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TRUMP'S RECIPROCAL TARIFFS: WHAT ARE THEY? HOW WILL THEY WORK?

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WELCOMING REMARKS

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HARRIS: All right, good morning, everyone. Thank you all for joining us today to discuss the Trump administration's proposed reciprocal tariff strategy. Welcome to everyone in this room, welcome to everyone in the overflow room, welcome to the several thousand people who are watching online. So my name is Ben Harris. I'm the vice president and director of Economic Studies here at Brookings. Let's just get right to it.

So as I'm sure you were aware, yesterday afternoon, President Trump and his economic advisors outlined the administration's reciprocal tariff strategy. The plan builds on the administration's aggressive approach to trade by sharply raising tariff rates on a massive share of U.S. imports to levels that reverse decades of trade liberalization. Some analysts are even projecting that the U.S. weighted average tariff rate will be higher than it was under Smoot-Hawley. That's a sentence I never thought I would say. If so, I think it's fair to characterize yesterday's announcement, honestly, as one of the most consequential economic policy changes of my lifetime. So indeed, the economic consequences are sweeping. In the near term, policy volatility is up, consumer confidence is down, equity markets are in freefall, NASDAQ was down 4 percent this morning. We are seeing analysts project a near-term recession coupled with concerns over elevated inflation and a hamstrung Fed. Many are worried about stagflation. But all of this is in service of a greater goal, according to the Trump administration, which noted that these rates were determined by assessing the tariff necessary to balance bilateral trade deficits between the U.S. And each of our trading partners. So that is to say, there is a strategy here. So as this policy begins to take shape, it's crucial that we analyze the economic impacts on the current U.S. economic outlook, implications for international trade and what this means for the long-term trajectory of U.S. growth and the global economy. That's precisely why I've convened today's panels of distinguished experts.

Today's panel is truly outstanding. These are the people I turn to when I want to understand what's going on in trade. So participating will be Sarah Bianchi, former deputy USTR rep and now senior managing director at Evercore. We have Mary Lovely, the Anthony M. Solomon senior fellow at the Peterson Institute for International Economics, and we have Kelly Ann Shaw who served as deputy assistant to the president for international economic affairs during the first Trump administration and is now a partner at Hogan Lovells. Our discussion will be skillfully moderated by Ana Swanson of the New York Times. So without further delay, let me welcome the panel to the stage. Thank you.

SWANSON: Well, thank you so much for inviting me to moderate this panel and for our panelists being here today. I know we have plenty to talk about, so I'd love to dive right in and just explain more about what constituted this measure that we saw yesterday. As Ben said, this very, you know, like sweeping and influential policy. And I know, Kelly Ann, you had billed kind of an unreal number of hours yesterday explaining this policy. So I thought I'd go to you first to give us some of the highlights. What is, you, know, most important for people to know about what actually happened yesterday in brief?

SHAW: Sure, happy to, and I sort of walked in and joked I wore pink to hide the bags under my eyes because this is like, I'm not a big sports fan, but it's every trade lawyer's Super Bowl. I think I billed more hours yesterday than I ever have in my life. So, you know, what happened yesterday? So like, more like what didn't happen? I think that that is absolutely right, the sentiment that this is the single biggest trade action of our lifetime, and it is really, really hard to overstate how consequential yesterday's announcement was. But effectively it was two different things. So it was the application of a universal baseline tariff to all of our trading partners. So this 10% across the board tariff on pretty much everything coming into the United States, with a couple of exceptions we can talk about. And then on top of that, our individualized reciprocal tariffs for about 60 countries on Earth, ranging from 11% all the way up to 50%. And so USTR put out a chart of all

of the different tariff rates. There's also a second annex that outlines all the products that are subject to exceptions, which are mostly those that are going to be either under investigation, under section 232 investigations for national security threats like pharmaceutical products, lumber, copper, steel, aluminum, autos, and there are a handful of other exceptions that we include in a lot of our IEEPA orders. And just to say that it was incredibly, incredibly consequential. But the other thing that I will say, and I have said to all of my clients, is I see this very much as an opening offer from the Trump administration. I do think that these tariff rates will shift over time. Howard Lutnick, the commerce secretary, was on both Bloomberg and CNBC this morning talking about the conversations he had been having with many, many governments. So, I expect to see this continue to evolve over the coming days and weeks and months and potentially years, but this is huge. And this is a pretty seismic and significant shift in the way that we trade with every country on Earth.

SWANSON: Okay, great, yeah, that was a wonderful summary. Mary and Sarah, I could go to you and ask you, was there anything about it that surprised you? Is there anything that you think still needs to be explained or figured out?

BIANCHI: Well, there was more clarity than we've seen. I think there was a lot in the early actions from the Trump administration that were, you know, U.S. tariffs on Canada, Mexico, on again, off again, very unclear about stacking and how they all fit together. If you were an auto part from Mexico, did you have to pay them? So there's a little bit more clarity, and as Kelly Ann said, you can look at the tariff lines and figure out who's in and who's out. I think now what the market and the economy are gonna try to understand is for how long are we doing this? So yes, there is an opening offer. All the trade ministers have been in. I think, at least my understanding, the signaling from the Trump administration is don't come in for an exemption. Come in for some kind of deal. What can you do for the United States? And I think, you know, what the markets will watch is, is how quick can this go? And a lot of the issues, I think what is going to lead to more uncertainty, a lot of the issues that the administration highlighted that they're concerned about are not really tariff rates, right? What they're concerned about, as they talk about Vietnam or even they talk about Cambodia, is Chinese investment and China bank-shotting through currency. That's not something that, you know, Vietnam can just solve or in Europe - you know, regulation, digital taxes, a lot of it is very structural things. So I think what people will be looking for very quickly to assess the impact is, do we have to solve some of these things for real? How quick can it come? Or are we in sort of Trump deal-making mode where, if Hyundai makes an investment, Korea is off the hook. I think that's really what people are going to be trying to do as they try to assess the shock to the trading system and the economy.

