

Center for Strategic and International Studies

TRANSCRIPT

Press Briefing

“Assessing the Impact of ‘Liberation Day’ Tariffs”

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FEATURING

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Samuel Cestari: Hello, everybody, and welcome to this CSIS press briefing assessing the impact of the Trump administration's 'Liberation Day' tariffs. Today, we have a lineup of CSIS experts who will share their expectations and analysis on the administration's motivations and stated goals for the tariffs, the assumptions behind this approach, as well as potential outcomes, including the impact on U.S. technological leadership.

A couple of housekeeping notes before we get started. Each of our speakers will offer several minutes of introductory remarks, after which we'll turn to your questions. We'll also be distributing a transcript of today's call shortly after its conclusion. The transcript will be made available on CSIS.org.

So, with that, let's go ahead and get started. I'll turn first to Navin Girishankar, the president of CSIS's Economic Security and Technology Department. The floor is yours, Navin.

Navin
Girishankar:

Well, thank you, Sam.

I would start out by saying that liberation day has come and passed. We're on the other side of it. And we are well into the early innings of a multifront trade war. That's where we are. Now, the Trump administration has been transparent all along about its desire to use tariffs primarily as – almost as an instrument of choice for a number of different objectives. It has been less coherent, and I would say incoherent, about the actual goals, the theory of the case. And so when you look at the different objectives that have been laid out over the last two months, and particularly in the last week.

They've said that tariffs will lead to manufacturing – a reindustrialization of the United States and a return of manufacturing jobs to the U.S. That it will generate tariff revenues that will help pay for a tax cut, but importantly help pay down the deficit. Two, that it will help achieve a number of noneconomic goals. For example, starting out in February with the IEEPA tariffs. The fentanyl interdiction was one of these goals. And, thirdly, that it will help achieve trade balance with various partners, which is really the goal behind the reciprocal tariffs.

What we haven't heard is what will all of this do for technology competitiveness, particularly across the advanced technologies – AI, quantum chips, clean tech, biotech – that are going to be significant in shaping U.S. long-term prosperity, shaping the structure of the economy going forward. I think that the question that we should be asking is – the administration that says short-term pain for long-term gain. But absent clarity on where we're headed with this, absent clarity on what the desired end state would be, I think more and more Americans are asking the question, is this short-term pain for long-term pain? And in effect, the administration will have to explain why that is not the case.

The actual implementation of this has been chaotic. The formula itself that was used to calculate reciprocal tariffs left many people with eyebrows raised, but the scale was also much greater than what people had anticipated. So a surprise to the upside, in a sense. And that really cuts to the core of the credibility of the administration and its policymakers, both here at home with the business and investment community but also abroad, with allies, erstwhile allies, and our competitors.

Let me say one last thing, which is that let's take any one of these goals – manufacturing, tariff revenue generation, achieving trade balance. The assumptions behind these are, one, that the U.S. has significantly more leverage than I believe it actually has. So, of course, you will have smaller countries playing ball and committing to zero tariffs, like Vietnam did. And then there's a discussion that takes place after that.

But the real question is the bigger countries, and in particular China and the type of leverage we have. The core issue here is leverage is relative. It's not absolute. And it really depends on individual relationships and their integration with the global economy and their optionality as trading partners.

Finally, the other big assumption is that there will not be retaliation. And we've already seen Canada and China announcing retaliatory measures, the EU signaling that they will be taking countermeasures, and several others. And so that's why I say that we are in the early innings of a multifront trade war, which fundamentally raises questions about what our long-term strategy is, what is our long-term economic security as a country at this stage of the game, as we see these announcements roil markets, financial markets, and eventually their impact on the real economy.

And with that, I'm going to pass on to my colleagues. So thank you.

Mr. Cestari: Thank you, Navin.

And next, as Navin mentioned, we have Phil Luck, director of the CSIS Economics Program and Scholl chair in international business. Please go ahead, Phil.

Philip Luck: Great. Thanks so much. And hopefully my signal holds out; apologies that I'm doing this from Australia at the moment.

