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WEBINAR

GLOBAL RESPONSES TO AN AMERICAN RESET OF INTERNATIONAL TRADE

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PANEL DISCUSSION

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SOLÍS: Hello, my name is Mireya Solís. I am the director of the Center for Asia Policy Studies at Brookings, and it's a pleasure to partner with the Research Institute of Economy, Trade, and Industry in bringing to you today's program. The topic we're discussing today is of utmost importance. Just a few weeks into the second Trump administration, the president has raised tariffs to levels we have not seen in the last century. The American president has set the clock back with the return of tariffs with the difference that we are now operating in a very globalized economy. The Trump tariffs have been applied for different reasons. Tariffs on China for fentanyl precursors, tariffs on Canada and Mexico for immigration and fentanyl. There have also been tariffs that are targeting key sectors of the world economy, such as steel and automobiles. And most recently, there was a massive escalation of applied tariffs with the imposition of a 10% universal tariff in combination with a reciprocal tariff applied to around 60 economies, all for the stated purpose of correcting bilateral trade imbalances. After a tit-for-tat escalation with China and financial turmoil all of last week, the U.S. tariff on China stands today now at 145%. Although some exemptions came along this weekend on some electronic products. The reciprocal tariffs on everyone else have been paused for 90 days, but the tariffs, the rest of the tariffs on autos, metals, the 10% universal, those all still remain in place.

So we are at a turning point, but the question is where are we heading? That answer will depend not just on what this US administration does, but also on the actions and strategies developed by other key players. And interestingly, we have seen very different responses. Some governments have opted right away for retaliation, others have tried to first negotiate while also preparing some countermeasures, and some other governments have outright ruled out retaliation fearing that this could bring further economic damage or fractured bilateral relations. And this then opens the door to concessions or negotiation.

So today we want to discuss these wide-ranging global responses by focusing on key players such as China, the EU, Japan, and Mexico. And I'm really glad that we have a terrific group of experts and I'm going to introduce them very briefly who will share their insights with all of us. I have to say, they're very distinguished, so their bios are very long, so forgive me in advance for having just shortened them, and just be very brief as I introduce all of you. Shujiro Urata is chairman emeritus of RIETI, had a very distinguished career as professor at Waseda University, and currently holds senior fellow affiliations with several research organizations, including the Japan Center for Economic Research. Cecilia Malmström served as European commissioner for trade from 2014 to 2019, during which time she was responsible for negotiating trade agreements with Canada, Japan, Mexico, Singapore, and Vietnam. She is currently a non-resident senior fellow at the Peterson Institute for International Economics. Scott Kennedy is senior advisor and trustee chair in Chinese business and economics at CSIS. He has written extensively on Chinese innovation and industrial policy, U.S.-China relations and global economic governance. And Jesús Carrillo is guest lecturer at the Colegio de México and former economics director of the Mexican Institute for Competitiveness where he led research on sustainable economics, energy and international trade.

So, time to dig in, time to get started with this conversation. And because there's so much ground to cover, even though we're not even yet into the 100 days of the Trump administration, I thought it might be easier if we divide the topics in three separate areas. First, I would like to talk about the economic impact of these tariffs on different very important trade relations that the United States has. So what is at stake? What are the fear effects that could come from these tariffs applied on others? Second, I would like to

explore what are the trade-offs that these governments are thinking about when they decide what to do next, how to respond, negotiation, retaliation, collective action and so forth. And lastly, I'd like to open up the conversation to what would be the long-term implications for the future of supply chains of the trading system, and perhaps whether we are now triggering diversification away from the United States. So, without very long introduction, let me just then start this conversation and ask a question to all of the panelists, if they can help us understand what are the impacts that are expected from the Trump tariffs. I would like to say that, you know, President Trump has promised a lot of things with tariffs. He says he's going to rebalance U.S. trade. He's going deliver a manufacturing renaissance and that he's also going to set the United States to collect hefty amounts of external revenue through the tariffs. I would like to ask our panelists, and maybe I'll start with Shu first, how are partners like Japan viewing the motives, the goals, and also what are the expected effects of the Trump targets.

URATA: Thank you very much, Mireya. First of all, I'd like to say that we are very much concerned about this Trump's tariffs negative impacts on the world economy, including Japan, including United States and other parts of the world. So this is, I think, a world kind of crisis, so to speak. And that's exactly how Prime Minister Ishiba characterized this Trump tariff as a national crisis for Japan. And of course, immediate expected impacts is the reduction of exports, Japan's exports to the United States. And as Mireya said, 25% tariffs on automobiles has been implemented already. And so, and the Japanese car exports are a very large part of Japanese exports to the United States, and it's very important part of Japanese automakers. And it's not just the auto assemblers, but also auto parts producers, suppliers. And indeed, one of the issues being discussed in Japan by politicians and policymakers is how to deal with the problem that SMEs, small and medium-sized enterprises, are faced with because of the expected reduction in export to the United States of assembled automobiles. Because almost 10% of the labor force involved or engaged in activities which are related to automobiles. A large part of them are small and medium-sized enterprises and the workers working for these enterprises. So the Japanese government is thinking about maybe providing some kind of financial assistance to these SMEs particularly. And so that's the major, I think, kind of reaction or anxiety that Japanese companies and Japanese companies have.

But I wonder if somebody's going to make some points about its impacts on the U.S. As I just said, the impacts on the U.S. is very important because the U.S. has a very large economy. And we are afraid that this Trump tariff would slow down the U.S. economy, which was doing okay before this, and so the negative impact on U.S. economy is going to affect the Japanese economy, I think European economies and so on. And let me just add one more thing, this tariff is regressive in nature. So this is the impact on U.S. which I wanted to just mention, in addition to this macro effect which is a negative effect, this income distribution will be worsened because of the tariff, because like I said, tariffs are regressive in nature. And if I correct, there are a number of people in the United States who are not so rich, supported Trump for a better economy, but the other ones, I think, I'm afraid, will be hurt most by this Trump tariff. I just wanted to mention that, although I'm just supposed to say something about Japanese economy, let me just add this point, which I think is very important for the U.S. economy. Thank you.

