

Peterson Institute for International Economics

Tariffs, tariffs, tariffs

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[00:00:32.08] - Cecilia Malmström

Good morning, good afternoon, good evening. Welcome to this episode of Trade Winds, where we will talk about tariffs. My name is Cecilia Malmström. I'm a non-resident senior fellow at the Peterson Institute for International Economics in Washington, D.C. I'm not sure if tariff is the most beautiful word in the dictionary, but it is certainly one of the most used today. Since the so-called liberation day when President Donald Trump announced his reciprocal tariffs, those of us who are trade nerds have had heydays trying to make sense out of all this. And countries across the globe are trying to figure out what a deal could look like and how it would be negotiated. But even before the 2nd of April, the Trump administration had imposed 25% tariffs on steel and aluminum as well as on car and car parts. Then there was a 90-day pause announced a week later, but the tariffs on steel, aluminum, car, and car parts still remained. And there was 10% across the board for all countries except for China, where the tariffs went up to 135% with retaliation. So far, we have seen one deal, or a small deal, with the UK and an agreement with China to lower these very high tariffs and an agreement to continue the talks.

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So the question is, of course, how is all this going to evolve? What is it exactly that President Trump seeks to achieve? Can it succeed? And what effects will it have on short-term and long-term for the global trading system? In the European Union, uh, they are quite tough times today. They are struggling with boosting their own defense and security preparedness to keep on defending and supporting Ukraine, and also painfully aware that the, so, the transatlantic relationship as we used to know it has been severely damaged. And they are also trying to see how can we boost our own internal market. And just a couple of hours ago, a new strategy to boost the internal market and to simplify the rules was launched. The EU and the US trade with each other worth \$1.6 trillion €1 trillion a year, and the transatlantic economy supports more than 16 million jobs. It has been beneficial for both sides of the ponds, and there's been different attempts to liberalize further this trade. When I was Trade Commissioner, we had the so-called

TTIP negotiations. Lately, we have had the Trade and Tech Council, where leaders met, tried to simplify rules and try to agree different things on trade.

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But it didn't achieve much, but it was a place where you could talk. Europe has threatened with retaliation on the tariffs, but so far is laying low and indicating that it is willing to, to negotiate a deal, and there has been some proposals. So how will this end, and when will it end? These are some of the things we will discuss today. I have two fantastic stellar experts with me today to help us understand what is going on. We have Chad P. Bown, Reginald Jones Senior Fellow at the Peterson Institute and a former Chief Economist at the State Department under President Biden, and also the man behind the successful podcast Trade Talks. And we have Arantxa González Lea, who is Dean at the Paris School of International Affairs at Sciences Po, a former Spanish Foreign Minister, former head of ITC, and a long career in trade at the WTO and the European Commission. So you're both very welcome. Chad, just to set the stage, what is the aim of all this from the Trump administration? What does he hope to achieve? Wow.

[00:04:20.03] - Chad P. Bown

First, thank you, Cecilia, for the invitation to join you and Arancha.

[00:04:24.25] - Cecilia Malmström

Easy question.

[00:04:25.19] - Chad P. Bown

Huge pleasure to be here. And thanks also for asking us to predict the unpredictable or understand the ununderstandable.

[00:04:34.24] - Cecilia Malmström

I will say, I don't know. Please help us.

[00:04:36.29] - Chad P. Bown

I don't know, right? And so the challenge, as we all know, is the president and the administration have laid out a number set of objectives for what they want these tariffs to achieve, and some of them are just incompatible with each other. And so eventually they're going to have to decide what the priorities are, and maybe that will be things that they know what those priorities are

already, and they'll only reveal themselves to us over time. Or maybe it will be revealed through the process of negotiations and how those negotiations proceed, right? What they get out of it in any case. So we, so we don't know, and I don't, I don't think anybody should proclaim that there's an end, there's an obvious endgame, um, um, and, and be certain of it. That being said, this is what we, this is the information I think that we have at the moment, which is that for some of these tariffs, and you mentioned the ones that are 10% on virtually everyone out there right now, uh, those the administration seems to be arguing are non-negotiable. They want those for tax revenue purposes, right? To— they're— we're soon or simultaneously being undergoing a tax reform process here in the United States, and they are likely going to be extending a number of tax cuts that were originally made back in 2017.

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The United States already has big fiscal challenges. They're looking for revenue from alternative sources, and tariffs would be one. And so that's one argument at the moment. Um, they've also imposed a number of tariffs for national security reasons, right, under this Section 232 statute. You mentioned steel and aluminum, autos and parts, but they also have teed up a number of investigations that could potentially lead to tariffs, or if not tariffs, some other sort of government intervention policy in other important sectors as well. So semiconductors, pharmaceuticals, critical minerals. Um, so I don't think even, you know, this isn't the end of the tariffs. We're probably likely to see higher tariffs in some of those sectors later on. Now, the United States has been worried about a lot of those industries, and with partners and allies, a lot of those industries for a while now. And I think Under the prior administration, they had looked at the supply chain issues and thought, gosh, tariffs don't really seem to be the solution on their own to solving these problems about supply chain vulnerabilities and excessive market dependence and market concentration out there in, in countries of concern like China.