So I want to pick up on a few threads that Navin started, which was, first, talking about what are the objectives of this policy, and how can we assess whether this policy is going to be effective and what we should be looking at towards its effectiveness.

So first I want to point out that it does seem to be the case that a major policy aim of this policy is raising revenue. And while, you know, tariffs are not a good source of revenue because they are a very distortive tax and a regressive tax, this – because of the sheer scale of these tariffs, they will potentially generate quite a bit of revenue. So estimates suggest that it actually may be somewhat close to the numbers that advisers like Peter Navarro put out there in the range of about \$500 billion per year.

Now, that assumes relatively limited economic distortions, but this will be, you know, the largest tax increase in modern American history. And again, this will be borne – the brunt of this tax will be borne by lower-income Americans.

Now, one thing that's important to point out there is that that's going to assume the fact that that tax revenue can be put towards spending is going to be premised on the fact that there's not going to be retaliation, that the government also feels the need to bail out parts of the economy. So, for example, in the 2018 tariffs wars, about 90 percent of all the revenue that came in was paid back out to U.S. farmers. And we've already started to hear discussion about having to bail out farmers in this case.

And the point I want to make here is that even if we don't bail out individuals due to the harm of retaliation, that harm will still exist. So the economic pain will exist and the harm will exist regardless of whether the funds are transferred to those individuals.

The second point I want to make, and following up on Navin's point about the sort of formula here, the formula here, you know, being simplistic and not really passing the smell test for most economists, it also is based on the very incorrect premise that all bilateral trade should be balanced. There's absolutely no economic theory or no real rationale that every single country has balanced trade with one another on a gross-flow level.

Another important point to raise there is that the balanced trade they're talking about is what's called gross flows, which basically means that the total amount of stuff being exported, that has nothing to do with the value added or how much value is being produced by countries. You know, the U.S. is a very high value added because we have a lot of internal trade; other countries very low value added. So the amount of goods that they're exporting, the value of that, those goods – say, for instance, iPhone – the value of an iPhone actually being produced in China is a small fraction of the total value of the, you know, \$1,000 iPhone. The largest part of an iPhone that's being exported from China in terms of value is actually the embedded intellectual property, which is produced here in the United States.

The other thing I want to note about trade deficits is the aggregate trade deficit is a macro phenomenon and cannot be solved with trade policy. It's a function of our own fiscal deficit and the fact that we are selling bonds, treasuries into the market that is creating a demand for dollars, which is keeping our currency relatively elevated despite our trade deficit.

The last thing I want to note – and I'll sort of stop here and move over to my colleague Bill Reinsch – is that the other premise that, you know, I think most economists now are pointing out there is flaws is the fact that we – that the United States doesn't manufacture or that we need to, you know, bring back manufacturing in terms of this sort of our total prowess.

While it's certainly true that the employment in manufacturing has declined steadily, really, since the 1970s output in manufacturing has, essentially, never been higher. We actually peaked in terms of our total manufacturing output in 2018 just prior to the first Trump administration's trade war and we've basically held steady at those levels ever since.

The United States is a manufacturing superpower. We're the second largest manufacturer in the world. So we do an enormous amount of manufacturing. It just doesn't require a lot of labor.

Now, that doesn't mean we manufacture everything we use. Of course, we work in a globalized economy. But, you know, to pursue the type of fortress America strategy that certain advisors like Peter Navarro and Stephen Miller have put forward you would need to reorient the U.S. economy in a way that would take enormous amounts of labor and capital away from the things that we have comparative advantages in like high-skill services, like the high-tech work that Navin mentioned.

That is really the source of our tech competition lead, and to do that, to increase output in some traditional manufacturing sectors would be both costly to our technological advantage and immensely costly to consumers as we would need to pay U.S. workers to do things that currently we are getting – we are importing from countries with a much lower labor price point.

So I'll stop there and move over to Bill.

Mr. Cestari: Thank you, Phil.

Bill, I'll just give a quick note here. Quickly mention that after our next speaker, Bill Reinsch, we'll turn to your questions.