LOVELY: Kelly Ann hits on some really important things about yesterday's announcement. We do know now that many of these tariffs do stack, particularly the ones on China. So we have very high tariff rates on China now, well beyond 50 percent on many products. I think the word reciprocal can now be laid to rest. There is nothing reciprocal about this. I'm going to maybe go out on a limb and be different than other people. It's a complete misnomer. You can see, you can just line up the rates that are applied to U.S. exports and compare them to the rates that were announced yesterday, and you will not see a high correlation. The administration has now provided the methodology that they used for their so-called "rates that are charged on the U.S.," which includes what they see as ad valorem or percentage-based equivalence of structural barriers, and, you know, as a technical economist, I can say there's really no methodology there. It is basically taking the trade deficit and dividing it by the value of their exports. Someone today made the analogy, it's like going to your doctor, finding out you have cancer and the basis for your medication is your weight divided by your age. I mean, there's really no basis that this is going to solve the problem. So I know we wanna hold off on analysis, but I think the word reciprocal is deeply misleading.

Lastly, I think that the fact that governments are going to be coming in for conversations is quite troublesome. We're a country that is governed by law, not by deals. And Kelly Ann said, they're going to come in, what can you do for the U.S.? Or frankly, what can do for the Trump administration? So this is a problem. Whether this is what the Trump administration means or not, and it may very well be not what they mean, it's how other governments are going to interpret it. So we're already seeing governments that have pre-signed agreements, for example, with Starlink. This was brought out today by Senator Chris Murphy. I think it is a bipartisan issue about how we run our government and basically how arbitrary trade policy opens up avenues for corruption.

SWANSON: I want to kind of situate this in the theories and the, you know, past of the Trump administration. I could go back to Kelly Ann maybe to talk about what do you think the sort of intellectual origin of this is, how does this fit into the Trump administration's bigger trade strategy?

SHAW: Yeah, it's been really interesting to see their messaging on this, and they released a video along with the fact sheets and the executive orders featuring Ambassador Greer as well as Stephen Miller and Karoline Leavitt talking about why they're doing this and really making the pitch to Main Street as opposed to Wall Street, which is what we've Secretary Bessant and Secretary Lutnick do about why this is necessary. And the rationale laid out in that video is very consistent with the legal rationale in the IEEPA order itself, which is about this longstanding and persistent U.S. trade deficit in goods. And if you read the IEEPA order, the first 9 or 10 pages is really the case for this. And it is all about the fact that the U.S. has lost essential production, essential manufacturing, that we're not ready in terms of our wartime capability, that the economic security challenge is incredibly acute right now, and that the U.S. trade deficit has just ballooned over the last several years, and that this is an urgent emergency requiring urgent action. And so it's a combination of both an interest in fixing this \$1.2 trillion trade deficit as well as the national security case that, in a time of war, in a time a pandemic, in time of extreme need, there are certain supply chains that we need in the United States. And so those are the two messages that are legally in the document. They're also the two message that the Trump administration is putting out in terms of its messaging to its base, to its voters. And I think that's why we saw both this, like this dual approach, this combination of a 10 percent baseline tariff, which was previewed in the January 20th America First Trade Policy memo of this, like, global baseline tariff to try to deal with the trade deficit, as well as sectoral carve-outs for sectors where we're going to see additional tariffs, additional action under these Section 232 investigations to try to protect certain supply chains and to onshore certain supply chains. And then on top of that is this concept of reciprocity. And as for countries where we just feel like we have an uneven playing field, we're going to have more advanced tariffs in the hope that we level some of that out. So it's doing a bunch of different things at the same time. But the two key messages have to do with national security and then the trade deficit.

SWANSON: When you're talking about doing a bunch of different things at the same time, so I was really interested in how this order, you know, kind of connects or maybe conflates foreign trade barriers and trade deficits. Do you think that, you now, addressing some of these trade barriers will actually bring down the trade deficit, or is that why we have bilateral trade deficits because of these trade barriers that they've listed?

BIANCHI: Well, I would say what I think one of the things that Kelly Ann suggested that's really interesting is some of the methodology was used for a legal case on IEEPA. How do you decide something is an emergency? It's a very aggressive use of IEEPA. There's a lot of lawyers who are not particularly comfortable with it. I'm sure many of the lawyers at USTR would have preferred a 301 investigation, country by country. This is -- or even Section 122 -- very, very aggressive. So it does seem like you always have to remember what are your lawyers solving for

and what are your, look, there are trade barriers in, that other countries put in the United States and that trade folks have been working on for a really long time. Some of them absolutely are things we should address. By the way, you know, it is a bit of a glass house. We have some of our own barriers in place as well. But so I think it's certainly a logical thing to go country by country and talk about, you know, I don't know how many conversations I had with the Indian government about pecans, which got done. But it was, you know, it was a barrier, and that's what kind of USTR does all day. I think what is notable, one, is that, and what is confusing about it to try to understand is, like Kelly Ann said, they are solving for so many different things. They're trying to solve the trade deficit. They are trying to do a reshoring, honestly, in a way with a sort of similar goal as some of how President Biden would have thought about a reshoring, right? Incentives for companies. Now, he would argue that a tariff wouldn't get you there, and I think many economists may agree with him, but they're doing that. Then they have the barrier. So I think the challenge is, President Trump uses tariffs for so many different reasons that it is very, very hard to follow. And I think, the White House, I understand why they're trying to market it as such, but they are complicated by their legal needs as well as the fact that they're solving for so many different issues.

SWANSON: Mary, do you think this will work to solve the trade deficit?

