Peterson Institute for International Economics

A new trading landscape: How is the world adjusting?

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[00:00:18.15] - Cecilia Malmström

Good morning, good afternoon, good evening. Welcome to this episode of Trade Winds. My name is Cecilia Malmström, and I'm a non-resident fellow at of the Peterson Institute for International Economics. Today we will continue to explore the effects of tariffs and the changing trading landscape in the world. We will have views from the developing part of the world and see how they are adjusting. How do they see the current landscape? What are the threats? What are the possibilities? What are the new potential alliances opening when trade with the United States is becoming more costly? And what are the consequences for digital trade? And at the end of the discussion, you can put questions in the chat. Today I have two fabulous guests with very long CVs, and I'm delighted to introduce you to Marie Elka Pangestu, who is the Deputy Chairman of the National Economic Council in Indonesia. She's a former minister in Indonesia as well, first of Trade and later of Tourism and Creative Economy. She's a distinguished fellow here at the Peterson Institute and a former managing director at the World Bank. We also have Hector Torres, who is senior fellow at the Center for International Governance Innovation in Canada, a former executive director at the IMF, and also a former advisor at the WTO and a former member of Argentina's diplomatic services.

[00:01:45.14]

So two very qualified panelists. A warm welcome to both of you. So let's start by setting the scene a little bit. What do you make of the current trading system today? Is this a watershed moment in history, or will trade, as it usually does, recover and find new ways? I know this is a very big question, and it depends where you're looking, but if you try to give a general overview, Hector, what, what do you see?

[00:02:16.24] - Hector Torres

Well, it is definitely a big disruption. The Director-General of the WTO qualified it as the biggest disruption in international trading system. I would add two things. I would say first that it doesn't

come as a surprise because WTO rules were designed for a different world. At the time they were designed, we had the assumption that international trade was, is, was primarily an exchange between private sector pursuing strictly commercial interests. Well, that assumption no longer holds. Now we are in a transit from a rules-based system into a deals-based system. That comes with a lot of uncertainty, no question about that. Now, I would say that to put it in a nutshell, trade used to be an economic subject, an economic issue with geopolitical consequences. This is the other way around. Now it's a geopolitical issue with economic consequences. So that would be a short answer. Why the world in which the rules were designed and this world differ is maybe another question, but if you want, I can delve on that. I don't want to take more time.

[00:03:51.06] - Cecilia Malmström

No, no, please, you can elaborate. And it's interesting that you see, you talk about the geopolitics of trade. We have seen the President of the United States, he likes tariffs very much and he motivates them with all kinds of reasons, not only economic, but for geopolitical reasons. And he wants them, he uses them because of migration and because of treatment of friends of his, or because of how to handle drug smuggling, etc. So it's definitely a new tool that has been used. I'll, when we'll come back to that. Marie, how do you see the current development of the training system in a very general sense? Is this a watershed moment or will it Will we recover shortly?

[00:04:42.05] - Marie Elka Pangestu

Well, the way we see it is that definitely it's a watershed moment in the sense that the major power which used to be the one safeguarding the public good called the multilateral order, rules-based order, is no longer there. It's in fact being quite destructive, if you like, to the system. So the way we see it is that this is— and it's not going to change and go back to something like what we used to have before. So it is incumbent upon the rest of us who still believe that multilateral, that rules-based trading system is the best way for us to go, to continue In other words, we will have to deal bilaterally with the US, with its different sets of rules and its different sets of expectations. But for the rest of us, for the rest of the world, we should try as much as possible to continue the rules-based order. So, you know, we have regional agreements, we have other bilateral agreements, we have trade with each other, at least in ASEAN, certainly that's what has has been stated, and we've been trying to implement it. So yes, we have to deal with the US, it is what it is.

[00:06:09.22]

But for the rest of us, we should continue as much as possible to maintain that rules-based order. So it's incumbent to the rest of the world in different regional groupings or middle powers to play that agency role. We call it open regionalism, based on multilateralism. But at the same time, we should also support whatever progress or plurilateral or coalition of the willing processes that are going on to safeguard the WTO.

[00:06:43.26] - Cecilia Malmström

Hmm. Yes, this regionalization is very interesting. We'll come back to that in a little moment. Hector, you referred to the Director-General of the WTO who said that this is really a major disruption. Is there any way in general you can say that the current climate and also the deals that are being made, are they affecting the developing world in a different way in general than the big economic powers? They have less leeway, of course.

[00:07:12.28] - Hector Torres

Well, yes, definitely. You know, everything has to do with two countries mostly, which is China and the United States. Access to the US market is extremely important, key for developing countries, for two reasons. First of all, because of the importance of the US market itself, but then because many developing countries are substantially indebted in debt that are denominated in US dollars. So the US plays an outside role in the world economy. It's the only country that is in the top 10 of GDP, GDP per capita, and equity market capitalization. And more importantly, it is the country that issues the world's most primary reserve currency, a fact that has, of course, deep implications for developing countries that are indebted in that currency. So Definitely, that is a very important issue for developing countries. Curiously, what calls my attention is that this that was called the exorbitant privilege of issuing the main reserve currency for the US administration seems to be more than exorbitant privilege and exorbitant burden. The responsibility of supplying world with liquidity. And now it is still uncertain what the United States wants to do about this burden that they see. You know, some time ago there was conversations that even they One very important official in the US administration, he is now in the Fed, by the way, toyed with the idea that the US had to even charge taxes on foreigners that were going to be buying US debt, which is of course the main reserve asset and And well, I mean, that would be a total change.