(Gives queuing instructions.)

So without further ado, we'll turn to our final speaker, Bill Reinsch, senior advisor and Scholl chair emeritus with the CSIS Economics Program, and Scholl chair in international business. Bill, please go ahead.

William Alan
Reinsch:

Thanks, Sam.

My job is to talk about what's next and I'm going to deal with litigation – what Trump might do next – and then also how others are responding.

With respect to litigation, it's beginning already, as everybody would probably expect. The authority used for the tariffs was the International Economic Emergency Powers Act – IEEPA. One lawsuit has been filed already, ironically, by a conservative law group, the New Civil Liberties Alliance, which is the same group that was behind the attack on the Chevron deference standard – the successful attack on the Chevron deference standard in the *Loper Bright v. Raimondo* case a couple years ago.

The suit in question was filed against the China tariffs, not the April 2nd tariffs, but the arguments will be the same and it's only a matter of time until we see suits on last week's tariffs as well.

The essential arguments are that it violates what's known as the major questions doctrine, which is the idea that the court came up with several years ago that when you're doing – when the executive branch is doing something that has a major impact they need to have pretty explicit guidance from the legislative branch before they can act. And the allegation in this case would be that they're certainly doing something major and they don't have sufficient congressional guidance. The other arguments would be that IEEPA does not mention the word "tariff," and that therefore we can infer that Congress did not intend that tariffs be one of the remedies that's available. And the third being – argument being that the remedy, in this case tariffs, is supposed to address the emergency. And that the president is supposed to explain how the remedy will handle the emergency, which is allegedly not being done in this case.

The particular – the first suit is also a little bit unusual, because they're not asking for an injunction to block the tariffs. That's because the plaintiff, which is a small Florida company, only imports seasonally. So the plaintiff can't show immediate harm because they're not importing right now. However, there will be future suits that will seek an injunction. And that really will be the question that will, I think, seize the public's attention, because the litigation will play out over several years, in all probability, unless the Supremes will allow it to get to them quicker than normal. Which means the real question is, can the plaintiffs find a judge that would grant an injunction that would stay the tariffs from going into effect? And so we'll see about that. I think an injunction is unlikely. But I also think the final outcome

is, at this point, hard to predict. The arguments that have been made are going to be made rather forcefully. And we'll see if the courts buy them.

With respect to the future, the president has already indicated more tariffs are coming on sectors. He's mentioned semiconductors, pharmaceuticals, copper, and lumber. At least three of those will be pursuant to different statutes. Copper and lumber already have had investigations launched under Section 232, the national security standard, the same one used for steel, aluminum, and cars. Semiconductors will probably be – any decision will probably be taken under the Section 301 investigation that actually was concluded in the Biden administration. But Biden left office before making a decision, so all that Trump needs to do is decide what, if anything, he wants to do. I'm not sure what statute they'll use for pharmaceuticals or other possible sectors. Selected critical minerals were mentioned in last Friday's trade policy report to the president.

If the auto, steel, aluminum precedent is followed, any tariffs that are imposed, and it's likely to be tariffs as the remedy, will be on top of the other existing tariffs and will not provide, you know, relief from the other tariffs. So far they've all been 25 percent. So if I were going to predict, I would predict 25 percent on those tariffs as well. In terms of what people can do about it, I can break that down into people, companies, and foreigners.

With respect to the American people, there's – (Laughs) – not a lot to say, except check your 401(k)s and be prepared for price increases. I think most economists would say that when there is an across-the-board tariff, as there is in the case of the 10 percent baseline tariff – nobody's below 10 percent – we can expect that at a minimum to be passed on largely to consumers because there's no – there's no arbitrage threat or advantage. If you're an importer, everybody is paying – is being charged 10 percent more on their imports. So, you know, if you want to eat part of it and keep your – you know, keep your profit margin lower, you might choose to do that. But the expectation is that most people will choose to pass all or most of the 10 percent on. Beyond that, it gets much more complicated.