LOVELY: I don't think anybody—I don't think any—or, let me say, the majority, 95 percent, 99 percent of macroeconomists would say it's not going to. That we have a problem with an imbalance between our spending and our income, and we have to deal with that. It could trigger a recession, in which case we will see the trade deficit close because our consumption will fall. That's really not the policy that anybody, I'm sure even—including the Trump administration—wants to see, but that's very well what we might see. So, no, especially on a bilateral basis. The idea of reshoring is here, but what is just, to me, an absolutely glaring problem is there is no strategy. We are going—are we supposed to knit our own knickers? I mean, really, what is a good job for an American? You know, I have to say I'm old enough to remember manufacturing in Rhode Island, where I was born. We did a lot of foam rubber. We did elastics. We did costume jewelry. And then having spent most of my life in Syracuse, we did Rubber Maid laundry baskets. Those were things that paid very low wages and were easily taken by other countries because of the fact that they could be done by really unskilled workers. So what is a sustainable strategy? When people say they want manufacturing in the U.S., they're thinking high-tech, good jobs, sustainable jobs, health care. These are things American workers want, deserve, need. What's the strategy here? We're going after things Vietnam makes? Have you been in factories in Vietnam recently? I have. And, you know, it's great. The Vietnamese people have been enjoying, you know, buoyant income growth, which is wonderful. But we hit Vietnam, Guatemala. Bangladesh, look, I mean, I think a great exercise, everybody go home when you're when you're dressing tonight for bed, look at where your clothing are made and realize that all of these countries have large deficits. And that gives them the high reciprocal tariffs. And the reason is, of course, because due to the policies we've been pursuing, which is reducing dependence on China, these activities have moved to these third countries. That was a good thing, that was building resilience and reducing dependence on China. But we just totally whacked it yesterday.

SWANSON: To follow up on that, I mean, just for the kind of American consumer, looking at the different tariff rates, thinking about what we import from other countries, do you have any thoughts on what will particularly be hit? So like you say, you know, we import a lot of shoes and apparel from Asia and those tariff rights are quite high. Does it look like the tariff rate are highest on, you now, some consumer goods versus some other products?

LOVELY: They hit the labor-intensive stuff very hard because of the countries that are involved. Electronics also, obviously. So yeah, apparel, textiles, home goods, basic kind of

electronics or machinery has also been hit hard. So I think that we will see it. The estimates this morning, I know one of the major banks put out an estimate -- and I can't vouch for it because I don't know the methodology, this came out this morning -- with 17% increase on apparel. So I think that ordinary people will feel the effect, which may be one thing that propels what Kelly Ann said, some push to urge other countries to do deals so that we can lower these. But again, that just, I mean, you can think about the uncertainty. The hardest job in America, aside from being a trade lawyer --

SHAW: Thank you.

LOVELY: -- must be being a chief, you know, supply chain officer. Like, what do you do? You must be like, you now, because now you have complete assets that are stranded because you're behind 40, 50% tariffs, but you don't know where to go, right? Because what's next?

BIANCHI: I was just going to add one thing. So I think one of the, the challenges of the policy is that a lot of what a lot of people are concerned about is China. I think it is a concern of China being shotting through these other countries. I think China trade is a concern. I think that what, from a Biden administration perspective, they would say you kind of wanna work with the other countries to address it rather than kind of address everybody else's problems. But look, I don't, you know, it was something the Biden administration looked at very, very carefully in terms of Chinese EVs that were potentially popping through Mexico, some of the Chinese steel companies. So I think there is a question on Vietnam, if they're just bank-shotting around tariffs. I think what the what -- so I'd say the one challenge is you may be really actually giving China some opportunity to make some inroads when you're kind of taking on everybody. And secondly, I think there is perhaps an overemphasis on the role of a tariff. So when we in the Biden administration looked at, what do we do if Chinese EVs are built up in Mexico, there's no kind of rules of origin if you green-field a company. So kind of, you know, it was very hard to use tariffs to get at that, and that's why the administration turned to other things in the connected car initiatives and other security. So I think the challenge is, I think there is a big China challenge, and I just think there's a question of whether this is going to move us towards addressing it or actually, in some ways, give China an opportunity to make some real inroads in these other countries.

SWANSON: Yeah, that's a great question. Actually, on the call that the White House did with reporters yesterday, a White House official spent the most time talking about Cambodia, actually, which has quite high rates and talking about it as kind of a back door for China. So I thought that was quite interesting.

BIANCHI: Yeah. Mm-hmm.

SWANSON: Do you want to jump in on this question of, you know, is this sort of a global strategy to counter China? Is that gonna work? And what are your thoughts on that?

SHAW: Yeah, I mean, it's all of the above. Like, quite literally, the administration has stated unequivocally they are trying to redraw the entire global trading system. So, like, that is fundamentally what they're doing. So all of these things are true at the same time. But what I would say, and I just wanted to tee off something Mary pointed out, so tariffs get a lot of attention, and clearly we're talking about the tariff action yesterday because it was so historic. But tariffs are just a tool, and they are part of a broader economic policy. And I think if you're trying to understand what Trump administration is doing, it would be a mistake to stay within the four corners of tariffs in trying to understand their strategy. And so you'll hear that the administration will often push back on comments like, aren't these going to lead to increased prices by saying, well, look at what else we're doing with tax cuts, deregulation, energy diversity. Like, you have to take the entirety of our

economic plan and not just cherry-pick out one piece of it, even if that piece is huge, and draw a straight line in terms of what the impacts are. And what's different about Trump 2.0 versus Trump 1.0 is we did all that other stuff first in Trump 1.0, right? The tax cuts, the dereg, the economy was humming before the tariffs went into place. And this time, it's the reverse. And so that's why this feels very much uncharted, in addition to these swings being so huge. But when it comes to China, I think that it is fundamentally at the core of a lot of this. And what this action is also testing, I think, are our current concept of rules of origin, which is that we tariff finished goods and the final, that final stage of production, and we assess country of origin based on that last place of substantial transformation. But what if you have Chinese ownership or Chinese content further back in the supply chain? How do you get it that?

And I think that we're also going to see, in the coming weeks and months, as the Trump administration rolls out additional tariff actions and additional tariff measures, particularly on things like semiconductors -- and we're already seeing it in the automotive space -- this concept of component tariffs. And really trying to redraw supply chains in a fundamentally different way, in a way that we've never seen before. And so from this perspective, it's about not just bringing more to the United States and, and the president has never said he wants everything made in America, right? The administration talks about these critical supply chains being important to be produced in America. But it's about expanding our trading relationships with like-minded allies who treat us fairly on these other products and weaning away from China and other potential adversaries who could potentially bottleneck us at a time of crisis. And I think we're gonna see more of that trend, particularly as the administration took this massive swing at the global trading system yesterday. and then begins to negotiate some of that back. I think this is gonna be put back together, but in a very different way than we've seen.