SOLÍS: I agree, and I think it's very important to also bear in mind that there will be a cost to the United States. You mentioned the regressive character of the tariffs. Also, I think American farmers are very worried about losing export markets abroad. And there's also the financial turmoil that we saw last week and the possibility that folks begin to lose

confidence in the U.S. dollar. So there's clearly a cost here. If I can turn to Cecilia next and ask her about how are things looking from the EU perspective?

MALMSTRÖM: Well, good morning. It's a pleasure and an honor to be here. Well, I think the EU was prepared that there were going to be tariffs because this had been very clear during the campaign as well and looking back to Trump first, but not the massive amount of tariffs, the high levels. Now we have 25 percent, as you mentioned, steel and aluminum and on car and car parts and the 10 percent and the rest is postponed for now, could have changed in an hour, of course. So this is very problematic. The U.S. is our most important trading partner. We trade for billions and billions and billions. The transatlantic economy gives 30 million jobs on both sides of the pond. And this trade has been good for the U.S. It has been for the EU as well. Some countries trade more with the U.S., others less. But on average, I would say the European Union 19%, which is important. It's hard, of course, to measure exactly the consequences of this because it's so volatile and some of them haven't really seen the effect yet. But it will affect growth. It will affect supply chains. There will be distortions. And of course the car industry, especially in Germany, is having a big problem right now. So this is not going to help it eventually. We do not like tariffs. Tariffs are a tax. So we would rather have a trade agreement with the U.S. We'll come back to what the consequences will be and the retaliation and the possible negotiations. But this is not something that we wanted. We have seen it before, unfortunately. So mentally prepared, but not to this extent. So now we will see what happens. And of course, trying to deal with this particular tariffs, but also seeing how we can diversify even further our economy and de-risk a little bit from the U.S., but I think we'll come back to that in the second part of the discussion.

SOLÍS: Thank you very much for laying that complicated landscape, I think that the transatlantic relation has taken quite a number of hits lately, certainly in tariffs, but the broader relationship as well. And we'll also discuss that, I'm sure, as we go along. You know, Scott, I want to bring you in because, you know, the reciprocal tariffs on everybody else paused, but certainly doesn't seem like the US and China are stopping and this tit for tat seems to have taken off very quickly. How is Beijing reading the economic fallout of the past few weeks?

KENNEDY: Well, Mireya, thank you for hosting this important conversation. It's great to be here with you and with the others to talk about the consequences of the global trade war that we're now under for everybody and what we can do going forward. The Chinese also expected serious trade tensions with the United States under the Trump administration. They had them during the first Trump administration, they didn't dissolve during the Biden administration, and Trump advertised in advance what he was gonna do. Didn't know how fast he was going to go or how high. But nevertheless, they were prepared. And so during many of my trips to China, it's really clear that shock and awe wasn't gonna shock and awe them. They were ready for whatever was gonna come their way, even if they actually didn't quite understand what the ultimate goal of this was and the administration's purpose and I think people still are unclear.

In terms of the economic effects on China, they've done a lot of math and modeling about what the consequences would be, and those range from knocking off about a half a percent of GDP to potentially two percentage points of GDP from an economy that officially grew last year at five percent. We can debate how real that number is, but off of that number, that's a half to two percent. And the difference is really based on two variables. Do other countries join in with the United States and impose restrictions on China as well so that their exports and investment don't have anywhere else to flow and

they get really isolated? That's the first big factor. And the second one is what will the size of the Chinese stimulus be to promote domestic consumption and investment when you lose that export market? Now, the U.S. exports are only about 14% of Chinese exports now down from about 20% several years ago. So the direct hit is not as much, but those are the two big variables. And so how China and the U.S. engage in negotiations with everybody else who's in this program and all those other countries is gonna probably have the biggest variable on the direct impact on the Chinese economy.

Now, certainly the other thing to look for in the impact is how much U.S. and Chinese economic relations are going to suffer. We found even with the pandemic, even with de-risking, that supply chains are sticky. You still have innovation in manufacturing, connections and things. The U.S.-China trade relationship's still about 650 billion a year. You have 287 Chinese companies listed in the United States with a market cap of 1.1 trillion. You still had a very deep relationship. And so people have talked a lot about whether or not the U.S. and China are decoupling. I still think we're far from that, but you can now see decoupling on the horizon.

SOLÍS: Thank you, Scott. Those are terrific points, and I think it goes to the point as to why we have to have this global perspective, because as you well said, you know, what the final end result this year is going to depend on how the synergy of different actors and what they decide to do. And, you, know, even before the second Trump administration launched this trade war, some countries had began to raise tariffs fearing Chinese, you know, these practices of overcapacity and being flooded in their market. So I'm sure that these pressures just increase with this current environment. And the question of decoupling is certainly a very important one, because it seems to me just looking at what happened this past week that both President Xi and President Trump seem to be playing a game of chicken and no one is going to back off. And I'm not sure whether that's -- the way in which we discussed the coupling so much, people have sort of tried to map out what that would look like, what the consequences would be, but it seems that this rush prevents any rational calculation about what we're actually walking into, given the speed at which this is all happening. And I would like to then bring Jesús to the conversation. Obviously, Mexico, U.S.-Mexico economic relations run very deep. I think that Mexico exports something like 80% of all the sales abroad to the United States. So Jesús, welcome, and can you tell us a bit about how this is going to impact Mexico's fears of a recession or what might be in the mind of the government and business and citizens of the country with these new tariffs?