And that's when I get to companies. I think the first thing companies will do is wait for the dust to settle. At least 50 countries so far have indicated an interest in negotiation. Navin mentioned the Vietnamese offer to eliminate their tariffs. I think it's becoming clear that Trump is open to having those negotiations, despite what other people in the administration have said. It also appears that he'll drive a hard bargain. So it's very hard to predict exactly where these things will come out. But companies, I think, would be wise to wait a little bit to see if these negotiations go anywhere and if they produce tariff mitigation, particularly on the countries that have the higher numbers.

I don't expect anybody to be taken down below 10 percent, but if you're Vietnam at 46 (percent) or India at 26 (percent), you know, take your shot. You may be able to do better than that. And once the dust settles, I think you're going to see companies looking at basically tariff arbitrage possibilities. Which is, can we shift our supply chains to countries that are – at least part of our supply chain – to countries that have lower tariffs? So instead of paying 46 percent from Vietnam, if we can pay 26 in India, you know, that's worth looking at. I mean, the thing that they're going to have to keep in mind is that no matter what they do it's going to be more expensive and less efficient than what they've been doing now. And they have to, I think, resign themselves to a more complicated world. But there are opportunities for relative improvement as long as there are differential tariffs.

For other countries, I think they're going to go through the analog of the five stages of grief – denial, anger, bargaining, depression, and acceptance. I think some will get stuck on anger. China's a good example. It looks like a lot of them are going to move on to bargaining. As I said, 50 so far. Whether that will lead to anything I think is too soon to say. But the president sees himself as a dealmaker. He'll take the calls. He'll take the meetings. This will come up, for example, today or tomorrow when he meets with Netanyahu, I'm sure. And then we'll see what he does. His history has been that he's been willing to make deals, and so you might expect to see some reductions. And that will simply encourage more countries to come in and do those. Others will, I think, retaliate. China has. Canada has on automobile, not across the board. I expect the Europeans, the EU, will do likewise. Then we'll see which strategy turns out to be best.

So, Sam, back to you for questions.

Mr. Cestari: Thank you, Bill. And thank you to all of our speakers for the insights that you've shared so far here today.

(Gives queuing instructions.)

So we will begin with a question written in before the briefing from Lisa Jucca with Reuters. This question is: What's the smartest way for the EU to deal with Trump's tariffs? Phil, do you want to take a stab at this one?

Dr. Luck: Sure. Yeah, absolutely. So what I'd say here is I think – what I believe the EU will probably try to pursue is a policy that will allow them to gain back some leverage themselves, because the playing field is a little bit tilted at the moment, while minimizing the economic pain that the EU incurs because of their retaliation. Now, I mean, it's important to note, I mean, obviously the EU doesn't really want to retaliate because in the same way that these tariffs will be very costly for us, retaliation by the EU will also be costly for the EU.

So what the EU is likely to do, and what they've, you know, mentioned to us in prior interactions, is that they will respond somewhat in kind in terms of the level of goods – the number of goods being tariffed in some sort of level, but will do so asymmetrically, and in doing so to sort of maximize critical pain points in the U.S. So this is very similar to what they did in the previous tariff war when it was still steel and aluminum. You know, they (have a list ?) of goods that are highly politically salient. This will be things in agriculture and specifically in districts that Republicans can control.

There's also been talk about using the EU anti-coercion instrument, which, of course, currently is sort of, you know, in the intra-EU process. And whether they would use that to target – (audio break, technical difficulties) – that would be a – (audio break, technical difficulties) – just because that would have impact on those who are relatively close to the administration.

You know, again, this is going to be costly for the EU, but I think that they have correctly assessed that there is no way to bargain without also creating some leverage on their own side that they can bargain against with the administration.

I'll leave it there. Thanks.

Mr. Cestari: Thank you, Phil.

And we had another question written in. This one's from Joseph Lin with Wealth Magazine: So as soon as this announcement happened, global markets sold off heavily. Can you please speak to the likelihood of a U.S. economic recession? And, secondly, is President Trump overestimating the leverage the U.S. has here?

