DBS Flash

Kopi Time E177: Deborah Elms on trade matters

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- *177th episode of Kopi time, a podcast series on markets and economies from DBS Group Research.*
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Welcome to Kopi Time, a podcast series on markets and economies from DBS Group Research. I'm Taimur Baig, Chief Economist, welcoming you to our 177th episode.

Headlines are dominated by the war in Iran these days, but we should not forget that trade war and tariff matters are very much alive. So, we're going to have somebody who's going to help us remember the gravity of the matters outstanding. Dr. Deborah Elms is Head of Trade policy at the Hinrich Foundation in Singapore. If you want to receive substantive updates on trade-related issues, you should follow her publications on the Hinrich Foundation website. It is invaluable.

Deborah Elms, welcome back to Kopi Time. This is your third time on the podcast.

Deborah Elms

Thank you very much. It's an honor to be here again.

Taimur Baig

It's so good to have you, Deb. One year since reciprocal tariffs, what has been the impact on the US and the rest of the world?

Deborah Elms

I think it's been very interesting. I mean there were a number of people who saw the reciprocal tariff day coming on April 2 of last year and who anticipated a sort of sky is falling approach. And it is certainly true that the initial shock of the tariffs that were imposed by Trump on that famous day in the Rose Garden was significant. Markets went crazy, swooned. Trump pulled back the start of this sort of TACO theme, Trump always chickens out. But then he proceeded over the next couple of months to put in place a much higher level of tariffs than perhaps anyone had anticipated in 2024, at levels that had been at 2% before he took office that are now, or at least were then, closer to 20%. So, this is a significant increase in tariffs that has created real problems for many companies. But in a piece of irony perhaps, the net result has not been less trade overall, and in fact trade in goods numbers into the United States have remained extremely buoyant, or at least more buoyant than you might have expected given the size and magnitude of the tariff shock. But what we have definitely seen is reshuffling of supply chains. So many of the companies that used to sell directly to the United States no longer do so. Many of the companies that used to have the US as one of their largest markets have also looked over the last year to diversify their risk and to find alternative sources of supplies or alternative customers depending on where they are in the space. So, we have seen already within a year, the beginning of a reorientation of supplies, supply chains, and trade flows, which I think is set to continue no matter what happens with Trump, whether he tackles or he doesn't on future trade initiatives.

Taimur Baig

So, when I look at Thailand's exports to the US or when I look at Vietnam's exports to the US, they almost mirror China's decline in exports to the US. So, let's talk a little bit about the issue of transshipment in the context of the realignment that you're talking about.

Deborah Elms

So, there are multiple ways that you can use the word transshipment. One of the ways to use the word transshipment is illegal, just to be clear. It's always been illegal, it remains illegal, which is, you are not supposed to take a product from China, send it to Thailand, Vietnam, fill in the blank, where you relabel it as made in Thailand or Vietnam and send it to the United States with no change. That is illegal transshipment. It has always been illegal transshipment. The assumption is that some of the trade flows that have readjusted are part of that illegal transshipment because the incentives were super high. Remember at the beginning stages of Trump, tariffs on Chinese exports to the United States rose as high as 145%. So, at 145% tariffs, there is a strong financial incentive for firms to cheat and to send goods to another market with much lower tariffs and then onward to the United States. So, I think we saw some of that captured, encapsulated in those figures that you were suggesting. But most of it is not illegal transshipment. Most of it, I think, is simply trade, which is, you import a number of raw materials, parts, components, intermediate goods from China into places like Vietnam or Thailand, where you may have additional factory resources already set up or you have set up new factories to take advantage of the disruption. You assemble these products into final items that Americans want, and you ship it to the United States. So that's not really transshipment, that's actually trade. That's the way that we've operated across Asia for most of my lifetime at least. And I don't think it's a surprise to see that kind of changing trade flows take place because the demand still is there in the United States for buying lots of things, including lots of things from Asia. And if it becomes financially difficult because of tariffs or because of compliance costs to do so directly out of China, then you will find another way to make that happen, and that includes moving production into lower cost areas like potentially Vietnam and then sending those goods into the United States.