CARRILLO: Thank you, Mireya, and thank you to the Brookings Institution for the invitation. Yeah, it's actually around 83% of our exports go to the U.S., so the interdependence of our economies is even bigger than other cases. So first, I guess we need to speak about the uncertainty that has been developed in the past few months. With Mexico, I think it started in February, tariffs have been going on and off. So let's see what happens this week. But regardless of that, as we are right now, we are not in the package of the reciprocal tariffs. We are along the USMCA treaty, which we will probably discuss later. But the effects are quite big. Around 35% of our economy runs on exports. Basically manufacturing, transports, and mostly most of commerce is devoted to the exporting sector. So that's a problem right now. It's always an opportunity. It is always a good thing, but right now it's a bit toxic in that sense. And let's -- Mexico right now, it's facing mostly a recession. A recession is not officially or technically defined yet, but we all think that we are currently going through. Um, and about the effects, well, it's more than around 25% of employees are devoted to the exporting sector. Most of the republic's manufacturing-centered economy. So in that sense, it is really, really difficult landscape. Right now,

because of the USMCA, and because we are outside of these reciprocal tariffs, some see this as an opportunity, but as my colleagues before mentioned, decoupling can take time and especially as Scott said, this decoupling could be an opportunity maybe in the midterm, but right now I think the interdependence of our economy is much bigger. And not only the tariffs affect our economy in terms of the exporting sector, but we also receive a lot of, for example, visitors or a lot of exports. So if demand goes down in the U.S., our demand in general will go down. So we not only need to think about this in terms of the exporting and importing stuff. We need to think about it as a cornerstone of our economy. So it simply will be bigger of an impact than any other economy, I believe.

SOLÍS: Thank you very much, Jesús. That's indeed a very sobering picture, given that, you know, Mexico depends so heavily, has made such a big bet on integration in North America and primarily with the United States. This new tariff regime would have profound consequences, I think, for the economy going forward. So I think we have now a sort of sense of, you know, how these developments are affecting key economies in the world.

And I would like to shift the conversation to talk about what kinds of responses we see emerging. And I think on the one hand the decision to retaliate is not a simple one, actually there's a lot at stake. I think that many of you have already touched on some of these, because on the other hand it seems that if you don't retaliate then you cannot apply pressure and that perhaps the president cannot defy economic and political gravity forever, right? So if the president or the administration pays a cost from imposing these tariffs that would create some leverage to try to bring the tariffs to an end. So that could be one of the rationales for retaliation. It also could be that your own domestic publics demand a response that, you know, how can you be the subject of these tariffs and not respond and do something? But, you know, many others, many governments have decided that retaliation is too risky. Because, you know, trade wars yield losers all around and when you retaliate, do you also have a cost to absorb because there's going to be economic harm coming from that. Because the United States is such an important player in world affairs, many countries also depend heavily on security guarantees or having a stable relationship with the United States and they might be worried that, you know, opening up these tit-for-tat retaliation dynamic could actually have consequences that are not just economic, but also have security implications. And if that's the case, maybe you approach the Trump administration offering to make some concessions and trying to open a negotiation. And in fact, I think that we've begun to see some of those responses and some of the delegations are beginning to come to Washington this week or having FaceTime meetings with some USTR officials. So this is clearly happening.

So I want to, maybe when I ask each of you to walk us through how your country of expertise is navigating these complex trade-offs, maybe I'll start with those that have gone all out retaliation to those who are seeking more a negotiated outcome. And for that reason, Scott, you mentioned that this was not a surprise for China, but, you know, can you tell us about what is Beijing thinking? What is the game? Can it win this one out? What tools? What levers of pressure? What risks down the road?

KENNEDY: Sure. This is not China's first rodeo with Trump on trade wars. They did this before, right? And we ended up with a phase one trade deal in early 2020, which the Chinese made a variety of concessions and commitments on regulatory changes, most famously on imports. Actually, a lot of the concessions they made on regulatory change is they basically implemented those things. That's what the first Trump administration, early Biden administration concluded, that's not what was concluded in the most recent report

that issued by USTR. But they didn't implement the import commitments because they were too unrealistic. Then you had a pandemic in any case. But that experience basically really harmed China's sense of trust with negotiating with President Trump. In addition to that, the U.S. in February and early March implemented 20 percent tariffs total on the U.S. related to fentanyl. And so when they came forth with the 34 percent tariffs, reciprocal tariffs, that got you to 54 percent in addition to what was already imposed. And so the tariff penalties that the Chinese were facing were already much higher than everyone else. And that's basically why they felt they had to push back, because they were already facing very high high numbers. They would have preferred negotiating this on January twentieth; they would have, they were already prepared to make significant offers on purchase commitments, investment in the United States, stabilizing the renminbi, etc. They were prepared for a fight.

I think they also, and I think the reason, and I think they feel that they have a variety of advantages, that in this game of chicken, as you describe it, that they are able to last quite a while. China's diversified its trading partners, as I mentioned, the U.S. is now only 14% of Chinese exports directly, even though some more now flow through Southeast Asia and Mexico. China's technology capabilities are way better than they were five to 10 years ago. And so, less access to U.S. technology will be less harmful. Of course, the Biden administration, through its de-risking approach, already has restricted Chinese access to semi-advanced semiconductors. China's financial sector, a big weakness of the economy, is a strength in this fight because China's finance sector only accounts for 6%, is the equivalent of 60% of China's GDP, if you take its stock markets and everything. The U.S., by chance, by contrast, its stock markets are 172% of GDP. So you saw one of the reasons President Trump backed off last week is the huge negative effect signal sent by the U.S. stock markets. It doesn't matter if Chinese stock markets go to zero, it's less of effect on the Chinese economy. And so in addition, China is the number one trading partner for over a hundred plus countries. So isolating them is gonna be quite tough. So in a game of chicken, the Chinese have a lot of reasons to stand tough. And I guess the last thing is for China, this is about basic economic foundations and the existence and the rule of the communist party. For Trump, this is a war of choice. This is about politics and his political standing. This is not about really the ultimate foundations of the American economy, although he's putting that at risk. And so the Chinese are in this, as they say, to the very end.