Phil, do you want to start that one off? Maybe Navin might be able to weigh in there.

Dr. Luck: Sure, yeah. I'll say a few things and then hand it to Navin for sort of the broader market reaction.

I mean, you know, most estimates – you know, most analysts, Moody's and others, have vastly increased their projections of a recession. I mean, it's worth noting that the Atlanta Fed, their sort of early projections of first-quarter GDP have been negative for basically the last month or so and is now looking quite negative. You know, again, this is a huge economic disruption that just the tariffs by themselves would likely put us into a mild recession, if not more.

The other thing I want to note here is that, you know, there was at least some hope, or some people had hoped, that after liberation day uncertainty would be lower or that we would sort of have some resolution to the uncertainty that we were facing. I think the exact opposite has happened.

These tariffs being so heavy-handed, it indicates both that this administration is willing to take really drastic measures, and just how drastic these measures are, you know as Bill mentioned, it increases the probability of deals or no deals or basically makes almost, you know, the number of things that are on the table over the next few months is a really vast array of possible outcomes. So that level of uncertainty makes it a very difficult environment for businesses and individuals to make decisions. And that uncertainty alone, even putting aside the tariffs, could be enough to put us into a recession.

So, you know, I think, from a lot of different vectors, our probability of a global economic slowdown is greatly increased.

I'll hand it to Navin on the market more broadly.

Mr. Girishankar: Phil has said it right. I would just add that obviously we're in the midst of a double-digit drawdown in equities. Bonds have rallied, which means yields are being pushed down. And really that puts the Fed in a challenging position. I mean, when you take the totality of this – let's call it a tariff shock – it's stagflationary. And it really puts the Fed in quite a position, because trying to address what will, in effect, be, you know, a surprise to the downside with respect to growth really puts them in a challenging position, given where inflation is and the long fight over the last 18 months, two years, to bring inflation under control. And so it's an interesting back and forth between the White House and the Fed on how that will play out.

So let me stop there and see if there are any other questions.

Mr. Cestari: Thank you, Navin.

We will open up the line to Khushboo Razdan. Khushboo, if you'd like to – it doesn't look like that line is opening up. Khushboo, you want to give that one more shot there?

Q: Yeah. Can you hear me?

Mr. Cestari: Yes. Please go ahead.

Q: Oh, thank God. Hi. Thanks for doing this.

I have a question about China. While the rest of the world is still figuring out how to respond, China was very quick in retaliating with reciprocal 34 percent tariffs. President Trump is quite unhappy about it. This morning he also, you know, said that China didn't, you know, heed to my warnings. China and U.S. have done this before. We have seen this movie before. I wanted to ask what – is China doing right in retaliating with its own tariffs? And how – where does this tit-for-tat tariff leads us in terms of – because China is one of the largest trading partners with the U.S.? How do you see this trade war going along in the next few weeks? And how does it impact the prices, specifically from – of products coming into China? There were some talks about phase one deal or phase two deal. What are you expecting in terms of U.S.-China negotiations? Is any – since there is a retaliation, do you wonder if there will be any new negotiations as well?

Mr. Cestari: Phil or Bill, do you want to jump in on that?

Mr. Reinsch: I would just say – (laughs) – this reminds me of sumo wrestling. Just got two giant parties, each trying to, you know, throw the other one outside the ring.

The Chinese always retaliate. Sometimes it takes them a while. This time it didn't. I think the Trump administration shouldn't have been surprised. I mean, they certainly can be unhappy, but it wasn't unexpected.

I think it's a prelude to what you just – what the questioner just said. We've seen the movie before, and I think we're going to watch the movie play out pretty much like it played out in the first term. Eventually, there will be a negotiation. There will be a call between Trump and Xi Jinping. There will be a lot of, you know, dancing around beforehand as to, you know, who's going to initiate the call and, you know, all the optics associated with that. But eventually, they will talk, and then there will eventually be a negotiation. And both sides will make very big demands. Ours will be the same ones that Trump made before, that they eliminate the very long list of unfair trade practices that we've identified. Their demands will be that we eliminate our export controls on our technology. And neither side will be able to agree to big demands. And so I think in the end they settle for another small agreement on small things, which both sides will declare as a great victory.