[00:09:37.22]

Now, to put it in a nutshell, when China entered the WTO, we all expected it would adopt market economy. It did adopt to a certain extent that, but on a centrally run basis, I would say. And at that time, we were very hopeful of interdependence. And interdependence was led to a large

extent by what China was doing. China had started running rapidly substantive current account surpluses. And what it did with those surpluses was mostly park it in US Treasury bonds, which are promises of future financial flows issued by the rival superpower. So this made the two superpowers mutual hostages. That interdependence gave us the hope that peace would be solid in the world. Now, this mutual, this interdependence is more regarded as a source of vulnerability. And that is really the water change that I'm seeing. We're moving from believing that interdependence, which is globalization basically, trade and finance, was a guarantee of peace. Now we are moving exactly into the opposite direction. This is, this is seen more as a vulnerability that has to be changed. So I would say everything is upside down right now from what we expected the world would be looking like about when China entered the WTO, which was in 2001, as you know.

[00:11:32.27] - Cecilia Malmström

Yeah, well, predictions have been particularly difficult lately, and all countries are trying to adjust to this new reality with multiple strategies. And one strategy is, of course, to try to make deals. Which are deals. They're not agreements as we used to know them, where you negotiate, they are legally binding, you have a conflict resolution mechanism, you compromise, etc. But they are deals. And Indonesia made a deal with the Trump administration, I think, at a level of 19% tariffs on exported goods from Indonesia and a commitment to eliminate tariffs on American imports to facilitate in a long, long list of areas. How is implementation going on this?

[00:12:21.20] - Marie Elka Pangestu

Well, I think all countries have, have had deals in terms of having a reduction in the recipe, in the original reciprocal tariff, and it's what they call framework agreements. So it's basically framing, okay, you will get the 19% or the lower reciprocal tariff, but in return you have to open up your market access. But it's not just about tariffs. It has many other items in there, such as the non-tariff barriers. And then there's a chapter called Economic Security, which is about weapons. What I think was referred to just then, the interdependence factor that, you know, you want to they want to have some items in there, whether by sector or by rules of origin or by defining transshipment in a certain way that has kind of security concerns to particular countries. And then you have other components in there which are not in the usual trade agreement, right? So that's— that was in the framework agreement. And what is happening now is that a number of countries are actually taking it the next step to try to negotiate the agreement. You know, it's called the Agreement on Reciprocal Trade. So we are in the midst of that negotiations.

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And it's not an easy one, because as you just said, it's not a traditional trade agreement. And at the moment, we're still figuring out how do you— are they going to entertain also our requests? Because as many countries, we also have requests, not just for market access to the US, but in terms of the reciprocal tariff, but what they call the sectoral tariffs. So exceptions on a number of the sectoral tariffs that are imposed on many other countries. For us, things like lumber and furniture, which just came out, as well as critical minerals and some of the automotive parts, those are the ones we are asking for exceptions. And we, you know, We also didn't— there was this issue of stacking. I don't know whether you follow that issue. You know, the EU and Japan didn't get stacking. In other words, it's whichever is higher, your MFN or your reciprocal. Yeah, but whereas in our case it's MFN plus the reciprocal, and we feel that this is something that should be considered. We are developing countries where we should be considered, you know, hopefully in a positive light. And there are— and then there's the commercial deals component, right?

[00:15:19.27]

How much you want to purchase from the US, how much you intend to invest in the US. So I think it's not traditional trade negotiations, as you said. And I think what needs— what we need to also be care— at least from us as some trying to make the negotiations, trying to manage the negotiations, is the fact that for us, some sectors are very important, like for our labor-intensive sectors. We do want to have as much as possible some leeway into the tariffs on our textiles, garments, and footwear, furniture, as well as some seafood. Those are the important sectors because That's the main impact from us, even though we're only— 10% of our exports are going to the US. But the components of the deal that talk about economic security will be questioned, will be challenged by our trading partners, including our own ASEAN trading partners, as well as by China, as well as by our other preferential trade agreements. You know, if you've given that to the US, then You know, if it harms us, then how? So we have to manage these relationships, and that is the really hard part about these negotiations.

[00:16:37.12] - Cecilia Malmström

Yeah, it's a complicated thing, and it's a moving target as well.

[00:16:42.18] - Marie Elka Pangestu

Yes.

[00:16:43.27] - Cecilia Malmström

Many countries and the different— I mean, in many products, there are products also from other countries, and there are different tariff lines and so on. So it's not making trade easier, I would say. Hector, you have followed the situation in Latin America. And of course, there, the situation is very different. Brazil got 50% tariffs, even if there seems to be some kind of dialogue ongoing right now. Argentina, while the main focus there has been on the bailout or on the swap, the support that has been given the last 2 days to Argentina. How is the— can you give a general view of what's happening there when it comes to dealmaking?