BIANCHI: Can I just say, I think the, I do think the rules of origin question is really important. I really do. The Biden administration had a similar instinct in -- and the Congress -- around the Inflation Reduction Act. Like, what component parts count if you're going to get a benefit? Can it be from a foreign entity of concern? So I do think there are real questions that policymakers are trying to get at different ways. Again, you saw it very late in the Biden administration around steel. If it's a Chinese company in Mexico, do you get the benefit? So I agree with Kelly Ann. I think it is a very bipartisan issue and actually commentary that in this global economy, it used to be that we thought if somebody greenfielded a factory in your country, that was just generally good. And that's not like how we think about it now with that risk. So I think it's a very important thread for all of this.

LOVELY: I would say de-risking from China is important, but what does that mean? And where do we draw the line? Again, is it important that our underwear is not made in China? What is important? Semiconductors? Yes, maybe we'd all agree on that. Do we need to bring some things back that are important for national security? Obviously. Must the U.S. have its own auto industry? Yes, we could discuss that. But, you know, trying to follow value through the value chain, which absolutely 100% is where we've been going, and rules of origin, I think, now will be mentioned at cocktail parties. Almost, almost as surprising as --

SHAW: Yeah, everyone loves a trade lawyer.

LOVELY: Yeah, yeah, love the trade lawyer, there you go. But, you know --

BIANCHI: Long-term Super Bowl.

LOVELY: This is just kind of a fool's errand, because while we're going to be tracking it out, the rest of the world will not be. And, in fact, the rest the world be moving farther and farther away

from U.S. in terms of benefiting from Chinese innovation and benefiting from low-cost inputs for their manufacturers. And, you know, I think countries now are not—yes, the U.S. has a lot of market power. The president is using the power of us, of our large market, right, in our name. So what are we getting for that? And does the rest of the world really think, oh, I have to change all my structural things to contain access to that market when there may be a new president in three and a half years? Or do I decide to create my own trade agreements or go more deeply into the agreements that I have through the CPTPP which is with other advanced economies? The U.S., of course, led the negotiations. or came in later and led the negotiations on that. Or do I go through deeper integration with China? So I don't think that this is just how much do I give to the U.S.? This is a strategic decision about them.

And just lastly, I wanted to say about bank-shotting through Vietnam. I mean, how do we expect to reduce our reliance on China? A place like Vietnam has to get the investment. It has to get the factories, it has to get the workers, it has to get the technology. China became the manufacturing powerhouse it is partly by accepting what it viewed as hostile technology, which was from the West, right? So, where will Vietnam be? Do we think Vietnam is going to be dependent on China for shoes forever? The answer is absolutely not. They're already not. So, there's a timing issue here. We have to be patient and think, how do we use these tools to achieve long-term goals, recognizing that we have to create alternatives to China. I think the Biden administration, through the Indo-Pacific economic framework negotiations, was going in the right direction. Unfortunately, we weren't willing to really make any concessions, I think, in a way that would have put some teeth in lasting power, staying power. Now we know that's just out the window. We really taxed those countries very heavily yesterday.

SWANSON: Um, Sarah, what do you think about the do you think the administration is right about the power of the U.S. market and will we see other countries move on without the United States or how achievable is that?

BIANCHI: I think they're, I think Mary's right that what -- look, a lot of these -- you kind of got to take each each country at its own right. Like Canada, Mexico, like we're pretty all integrated, you know, they're like they're not gonna be able to divert and you know start. I think the ASEAN countries, very very complicated situation for them. They are, they do need the U.S. market. They also need China. So, a lot of the conversations with them is like, how do we talk about things that are strengthening our ties without alienating them. And at a much smaller level, you know, Japan and Korea have to think about the same thing. So I think it is an under, I don't think our market dominates in quite the way. Certainly in some areas, you don't want to have a semiconductor business or pharmaceutical business, certainly, but you can find, you know, if you're Brazil, could you find other places to send your ethanol? Sure. So I, but, but I agree. I think the, I think Kelly Ann's point is very, very important about the reverse order. I think it's important for the reasons that you said, certainly a lot of people would look at, that I know would look at that tax cut and say, I'm not quite sure that all fits for the middle class, what they're going through. But also, this is, like, gives a lot time, like we're just starting this administration for supply chains to reroute, for companies, for countries to come up with partnerships. It is no secret that China thought they did not take full advantage of Trump 1.0 in this regard to make other alliances. They are not waiting. So these conversations are alive. They're happening now. Yes, the trade ministers are coming here. Of course, they are. But I think you're also seeing a lot of other places knowing that, you know, the U.S. may not, you know, may not be there the way they want it.

SWANSON: And how are we seeing companies respond to this? So chief executives, how do you think they'll make their decisions? It seems to me, actually, that we've heard from some major companies that didn't want to be named that they're still not convinced that these tariffs will be in effect in the long run because of what they anticipate the economic consequences to be for

the United States and the political consequences for the Trump administration. I'm wondering, are you hearing that clients are reorganize, you know, going to reorganize supply chains or?

SHAW: Yeah, I mean, it depends. So it depends on the industry. It depends on a sector. I mean every supply chain is unique and individual. But what I would say is there's a lot of uncertainty right now, right, which is like a popular word. Where is this going? And so there are two different conversations happening. There is the conversation that the Trump administration is having with other governments and saying, look, like, you need us more than we need you. we're going to raise our tariff rates to meet your unfair trade practices. And if you want, we can lower them reciprocally together, but we have to start from the same baseline first. And that's where they're going. But that message doesn't really translate to business in the same way, who just sees, oh my gosh, there are these high tariffs today, are they gonna be different tomorrow? Are there new tariffs coming? Like, we're not sure what to do. So there's a lot of like, just a bit of paralysis in terms of investment and moving supply chains.