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So we need to work together on those. So it may not be just tariffs for those kinds of problems. It may be other policies as well, but we'll have to wait and see. And then you have kind of two more sets. You've got the ones that are on Canada and Mexico for goods that are not compliant with the USMCA, meaning they don't satisfy the rules of origin. The sense there may be, well, we were going to be renegotiating the US-Mexico-Canada agreement in 2026 anyway. There were going to be some difficult issues that are going to be on the table. Maybe the administration is going to leave these tariffs on Canada and Mexico as a point of leverage through that negotiations process. We'll see. That's, that's still up in the air as well. And then finally, there's the China tariffs. And as you mentioned, they're there. We can't forget all of the China tariffs that were imposed during the first Trump administration and a little bit that were

imposed in the Biden administration as well. Starting out when they entered office, the average tariff— and we have a chart on this on the Peterson website. I didn't bring slides, but everybody can go look if you want.

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Before the Trump administration started, the average tariff on imports coming in from China was about 21%. Even with the massive increase and then the deal on May, you know, in mid-May about deescalating some of those tariffs and taking the Liberation Day tariffs only back to 10%. Well, you still had 20%age points of tariffs that went on in February and March under this, under a separate IEPA action for fentanyl, right? So you look at the average tariff, it's suddenly gone gone from 21% to 51%. So it's still massively, massively high in a very different economic scenario there. What the endgame is that the president has in mind for the US-China relationship, is it another Phase One kind of deal? Is it further de-risking, decoupling of supply chains? I don't know. We'll have to wait and see what the president's objectives really are.

[00:09:17.05] - Cecilia Malmström

Okay, well, thank you. That's a good start. Arantxa, To some extent, we have seen this before in Europe under the Trump one. There were also tariffs and so on, but now it's of course much, much, much bigger. What has been the reaction so far in Europe and how is this interpreted from a European point of view?

[00:09:37.25] - Arancha González Laya

Well, thank you, first of all, Cecilia, for convening us today and great to be on this debate with Chad, someone I admired a lot. Listen, For us, seen from Europe and probably seen from anywhere else in the world than the US, this is very difficult to understand because what you see is multiple contradictory objectives with the wrong tool. And so you are seeing the undoing of the quote unquote international trade order but you do not understand for what reason, with what intent, and certainly not with a tool that you realize will be, or that you see will be useful if you had a goal. So from the European side, 3 things have caused a lot of pause. First is the fact that it's a unilateral redrafting, or rather basically wrecking the international trade order. And you know, an order is always imperfect because it's done by humans and humans are imperfect. But you know, seen from Europe, it's preferable to have an order that is imperfect than to have no order whatsoever, where, you know, uncertainty— and we have seen uncertainty rise on trade well above the highest we've seen in, you know, in the last decades, which was essentially COVID, the COVID period.

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So it's well above that, and that's bad for business. Second thing that has caused a lot of pause in Europe is the renouncing to open markets. And I mean, it's caused pause because basically the European Union is a construct that is kind of based on open markets. And the third one, and I don't want to forget this, is the, the very nasty targeting of the world's poorest countries. So renouncing to what we had all agreed to do, which is support those that are weakest, that are more vulnerable, more fragile, you know, hit them the hardest. And this is also something that longer term is creating additional fragilities. A number of these fragilities are around the European Union. So, you know, we are looking at this, let's say that in disbelief. What has been the tactic? There's been several answers around the world. The one the European Union has chosen is basically to be strategically patient and to let Others do the running. And the biggest other so far has been bond markets, 10-year bond markets. So sit and wait for markets to take this into their hands, to basically oblige the US administration to course correct before deciding to take any measures.

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Basically Sun Tzu, The Art of War, right? If you don't want, if you don't need to fight the battle, Let others fight that battle for you and then come in when your intervention will be indispensable. But the fact that it's markets correcting in a big way the measures that the administration has taken tells us how wrong these measures are.

[00:13:17.12] - Cecilia Malmström

But one of the arguments from the administration is that there's something fundamentally wrong with the trading system and that many other countries are taking advantage of the US and that there is a trade deficit that needs to be corrected. But that is only when you look at goods. If you look at services, the situation is much better. But somehow this doesn't count into the calculation. Why? And US is a very successful exporter of services. Why doesn't that count, Chad?

[00:13:49.29] - Chad P. Bown

Oh my gosh.

[00:13:52.22] - Cecilia Malmström

Asking you to try to understand how they reason.