[00:17:26.06] - Hector Torres

Well, in Latin America, as you said, there's a large diversity. You have, I would say, well, first the case of Mexico, which is a very special case because it's in the—

[00:17:35.28] - Cecilia Malmström

It's a part of the USMCA.

[00:17:37.20] - Hector Torres

Exactly. But other than Mexico, you only have, if I recall correctly, 4 other 3 countries that are running surpluses with the United States, which is the imbalances that apparently disturb so much the US administration. These are Panama, Costa Rica, and Dominican Republic. All the rest of the countries either are very balanced in the trade or they import far more than what they export to the United States. That was the reason why originally, before the Brazil issue, Latin America was somehow blessed by getting only 10% increase in tariffs., which gave it a comparative advantage over countries that got far more than that. So I would say that is the first approach. Then came Brazil, which got 40 on top of the 10, so it's 50%. As you said, they're negotiating, they're getting closer apparently. You know, I think Trump hits first and then negotiates, shoot first and then then negotiate. Now, the other special case that you mentioned is Argentina. Argentina, to my knowledge, apart from El Salvador, is the only Latin American country that has fully aligned with the United States politically, I would say. Our trade with the United States is not so substantial, and we don't run surpluses.

[00:19:07.13]

We, Argentina, runs deficits with the United States traditionally, I would say. Yet we compete in markets, in agriculture market, as you know. Now, well, now Argentina got this lifeline of $20 billion, and of course that will shape the possibilities of dealing with a trade agreement with the United States, perhaps. I mean, the minister has announced that he's here in Washington, by the way, now. And he announced that there's going to be trade announcements today or

tomorrow. So they are negotiating something. I don't know exactly what it means, what it is. There was some toying of dollarizing Argentina's economy, which fortunately has been given up because our economies are very different, have different cycles, by the way. And the United States is not Argentina's main trading partner. It's Brazil and China and the EU, and then comes the United States. So I don't know if that answers your question, but that's my first reaction.

[00:20:19.17] - Cecilia Malmström

We might see something with Brazil shortly and something with Argentina, maybe announced already today or tomorrow. I'm sure it's going to be big and beautiful. But also we have this $20 million— it's not called a bailout, it's called a swap. I think.

[00:20:34.29] - Hector Torres

Yeah, well, they haven't given any clear— everything is a little bit obscure right now. And yesterday there was a statement from the president himself saying that everything is contingent on the result of elections that are taking place on October 26th, which doesn't sound very reassuring.

[00:20:58.23] - Cecilia Malmström

To be continued. In Europe, where I'm based, we also see, you know, we have made a deal, but there's also a huge activity going on trying to conclude trade agreements with other partners right now to see how we can diversify trade. And there was a conclusion of the EU-Indonesia trade agreement just a couple of weeks ago. It's now being legally scrubbed and reviewed and so on, but the political negotiations are done, which, which is, of course, of great joy. I know that you were involved in this, Marie. It's been going on for quite some years. How, how is this? What can you say about this? What are the main benefits? And will this be an important step in trying to diversify, as you touched upon earlier?

[00:21:44.06] - Marie Elka Pangestu

Yes, definitely. I mean, the way Indonesia and other ASEAN countries are responding is, yes, we have to deal with the US, but we do have to manage also our relationship with China, as well as the second order trade diversion effects from China, but we should also expand our trading partners and our regional agreements, including the ones in ASEAN, including the East Asia one. But most definitely, EU was a big, a positive progress for us, a positive outcome for us, because we have been negotiating this for some time. In fact, when I was still a Trade Minister, we started out the so-called Vision Study and academic preparations for the study, and that was 2009. It's been a long time, and it was in negotiations for some time. But actually, I do think the

kind of disruption that happened that we talked about earlier pushed both sides, including the European side, to really want to conclude. And that helped a lot. And it's going to be a huge benefit for us because Prior to this, we had a big tariff difference with Vietnam, who already has had an FTA with EU already now for 5 years. So for our garments, footwear, and labor-intensive products, there was like a significant 10 to 12% tariff difference.

[00:23:17.23]

And hopefully this time, we were told that it was be effective immediately upon implementation, and implementation apparently is going to be accelerated. Maybe this— I don't know, you are— you should know the answer to this. Is this, is this a rapid process if the target is to finish, to have implementation by, by the end of next year? In other words, you're going to do the legal scrubbing now and the translation is going to happen simultaneously, which apparently doesn't normally happen that way, etc., etc. So they're trying to accelerate the whole process of legal scrubbing and ratification so that we can implement this as soon as possible. But certainly it was an important signal for the buyers of these products, so we can have a— we can diversify the markets because these are the sectors that are worst hit by the tariffs from the US. So it was really good news. And then there were— we overcame a number of the issues on the palm oil, as well as a long-drawn issue. And we also came to an agreement on the electronic commerce. And most importantly, I think all these things that we do, including our accession to the OECD, It's actually informing and helping us to craft our own domestic deregulation.