Mr. Cestari: Thank you, Bill.

Dr. Luck: (Off mic) – I really – (inaudible) – completely agree with –

Mr. Cestari: Yeah. Go ahead, Phil.

Dr. Luck: Oh, sorry. Agree with everything Bill just said. I'll add just two other things.

One, you know, I think, you know, like the EU, the PRC would prefer to not be in the situation of feeling like they need to retaliate. You know, the PRC economy has some real weaknesses and sort of headwinds at the moment. So this is not, you know, ideal by any means. But I think they correctly assess that, you know, there – without some sort of pushback, there's not going to be much to sort of govern the response of this administration.

The other thing I would mention is this – we are not – while I completely agree that we've seen this story before, we're also not in the same economy that we were in in 2018. The PRC has done a lot to increase its domestic resilience since then, and it has developed – as Bill noted – a pretty robust export control regime itself, which has been – which it has the opportunity to use asymmetrically. So, you know, I would expect that the PRC will continue to – will, you know, retaliate, but of course look for these opportunities to reduce pressure on both sides as well.

Navin, over to you.

Mr. Girishankar: I think you've said it well, Phil.

I would just add the following, which is that, you know, earlier in February when the IEEPA tariffs were put in place, China did respond. And you could call it a retaliation, which included tariffs, export controls, and investigations of U.S. companies. And I think it's an indicator that, as Phil rightly said, we are – China has a different gameplan than they may have had in 2018.

And then the other piece to this is that there are other countries involved in this ongoing trade conflict, many of which are allies. And so one has to net out this multiple-equation problem and how different countries will position themselves vis-à-vis the U.S. and China.

Mr. Cestari: Got it. Thank you, Navin.

And we are now going to turn to a question from Hsi Wen Chen that was written in the chat. The question is: Do you think the reciprocal tariff will be alienating U.S. allies and push them towards China both diplomatically and economically?

Mr. Girishankar: I'll start there and I can hand over to my colleagues.

I would separate these two things. Will they be alienating of U.S. allies? Yes. We're already seeing that. But that's a different question about whether they then make the judgment to move towards China diplomatically and economically.

I think it depends very much on the countries and what their optionality is. In recent discussions I've had in Europe there's also still a great deal of skepticism and even a feeling that it would be naïve to think that Europe can build a relationship with China in response to this.

And so we are in the early days and I think it remains to be seen how this plays out with each of the parties involved. There are multiple parties involved. But the core issue of whether China is a viable partner for, you know, say, partners in the European Union is not, I think, affected by this move by the Trump administration.

Over.

Mr. Reinsch: I'm inclined to – if I can jump in – I'm inclined to agree with Navin. I think there – has it alienated allies? Yes. It's sort of alienated everybody, and by doing so I think what we've demonstrated is that the U.S. is not a reliable partner – it's not a reliable trading partner. That, over the long term, leads to trade rearrangement.

I don't think it necessarily leads to a closer relationship with China. That comes with a lot of drawbacks that many countries including those in Europe are well aware of. The overcapacity issue that many countries are responding to already with separate retaliation to their own – Turkey, India, Brazil, South Africa, Canada, in addition to the EU – none of that's gone away. So I don't see necessarily, you know, a bipolar thing where countries leave our orbit and move into the Chinese orbit.

I do see countries beginning to move away from reliance on the United States and on the U.S. market, and that will lead to a search for other markets and a different kind of trading system. But that won't necessarily mean a shift towards China.

Dr. Luck: Just to jump in really briefly here, completely agree with my two colleagues. I would just say two things.