[00:13:55.00] - Chad P. Bown

You were once politicians. Yes, I know. Politicians, I have observed, tend to pick the facts that suit them and the arguments that they want to make, and not necessarily all of the facts, right? So I think, but it's, it's a perfectly reasonable, reasonable point that you've made, right? And this is one of the, one of the arguments that the administration is using is that they want to use tariffs to adjust the trade deficit. And I think there's one underlying question about whether that in and of itself is a useful metric, like a useful target is something for the United States to be worried about. And I think there's pretty strong disagreement there. But then even if you were to agree that that in and of itself is a challenge, to Arantxa's earlier point, what are the right tools to go after something like that? And the trade deficit is kind of a— it's part of an accounting identity, which has to deal with macroeconomic factors, national savings and investment. And at the same time, it's going to be influenced by a lot of other things out there, including how much the United States is spending, the US government is spending, and how much it's bringing in, in terms of revenue.

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And so it's going to be— and what it is that you're doing with respect to the value of the dollar. Brantje mentioned your borrowing costs to the government to be able to finance your deficit. And this is just another example where a lot of these things are, at the end of the day, inconsistent with each other. But again, I stand and watch these things as an economist flummoxed by what politicians say. So maybe one of you two can explain it better than I.

[00:15:50.28] - Cecilia Malmström

Well, this with the services, it was also on the discussion last time during Trump one, and it was the same story, and we really never got an answer to that. Arancha, there's been attempts to do deals, and so far there has been not a deal with China, but a de-escalation, which I think the whole world welcomes, even if it's not the whole way, and some kind of deal with the UK. Were you impressed by that deal? And what does it say for what's waiting for Europe?

[00:16:27.05] - Arancha González Laya

Yeah, I think I see a kind of, well, first I'll be cautious to use the word deal. I mean, it looks more like a bit of quote unquote extortionary tactics, like you hit someone very, very heavily on the head and then to try and alleviate the pain, you tell him that He's got to do something for you. Basically, this is what we have seen. But we've basically seen 3 kinds of answers. The first one has been, I would say, the European Union, wait and see, win time, wait to see where the starting point of any discussion with the US administration will begin at. We were, I mean, the

US was basically somewhere between 2.5, 3% average tariff before all of this started. Now it's somewhere about 25%. It's unlikely to go back to where it was, but from where should the conversation come is important. And therefore some countries, I think Japan also, is waiting to see a bit where this conversation can start from. In the case of China, it's been doubling down basically. The tactic has been to respond as The US has imposed measures, so tit for tat, to the point that both countries were, from a practical point of view, in an embargo with each other.

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Because when you go above a certain tariff level, it doesn't matter that it goes to 300 or to 500, it just does not allow traders to do their business, right? And there, what they've tried to do is go back somewhere where a bit of trade can happen, but at a very high cost. And the third example has been the UK, where I don't think that by the looks of it, the main area of agreement was concerning tariffs. The tariffs remain basically. There's been a bit of an increase in a tariff rate quota for cars and steel that represents what you do. And beef.

[00:18:51.27] - Cecilia Malmström

Yeah.

[00:18:53.18] - Arancha González Laya

Okay. And a bit of beef. Okay. But then the most interesting thing, and obviously this takes us in a different direction, is whether the purpose of these agreements, deals, negotiations is about settling the relationship between the two parties or preventing the other party from trading with another partner whose name starts with C, which is where this China element comes into the play. So for now, there is a lot of wait and see. I guess a number of countries are also waiting to see what the price level in the US would be, would look like, what inflation would look like, what impact these measures would look like to see how to enter in a negotiation with the US with a bit more of a comfortable position.

[00:19:49.22] - Cecilia Malmström

But of the 90 days, I think we have about 60 or 55 left, so the clock is ticking and there are lots of countries who still have no deals or terms of reference or even— and there are different signals coming from the administration that it could be prolonged or that there will be new tariffs depending on who you talk to. What's your guess, Chad? Do you think it could be prolonged? Because it's quite unthinkable that we will have 150 deals in 50 days.

[00:20:18.26] - Chad P. Bown

Yes, it's an incredibly important question, but also hard question. Hard question. Because, I mean, you better than anyone, and Arantxa from her time at the WTO know that it's like negotiating trade agreements that are meaningful is really, really hard, and it requires a lot of knowledge about, you know, your requests, your asks, what your capabilities are to be able to take advantage of it, even if given the opportunity. All of this is taking place in an administration that just began, right, on January 20th. And, you know, many of the cabinet-level officials have now been in place for a while, but many of the sub— you know, sub-cabinet-level officials haven't necessarily been in place. Or been in place for that long to really become fully briefed on what America's objectives are that it should be trying to achieve. Right. You know, I understand perhaps the president has in mind some high-level things, but you need to actually make things happen for specific industries, for specific kinds of workers, for companies. That requires a lot of homework and working with, with staff. And it takes time. And so even on the US side, I think part of the problem is countries may be presenting them with offers and they may not know how to evaluate those offers, right?