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Because one of the asks in the negotiations with Europe was on import licensing. You know, questioning and asking us to streamline our import licensing. It was also an ask in the US negotiations, as well as part of our OECD accession. So that part, I think, is helping us also to have a clear path on our own domestic reform agenda.

[00:25:18.11] - Cecilia Malmström

Well, this is certainly very welcomed in Europe as well. And of course, there is a process of, as you said, of legal scrubbing and ratification and the European Parliament and the member states and so on. But as you both have touched upon, trade today is not only about growth and investment— that is important— and facilitation of market access. But it's also very much geopolitical. So this is a geopolitical signal that we want to work together and so on. You mentioned also—

[00:25:44.06] - Marie Elka Pangestu

Cecilia, I just wanted to add that I have heard that now they want to accelerate the negotiations.

[00:25:50.21] - Cecilia Malmström

I think so.

[00:25:51.08] - Marie Elka Pangestu

Malaysia, Philippines, and Thailand, and then eventually an ASEAN-EU FTA.

[00:25:57.18] - Cecilia Malmström

That is the goal as well. And there are talks with the CPTPP.

[00:26:02.29] - Marie Elka Pangestu

Oh, yes, that's right.

[00:26:04.05] - Cecilia Malmström

But Indonesia is also talking a little bit.

[00:26:06.20] - Marie Elka Pangestu

Yes, yes.

[00:26:08.24] - Cecilia Malmström

Long-term goal to join as well the Comprehensive and Progressive Trans—

[00:26:16.04] - Hector Torres

Trans—

[00:26:16.16] - Marie Elka Pangestu

what is that?

[00:26:17.24] - Cecilia Malmström

All these acronyms.

[00:26:18.28] - Marie Elka Pangestu

A+ if you remember the whole acronym.

[00:26:21.20] - Cecilia Malmström

The Comprehensive and Progressive Transatlantic Trade— Trans-Pacific Trade Partnership was the— no, anyway, let's skip that. Um, it's the biggest trade agreement in the world with 12 partners. And I know that is being discussed, you know, in South Korea, in Indonesia, in the EU as well, to see what can be done jointly. Is this something that's on the agenda?

[00:26:46.00] - Marie Elka Pangestu

Yeah, correction. I think RCEP is slightly bigger. But anyway, we have put in a request to accede to CPTPP. A formal request? A formal request, yes. It's being reviewed right now. A number of the ASEAN countries have also applied. There are already a number of ASEAN countries in CPTPP. So in a way, and we have been talking about, you know, is CPTPP competition to RCEP? The way we see it is, it's actually complementary. Parts of CPTPP are more advanced than RCEP. So as we are doing a review of the RCEP right now, it'll have to be completed by 2027. So as we upgrade or update say the e-commerce part or even the rules of origin part, we can look at CPTPP since now a number of countries are going in that direction anyway. Yeah.

[00:27:39.11] - Cecilia Malmström

Okay. So they're reinforcing each other. Yeah. Steps taken there. And if we're looking into Latin America again, Hector, it's a diversified situation. The ambition is that the EU and Mercosur will find their trade agreement beginning of December in Brazil. And this is, of course, also something that has been going on for more than 20 years. So a very important milestone in trade history. Are there other deals being discussed or trade agreements or more regionalization within the Latin American group happening right now?

[00:28:21.22] - Hector Torres

Yeah, well, there is negotiations with Singapore, as far as I know. Brazil, but nothing close to the importance of the EU-Mercosur trade agreement. That's particularly important from a geopolitical perspective, if provided that Mercosur countries and the European Union want to use it as a counterbalance to what all the disrupting policies that we're seeing here in trade. Now, that of course is an assumption that not all Mercosur countries, I think, share. The case of Argentina again stands out, you know, I'm not sure that Argentina needs or wants a

counterbalance to the United States. It has pledged total loyalty to the United States and it is avoiding a new currency a new default, let's put it that way, a new balance of payments crisis, thanks to a special swap line or whatever they may call it from the United States. So formally, formally, Buenos Aires is supporting the agreement. I am not sure how much faith I can put on that, the honesty of that support right now. The EU, you know that Trump has publicly said that the EU was created to screw America, which was very, I would say, shocking. And also not true.

[00:30:07.16] - Cecilia Malmström

There are lots of evidence and letters and protocols showing that the integration process after the Second World War was very much supported by the Yeah, but we are in the post-truth era, so you can basically shape the truth now quite easily from a position like that.

