global reciprocal tariffs will be announced and what's in them and what's, you know, how serious is it?

[00:28:53.13] - Anjali V. Bhatt

What they are.

[00:28:54.00] - Cecilia Malmström

What they are, how can we address them? But then of course, I'm following Ukraine very, very closely. I have been there several times. I have many friends there. I try to, we talk regularly and they are very, very concerned. So, so this would be top of my mind.

[00:29:10.11] - Anjali V. Bhatt

So figuring out what reciprocal tariffs are and the war.

[00:29:15.17] - Cecilia Malmström

Yeah.

[00:29:16.26] - Anjali V. Bhatt

All right. We are just at time then. Thank you so much, Cecilia, for joining us. And thank you everyone for joining us for this edition of PIIE Insider Live. What did you think? What do you want to see next? You can let us know by emailing us at meetings@pie.com. And if you're not already, subscribe to PIIE Insider, the newsletter, at pie.com/subscribe. Also, on the topic of the Ukraine war, our next episode will be on April 3rd with Elina Rybakova on sanctions on Russia and the war in Ukraine. Emails and registration for that will be going out shortly. So thank you so much, everyone, for joining us, and we'll see you in 2 weeks.

[00:29:57.02] - Cecilia Malmström

Thank you very much, Anjali.