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Because it's going to take a lot of work to know, okay, this country is telling us they're going to cut their tariffs by this much. What's that mean? How much— by how much will our exports actually increase if they were to actually do that, right? These are really difficult questions that take months usually for trade negotiators to figure out. And that's why there's historically been a process, and it's not something that happens very quickly. So all that being said is it would not surprise me at all that after 90 days, um, there just weren't big deals, meaningful deals yet to announce, and they decided to extend the process of negotiations further on. Now, at the same time, um, the president also likes to keep tariffs in the news, right? And one way to keep tariffs in the news is to make an example of somebody and to say, ah, You didn't give me a very good offer by, you know, whatever the 90-day period is going to be. So you're going to actually get hit not with that 10% tariff, but with that reciprocal tariff that I was threatening back on April 2nd and Liberation Day.

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So I wouldn't be surprised to see some of both, right? There be some tariffs actually get reapplied to some countries out there to set an example, but for some countries to actually be given an extension further to negotiate. But again, and as Arancha mentioned, yeah, countries are negotiating and being patient. But there's also a 10% tariff now that they didn't have to pay. There's tariffs on steel and aluminum and cars. There's probably tariffs in these other sectors as

well. So not getting a deal is facing higher tariffs too. Right. So it's not free. Playing this out in terms of extending the process either. There's sort of costs either way.

[00:23:37.13] - Cecilia Malmström

But it's so much more than tariffs. I mean, we talk about tariffs, but, but in the idea of reciprocal trade, in the administration's view, there's also complaints about rules, about lack of access to the internal market in the EU because of standards in the phytosanitary area or in tech rules. There's the VAT. I mean, there's a lot of other things as well. There is some sort of document that the EU has submitted to the US. And that includes both tariffs and increased buy of certain things, LNG, gas, and soya beans, but also they discussed about certain rules and so on. So it's kind of hard to negotiate because in a way it's a full trade agreement where everything is concluded, but it's supposed to be done in only a couple of weeks. So it's hard. What do you think the EU should do, Arancha, apart from now waiting and be patient for a while? But But then what's the next step?

[00:24:36.28] - Arancha González Laya

Well, the next step is to be ready, to be ready to respond to the US if the US does not behave in a manner that the EU considers to be fair. So if the unfairness remains, and right now, as Chad said, is pretty unfair because there is a 10% tax on every product that the EU exports to the US. Not sure, by the way, how intelligent this is from the US point of view, because a lot of these products that are taxed don't have a counterpart in the US exporting them to the EU. So it's just simply increasing prices to consumers in the US. So leaving that aside, um, so the EU first has to get ready. I think this is what the EU is doing at the moment, is drawing a list of retaliatory measures, potential retaliatory measures if there is no way to get to a fair solution in the negotiations with the US. The second part is obviously to prepare where the EU can move. And, you know, okay, you know, we can buy more of these and more of that. And I think that's fine. We did this last time. We can do this time again, you know.

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For the price of getting the tariffs removed. Because there is no rationale for these tariffs that have been imposed. There is no reason why there should be a 10% additional tariff on EU exports. There is no economic or otherwise reason other than just simply the capricious nature of putting a 10% tax on EU exports. And then there is a very clear red line that should be expressed as such from the European Union. Which is not being ready to change its choice of regulatory standards or its fiscal choices. Because if that is what this US administration is after, this is not within the realm of achievable. I mean, if the European Union would think that taxes in

the US are too low or that taxes in the US are this or that and would start a campaign against taxes in the US by limiting, you know, access to the European services market for American providers. This would certainly not be appreciated in the US, who would think they have the independence to set their own fiscal policies or their own protection for food or their own protection for health. And it is, of course, their independent choice, as it is Europeans' independent choice.

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So I think we've got to be ready to hit back. We've got to be open to negotiate within limits, and we have to be clear about what those limits are. This is, I think, where— now, in the meantime, Cecilia, I think there is two things that the European Union is doing. Is not waiting for the US on these two. First is deepen the European internal market. There is a very interesting analysis report that the chief economist of the French bank BNP has produced. I recommend reading. For 1% loss of European exports into the American market, it can be compensated with a 0.1% deepening of the European market. So it tells us that we've got a lot of homework to do. Homework. And it's good, as you mentioned, that the European Commission has proposed the deepening measures to deepen the internal market. And the second avenue is obviously open markets in other countries with other trading partners. Many are coming to knock at the European door. Unsurprising. And with this many, the European Union is currently in negotiations. So this is, you know, the 5 elements of this response. But, you know, calm, cool, and united. This is the European way.

[00:28:56.03] - Cecilia Malmström

Lots of countries are contacting the European Union. They're also talking to each other. Most countries on earth actually, you know, think that trading is a good thing and that there are rules for predictability and some sort of system for that is a good thing. You're also in contact with many of these, Chad. I know that you've had long— is there maybe now when we see what's happening and people are getting a little bit accustomed to what can come from the administration, how do you see the options of countries, like-minded countries working together with the European Union, but also others, you know, Canada, Mexico, Australia, New Zealand, Japan, South Korea, obviously all Norway, UK, all these countries, and maybe doing something jointly? Is that something that you see appearing on the horizon?