[00:30:26.15] - Hector Torres

So my concern with the Mercosur-EU agreement, beyond the fact that I'm very attracted to it because particularly, not just because the EU market is a very important market, but because the EU is a possibility to counterbalance a world in which Latin America is falling clearly within the influence of one of the two hegemonies, and the EU could help us to somehow compensate that, counterbalance that. My concern is mostly on some of the I would say the fine print that I see in the agreement that concerns me, and we discussed this, I think, yesterday. The, you know, the interest of Latin America is basically not only, but agriculture plays a very important sector, very important. It's a very important export for Latin America and for Mercosur countries particularly. And to my disappointment, I saw, and you know, that we negotiated tariff rate quotas, which are sort of guaranteed volumes of exports within a certain tariff that is lower than the extra quota tariff. Now, the EU has reserved the right to apply safeguards within those volumes. Meaning those volumes are not guaranteed at all because safeguards could be applied even within those volumes. So I would say the, the future of the agreement hinges very much on the good faith in which those safeguards could be applied only in extreme cases and very reluctantly.

[00:32:27.02]

I would say that is my main concern. There are other issues that make me remain a bit skeptical, but definitely I'm all in favor of that agreement finally getting into force. It has been more than 20 years, and when you look at the world and you see two hegemonies, you say, well, So if you want to avoid being forced to pick sides, this is the possibility to use.

[00:33:01.24] - Cecilia Malmström

Well, I certainly hope it will be, be ratified by all, all partners and that these safeguards are there as extraordinary measures in case very dramatic or sudden import will happen to calm the concerns of some of the agriculturists in Europe. It is seen in Europe as a way both to strengthen relations with Latin America, of course, but also as a balance, not only vis-à-vis the US, but also vis-à-vis China. So because China's increased influence in Latin America is also something that has been driving this. But lots of things happening, which in a way is good. But we are really in this spaghetti bowl situation that you sometimes talk about in WTO context, that there are so many agreements happening all over the world. Sometimes they are overlapping and you can draw strength from one to another, but sometimes it complicates life for the traders as well. But this is, as you said, Marie, in the beginning, you said that this kind of regionalization is happening. And if you talk to companies right now, the big companies who are active globally, this is their strategy as well, to regionalize their production, to secure their supply chains and to sort of to risk minimize.

[00:34:21.04]

But we see that in trade as well. And lots of things happening in, in, in Asia with RCEP, ASEAN, with the CPTPP, of course. And I know you're very involved in all of this. There are lots of meetings coming up this fall on high level, Marie, in, in Korea, in Malaysia, I think.

[00:34:42.17] - Marie Elka Pangestu

Malaysia. Yeah. So the ASEAN summit which includes the RCEP Leaders' Summit as well as the EAS Summit, which is going to be interesting because it has US, Russia, US, Russia, and China and India there, apart from the ASEAN countries and Australia and New Zealand. So you've got everybody there, and Malaysia has invited South Africa and Brazil to come as guests. So you've basically got the BRICS there, and you've got the major powers there, and you've got ASEAN there. So I think we don't quite know what is the intention of all that. But, and then you have the APEC meetings right after in South Korea. So it's, and that's the awaited, long-awaited meeting between President Trump and Xi Jinping will happen in APEC. Not in South Korea, not in Kuala Lumpur, even though South Korea will also be in Malaysia. But in the ASEAN Summit and ASEAN+ Summits, I think the intention is to reinforce the message from ASEAN that whilst we do have bilateral negotiations with the US, and in fact, The US is putting somewhat pressure for the ASEAN countries to complete as much as possible, to try to complete the deals, the actual agreement in anticipation of the— there will be an ASEAN-US summit within these summits.

[00:36:25.14]

I'm not sure it will be completed or not, but nevertheless, he will President Trump is planning to come. And most importantly, the messaging from ASEAN is that, yes, we will continue to negotiate in good faith, and positively and constructively, but we hope that it should be a win-win agreement. But at the same time, we're going to be sending a lot of messages as well as commitments to strengthen ASEAN itself, and to really effective implement the RCEP agreement, plus perhaps hopefully accelerate the review that's coming in the next 2 years. Because I'm involved in a task force which is providing some recommendations to this ASEAN Summit, and we did some private sector survey on this. And interestingly, most of the responses was Okay, we are dealing with all this uncertainty, but we're not about to close down our supply chains and move back to the US to reshore. We are going to have to adjust our supply chain. We're going to have to have more diversification and some relocation. But if asked, what is the main ask? You know, the question was being asked, what does regional 'What do we need to do in our regional agreements that will make you better off in terms of developing your regional supply chains?' And the answer that came back was rules of origin, and not surprisingly, non-tariff barriers, because tariffs are already fairly low.

[00:38:11.10]

So it was predictable. The rules of origin did come as a little bit of a surprise, but it turns out that it's quite complex, especially if you're trying to do it regionally, right? You're trying to have a really regional supply chain. So that, that's going to be one of the priority homework, I think, for the RCEP, to think about what, what's called accumulative rules of origin. So this is, uh, it's a good finding to prioritize what the regional agreements need to go, uh, to, to go for. Um, and of course, the trade facilitation issues and customs and so on, and a lot on domestic deregulation, actually, which is also an important message. Because as you are doing your homework in terms of increasing your trading partners, you better get your own house in order, right? So domestic resilience, start with domestic resilience, because if there's going to be relocation of investments, they will go to the most attractive country. So that's the homework is there.