And even things like. the Mexico-Canada fentanyl tariffs, where you had that USMCA carve-out, so for goods that are originating, and we were talking about this before the panel, that for a lot of companies, they hadn't bothered to even verify whether those goods had been originating because the MFN rate was already zero or 2.5%, what didn't really make a difference to go through that process. And all of a sudden, when you're faced with a 27% or 25% tariff, that's a lot money. And so all of the sudden, you're gonna go back and see, can your supply chain meet the USMCA rules of origin? But for some companies where it was a closer call and it would take some investment or some changes to their production in order to meet those rules, well, how long are those fentanyl tariffs going to be in place? Is it worth that or not? So we're seeing a lot of that play out right now. I would say in response to yesterday, everyone is still digesting the news. And I think different sectors, like certainly footwear and apparel, because of the sourcing from Southeast Asia is concerned, a lot of electronic companies are concerned because of the China tariffs in the immediate aftermath.

But again, we'll see how this evolves. I think it's gonna be weeks and months before we have any more clarity in terms of where these relationships are going. Where I do feel a bit more confident that we'll some tariffs with durability are those lower 10% tariffs. And that's not to say that some countries won't be able to negotiate their way out of it by reciprocally lowering barriers. But I do think that those are more designed at a systemic run at trying to fix the U.S. trade deficit while maintaining the dollar as the world's reserve currency and incentivizing production in the U.S. And so that's sort of part of their broader economic strategy. And we'll see what Treasury comes out with with currency misalignments and a bunch of other actions related to those 23 reports that were also due to the president earlier this week and we haven't seen action on yet.

BIANCHI: I would just add, I think Kelly Ann absolutely laid that out very, very well and we have seen a lot of countries and companies, we know they're calling in to the administration. Right now, what it feels like to me is that everybody has kind of gotten the memo that the people who were -- we haven't had a president. you know, in a long time who we got to like review one time, had a half time and then got to re-strategize kind of coming back. And so I think people have really taken, when I was around the world last year, I mean, it was like, you go to Japan and they're like, okay Abe really liked him, but what do we do? You know, people are strategizing. Right now, I think the mode of operation is you're better being inside negotiating. And there's a lot of evidence. Some people like their politics don't allow for that or whatever, Canada. But the companies now, right, they're standing behind him at the inauguration. They'd rather negotiate inside. I think this notion, this is such a shock that I'm not sure the ripple effect. I'm sure if everybody is going to be able to handle that or they're going to have to, you know, if they have to reduce earnings or how patient they are. Again, if you're an electronic or you're Nike or whatever. So I think it'll be really

interesting to watch. Second thing to watch, we used to talk about Trump 1.0, there was a put in the stock market, and he wouldn't go below whatever. And obviously, we see this time a president with more tolerance for a pain, a bit more messaging around the main economy, like advisors saying, you know, like, there's that part of him, you know, God saved him so he could save America. Like, there's just a more a more durability. But I have to believe there's a pain point for every president. And I can tell you and anybody can tell you that that inflation is not a fun thing to be dealing with from the government. I think that, I don't know, you can already see these congressional Republicans getting really nervous. So I think, again, we're at like a new point and we've got to see, like you said, how the kind of earthquake evolves into the economy to see if the current state of reaction, this inside strategy can hold.

SWANSON: So Mary, I really want to go to you on that, how the earthquake evolves into the economy. What do you think is going to happen to manufacturing? What will be the impact on the U.S. economy?

LOVELY: I mean, well, if you think that companies are having to go and ask and beg and plead, and then country leaders and trade ministers are here to beg and plead and make deals, you have to ask yourself, is the White House switchboard the busiest switchboard that there's ever been in the entire world? I mean, what is the administrative capacity? This is not an administration which has shown an administrative capacity that's up to its incredible, incredibly large, you know, desires to rearrange global supply chains in two months. So how is this going to work? And the reason why that's an important question is because this is kind of the happy ending, right? That we negotiate down trade barriers which have hindered our exporters and we all get to a better place. How exactly is that going to happen in a public administration? How is that gonna work? We already saw what happened with de minimism and by the way, de minimus is completely gone. So has the post office actually solved the problems that happened a few months ago? We don't know. So I think there's a big issue on just public administration, on can they do this with all these supplicants coming for these deals.

The other thing is, of course, about uncertainty, which Kelly Ann has stressed, rightly so. But when we think about these deals, is it really resolving uncertainty? So take India. You do a deal with India that is inconsistent with the domestic political economy of India. Because if it were consistent, it would have already been done. We've seen India time and time again make promises and then backslide, backslide, backslide. So all of a sudden, they make a deal with the U.S. As a chief supply chain officer, do I then put down \$2 billion in a factory, thinking that they're not going to just ratchet up domestic content on my stuff? No. I say, again, in three and a half years, we'll have a new president. So, we're talking about whether the, going back to the earlier conversation about the trade deficit, will the trade deficit shrink? It may, because our consumption goes down. Business investment is an important part of that. And this paralysis, uncertainty, is not a free lunch, as they say. It's going to have a cost.

SWANSON: What do you think will happen to prices, inflation, growth, some of these other economic metrics in the United States?

LOVELY: The inflation story is really important because people, myself included, hate inflation, right? Every time I get that shrunken bottle of orange juice out of the fridge, I say, I understand what happened in this election, right, but there's, I think, a bigger structural story, which is that we are trying, and if you put the best spin on this, we're trying an industrial policy. We want to, as the president has said, re-industrialize the United States and provide good career options for people who want to be in that sector. Okay, that's a lofty goal. But who's going to pay for it? It's an industrial policy. We're paying for it with a tariff, which any economist will tell you combines a production subsidy because it raises the price that domestic producers can charge, and a

consumption tax. So we're basically paying for the production subsidy with the consumption tax and the tariff is one of the most regressive tax instruments. So it's very clear, this was alluded to, that this is a big shift in who is paying for government. And it's just a shift from high-income workers to low-income worker. So the same people that the policy is supposedly trying to help are actually the ones that are gonna be paying for it. And we're gonna see whether, how this works out by looking at what happens to real wages across the income distribution, which is wages minus the effect on prices. And there are some very strong reasons to believe that that's not going to be anything that doesn't increase what I've said before publicly, cynicism among people, that the government can do anything positive to help them increase their real wages.