SOLÍS: Thank you. Very, very interesting, especially that last point about resolve and the stakes and how for China this is really existential, foundational, and they're ready to go tough all the way. Cecilia, if I can turn to you next, the EU did respond last time around with some retaliation. I believe that they had just voted to do so again when the pause came. Can you walk us through how the EU is signaling both retaliation and the possibility of a negotiation and what they do you foresee happens next?

MALMSTRÖM: Yes, and I think it's correct, as you earlier described it, that this is much broader than just tariffs. It's also about security. I mean, the transatlantic relationship that has been so strong since the end of the Second World War has taken a very serious blow. And I would say that the statements by Vice President Vance at the security conference in Munich, the despise shown vis-à-vis Europe in this famous Signal app. And also the fact that the United States president talks from the same hymn sheet as the president of Russia when it comes to Ukraine has really pained Europe a lot. This has, the transatlantic relationship is severely damaged. It will take a very long time to build it up and that plays into this. So tariffs are a concern, but Ukraine is existential. It's much more important for us. And you see what's happening now behind the headlines when they're

bombing children and civilians with merciless. So this is also playing into the retaliation. The EU, you know, is a slow apparatus. It has to, even if the Commission is the one responsible for the trade, it has to anchor it with the member states. So after consulting, they agreed to do a smaller retaliation that was announced Wednesday last week of worth 22 billion euros more or less on tariffs between 10 and 25 percent on food, on wood, on beverages, on ski equipment, plastics. I mean quite a variety, trying to minimize the harm for European consumers but make it targeted. That was a retaliation for the steel and aluminum tariffs only. And then the president of the Commission said that we have a longer list prepared if we have to be tougher.

And we also have other weapons in the arsenal. The EU has a new instrument called the anti-coercion instrument, which gives it very broad possibilities to also address financial services, digital trade, through taxes, through exclusion from the internal market, etc. This has never been used. So only a few hours after the president of the Commission Ursula von der Leyen had announced these counter-tariffs, the withdrawal or the pause came from the White House. And then the Commission said that, okay, we will also, as a signal of good faith, we will withdraw ours temporarily and try to have a negotiated solution. So the trade commissioner, Maroš Šefčovič, is right now, as we are speaking, on his way to the U.S. to try to see what can be done. He has already been here twice without any success.

And the problem is that it's not only about tariffs. President Trump has expressed a long list of annoyances vis-à-vis Europe to everything from VAT, which is domestically decided and has nothing to do with trade, to tech rules, and then there's also the Ukraine and the Greenland dimension. So it's a lot to talk about. It's not only tariffs. The European Union has offered a zero-for-zero agreement to take away all the tariffs on goods. They're quite low. So in theory, that wouldn't be very difficult to agree upon. But of course, a negotiation means that we give, but we also take, so you have to find something there. So I don't really know what will happen in those talks today and tomorrow, but the European Union is willing to talk. I think it has signaled a great openness to sit down and find a negotiated solution that is good for both. But it also has all these retaliatory measures there and they could be quite easily activated again should the conflict escalate. But for the moment, it's negotiation mood and then let's see what happens.

SOLÍS: Thank you. And what a great irony would be if the anti-coercion instrument that was developed, I think, with China foremost in mind were to be applied against the United States and what would be the economic and political fallout of such actions. So clearly we need to keep an eye on these very pressing developments. Jesús, you know, the international press has given very high marks to President Sheinbaum. Some would say that maybe she's the new Trump whisperer, in the sense that she's managing a very, very difficult relationship, because with Mexico, it's not just, you know, the tariffs, it's the border, it's drug flows. It's a perfect storm, if you will. And I believe that President Sheinbaum has said that she might consider some retaliation measures but she would not disclose which ones, but she did make some concessions, I think, sending some leaders of drug cartels to the U.S. to transfer that jurisdiction. So can you tell us about what is Mexico's strategy? Is President Sheinbaum handling this with extreme deft or is she making too many concessions and not getting enough in return?

CARRILLO: I would really love to hear the telephone conversations of President Sheinbaum and Mr. Trump. So we can [audio interruption] if Trump has congratulated her. Yeah, so let's remember that when this began in February for us, this began as a tool, these tariffs began as tool for other agendas to be developed. So mostly the northern

border security, fentanyl, and other drugs, of course. But when that happened, the first action that the Mexican government took was to send military elements to the border, which actually maybe they were already there, but they say that they sent them. But in any case, that was the first action they took. Then with 29 cartel leaders that were sent to the U.S. as well, a little after that, a couple of weeks into February. So these are her first response actions, and then at least Marcelo Ebrard, the minister of the economy here in Mexico, said a couple weeks ago that he has been every week meeting with different actors in the U.S. Of course, Howard Lutnick has been in the front and center of this agenda of negotiations.

And yes, the Mexican government has delayed these retaliatory tariffs. In 2018-2019, the Mexican government imposed tariffs on ham and cheese and on liquor, especially whiskey, against the tariffs on aluminum and steel. And those lasted a year and then they came to an agreement. So I think it will also be some kind of retaliatory tariffs targeted to some politically committed or politically active communities. What we have been hearing here, not only from the government, but communities and business communities that have been supporting the government.

They are also working with local governments and the capital. So for example, if you look at Michigan exports, which is a swing state, of course, they are 40% exports to Mexico. So also when you look at Wisconsin and the food industry in Wisconsin, they really rely on the Mexican economy, on the Mexican consumers to, to keep producing and to grow. So these states, and especially swing states, Pennsylvania and the steel industry, and of course Pittsburgh and others, with the car industry also are really related to Mexico. So the dialogues within the U.S. with local actors has been really important. And when you see the expressions of the car industry, especially the three big companies, they clearly are aligned with the Mexican interests, not just because they are Mexican interests but because they are regional. As we have stated before, this interdependence is not that little. Maybe this is really an asymmetric relationship in general terms, but when you look at particular industries, we really are not that asymmetric when it comes to the effects of these tariffs. So I think that's why the dialogue has been very successful.