[00:39:17.15] - Cecilia Malmström

And do you expect any big announcements at the summits? I mean, of course, we're looking forward to a possible high-level meeting with President Xi and President Trump, and everybody will follow that. But for RCEP and ASEAN per se, will there be any new announcement made, or is it just to compare notes and to analyze the findings that you just referred to?

[00:39:41.27] - Marie Elka Pangestu

I think that maybe not a big announcement, but hopefully signaling, an important signaling that we will continue to deal with the US bilaterally, but don't ask us to choose. We are going to be continuing to engage with all our regional trading partners, including China, and that we will continue our open regionalism and we will continue to be reaffirm our commitment to the WTO and the multilateral rules-based system. And there will be hopefully some— you know, there's a lot of discussion about the issue that economics and security are a nexus now. So you can't, inside your own institution, be talking about security and economics separately. There needs to be a more integrated discussion. So institutionally, ASEAN itself has to— what we call the cross-sectoral discussions will happen. So for the very first time, the economic ministers and the foreign ministers are having a joint meeting within the summit. And I think that's, for me, that's pretty historic. You know, I was Trade Minister for 7 years. I was never invited to the foreign ministers' meeting.

[00:41:04.18] - Cecilia Malmström

Well, I think this is a realization happening all over the world that it is very intertwined indeed, trade and security. And because of the turbulence currently, this is also pushing both countries to do their own homework, as you said, but also to try to strengthen regional and existing cooperation, and not only in words, but also see exactly what do we need to facilitate trade between us and how can we agree on common be it rules of origin or other non-tariff barriers. You mentioned WTO, and there was just an incoming question from one of our audience saying that you haven't mentioned WTO. Is there a risk of the WTO becoming irrelevant, you know, with big members doing deals and the fact that one big member is ignoring WTO commitments? I know that you have both, and you especially, Hector, you have both worked in Geneva for many years. How does WTO fit into all this? Because all countries are members of the WTO as well, and most of them sort of commit to the principles of WTO. Reforms have been discussed for a long time. They began long before President Trump was elected, even if his first period— and this is difficult and nobody expects, you know, big reforms to happen.

[00:42:26.01]

But there are lots of things that could be done to strengthen the system.

[00:42:29.24] - Marie Elka Pangestu

How?

[00:42:31.23] - Cecilia Malmström

How do you see this sector?

[00:42:34.09] - Hector Torres

Well, definitely the WTO is in a very bad moment right now. There's no question. I'll pick up on something that Mari mentioned, which is rules of origin and the napkin deals, as somebody dubbed them, that are being negotiated. Those reciprocal deals with Trump are preferential trade agreements, and all preferential trade agreements rely on rules of origin. To ensure that the benefits go only for those countries that are part of the preferential trade agreements. Now, the problem is that, well, I don't know if it's a problem, but the fact is that digital trade is growing far more than trading goods, traditional trading goods. But there's no rules of origin that could be applied to digital trade. So the question is, well, okay, if we are not applying MFN, Most Favored Nation, digital trade, then you need rules of origin for digital trade, but we don't have that. So how is this going to be dealt with? Well, that's a pending question. The point is that it's not easy to— we could end with a spaghetti bowl of rules of origin for digital trade. But it's not easy to develop rules of origin for immaterial bytes because when you speak about rules of origin in mind, what you have is things, stuff made by atoms that can be in only one place at a time.

[00:44:13.21]

Either this is here or there, but not both places. Okay. And digital trade is made of bytes which are immaterial. They can be reproduced at almost zero marginal cost, n times. They can be stored in multiple places at the same time. They could be delivered at the same time from multiple places. So it's very challenging. If we are doing without MFN, which is the way to avoid rules of origin, you need to develop rules of origin. So that's another reason to preserve the WTO and to see if we can negotiate multilaterally rules of origin for this new form of trade that is growing so fast.

[00:44:57.07] - Cecilia Malmström

And can we do that? Huh? Can we do that? Can we do that in the WTO?

[00:45:01.25] - Hector Torres

We could do that, of course, if we acknowledge that we are facing a technological watershed. This is a change, a huge change, and we're not prepared for this. And if you don't want to fracture the world, in numerous rules of origin or applicable to digital trade, or end with digital firewalls in every country that would allow the government to filter the bytes coming in and let in only those that it deems to be friendly, which is quite an Orwellian future. I would say that that is another reason, and I I'm insisting on that every time I speak or I even write some articles on that, that this is a very important reason to preserve a multilateral institution like the WTO, which

I have to say has had many problems for many years. This is not a Trump invention. Trump is putting steroids to the problems that WTO has been sweeping under the carpet for so many years. And I would say if I had to pinpoint why it could do that, it could do that because it doesn't have, to the contrast of every regional development bank and all the rest of the Bretton Woods institutions, meaning the IMF and the World Bank, it has no internal watchdog.