SWANSON: And I want to spin it forward. What are we expecting next? Maybe first we could talk about retaliation. We haven't talked about other countries retaliating against the United States. It seems like some countries are taking different strategies to try to appeal to the Trump administration. Do you expect them to hit heavily at the United States with tariffs? Sara, do you want to?

BIANCHI: I think, so I would say kind of, you know, pre-yesterday, I think most people were trying to say like, you now, even the EU was like, we're in a hold and see and talk and like, I don't know if that, you that doesn't mean it's a secret deal, it just means like this guy doesn't respond well to tit for tat so like we're not going to go that route. You know, obviously Canada is different because it's like an election cycle and it's causing all sorts of political ramifications. So, I think after today, I'm interested to see how it lands because it was so high, the numbers were so big that I think some people are going to have to recalibrate a little bit more. So I think it's going to be a little TBD. But directionally, I think everybody kind of got, you could see, I mean, look, I think the Mexico president has handled this situation with a lot of, you know, wisdom so I think you know, it's one thing I'm not saying you have to go to make a deal, but like it is, who are you dealing with and how do you react.

SWANSON: Kelly Ann, what are you expecting to see next? So earlier you did mention these other, you know, critical minerals, pharmaceuticals, chips. It seemed to me that actually in the exclusions that we saw yesterday, the administration also laid out a pretty clear plan of where it's going with other tariffs potentially on more critical goods for the economy. Just curious what you see in other trade measures. And then also, Mary mentioned de minimis. What's going on with de minimis?

SHAW: Sure, sure. And if I can just respond to just the last exchange, too, and maybe shed some light, too. Because, you know, obviously, most economists think that this action will have negative impact, particularly in the short term, on the U.S. economy, on inflation, and potentially drive the U S into a recession. But like, just getting inside the mind of the Trump administration from having served in the first term. The view very much back then, back in 2017, 2018, was that if you add \$300 billion worth of tariffs to the U.S.-China relationship and tariff steel and aluminum and all our allies, you're going to tank the economy. And what happened was not that, right? What happened was millions of jobs added to the economy, \$6,000 in average income added, GDP growth, low inflation. They will rattle off all these statistics, particularly before COVID, that show that they bucked conventional wisdom. And I think, like, looking again, like the Trump administration doesn't do anything conventional. Like, right? This is all, like greenfield Wild West, none of this has been done before. And so what you hear them asking and what you hear Secretary Lutnick asking this morning is for a longer leash from the American people. Like, don't judge us based on the outcome in the next month or two. Judge us a year from now. By Q4, this will be Trump's economy. And I've heard multiple cabinet secretaries say this. It's currently Biden's economy, but by Q4 it will be Donald Trump's economy. Judge us then. Give us a little bit of space. a little bit of breathing room, see where this lands, see where our other policies land, and then

judge us. So that's the message coming out of the White House. And we'll see if the American people give them that leash. But in terms of maybe working backwards from de minimis, so the other action we haven't even talked that much about because reciprocal tariffs have taken up so much is that the administration issued a second executive order that effectively terminated de minimis for shipments from China that are covered under the fentanyl tariff, so these 20% tariffs. And in the reciprocal tariff executive order, there's a provision on there that also says that de minimis still applies to imports from everywhere that's covered by these baseline tariffs and reciprocal tariffs, until such time as the secretary of commerce figures out a way to basically take that revenue in. So the expectation would be that pretty soon the de minimis exception would no longer exist or it would be significantly shrunk through executive action. So that's something to be aware of, and they haven't specified to which countries or which products, but it could be widespread for everybody. And then you had one more question.

SWANSON: It was about the section 232s, like other tariffs to come on chips and pharmaceuticals.

SHAW: Yeah, I think that it was foreshadowing, right? So, like, if you look at all the products that were excluded, they were either currently under investigation by 232, or 301 in the case of semiconductors. They've already had tariffs in the cases of steel, aluminum, and autos. Then you've got pharmaceuticals, which everyone is expecting the announcement of some sort of 232 investigation in the near term, and critical minerals, where the administration hasn't quite said what they're going to do yet, but there's clearly a ton of interest. Part of the challenge with critical minerals and why every administration from Trump to Biden to Trump has been concerned about them is because there's a different supply chain for every mineral. And so you can't just take on critical minerals. You have to take on every single one of those elements in a very distinct and separate manner. So I certainly expect there to be other investigations, other actions, potentially tariffs and other non-tariff measures. that would impact those supply chains. But again, that's about diversifying away from China and some of these adversaries and making sure that we produce those specific products in the United States, as opposed to the other products that are more about how do we just have fairer trade with our partners and not just about U.S. production.

BIANCHI: I just want to build on something you said, Kelly Ann. So in terms of the patience, I think I've observed, since Trump came on the scene, that while I think some of these policy shocks are a bit more than, his rhetoric and communication about trade is super central to his victories. and I have found it just, having traveled a lot with President Biden in the 2012 election, where Obama people sent us on every midwest state, it can feel pretty bleak in some of these places. And I think when I have listened in '16 and '24 in particular, trump's like, if they do this, I'm going to tear up. It sounds tough. And then the Democrats are like, well, we have an industrial grant for some very high-tech investment on a super semi thing that we could build here. And I'm like, I don't know about this, guys. This doesn't sound very good. And then, the Democratic party right now is just like, it's a tax. It's a tax, it's tax. It hits low income, it's a tax to pay for the -- OK, fine. But I think you have to be, and maybe, maybe this is so overblown and has caused such an economic shock that the world is just going to give up on tariffs, like, forget it. But I think that Democrats and people should be careful, because they're standing up with unions. They're standing up with steelworkers. They're stand up with autoworkers. There is no, you know, again, I think this probably, the shock is more than certainly I would do. But you've got to be careful about just saying, this is bad for low-income people, la la la, until you have an answer for this.