[00:29:46.03] - Chad P. Bown

Well, I don't know. Having been recently in government, trying to convince the countries that you mentioned to do something jointly, I always found to be very difficult when you were— when

one was offering carrots. Maybe, I guess, if you hit them with sticks, they work jointly against you. I don't know what sort of what you have in mind there. I think, you know, one interesting thing to watch out for, though, is exactly what you've identified is what happens with third countries, right? Or put differently, what happens with all these countries' trade relationships with third countries, right? So let's suppose let's just suppose for a moment the Trump administration gets some of these countries out there to actually lower their tariffs toward the United States, right? That it's not simply we're going to buy more stuff, but it's actually we're going to lower our tariff toward you, the United States. Well, one thing that could be done, right, is to try to get all those countries together and say, hey, we're each doing this bilaterally toward the United States. Why don't we all agree to do it multilaterally toward each other? Right. And do it sort of on an MFN basis.

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And that way we'll actually preserve the MFN principle. Right. At the end of the day. Right. That's something that like-minded countries could be doing that I think would end up being quite constructive, not only toward each other, but actually for the system at the end of the day, if that ends up being a way to preserve MFN is a valuable principle here. But that's the kind of thing that's going to take a lot of proactive organization by countries and recognizing that, ah, when I'm lowering my tariffs, there's actually an opportunity here for me to do more than just have this one-way conversation with the Trump administration.

[00:31:38.25] - Cecilia Malmström

And that would be like launching a new little mini round in the WTO and could bring WTO back on the stage again. But it is difficult. And we hear talks and everybody would probably agree with you that this would be ideal to do, but are they ready to do it? What do you say? You have a lot of experience in multilateralism, Arancha.

[00:31:59.29] - Arancha González Laya

So I think I would start a step below. I think if we look at the numbers, the US represents around 13% of imports. If there's 87% remaining, decide not to apply countermeasures or retaliatory measures or predatory measures on each other, meaning if they remain within the existing rules and with the existing market access, this would already be good. Because in the end, if the end result of all of this is that every country stays where it is except for the US that moves up in its level of protection, it's like, you know, it's like the difference in labor costs or the difference in the price of oil or in the price of carbon, right? You would have one that would be outside the rules that were on the market taxes that was applying before, and everybody would take this into

account. In my view, if this is the end result, that country will end up hurting itself more than the help it will get from this tariff protection. So what the 87 remaining do, not to deviate from where they are would be extremely important. Now, if on top of this, they could agree to open beyond where they are to each other as they do this to the US, it would be an additional version of what I have just described.

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But a lot will matter on this 87%, and the most important thing for this 87% is to understand that they have power. They have power, but they only have it if they use it together. Now, two parties matter a lot, well, three parties matter a lot in this 87%, is in the power of the 87%, as I call it. Obviously, the European Union, China, and Japan. And they are very important to orchestrate in a way, funnily enough, that the system, I mean that the openness of the global economy remains relatively untouched, understanding that we will see a higher level of protection because of the US tariffs.

[00:34:32.12] - Chad P. Bown

Cecilia, can I jump in on a related point? But I'm going to do a really mean thing and ask both of you a question. So Cecilia, I'm going to turn the table and ask I'm going to take the moderator away from you for a minute and ask you to respond to this one. So what happens when—because it does seem realistic now that the United States has decided it just wants to import less from China, right? That that's a— now we've seen this, 3 US administrations were on this path and it's really unlikely to reverse. That means that China is going to export more to the rest of the world because it's not going to have access to the US market. We already had a giant problem with Chinese overcapacity. And we've stopped talking about that in the last 3 months for some reason. But this is all we were talking about in 2024. But it's not as if the underlying problem has gone away. It's just that there's a new problem that's distracting everyone from that problem. So what happens then? And what is Europe do? What does Japan do? What do all of these other countries do that may want to stay open but find themselves flooded with these goods coming in from China that it doesn't want to absorb domestically, that it can't any longer send to the United States? What happens then? Sorry.

[00:36:04.17] - Cecilia Malmström

Well, that's the big question. I was going to ask you the same, but of course, I mean, China is also trying to diversify. You can see a lot of Chinese activity in Asia-Pacific. They are trying to engage with their neighbors in the region to do that. And there is a so-called charm offensive vis-à-vis the European Union to try to see, can we trade more with each other? I think the

European Union is prepared to discuss, but it is also prepared to protect itself from dumping. There are already 25 anti-dumping investigations going on against China, and more are in the sort of about to start. So there is of course a fear that China would dump a lot of things in Europe, and that would— because that would be unfair dumping and not playing according to the rules, and that would affect European industry a lot. On the other hand, there might be some opening to trade more in other areas with China. We have an investment agreement that was negotiated some years ago. It's called the CAI, and it's in the freezer, but on paper it's a very good agreement. In that agreement, China commits to a lot of discipline and transparency on this, on paper.