Completely agree that for Europe, you know, while we're, clearly, alienating our allies there's quite a bit more on the sort of pros and cons list across the U.S. and the PRC to consider. I will say one thing on Europe and then turn to other partners as well. The one thing I will say on Europe is, you know, there's plenty of partners who share our views broadly on the challenges we face in the PRC but are still not as interested in taking as strong of actions as we'd like them to, and in part one of the reasons we're able to persuade partners to move with us is the other value propositions that we're providing. By weakening that value proposition, by making us seem like a less reliable partner, we're going to make it more difficult to make progress in other spheres.

Outside of sort of Europe and other treaty allies there's a huge set of what I might call hedging states which really are looking for ways to have a positive economic relationship with both ourselves and the PRC, and depending on their particular histories and relationships that – you know, each one of those is a little bit different. But, again, by reducing the positive economic relationship that we can have with our partners we are making them more likely to weight their decisions towards the PRC and less towards the U.S.

So broadly speaking, yes, this is alienating partners and allies.

Mr. Cestari: Thank you, Phil.

Our next question is from Bhagya Garekar with Straits Times: The question is, what can a USFTA partner like Singapore do towards mitigation? And tariffs on U.S. goods are already at zero. What might be potential ways forward in this situation? Bill, do you want to take that one?

Mr. Reinsch: Yeah. I think the first thing they should do is celebrate their good fortune because they're at 10 percent, which is the bottom currently. I mean, they're not the only one, but there aren't many others in Asia, outside of Australia, that are in that position. And I think as we get into what I referred to earlier, tariff arbitrage situations, Singapore is likely to be a beneficiary. So they should be, you know, aware of that, and, you know, moving to take advantage of it.

With respect to what they're going to – what they should say to the United States, I think that one of the issues here is that, why are we treating our free trade agreement partners as badly as we are? The concept of a free trade agreement was zero tariffs in both directions. And we, by and large, have that with our FTA partners. And if I were one of those, I would be coming back to the United States and saying: You know, we have these agreements. And the agreements involve zero tariffs.

And so, you know, your 10 percent is presumably for – you know, compensating for nontariff barriers. But you haven't, in any of these cases, actually identified those barriers, or labeled them, or made any effort to – you know, to adjust your algorithm or your formula to take into account the actual amount of those barriers. So I would push back and argue that free trade agreement partners ought to be – ought to be exempt, and ought to stay at zero. That's probably not going to be a successful argument, but it's the one that I would use.

But I really think that, you know, he's done a 10 percent baseline for everybody. Most of the negotiations are going to be between the United States and countries that are well above 20 – well above 10 percent. And

they'll be focused on getting them down as close to 10 as they can. Getting them below 10 is, I think, unrealistic. But the argument I would use would be the argument I just put forward, which is FTA partners ought to be treated the way the FTA requires them to be treated.

Mr. Cestari: Thank you, Bill.

Our next question comes from Grace Dille from Ameritalk – or, from MeriTalk, excuse me: Can you talk more about how the tariffs will be costly to our technological advantage? And I'm also going to package this with an anonymous question submission. While this webinar is in progress, S&P and NASDAQ is in the positive. What does this mean? Navin, do you want to take these?

Mr. Girishankar: Yeah. Well, let me take the second one first. You know, I wouldn't anchor to what's happening minute to minute, hour to hour in the markets. There's a lot of volatility as investors are trying to figure out what this means and how it flows through to money and credit. I think the big picture point there is two. One is that there has been meaningful wealth destruction. Year to date, down double digits, 13 percent, 14 percent. I don't know what the latest is. Two is that – well, let me leave it at that. That's the story with the S&P – oh, two is that you can expect a widening of risk premiums. And the reason I say that is that, obviously, there are surprises to the upside and downside on – (inaudible) – and inflation. But with risk premiums, I expect that the volatility with which this strategy is being employed really simply just raises – widens risk premiums across asset classes. So let's see how that plays out. That's my sense.

With respect to technology, you know, we've been doing some writing about this. And I would put it this way. Most technology value chains – I'm talking about advanced technologies. Chips is the most advanced of those in terms of the complexity of its value chain, quantum, AI and the full AI stack, which includes energy, chips that go into datacenters, and digital platforms, biotech and life sciences, clean technologies. These are global in nature. And very sophisticated value chains with everything from critical minerals and base materials all the way to end products. And so you almost now have to go through value chain by value chain and see who the trading partners are of the U.S., and then see the implications of these tariffs on those value chains.