And look, I think the IRA, I'm super bullish on that. I think there's a lot of really cool, high-tech factories that are coming in on it, but, and you know, like, Trump may have to learn with Biden, have to learn that long-dated policy isn't always the best politics. You know, I don't know. They're not they're not they're patient enough for Bidenomics, we'll see if they're a patient enough

for Trumpenomics. But I just think that you got to be careful just dismissing all of this out of hand. You know, I just I think the Trump people said this yesterday, you know, NAFTA didn't, well, you guys were wrong on NAFTA. You're wrong on this. You wrong on that. You were wrong on inflation last time. Again, I can come up with a counterpoint to all of that, but if you dismiss all of that, you're going to be missing something that's very central to this presidency and to the appeal of this president.

SWANSON: That that relates to one last big thing I wanted to ask about before we go to audience questions, which is what does this mean for the global trading system? What does it mean for the WTO, you know is the WTO already dead, so killing it doesn't really matter? You know, but I think it really it does seem like there's this sort of theory of, you know, the global trading wasn't working anyway, so we might as well tear it down What do you think the implications of that are?

LOVELY: I don't think the WTO is dead. I think most trade still operates on WTO rules. I think the U.S. is basically is removing itself, not officially, but de facto, from any of the agreements that were signed for, certainly nondiscrimination's out the door, there's no MFN here. But I don't think the WTO is dead, the problem is it's rudderless, right? The U.S. was the architect. And in some sense, we used to say was the essential partner. We're gonna see how essential it really is.

SWANSON: Kelly Ann, what do you think?

SHAW: Yeah, I mean, I could go on forever about the WTO. I have very strong views, as those who know me. Look, I think the WTO has been on life support for the last 25 years. I think that the United States is the least of the WTOs problems. You've got an organization of 166 governments, including China, India, South Africa, Pakistan, who can't agree on anything, but can only agree if it's on a consensus basis, which is why we don't see the rules advancing. And like, clearly, clearly the solution should be to these uneven tariff and non-tariff barriers, an opportunity to go back to the WTO and renegotiate these commitments. But everyone knows that's a fool's errand. You're never going to get agreement among 166 countries, so why try? Which is why the Trump administration has gone the unilateral route. And so you either buy that there's a problem or you don't. And if you don't think there's problem and you think the global trading system is just fine the way it is, you'll probably think all of this is crazy or overblown. But if you do buy that's there's is a problem, it gets to Sarah's point, which is, well, if you don't like this, then what? Because continuing down the same path we were going didn't work. We are being taken advantage of by Chinese unfair trading practices. We're losing U.S. manufacturing production and capability at a time when we clearly need it. So, like, what's your answer? What's your solution? And this is a solution, and we'll see if the Trump administration is successful in landing that. But in terms of the impact to the WTO, it's sort of a non-entity in many respects. Now, this is the antithesis of MFN and national treatment and the principles of non-discrimination that the trading system was built on for the last century, but those principles don't work anymore. So why not try reciprocity? And I think that's the position of the Trump administration.

BIANCHI: I mean, if you're in a place, look, if you start to see countries like India's I'm taking down my really high MSN for the U.S., but nobody else, like, I don't know. That's another, you know, whatever life support we're on, like, you bring in the, bring in the next level of medication.

SWANSON: Let's take a couple audience questions. Someone here in front? Is that microphone? I think so, yeah. She'll be there in just one minute.

AUDIENCE QUESTION: Thank you. My name is Dr. Gonzalez. I'm private sector. My question is the following: everybody talks about trade deficit in the United States and as well as the problem with manufacturing that everything's out there. But it seems to me that this is a self-inflicted problem because the United State has gone all over the world looking for cheap labor. And why? Because the bottom line is always about money, about your return of investments, about your profits. So in that sense, everybody gave for granted, let's go all over the world. Let's go to Vietnam. Let's go to China. Let's go to Mexico. Let's go to all of those countries for cheap labor. And if you look at the labels, everything is made somewhere else except the United States. So, in my opinion, it's self-inflicted. And second, the issue of tariffs is pretty much it doesn't differentiate in between your allies and your enemies. But as a matter of fact, the highest tariffs are for China. But it's taken in the same, Taiwan. And Taiwan, isn't it supposed to be an ally of the United States? Taiwan produces the tons of chips that come to the United State. So why that lack of balancing in between our allies that provide a lot of stuff to the United States versus what we call our enemies, which I would doubt that, but anyway, thank you.

SWANSON: Yeah, so why Taiwan hit so hard, it's because of the, our formula, our trade deficit formula.

BIANCHI: The president's, always his comments, commentary on Taiwan is fascinating to me, just in terms of his view of its role in the economic system. Obviously, the semiconductor thing is going to be huge. How far they take that in terms of component tariffs, oh my goodness, you could really blow that out if you want it. I assume the strategy of Taiwan is to try to offer more investment here, and that's the off-ramp, but I defer to Kelly Ann as to whether that's, that's a realistic.

SHAW: Well, in addition to Taiwan, there are a lot of other allies who are getting tariffed, right? And so the question is, like, why? Why are you tariffing our allies? And sort of the whole economic nationalism, this whole Trump economic worldview, is that you shouldn't let the fact that someone is our national security ally prevent you from raising economic issues with them. And that's really the theory that dominated the last 40 years of U.S. history. It's that we sacrificed our economic needs for national security objectives. And even the entire global trading system is founded on this principle of, like, countries that trade together are less likely to go to war with one another. So it was about integrating our economies for national security reasons and for development assistance reasons to war-torn Europe. That's what the whole trading system was built on. And so, like, the Trump way of thinking turns that on its head, and it says, it doesn't mean we don't still like you. You're not still our friend. We don't want to—it doesn't mean we're throwing away these national security alliances, but we're also going to level the economic playing field. And so we're seeing that with Taiwan. We're seeing it with Europe. We're see that with other allies as well. And to your first point about whether it's self-inflicted or not, it almost doesn't matter because we are where we are. And so, you know, the Trump administration has presented a solution for that, and you can agree or disagree with that solution, but this is their way to try to fix that dynamic.