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We haven't seen it in practice, but there are voices in the European Union who are now calling for it to maybe be reopened and to sit and talk to China. So it's going to be very interesting to see what happens. Both of you mentioned China before, and you said the sea country, Arantxa. So how do you see this playing because it is one of the big discussions, even if it's a little bit undercover in the European Union right now, where to go with China.

[00:37:41.07] - Arancha González Laya

So I would challenge Chad's question because when we hear that the US is going to import less from China, okay, import less of what? Not of electronics, not of consumer electronics. Which it imports a lot of because they are basically made in China. Not of toys because there is nowhere in the world that can produce cheaper toys than from China. Okay, maybe a bit of textiles, less from China, maybe from elsewhere. I mean, that train has left the station a long time ago.

[00:38:18.15]

So, I think we have to be a little bit careful that we are not being asked, that the rest of the world is not being asked a question that the US cannot answer for itself. So, you know, we all find ourselves in a complicated position because politically we want to send a signal that we only want to trade with some countries and not with others. But when the rubber hits the road and we need to look at what is it that we are importing from China, we realize that other than deciding not to import that product, full stop, it's going to be complicated. So the answer is much more nuanced than that. Let's say that the US has not decided for now not to import from China, is pretending to do so in certain parts, and it's doing it, is not trading with China in other parts for national security reasons. And this is something that the Biden administration did a lot of and that China replicated. By the way. But then there is a whole amount of products where the US

continues to trade with China and the rest of the world has to be very careful not to fall into that trap of being asked to do things that the US is not doing.

[00:39:35.24]

And my third part of the answer would be to say, um, we do have, uh, an issue, um, with China of, uh, a structural imbalance in the economy. And it is a structural imbalance in the economy. And just like there is a structural imbalance in the US economy, there is a big structural imbalance in the Chinese economy. And this structural imbalance is basically makes China be extremely reliant on foreign markets more than using its own internal market. So it's You know, maybe part of the answer on the Chinese side is to go a bit the European route, deepening its own internal market to be able and be capable of absorbing more of its own production domestically. But this is a conversation that is important that we have with China because it has obviously huge spillover effects on the rest of the world.

[00:40:42.00] - Cecilia Malmström

This is very important, but China has been trying for years to increase its own consumers market, and it is really difficult. So they are trying to take different steps, but maybe this is something. But how do you see the discussions on this investment agreement? China just lifted the sanctions on 5 European citizens that were sanctioned a couple of years ago, members of European Parliament. They're another 16, I think, that are still sanctioned. But there has been voices saying that, well, you know, maybe we can sit down and see if there is scope to reopen negotiations or to take it out from the closet on this.

[00:41:20.06] - Arancha González Laya

No, for sure. When we look at the figures, what we see is that China is increasing its exports of its investments into Europe. It's after a long period of decreasing. It now says it's seeing a pick up, rather concentrated on certain member states. I think there is two parts to this question, if I may. The first part is the negotiation between the European Union and China. As you know very well, because you were there at the time, an agreement was negotiated, which was rather innovative when it was negotiated, but it was put on hold because the political conditions were not there to get this through because both sides, on the European side and the Chinese side, measures and countermeasures were adopted for reasons that have to do with human rights and responses to this that basically led to the freezing of the investment agreement. There is another part of this conversation, though, that has to do with the European Union. And whether or not the European Union can communutarise its competencies on investment that right now

are in the hands of member states. And obviously, if there is no— I mean, let's say that we are in a situation that China was with us 30 years ago.

[00:42:55.02]

They wanted our investments, to benefit their domestic productive structures. And our answer today is we want your investments to benefit our productive structures, in particular on green technology. Leaving aside that there are certain sectors where they don't want our investments and we don't want their investments. Let's just be clear about that. But there is a part where we would welcome them, but it's just that we don't have This is not a community competence. So the risk that the EU runs is that the member state that is ready to set the lowest common denominator for that investment into that country becomes the standard for the rest of the member states. So that too is an issue that the European Union has to deal with, which is how it treats investment, whether it continues to treat it as purely national or whether the European Union member states agree certain guidelines so that the investment that they agree can come and could come from China would be also to the benefit of the European economy.

[00:44:05.12] - Cecilia Malmström

But China is definitely on the negotiation board, so to say. And the Brits, they have experienced that in their deal, if we can call it a deal. And China was very upset about this. And what we hear is that on the European offers is also, you know, to offer, as we did last time, to be tougher on China on certain measures jointly with the US. How much do you think this will play in the future deals, Chad, with other countries?