And at the end, we will talk about USMCA, but at the end, USMCA is a policy, is a Trump policy. So it's simply not that easy to get rid of everything in there. So, I think those are some of the responses and some of the guidelines for the response of the Mexican, not only federal government, but also the business community.

SOLÍS: Thank you, Jesús. I appreciate very much the point about it's important to cut in different ways this issue of asymmetric interdependence and that Mexico does have some more leverage than the aggregate figures would suggest. I want to follow up very quickly on the future of the USMCA. Can it survive Trump's policies? I know that the agreement has to be renegotiated by or reviewed by 2026, and if not, a different complex calendar of reviews kicks in. But in general, do you think, are you optimistic about the resilience of the USMCA?

CARRILLO: I think it is on life support right now and I think it will be like that for the next year, at least. But I think it will survive, first, because USMCA is the survival of NAFTA under President Trump's first term. So I think when President Trump renegotiated the agreement and converted it into USMCA, there are some changes, important ones, especially in the labor sector. But in general, it's simply the same agreement going forward. And it shows, actually, the interdependence of the economies. So I think it will survive. Probably what I'm looking at, and I think what most analysts in Mexico are looking

at is maybe some of the rules of origin will change. Maybe, as we can see now more clearly, the, the President Trump is going after China and it's trying to, to build a bigger block, maybe not with a treaty in front of it, but with deals, with bilateral deals. So, so I think it will survive and think, I think some of the rules of origin have to change in order to make it more difficult for China and to other Asian countries to, to come to the region. Probably that will happen. Hopefully that is negotiated with care because the Japanese presence in Mexico is really important, especially in the automotive sector. But I think it will survive. I think President Trump wants it to survive; it simply will change a little bit. I don't know how it can be done because to renegotiate it, President Trump needs the approval of Congress, and he doesn't want to do that right now. So, I think the mechanisms to change it are not clear. Maybe those will be with some other patches in top of the USMCA, but I think at the end it will survive, yes.

SOLIS: Thank you, Jesús. And let me then turn to how Japan is approaching this challenge. I think it's different, say, than from the European Union team, who's also coming this week in the sense that Japan has outright said, we're not going to retaliate. I think also there were some interesting comments from some senior officials in Japan saying that they're not part of, you know, the sell-off of bonds, that that's not something that Japan is interested in pursuing, and so, you know, putting pressure on the Trump administration in this way is not in the toolkit of Japan. So they're coming now to negotiate, and they've negotiated with Trump before. There was a U.S.-Japan trade agreement, but I wonder, how do you see the prospects of these negotiations this time around? One, because that U.S.-Japan trade agreement did not protect Japan, they were still slapped with the tariffs. But also because I think that the Trump administration may want to add many other non-trade issues to these talks. And, you know, it could be that Japan has always said we should not mix trade and currency policy discussions, but the Trump administration, I think, wants to do that. There could be questions about defense burden-sharing. And in general, what do you think the Trump administration will ask of Japan and what is Japan prepared to give?

URATA: Okay, good questions. That's exactly what the reason for Japanese delegation coming to Washington D.C., to find out what Mr. Trump wants, which include not only economic issues, but also security and exchange rate and so on. But let me just begin by saying that the retaliation is not a viable option for Japan for several reasons. One, of course, is the national security. We depend on the U.S. for its national security, so we don't want to jeopardize our relationships with Washington, D.C. And also in terms of retaliation, you need some leverage to kind of fight against, you know, these tariffs, but Japan doesn't seem to have much leverage in this. So we can not really retaliate and effective retaliation is not that possible. And also, as you mentioned, in the first Trump administration, Prime Minister Abe came to the U.S. and to talk to him. And then we didn't retaliate. And a lot of politicians in Japan thinks that we got the relatively good kind of treatment in terms of getting U.S.-Japan trade agreement, although U.S. seems to have violated this, but so, you know, we got some reasonable deal from first Trump administration because we didn't retaliate. Some people think that way. So retaliation is not an option this time either.

Now, when it comes to negotiation, first thing I guess they're talking about is that -- I'm repeating it myself -- that the U.S. has violated this U.S.-Japan trade agreement and also U.S. is violating WTO rules, although it's not the bilateral relationship, but you know the U.S. is really violating WTO rules. So that, I want to make sure that statement, that point has been, will be raised by Japanese delegation. And when it comes to negotiation, what can we offer, I guess, that's the point that you're trying to raise and that's what the, I

think the U.S. wants to know. As far as I'm, I read from the comments by Japanese politicians, policymakers, agriculture is one, of course, possibility. Although Mr. Trump said that rice gets a 700% protection, I think that's an old figure. It's maybe 200 or so percent right now. But anyway, so agriculture market, symbolic when it's a rice market, can be maybe further opened. That's a possibility. And then the talk about the U.S. auto exports to Japan. It's not that easy to really maybe accept the U.S. kind of demand or request by changing regulation and so on. Because European car makers are doing very well in Japan. It's not the fault of, I guess, it's not a failure on the part of Japanese distribution system. It's a problem with the U.S. auto makers. But again, that's a possible item, which can be discussed.