SWANSON: I do think that's a really interesting argument, though, that it's the corporate drive for profitability that has driven these supply chains overseas, and you really see that playing out with the auto tariffs, with the United Auto Workers arguing that those profits need to be returned to workers, and it's an interesting question for me whether tariffs are actually going to, can actually counter that motivation by companies, right? So we'll see how that unfolds. Let's take another question.

AUDIENCE QUESTION: My name is Mark Brodsky, retired CEO. My question has to do with practicality. You already pointed out that de minimis hasn't been working yet. How is this going

to be implemented? Is it difficult to collect these tariffs? Is there a system in place for implementing this? Are there lawyers who will get around it all? Will it work?

SWANSON: Great question. Do you want to -- ?

BIANCHI: I mean, look, I think the de minimis I think is the biggest challenge because it's so much product coming in and post office and all that's like logistically the hardest. Look, I certainly think that, you know, anyone who thinks that like all of this is going to be in place in customs offices throughout the world by tonight or midnight or whatever or next Wednesday, you know, it does take, take longer. I think some of it's easier than others, right? Like putting the 10 percent, a little bit less hard than trying to figure out component parts and does the steel baseball bat get the steel aluminum? So I think it's, but I think Mary's right in terms of, I mean, you want to be, you know, in terms the amount of government that it takes, if you want to be able to bring a pharmaceutical, anything back here. You know, you got to talk to the FDA and last I checked like half of them are on the way out. So I definitely think there are some implementation challenges that are very real.

LOVELY: Yeah, we may see some Ph.D. dissertations written on this period, for sure.

SWANSON: Do we have another question? All right, let's take one last one in the back.

AUDIENCE QUESTION: Hi, Amir Sadeghi from S&P. You touched upon different pieces of this bigger picture, which is really important, we shouldn't miss. What I'm trying to understand is how those pieces come together, because if you're trying to hamper trade and that's not going to be something that bodes well for the rest of the world, and internally you're not doing something that boosts consumption, investment is slowing down due to uncertainty. So putting all these together, and yet you're trying to boost production, how, where is the demand coming for this production? How can we put these together? And if we do it, do we get a consistent picture? Thank you.

LOVELY: Well, I mean, it's a form of economic nationalism, right? The demand supposedly is supposed to come from Americans, particularly if we have retaliatory tariffs, it will really hurt our exports. Our exporters are particularly hurt. In fact, it is really surprising, we used to think about politicians being mercantilists, and yet we don't hear the word export. The other word we don't hear is services, which is where most of us work, right? So I think that, you know, this is a policy that is really meant to have production for Americans by Americans in a lot of ways. Think about the auto sector. The rest of the world will continue to adapt to the need to decarbonize, and we have decided we're not going to. U.S. autos already are made for the United States because of our penchant for, you know, hot SUVs, minivans, I've driven both, I got nothing against them, but it's ours, it's almost uniquely ours, our roads. So I think in a lot of ways it will be American production for Americans.

BIANCHI: I think the question, I'm not sure this answers your question because I think Mary did it better, but I mean I think, the question is like does the does the solution here solve the problem they're trying to address? And almost you can think about DOGE a little bit. So, look, I thought DOGE, directionally was like, it's time to do that again. It's good hygiene, Al Gore did it. Other people have done it, you know, under the Clinton-Gore, over eight years, they got rid of 800,000 federal employees, for real. You know, it is a problem that like the defense department cannot pass an audit, right? And like, they don't know where their money goes. Like, you know, I'm not sure that, like, you know, every soccer game my children play needs to have, like, Boeing and, you know, like, go to our, so I get it. Definitely time to do it. Like, shame on the Democrats for not using their last time in office to put one of those good hygiene. That's a different question than, like,

should you make people's fob cards not work for an entire agency, right? I get it. So. You know, I shouldn't say this in this room, but we do have a Tesla, you know, please don't damage it. I'm scared to drive it now because if I wreck it, like, I'm a terror, I don't even know. But like, the theory of the case in some of these companies is just like, blow it all up and start again, and that's just really challenging the government. I think the challenge here might be if the policy shock is too strong. You know, you might create a lot of pieces that might not really get you necessarily where you're trying to go. And so I don't even know until we see, again, like what this all means, how production of anything is going to respond. It may just be too big a policy shock for everybody to absorb and do the sensible things. But that remains to be seen.

LOVELY: If I would just say one thing very quickly, which is that if you were trying to redesign global value chains or global supply chains, which is what was said today, this administration is trying to do, what would you do? How would you do it? Do these tariffs look anything like that? They took the trade deficit and divided it by the exports. That wouldn't be my algorithm. So think about it. What would you do to build resilience and productivity in the U.S.? This solution, quote unquote, is not reciprocal, it's not efficient, and it's not strategic.

SWANSON: But what would you do?

LOVELY: I would do more what was being done, except do it more. And I agree, the WTO has serious, serious problems. But we could do it with groups. We don't have to do what the WTO says, obviously. So we could have banded with groups of countries to create, we could be part of the TPP.

BIANCHI: I mean, I guess that's where I would agree with Kelly Ann. I think the diagnosis of the problem, I don't think, I think it's hard to say that we were on a track that was really sufficiently addressing the concerns that Americans don't believe in our government, they don't in our institutions, they don't believe in our colleges. I'm not sure, look, I sat in a lot of IPEF halls. I'm sure that was like, look I'm not, I just said, like, I think we might have just done Humpty Dumpty here, so I'm not trying to defend it. But I think people who are going to blast it, you know, it is incumbent on them to at least stay with the theory of the cases.

SHAW: The last thing I'll add is, like, when you're in the government, this is why they pay you the medium amount of money, right? Like, you have these, like really big policy challenges, and you've got to land the plane. And the Trump administration, second-term president, not facing reelection, he's thought about these things. He's been remarkably consistent in his ideology for the last 40 years. He's taking a very, very, every, very big swing. And he's either going to land those planes or he's not. And let's see what happens a few months and a couple of years from now.

SWANSON: It sounds like we need to have you all back for another bit, lots more to talk about. All right, well, thank you so much. Thanks to the audience. Thanks for having me here. I think this is a fantastic panel.

LOVELY: You're welcome.