[00:44:34.23] - Chad P. Bown

I mean, I've seen reporting as well, but obviously, you know, there's no text yet. And so we don't know what's specifically being discussed or or what's being written down. And I think the details are going to matter a lot because some of it might be completely sensible, right, in areas where there's common concerns. Others might not be. And so I think it's hard to prejudge. But I do think, you know, again, one is the— I think this is a valuable conversation to have, but it's a bit challenging because it's not as if the world has changed from where it was 6 months ago when it was the G7 worried about common things having to deal with, as Arancha said, China's structural challenges with its economy or things like economic coercion or the various things that were being done jointly at that time when there were no tariffs involved. It's sort of now because there's tariffs involved, suddenly all those problems went away? And linking them is— I mean, they were linked before, I guess, is what I'm, what I'm saying. So these aren't new in, in

some sense. Um, the point is, I don't know what to make of what ultimately comes out of this until we see the legal text.

[00:45:52.25]

But what I don't want us to forget is there's actually a there there, and this is something that we have been worried about jointly for a long time. Um, and while we may not like the way the current administration is the tactics they're using to try to get to agreement on what to do next. I think a lot of countries were very much seeking to do something together but had not gotten to the point where we could figure out what to do together next.

[00:46:20.04] - Cecilia Malmström

This is actually one of the areas where there was close cooperation between the EU and the US under the Trump administration, sitting together and trying to see how to address Chinese subsidies. Overcapacity, and also building up what is now the EU investment screening mechanism, which is still on a cooperative ground because we don't have the legal means to decide in the European Union, but where the CFIUS mechanism in the US was, you know, looked at as a model and where there was quite constructive work despite the different tensions and tariffs that existed at that time. If we move a little bit beyond what is happening now and the uncertainty with the deals and so on, how do you see the future of the global trading system? Because Arantxa, you mentioned the EU is trying to make deals and update deals with existing trading partners. And what we have seen lately are also some kind of mini deals. There was some sort of sustainability deal with South Africa. They're looking at doing something smaller with India. And we hear more and more countries who are, you know, going from the big, very ambitious free trade agreements that take 6 years to negotiate and then 2 years to get through the ratification.

[00:47:39.23]

Is this a new trend in trade policy that can be accelerated by what's happening by the American administration, that we will have more sectoral limited deals that might not be fully WTO compatible, but is the only way forward in a way where you are trying to seek new alliances and new kind of corporations. How do you see that?

[00:48:00.28] - Arancha González Laya

So basically— sorry, sorry, sorry.

[00:48:04.05] - Cecilia Malmström

No, please, you go on. We have time for both.

[00:48:07.26] - Arancha González Laya

No, I mean, if I look at the World Trade Organization, which is a bit the question, right? I see three possible options or three possible way forwards. The first one is agreeing to be less strict, to have less constraints in the World Trade Organization, and for that price, keep the US on board and keep everyone on board and accept that the future is going to be with a little bit more protection, with a little bit more state intervention, and probably with a little bit more plurilateral than multilateral. The second option is obviously for the US to agree to disagree for now and for the rest of the members to proceed, to proceed by updating the rules of international trade or proceed with opening to each other. In any event, in my view, variable geometry will be the name of the game. And the third option would be to just keep keep the WTO there, use it because it's still valuable, it's still valuable in reviewing trade policies and in disputes, but members willing to do so advancing either the rules of trade for tomorrow or market access outside. This is a little bit what I see with the idea of an EU-CPTPP alliance moving forward.

[00:49:39.29]

For example, right? Which is not really about market taxes, but it's about the rules of economic coercion, value chain management or security of supply chains, raw materials, and the rest that is more on the digital economy, which is more on the regulatory side. So these are like the 3 big broad avenues that I see. And obviously, The only thing I would say is that irrespective of which one members take today, I think it is married in thinking of some form of rules-based architecture that in a way is the mechanism to constrain members' worst instincts. And what we are seeing is that there is a certain tendency these days to have a lot of worst instincts.

[00:50:35.07] - Cecilia Malmström

How do you see this, Chad? Obviously, the engagement with WHO from the US side has not been immense, even the former administration. But how do you see this changing when it comes to deals in the future?

[00:50:52.03] - Chad P. Bown

Yeah. So I like Arancha's answer. And one thing that struck me was what she said last. And it's sort of like, to me at least, recognizing how the world has changed from where we were 10 years ago and how we still haven't in the trading system caught up to that at all. And I think that

partially explains why we're here. And I think the way I look at it is there's a lot of economic security concerns that emerged with the model and a really super efficient trading system that led to globalized supply chains and agglomeration and concentrated production in certain areas for certain products that countries came to regret when the world changed, right? When the world changed for geopolitical reasons, when the world changed and we realized how exposed we are to climate-related shocks, wildfires and droughts and floods and things like that that can really decimate particular places, or the pandemic, which exposed us to global health concerns. So we decided we needed to do something about our supply chains to make ourselves more resilient and to address concerns over market dominance and market concentration and geographic concentration of production where they were.