And as far as exchange rate is concerned, as you know, Japan is now facing inflation problem. And if the yen appreciates that it will help to deal with inflation. So there are some talks about the accepting, if depreciation of the US dollar or appreciation of Japanese yen is discussed there is room for us to accept the appreciation of the yen. That's a possibility because of the inflation problem now facing Japan. About military, I'm not quite sure. Some people said, I mean, American said 3% GDP, that may be too much, but 2% is done, pretty much done. Now, I think another point that I think Japanese wants to make is the investment. That's, you know, Prime Minister Ishiba said Japan is the largest investor in the United States and he's interested in see more investment in the U.S. because that will help the US revitalize its manufacturing sector. And so Japan wants to show its support, so to speak, given to the United States in its attempt to revitalize its manufacturing sector. So I think that's the kind of attitude Japanese delegation or Japanese negotiating team will have to work with the United States to deal with the problem that the U.S. is faced with. So this is the kind of attitude that the Japanese government is trying to really explain to the U.S. counterparts.

SOLÍS: Thank you, Shu. That's very helpful. I think there's going to be a lot of attention paid to Japan's experience because I think everybody's going to be taking notes, trying to sort out what is the negotiation dynamic with this second Trump administration. I'm about to turn our conversation to long-term consequences of these "America first" trade policy. Before I do that I want to remind the audience, if you have questions, please send them our way. I'd like to bring some audience questions. We received some in advance, but always happy if there's some questions that have been triggered by the conversation that you're hearing with all the panelists.

So, thinking about the long term, I have many, many questions, but being realistic about the time left, I'm going to discipline myself and ask just a couple before I move on to questions from the audience. And the first question is about, you know, whether the decision of the Trump administration to go all out with these tariffs and the way in which it has done it, where it's also a lot of confusion about goals, but also about which tariffs stay, go and at what levels. I want to ask what this means for the possibility that there is a big winner and that this creates a new strategic opportunity for China. And it is true, as Scott was saying, that countries are going to be mindful about not receiving an avalanche of imports from China, but on the other hand, growth opportunities might now look more attractive by stabilizing or deepening the relationship with China. I would like to ask everyone, and I don't have a specific order, but how is China seeing these potential opportunity? How about Japan and the EU, who have also tried to de-risk from China? Will these also now change a bit the balance of how much integration, how much de-risking? Jesús, the Mexico-China relation is also very important and I think one of the reasons why Trump administration pays a lot of attention to Mexico's idea that China is establishing a very robust presence in Mexico. How is Mexico going to think about how to approach its

relation with China going forward? So anyone who would like to jump in be my guest. Or maybe I should designate. Well, maybe I'll start with Scott. How is China thinking about maybe an upside to this?

KENNEDY: Sure. Well, let me say a little bit about China's perspective and then something about my perspective on this and maybe ours that we that I think is really important for the audience to consider. So the Chinese certainly are going to expand their stimulus. They've got actually a lot of fiscal space left. And then they are negotiating with everybody else. It's not as well advertised. But today, Chinese leader Xi Jinping is in Vietnam. He's then going on to Malaysia and then Cambodia. And he will be engaging with the Japanese and Koreans, Australia, and certainly with the European Commission as well. And I think that when I was in Beijing a few weeks ago, it was the first time in a long time that I heard the word CAI in several years, the Comprehensive Agreement on Investment. And the Chinese are looking for a pathway back to that. There are several obstacles. There's Xinjiang sanctions. There is the war in Ukraine, there is the overcapacity problem, but this is a potential opportunity for the Chinese. With their Asian neighbors, there's ways to increase bilateral trade and investment, but the Chinese are also have renewed their interest in CPTPP. And they've told me that even if they can't get into CPTPP, they're going to align their domestic regulations with CPTPP in any case, in the same way that they did vis-a-vis the WTO 20 some years ago. So I think we're going to -- and the Chinese have a lot to offer. They do have lots of trade investment barriers. So, they do have things that they can offer others. And they are going to be ready to negotiate with the U.S. whenever they get that phone call or whenever the two sides can sit down to chat.

The other point I want to make is that, you frame this as, you know, what's China's opportunity vis-a-vis the U.S.? I think we ought to keep a North Star in mind, because this isn't just about whether our country's relations with the U.S. are better than the relations with China or vice versa. This is about what kind of international system do we want and what will we need to get there. The original liberal rules-based order had lots of problems. President Trump and others on the right in many countries attracted a lot of support because they were able to make the argument that globalization was bad for a significant portion of their population, whether true or not, they argued that supporting their policies would make these people safer and more secure. Those who want and believe in global supply chains, innovation, et cetera, have to come back with better suggestions for how to reform that system to make it feel -- for make more people in the United States and elsewhere feel safer in that system. We've got not only trade issues in manufacturing, we've got AI in jobs, we've got climate change. So policymakers who want to defend the system have to come up with reforms of that system that are a better solution than attack on the system that's been going on now. So how countries negotiate with China and the United States should keep that in mind. What do we give and what do we get that makes that system potentially possible, whether it's maintenance of the system that we've had that's been falling apart or the creation of the totally new institutions that we will need to make. Otherwise, those who have been throwing rocks at the system, whether that's from Washington most recently or even from China and how its industrial policy has been corrosive to that system, those voices are gonna end up winning. And I don't think that's what's good for prosperity anywhere or our national security.

SOLÍS: Thank you, Scott, excellent points. I wanna also bring others' reactions.

URATA: Okay, can I, right, I think I agree with Scott saying that, you know, we, we need to both, you know, kind of dealing with the problem with the current framework,

WTO, for example, but at the same time, we to maybe create or expand the existing alternative to WTO. What I'm saying is like CPTPP. It'll be nice if China can join CPTPP, but in order for China to join CPTPP, they have to satisfy all these, they have, you know, to meet all the conditions. SOE is a big problem, possible challenge. Labor is a possible challenge, so on. But if they can satisfy all of these conditions, they should be accepted as a member. And, you know, CPTPP could be a, not alternative but supplement to the current WTO system. I think there are possibility of EU kind of joining CPTPP, UK now join CPTPPs. So the CPTPP is not the kind of geographically kind of, you know, oriented thing, but it can cover many countries, Latin American countries and so on.