Taimur Baig

Finding ways to make it happen, let's expand on that because over the last one year, most countries in Asia have found ways to reach out to the US. Done deals, agreements, what have you with the US, and whether it is the Koreans and the Japanese who have promised hundreds of billions of dollars of investments in the US in return for some tariff relief to countries in Southeast Asia, who have implicitly, given the US has a huge amount of leverage on dictating their own trade policy. So, let's talk a little bit about those deals and where those deals stand now.

Deborah Elms

Well, let me just say that over the past year, I've started calling those things early on napkin deals because I thought they were as durable as a piece of paper napkin that could just be discarded at will, and I think the evidence in my mind over the last year is that napkin deals were maybe too optimistic. Some of them are even thinner than that, tissue paper deals. And part of the problem now for trade, countries that trade with the United States that signed these deals is what is the status. It's really unclear what the status is, especially because they were negotiated originally under the rubric of US legislative law called IEEPA, the International Emergency Economic Powers Act, which is the legislative authority that Trump claimed in order to impose these very high tariffs on Liberation Day and beyond. That was overturned by the Supreme Court at the beginning of this year, or earlier this year. And I think now for countries that trade with the United States, the question is, well, if we signed those deals in the wake or in the context of a law that has now been declared to be illegal, in which all of the tariffs collected, and I think the total number is something like USD166bn, is now supposed to be refunded with interest to all of the importers across that time frame. Then what is the status and the validity of these deals that we signed? And I think it's very unclear. So, point one is it's very unclear. The United States continues to insist that they are still in force as it originally negotiated. Countries that trade with the United States, normally you call them partners, but I don't really see them as partners anymore. So, countries that trade with the United States that have these deals have a variety of reasons to either support them continuing or to be less enthusiastic about them continuing. So let me describe some of that variation. For a country like Japan or Korea, that you're right, is on the hook for investment commitments attached to these deals, they did get reduction in tariffs on some key sectors that matter a lot to their domestic economy, notably autos. So, they received a reduction in a sort of cap on the amount of tariffs for autos and on the overall amount that can be charged against exports to the United States. For Korea and Japan, those are pretty valuable commitments that they would like to maintain despite all of the other pressures and all of the other elements of those agreements. The trade-off for them is worth it. Lower autos plus this other stuff equals decent enough results. Just maintain those deals. For other countries like Malaysia or Indonesia, which also signed agreements, that calculus is a bit less clear because the overall tariff that is supposed to be in place for both countries at some point is 19% into the United States. There is no cap on any overall level of tariffs, and there are no caps on any sector specific areas of concern. And so, both countries are at risk of having tariffs again, having high tariffs, having sector-specific tariffs, having unfair trade tariffs imposed, etc. And so for them, you can imagine that there is a lot of internal discussions about, well, what is the value of this deal if it doesn't cap our tariffs in general, doesn't cap our tariffs for sectors that are important to us, and leaves us exposed to more arm twisting from the United States in the future. And that has created some tension, of course, with countries that trade with the United States. Well, how much of the implementation do we really want to push forward, especially because some of the commitments in these deals are hard. It's not just the investment part, but there are investment commitments even from places like Cambodia, which is the least developed country, was required to buy American stuff. I think it was like 10 jets or something in their pipeline. I think that's hard. And then trying to say, well, there are a lot of difficult things like the countries that trade with the US are supposed to drop their tariffs to US exports to zero. That is a huge commitment for some of these countries. They're supposed to do a whole lot of regulatory reforms, including on export controls. And they are at risk, or real risk, I would argue, of getting caught sideways by China, where a lot of the US effort embedded in these other agreements is really one eyeball on China, and so now you're kind of caught between two big players in a way that is extremely painful or could be extremely painful for many of these countries that trade with the United States.