[00:46:29.01]

So it can nap on problems. You know, the World Bank has an independent evaluation group, The IMF has an independent regulation office that comes out with reports on things that this independent watchdog sees as problems. And of course, it proposes solutions. At the board, we had many of these reports. You don't necessarily endorse the proposals or the criticisms that they make, but you cannot nap on them. So you have to, you're faced, you're confronted with that. Ambassadors in Geneva had quite a good time. Just to mention things that I see that would have not been arriving to this wake-up call that we have, brutal wake-up call that Trump is making us. The issue of consensus being assumed to be unanimity, for instance, that killed the WTO capacity to negotiate. The fact that so-called developing countries is just a matter of self-appointment and there's no standards and nobody develops ever. Of course, what happened is that truly developed countries have watered down the S&D and now nobody gets any meaningful S&D. They're of us to know that if you as a trade commissioner was sitting in a negotiation, you would start by making concessions to countries that are even more competitive than yours in many sectors because S&D is across the board.

[00:48:11.14]

So all these disruptions, all these problems of the WTO, if I had to give Trump some credit, is that he brutally has put them in front of us and we have to confront that. Now it is reform or die. And die is a real possibility, either formal death or just decay. But definitely, I think we need a WTO, we need a multilateral institution, we need to respect transparency, which we are not doing. So there's many things we have to do. There's no question about that. And I am totally sure, and everybody would agree, I'm sure, that this is not the best time to agree on substance, on substance of how to reform it. But I think we could make an effort and agree on the roadmap to how can we tackle the problems, you know, identify problems. Of course, subsidies and overcapacity would be one. I don't— I say it before you think about that. But I think it is absolutely necessary to start discussing about, okay, we are not in the time to agree on substance, but we could agree on process, process of reform. And then, you know, slowly restart building trust by sitting on a table and saying, okay, we have a problem, we have a problem, we have to solve it.

[00:49:44.00]

And the solution is not just just letting the WTO decay because the world, despite that politically is very much fractured, from a technological perspective, it is integrated and trade will go on and we have to do something about that. And multilateralism in a different shape than what we have today, the WTO, I can go through the problems, but we need it. Definitely, no question.

[00:50:13.23] - Cecilia Malmström

But that is the feeling that most countries are conveying, that yes, WTO is in crisis. Yes, there is a big need for reform. Yes, there is a need for updated new rules. But we do need it because it's a forum where you discuss, where you have, you know, 166 countries are there and they are discussing important reforms, but also there's the state of play. I was in Geneva a couple of weeks ago at the Public Forum, which is a sort of event for NGOs and researchers and negotiators and business. 5,000 people were there, so it was actually almost a record. And the feeling you get there, lots of the WTO ambassadors were there as well, and it's like, yes, we need to reform. And many of them say that, okay, if we can't get 166 countries on board, to reform, let's at least start with a group of— well, it's so popular today to talk about coalition of the willing, but, you know, middle powers or a group of engaged countries who do want to continue. And there are ongoing plurilateral discussions on digital trade, for instance, and on a few other matters. But you also mentioned WTO, Marie.

[00:51:29.23]

How do you see How do you see this, this going forward? Is there a realism in trying to push within a smaller group?

[00:51:43.01] - Marie Elka Pangestu

Yeah. And I think we, as much as possible, and this is what we're trying to do in ASEAN as we do our trade agreements, including with the US, and as we face excess capacity or trade diversion, We should, as much as possible, maintain the rules-based system, right? So that when you are making these agreements, you should be conscious that you shouldn't be hurting your other trading partners. It shouldn't be beggar thy neighbor. And as you are facing excess capacity or surge of imports, you should be using your trade remedy instruments. And you should also continue to use the dispute settlement system. And you should also practice non-discrimination, all the principles, yeah, as much as possible. But at the same time, I think we are also recommending that what can ASEAN do as a group within the WTO, and in either continuing to support whatever full WTO negotiations that are happening, like fisheries, maybe that's about the only one that's sort of still going on, or even think is something like

transparency, right? But then also participate in the Coalition of the Willing, the plurilateral agreements, the joint initiatives. And there are a few there. I think ASEAN would certainly all support the investment one, the Investment for Development Facilitation.

[00:53:14.27]

I think that's, that's one we would support. Services, to some extent, and digital. I think the one we've also been trying to recommend, because I do think dispute settlement is one of the crown jewels, if you like, of the WTO, the MPIA. A number of ASEAN countries— Malaysia, by the way, just signed up to join— so we are also recommending that as many ASEAN countries should sign up to the MPIA so that it's kind of a parallel. While you wait for the rules to be improved in the WTO, as the Americans would like the rules to be improved, it may take a long time. So let's— all of those countries in the MPIA can continue to use the dispute settlement process.

[00:54:09.12] - Cecilia Malmström

It's a kind of parallel dispute settlement mechanism that is mirroring exactly what exists, but with countries need to join individually. But, but as you said, lots of countries are there and they have actually started to also look at specific cases. So it works.

[00:54:25.20] - Marie Elka Pangestu

Yeah, yeah. There's been some cases, successful cases like Australia with China, for instance. Yeah.

[00:54:33.13] - Cecilia Malmström

And on, on digital, I saw that the, the e-commerce moratorium was actually in the EU Indonesia deal as well.