So, we need to pose, to deal with the problem that we are faced with in current institutions. Here, I think, for example, in the case of WTO, upper body, I mean, you know, is having a problem, but there are alternatives called MPIA, multi-party interim arrangement and so on. So people are trying to come up with supplementary kind of institutions to deal with the problem of the current institution. I think that's the way we should go forward. In terms of like China-U.S., you know, many companies in Japan used to say, implement strategy of China plus one strategy. That is China plus Vietnam, Thailand and so on. Now they talk about U.S. plus one, or America plus one strategy. As we can not really depend on U.S. as an export market as much as we used to. So we have to diversify, Japanese companies have to diversify their export destinations. So they talk about the America plus one strategy. So that's the diversification of supply chains is I think a strategy that many Japanese companies are pursuing.

Another point which I think Scott made very important, is the impacts on, say, globalization on, in this case, income distribution, maybe all the negative impacts on middle class, negative impacts per household and so on. That has to be taken care of. But having said this, this is more of a domestic problem. It's very difficult to deal with these issues from international perspective. And maybe people have to start discussing this issue. I guess I just wanted to point out that that is a fundamental issue that we have to deal with. This is the reason for anti-globalization and this is, I think, the reason for Mr. Trump to be elected as a president. Thank you very much.

SOLÍS: Thank you, Shu.

MALMSTRÖM: Can I come in here? For the European Union, of course, China is an important but complicated trading party. We trade a lot with them, and we should continue, and we will continue to trade with them. They have access to some of the best green technology in the world, for instance, but there is a problem. Many of the concerns that the U.S. has with China, we share, overcapacity, subsidies, forced technology transfer, violation of human rights. The list is long. And of course, there are areas where our trade is very vulnerable when it comes to the trade in rare earth and some critical minerals where we are trying, like everybody else, to diversify and find other partners. The CAI that Shiro referred to is an investment agreement that was concluded in 2020. It is, on paper, a very good investment agreement. China commits to a lot of discipline and so on. It was suspended because of sanctions, sanctions against 20 European citizens, journalists, intellectuals, politicians, etc. And it could maybe be, I mean, if there is a movement there on China, it could maybe be discussed again, because it would be an important player in this regard. But in addition, we have the problem in Ukraine with China supporting the Russian war economy, and now it seems also with Chinese soldiers. In addition, we have, of course, the problem of risking of being the target of the cheap Chinese dumping if they are excluded from the U.S. market. The European Union is prepared for that. There's already almost 20 anti-subsidies investigations ongoing against

Chinese goods. It's a preparation to do more and to have a response. So that is, of course, something that is complicating the picture. China cannot really afford to have a trade war both with U.S. and European Union at the same time.

So, there are actually talks ongoing with the European Union and to find a solution to the EV tariffs that the EU imposed a couple of months ago. I think it would be a good idea if the EU joined CPTPP. They are now trying to diversify, making trade agreements with the Mercosur countries, with Mexico, with Australia, Indonesia, and CPTPP would be the obvious place where our friends and allies are already and where the rules and the standards would be set for the future. So that is sort of the natural home, I think, and I fully share that that picture that they could be sort of parallel WTO where we could, within a group of like-minded developer and more rules and standards. And if China fulfills the conditions one day I don't think it's around the corner of course they should be welcomed as well.

SOLÍS: Thank you very much. Jesús, any thoughts?

CARRILLO: Yeah, thank you. Yeah, many, many things here. Of course, China is also important for [audio interruption]. It's probably definitely not as big as the U.S. market here, but since we are moving to a deals-based international trade, [audio interruption] instead of a group-based international trade system, I think that the bilateral agreements that Mexico can have, or the bilateral deals that Mexico and America can have with the world are more important. So, in terms of diversification, of course, the European Union is a perfect fit for the Mexican economy, especially because it doesn't raise any more issues with the U.S. So, the global agreement has been renewed. It needs to be signed and put in place, but the dialogue is there. Also, South Korea is really important, probably, for the Mexican markets.

And we need to group our competitiveness in key sectors; for example, to increase the [audio interruption] of Japan here, which has been a little bit with more doubt, at least in a couple -- a couple of weeks ago, I spoke with some Japanese business people and they are worried about competitiveness, especially in the labor market. Other things that maybe can be faced specifically with China, since President Trump is really block China out of Mexico. I think that maybe the path going forward is trying to trade more in final goods, but try to switch away from intermediate goods that Mexico then needs to export to the U.S. So in that sense, the industrial policy in Mexico will be really relevant to increase the local content, the national content of our export to U.S. and not rely so heavily on the Asian markets, especially in China. Those are some of the key features. And, of course, taking advantage of USMCA and especially there has been a lot of voices that the bilateral trade between Mexico and Canada needs to raise. And I think that's an opportunity that really doesn't hurt anyone or doesn't raise any more concerns within the region. So I think it's another path going forward.

SOLÍS: Thank you very much, Jesús. You know, just a couple of comments. I cannot help myself. This very interesting conversation. I am also very supportive of the idea that the European Union should enter the CPTPP. And I think it also, what we need now is a shot of confidence that there is enough critical mass of countries that want to have that predictability and still believe that there's benefit to rules-based trade. You know, the CPTPP has admitted now UK, but this individual member accessions are very time consuming. And I think that having the European Union would add enormous economic weight. And again, it would also have a larger meaning. And with respect to China's potential accession, you know, it's good to hear that they would like to bring their

regulatory framework in compliance with the CPTPP. Would they really deliver, I mean, is the question. But also, I think, very interesting in my conversations in Tokyo, I find that more and more you hear that, you know, not practicing economic coercion is a criteria now in the minds of who should join the club. And I wonder what this means now, not only for China, but if the U.S. continues in this path of tariffs, it's not that the U.S. wants to look at trade agreements like the CPTPP now, and maybe not in the foreseeable future, but I think that's an interesting way to look at the significance of the CPTPP.