Ultimately, you know, does it improve or does it worsen the cost competitiveness of inputs, particularly in technologies that we are trying to meaningfully advance in the United States? My guess is that it makes it much more complicated to establish technology advantages and to sustain them with the tariff agenda. And so the way I would put it – we're in the midst of a(n) accelerating tech competition, principally the U.S. and China, across these technologies. You can't fight a trade war and then expect to win a tech

war by doing that, and I think that's the challenge that we're facing right now.

Mr. Cestari: Thank you very much, Navin. And thanks again to all of our speakers.

We have just one last questions actually that just came in: How may the U.S. tariffs impact the EU and China's economic relationship? I know we touched on this a little bit earlier, but Phil, do you want to just kind of give one last mention on this?

Dr. Luck: Sorry. Sure, yeah. Sorry, I was trying to find the unmute button.

Yeah. Just to clarify, the relationship with each other or with the U.S.?

Mr. Cestari: The question says how may the U.S. tariffs impact the EU and China's economic relationship? So with one another.

Dr. Luck: Ah, OK, gotcha. Yeah, so I think we touched on this a bit but I can elaborate some more. I mean, the basic point I would make is, you know, that Europe I think has come a long way over the last few years in sort of understanding the challenge that we have with the PRC. So this is everything from their IP theft to their overcapacity and subsidies to their economic coercion, which they experienced with Lithuania about three years ago.

So I think the fundamental understanding that Europe has of that challenge and that they will have to find ways to manage the risk of that relationship going forward – that is, I think unchanged.

I should add one other thing that was actually hugely impactful for their relationship – the PRC's continued support for Russia, really being Russia's lifeline, has I think more than anything probably negatively impacted the standing of the PRC with respect to Europe.

So that isn't changing. What is going to change though is Europe knows that, you know, it can't be autonomous in this world, and it was interested in moving closer to us and working with us to de-risk our supply chains in some key ways from the PRC. But now they're in a position where they have to think differently about their economic security vis-à-vis the United States. So they're potentially, you know – as Bill said, they now have to watch out for two sumo wrestlers in the ring.

So I think, you know – while I don't imagine that this changes their fundamental assessment of PRC, it may certainly change their risk calculus because, you know, if they take certain steps against PRC EVs, that brings retaliation by the PRC against the EU. You know, they may not think they can fight a trade war on multiple fronts in the same way.

So, yeah, I'll stop there. I don't know if Bill wants – Bill or Navin want to add anything.

Mr. Reinsch: No, I think you've got it covered. I've talked to Europeans on and off about this, and I think for the reasons that Phil cited for the last several years there's been basically a drift in European both public opinion and corporate opinion that is beginning to – reflects really the United States' view about the dangers and difficulties of dealing with China. And they're experiencing the overcapacity issue directly, particularly with electric vehicles but that's not the only case. So it's hard for me to see much of a warming in the relationship.

At the same time, you know, the problem that they have – the problem that European companies have is the same problem a lot of American companies have, which is China is simultaneously the best customer and the biggest threat. And it's a challenge for them to figure out how to deal with that. A lot of them are trying to figure out how to de-risk, to use Ursula von der Leyen's phrase, but that's slow going. And if you have a substantial investment in China, as many of them do, particularly German firms, if you're – making a decision to unwind is difficult, costly. And even if you make that decision, it's going to take some time. But I don't see them trying to get closer under current circumstances.

Mr. Cestari: Thank you, Bill. That seems to be all of our questions right now. I want to thank our speakers and participants for joining us for this timely call today. Please feel free to reach out for anything we can do to be a resource on this issue. We're happy to help. So don't hesitate.

As mentioned at the top of the call, we will have a transcript distributed to all of you and it will also be available on CSIS.org. So with that, I hope everyone has a great rest of your day. And thank you for joining us.

(END.)