[00:54:42.29] - Marie Elka Pangestu

So, so this is still a tricky one, but more or less, you know, we, we may not be able to commit because our reasoning, at least the negotiators' reasoning, is that we are still waiting for our, for the negotiations to happen in the WTO. But we are going to be very, very, use it very, very in a very specific way, only confine it to very few items, if any, right? And the tariff is zero anyway.

[00:55:20.14] - Cecilia Malmström

But the inclusive trade— sorry, inclusive trade, next question— but rules of origin, as you mentioned, in the survey came up all the time. And as Hector said, in digital services, it could actually be a case to start look at some sort of smaller plurilateral to identify what could be done because it is an urgent problem. And the trade is growing by the day and is becoming such a big part of every country's trade almost.

[00:55:43.29] - Marie Elka Pangestu

So we need rules.

[00:55:47.03] - Cecilia Malmström

We are approaching the hour, but there is a question as well on: is inclusive trade relevant at all anymore in WTO or in regional trade agreements? I'm not sure if that means inclusive trade in the a sense of more gender balance or Indigenous groups. This is something that is included in several trade agreements, but is it discussed in WTO, inclusive trade?

[00:56:16.09] - Hector Torres

I think that inclusiveness is a matter of domestic politics mostly. It has to do, of course, with equal opportunities. It has to do with fiscal support for groups of citizens that need that. I would say it has been— it is an important issue. There's no question. And I would say the crisis that we're seeing now, to a large extent, in my view at least, has to do with the frustration of large groups of population, particularly in developed countries, with the lack of equity in the benefits of trade liberalization that they felt and are, I feel, somehow responsible with others in believing too strongly and with not sufficient evidence that trade would bring benefits eventually for all because some jobs would be lost. But jobs in better paid jobs and better quality jobs with more value added will be created. Now, the point is that, and we see this in the United States, and that's behind Trump's, I would say, attractiveness, that if you lose a job in Illinois or Missouri, you can find a job in San Francisco with the help of basically pension mobility, retraining and some paycheck, some welfare checks. I think that we are now confronted with the truth that jobs is far more than a way of making your living.

[00:58:03.26]

It is your position in society. It's your family. It's your culture. It's your community. So people that lose jobs really feel It's not just a matter of finding another job. So that's one thing. Let me add one thing that I should have said on your first, on your previous question. I'm not sure the WTO can be reformed from inside. I've been at the WTO and at the IMF, and one of my biggest surprises was that the same large emerging countries sitting at the G20, that at the IMF very

adamantly and with very good reasons argue that their economies have outgrown their IMF quotas and the World Bank quotas, by the way. And so they want to undertake full financial responsibilities according to their increased weight in the world economy, say India, say China, say Brazil, say the big, large emerging markets, okay? The same large emerging markets that in Washington argue, we are ready to undertake full financial responsibilities, we are grownups, we have outgrown our quotas, our weight in the world economy has to be recognized. On the other side of the Atlantic argue, We are not ready to compete on an equal footing because we are developing.

[00:59:37.19]

We need special and differential treatment. So it's, and of course, those that in Washington oppose to the increasing quotas are the same that in Geneva say, you are a grown-up, you're very competitive, you don't need S&D. So this is kind of schizophrenic. And I remember that Mary just said that She was never invited to meetings with ministers of finance and being minister of trade and minister of foreign relations. Well, that's a problem. I believe ministers of finance and ministers of trade don't speak enough. It cannot be that they argue exactly the opposite points on one side of the Atlantic and on the other side of the Atlantic. Yeah, I stop there.

[01:00:24.21] - Cecilia Malmström

No, no, but you point to an inconsistency, which is of course one of the problems in WTO. Just to finalize the question on inclusive, the person has come back on gender, indigenous, environment, and labor. And in bilateral trade agreements, there are increasingly paragraphs and sections on this, on labor rights, on environmental rights and sustainable development, on indigenous rights. Rights and on gender. There are some initiatives happening in the WTO. There's a very important initiative on plastic, for instance, and environment, and there are discussions, but nothing really groundbreaking. I would say this is mainly in the regional and in the bilateral trade agreement, but there it certainly has a place. And the US is also pushing for labor rights in their deals to a large extent. So it is It is there on the agenda. We have reached the hour. Marie, did you want to say anything last before we cut? I know it's getting late in Jakarta.

[01:01:28.02] - Marie Elka Pangestu

No, just to say that I think inclusiveness also is within a trade agreement, you know, the special and differential treatment. The way to address it is you need capacity building within your trade agreements to for the more developed to help the lesser developed. And that's why most of our

trade agreements are called comprehensive economic partnership agreements, because we, we build in the economic and technical cooperation component within the trade agreements.

[01:02:00.26] - Cecilia Malmström

Yeah, and that's becoming increasingly important. Maria Alcapangestu, Hector Torres, thank you so much for your contributions. I think it was a very lively an interesting discussion. I certainly learned a lot. Thank you to all of you who have been watching, and have a, a good day or a good evening. Goodbye.

[01:02:19.12] - Marie Elka Pangestu

Bye.