Now, I am remiss in not bringing sooner the audience questions, and there's a lot of very good questions. I'm going to ask a couple, and then elicit responses from all of you, and if we have time, we can go for more, but we're running a little bit tight on time. So I guess one question here is as follows, and I'll ask two, so please keep in mind which one you would like to respond or mix here. If there are four years of this reset, what results can be reversed in the next years and what results are likely to be permanent? So I think this brings questions like what Scott was saying about a really fundamental change in how the U.S. operates in the system and what the system is about. So what might just be now an ongoing feature, and what actually could be reversed.

And the second one was as follows: these tariffs remind me of the U.S. response to the Great Depression when we imposed tariffs to protect U.S. jobs. The outcome was a virtual shutdown of world trade. What do you think is the likelihood of that happening again? So again, that we're not just dealing with turmoil and recession, but that there could be, you know, real harm if we clip the wings of international trade because of these tariff and counter tariff dynamics. Whoever wants to --

MALMSTRÖM: I can jump in on the second question --

CARRILLO: Maybe I can take --

SOLÍS: Come in Cecilia and then Jesús?

MALMSTRÖM: Yes, I'll be quick because we're short of time. Of course, this will create a lot of damage and some of it will be reversible. But we cannot forget that the rest of the world, there are 203 other countries in the world and they want to trade. We want to trade with each other. And most of us also want to do it in a predictable, rule-based, multilateral way. And I think we will continue. The EU has trade agreements now with 76 countries and we are about to finalize several other trade agreements. And as I said, I think -- that's not the official EU view -- but I think we should join the CPTPP. Trade will continue both on a service basis and on a good spaces, value chains and supply chains are so interconnected in each other. So this cannot be wrapped up. There will be distortions and they will be painful. But trade will not stop.

SOLÍS: Thank you, Cecilia. Jesús, go ahead.

CARRILLO: Yeah, I think in the next four years, maybe, the meaning that we lack is actually lack of trust. Definitely the low in the past few days and past few months is really important. It is really an eight-decade low, so to speak. So I think that even though most countries want to continue trade within a rules-based system, I think politics around the world are not going that way. So I think the liberal system is really in trouble right now. And maybe that can be a problem in the years to come. And what will be reversed? These tariffs. I think these tariffs are not sustainable for the U.S., so these tariffs are not sustainable definitely for the North American region, and they are not sustainable for

anyone. So I think they will be reversed. [Audio interruption] in 2019, were reversed, at least for Mexico and Canada. And I think that in that sense, maybe they will be reduced, maybe, they will not go away, maybe they will be minimum within the WTO. I don't know specifically what the White House thinks. But I think they really need to cool down because it's likely to hit with a recession. That's definitely something that President Trump and the White House cannot sustain even publicly as a medicine that fixes things in the long term. So I think tariffs will at least – [audio interruption]

SOLÍS: Thank you very much, Jesús. I don't know if Scott or Shu, you have some last comments before we wrap up?

KENNEDY: Sure, sure. The question about four years, I have a trouble thinking four minutes into the future on this. I mean, last week, within a day, they had abandoned the original plan. So we have to, you know, compress our sense of time. Also, this is not going to be a linear trend, right? We still have a lot of different things that could happen. You could tell a very bad story about how this commercial conflict translates or turns into some type of security conflict. There's many different ways that this could get even much worse. I think at least for 2025, I would expect global trade to fall, growth to fall, economies to suffer, people to lose their jobs, whether they're in tradable or non-tradable sectors. And so I think the likelihood of the U.S. or China being isolated entirely is unlikely. But I would say fragmentation and less overall trade is an investment for sure. But I think it's going to come down to at the, right now, illiberal anti-globalization forces are in the lead. The question is, how does everyone else respond? With what sense of urgency is -- you know, Cecilia mentioned the slow clock and slow pace of the Commission and the European Union. They're gonna need to pick up the pace because if folks don't move faster, then those who are looking to pull apart the system with no credible solutions to really fix things are gonna end up getting their way. So it's gonna be on the onus on everybody else to really step up and use this time to limit the damage and come up with credible reforms and changes so that in a post-Trump world, which someday we'll get there, I don't know if that will be in four years or eight years or 20 years, we're ready to make changes that are sustainable, equitable, and good for folks around the world.

SOLÍS: Thank you very much Scott. Shu?

URATA: Yeah, thank you. Well, one big difference between, say, pre-war period, you know, and the current situation is the, it was many countries at the time which raised, you know, tariff rates. It's not just the U.S. U.S. triggered, but the other countries followed by raising tariffs. And so if the, well, now we are seeing increasing tariffs from the United States, but if, I hope the other countries maintain their liberal open trade system, then we will not face the same drastic or very dire situation that we experienced. So I just hope that other countries can remain calm. The U.S. possibly, I hope that the U.S. will come back by lowering tariffs. But even if it doesn't, if the other countries do not raise tariffs, we don't see the resurgence of this problem. Finally, I just want to say that it's very sad to see that the U.S. or Mr. Trump is destroying this, destroy maybe a too strong word, you know, the WTO system, which U.S., it was U.S., which really played the key role in establishing, building, and you know took, what since 1947, it's almost not quite 70 years or so and you can destroy system very quickly but it's it takes so much time and energy to build or rebuild the system. So that's why I say I'm very sad to see this is happening by Mr. Trump. Thank you.

SOLÍS: Thank you so much. So, I want to thank you for sharing these insights. We've had such an insightful conversation. And I think if I was to sum up with one phrase

what I've been hearing about global responses to the current Trump's trade war, I would say it's be calm, stay the course, and be creative. So I think that you've recharged me in thinking about what comes next. So thank you very much also to the audience for being with us. It was a pleasure to host this conversation. Have a good day and have a good evening.