[00:52:30.28]

But the WTO can't provide a solution to that because the WTO doesn't allow you to legislate. And all it is, is basically, you know, you have to do things on a non-discriminatory basis and we're not really fond of subsidies. Well, if you want to tackle those kinds of problems and, and kind of shift supply chains, you've either got to use subsidies or you've got to use discriminatory tariffs. You have to do something active to change. Um, and we've never figured out how to do that within the WTO, but domestic policymakers are going to make that happen because they're under a domestic political imperative to do it. And so I think it's a challenge for the trading system to figure out how to accommodate that in the least damaging way possible to preserve all of the other good stuff out there that we do want to preserve. But I don't think the trading system has taken seriously enough, and myself included, it took me a long time to figure out what is it that policymakers are so worried about. But now that— I'm not saying I've seen the light, but I've had more conversations. I fully get more fully where it is they're coming from and why we need to do something about that.

[00:53:43.28]

So I think that's what the trading system needs to deal with. But what actually is going to happen, I don't know. And part of the underlying challenge is once the US administration gets all these deals, well, are these things just going to be like the executive order kinds of deals that the president can change the next day if he wants to, or certainly a next administration could change if they wanted to, or are they going to involve Congress? Right. In which case are these 10% tariffs going to get locked in? Right. Which then becomes a much bigger deal and more kind of permanent. And then it goes to the question of how other countries respond as well. And do they do things that really erode the MFN rule? Again, you know what, even what Arantxa was proposing between the EU and CPTPP. Okay, it's an Article 24 legitimate exception. Fine. But you know what that is? That's a degradation of MFN in and of itself, right? It's just a legal

version of it too, right? And so what are we doing here? Is it about doing things that just follow the rules of the trading system, or are we wedded to principles of nondiscrimination or not, right?

[00:54:46.06]

And this is, you know, there aren't easy answers to any of these things, but these are some of the inherent contradictions that we now find ourselves in, in this kind of client— in this kind of climate. Sorry, I talked too long.

[00:55:00.04] - Cecilia Malmström

No, no, this is super interesting. And of course, there are no easy answers. But can the current crisis force countries to come up with some more constructive solutions on this? Maybe not all the 166 members of the WTO, but a larger group of plurilateral countries who can form some sort of plurilateral way forward?

[00:55:21.07] - Arancha González Laya

Yeah, and I would say, you know, I would say that I fully agree with Chad that countries want a little bit more market intervention, and they want to do this in the name of economic security or national security, that they want a little bit more protection. But this can be done within the rules of the WTO. That's also something that we need to acknowledge. Once upon a time, there was an agreement between members of the organization to use, to take green subsidies out of the constraints of the Industrial Subsidies Agreement because it was felt that this was good to have even if it had state intervention in it. Now the agreement expired and nobody bothered prolonging it. It would've given a lot of margin of maneuver to many states that think that climate change is a real concern and they want to have a margin of maneuver to protect the trading system or the trade as they see it with this, right? But this can't be done within the rules of the international trading system. This is basically option number one is that you agree to make the rules of trade less constraining, But you do this within a set of principles and rules, because otherwise it's the law of the jungle.

[00:56:50.20]

And, you know, let me say, Cecilia, that what bothers me in the current situation is that none of what I've seen happen in the last 100 days will help in any way, shape, or form the objectives of industrializing or reshoring production or You know, because this is not what you do with just simply changing tariffs one day and the next day. And they are.

[00:57:22.15] - Cecilia Malmström

That brings us a little bit back to where we started. And there's actually a question from Alejandro Jara in the audience who say that this is for Chad. The Trump administration has very few effective guardrails. Perhaps the impact on markets will force to change track. How long before this impact on prices, inflation, reduced economic activity, employment takes hold? And that brings us a little bit back to the being, of course, impossible to answer. But maybe as we are wrapping up, you could speculate on that.

[00:57:53.15] - Chad P. Bown

It's super hard because now with the deal with China, everybody's saying, okay, at least there's a temporary deal with China. Let's get all the stuff into the United States that we need to get in for Christmas. And maybe for Christmas in 2024, as well.

[00:58:08.02] - Cecilia Malmström

Only \$3, not \$10.

[00:58:10.17] - Chad P. Bown

And so, you know, all of that surge in imports might have a downward effect on prices. You know, wow. It's even if you had just one thing happening at a time, it would be hard to predict. But with all of this back and forth, it's impossible. So we'll wait and see.

[00:58:26.13] - Cecilia Malmström

Okay. Well, you will just have to come back in 6 months and we'll discuss where we are at that time. Chad Vaughan, Arantxa González, you've been fantastic. Thank you so much. I know these are very difficult questions, but at least we are navigating on a little bit of higher level right now than an hour ago. So thank you very much for joining, and thank you all for watching.

[00:58:48.05] - Arancha González Laya

Thank you.