Taimur Baig

So, let's talk a little bit about the risks in the pipeline. So, you recently wrote an article called The Four Known Unknowns of US Trade Policy. We have Section 301 investigations taking place. We have issues that you just mentioned that some of the countries have signed on to rather onerous commitments, and they don't really know where they stand on legal grounds. So, what are these four known unknowns?

Deborah Elms

Well, there are a couple of them. So one is that Trump loves his tariffs. So, the idea behind some of the moves in the US is to return to those, what the US calls reciprocal tariff rates. Again, 19% on Indonesia and Malaysia, 10% on Singapore, 15% on Japan and Korea. So, return to those higher tariff rates. Right now, because the Supreme Court voided the existing reciprocal tariff rates, The US quickly rushed into place a sort of temporary holding measure of 10% tariffs. That's what's in place until July. When that expires, they have to move to something else. And so, the administration hasn't given up on tariffs. They are very keen to push this agenda forward. They think that it's working. And so, they have pivoted instead to using Section 301 on unfair trade practices. The hearings are going on literally right now in Washington, D.C. on accusations of forced labor against 60 of US countries that trade with the United States. And there is a separate Section 301 case that has hearings starting next week in Washington on what the US calls excess structural capacity. Both of those cases together are likely to result in affirmative rulings that these are countries that either do or are at risk of unfair trade practices and are likely to see their tariffs snap up as a result of this in very short order and certainly before July, because they need to do something before these tariffs expire. So, I think that's the first big known unknown is that we know we're going to have these cases moving forward. They're against all of the US major trading countries and they are likely to result in tariffs that don't have to go to the reciprocal rate and don't have to just be tariffs. So, one unknown is we know they're coming, we don't know what the result will actually be. It could be reciprocal tariff rates. It could be higher, it could be lower, it could be temporarily paused. We really don't know. But we know that there are going to be a lot more tariffs in very short order against a number of countries that trade with the US.

Taimur Baig

I can just ask you a couple of clarificatory questions. So, number one, are we talking about 60 different rulings on 60 countries? Are we talking about the administration proposing a tariff and then the courts sort of agreeing with the tariff rate? I mean, how will the mechanisms work around 301?

Deborah Elms

Such a good question. So, Section 301 is an incredibly powerful tool, and I wrote a long paper with the Hinrich Foundation that I do encourage people to read, not only because I wrote it, but also because I think it is a useful primer on what is the power of this particular tool. It was designed to be sort of narrowly applied. So, if we go back in time to especially the late 70s, the 80s, and into the early 90s when the United States used this tool a lot, what they were trying to do was get specific countries to deal with specific issues. And they were both big issues like Japan and autos, and small issues like Japan and apples, like the fruit apple, not the company Apple. So, they were big and small issues. They were very narrowly targeted at one country at a time, one specific unfair trade practice. And the idea at the time was that we didn't have a functioning global dispute settlement system, and so the United States needed to be able to have a unilateral system where it could be judge, jury, and executioner, at the time. Now that was very unpopular in the 80s and 90s and led to reforms globally that came into place in 1995. The United States promised to basically retire the use of this tool. This administration has brought it back. They did so in the first Trump term. In fact, Robert Lighthizer, who was the Chief US Trade Negotiator at the time in the Trump first administration, wrote much of the legislation that was in Section 301, so he knew it really well, and it was used against China in the first Trump administration. It is now being used as a giant weapon against everybody. We don't know how that will go because we've never had so many Section 301 cases opened so quickly against so many countries. If you look at the number of comments that came in on these two separate disputes, it's a lot. So there were more than 400 different comments, many of them from governments, many of them from trade associations or specific firms, some of them from civil society and legal groups about the forced labor case, whether or not these 60 different countries are in fact practicing unfair trade on forced labor, and then there were more than 800 comments that came in on structural excess capacity. Those comments are all over the place. Most of them are denying that there is an issue in the specific country related to that specific topic. And so, it's very unclear what the Trump administration might do with this information. Are they likely to have a blanket tariff? I could make an argument for why a blanket tariff makes the most sense. If the issue is unfair trade around forced labor, then I could argue, I think, that the way to solve that is a simple 10% tariff, let's just say, to protect against these issues, or alternatively, a bunch of new export controls and you need to give documentation that you're not engaging in unforced labor practices, whatever. I don't think that's how this administration's going to go though. I think this administration really wants to rebuild the tariff wall that they had last year in April. And therefore, we will get, which will be very bizarre, an uneven set of tariffs, we will see that at the end of Section 301 investigations, guess what, Malaysia gets 19% overall tariff as the response for two different investigations. Indonesia gets 19%. Singapore, which is currently sitting at 10%, will stay at 10% because between these two cases, that's the damage being caused to the US economy, 10%. How that gets handled is unclear, but I think one challenge that we all have is that unlike IEEPA, this Emergency Economic Powers Act, where the legal setting from the get-go was shaky, it is going to be harder to have a legal case about Section 301. The courts tend to be very deferential to the President in general on certain things and Section 301 explicitly gives the President quite an enormous amount of latitude to pursue unfair trade practices. And I think the court would have a more challenging time. I'm not a lawyer, but it just seems to me that the court will have a much harder time reigning in the President's authority on Section 301 outcomes, as long as this USTR follows the procedural rules. So, the procedural rules require you to publish the case, you have to open this investigation, you have to allow comments, you have to have a hearing, you have to wait 7 days after the hearing before you announce, at minimum of 7 days after the hearing to announce the outcomes. And as long as they follow those minimum milestones, I think it's going to be very hard to overturn whatever the US comes up with at the end.

Taimur Baig

All right, I'm going to let you go back to those three of the remaining four arguments that we're going to talk about, but just one final question before we go there. Section 122, has it been challenged in the courts?

Deborah Elms

It is under challenge in the courts. So, Section 122 is this sort of temporary holding measure that the US administration rushed out when they lost the ability to get tariffs under IEEPA. They said, "Ah, here's another tool in our toolkit," never been used in this way before, but it allows the President actually up to 15% tariffs for a set period of days, which is why it expires in July. Trump magnanimously imposed only 10% tariffs. I think because ultimately it would have been difficult to go up in tariffs on countries like the UK which has a deal at 10%, or Singapore, which is sitting at 10%. So, they decided 10% was good enough as a holding measure. But that case is also under dispute right now and is headed potentially for the Supreme Court because of the justification for the current Section 122, and the use of the term section is what legal section of the rulebook are you following. So, Section 122 is the provision around Balance of payments issues. And this was originally developed when the United States was coming off the gold standard and into flexible exchange rates. There was, I think you can imagine, 1970s. Real concern in Congress, like what happens as we move from a system that we find comforting and familiar to this unfamiliar system. If we get ourselves into real trouble, then what? And so, they wrote up this Section 122 for a serious Balance of payments crisis, to give the President the authority to impose this temporary, basically a tariff wall to help correct that Balance of payments issue. But now that we're in flexible exchange rates and we've seen how it works, the United States does not have a balance of payments crisis at all. And in fact, many economists, and I'm sure that you would be one of them, would say you can't have a Balance of payments crisis given the flexible exchange rates and given the position of the United States. So, there is a legal challenge underway about whether the law holds, whether the President has exceeded his authority, whether tariffs should have been imposed. That court case has been opened, but I'm not certain that it will be closed before it expires in July. And so, then it's a little unclear to me whether you can continue to challenge a law that is no longer in force. But I think that the folks who are complaining at the courts would say on principle alone, we should determine whether this is a legal tool that should be used. And then on purely economic grounds, firms are now paying 10% tariffs on a huge range of products exported to the United States, and they would like to have that determined whether that's legal or illegal. And like with IEEPA, if it's illegal, give us the money back. So, I think we're in a sort of, again, another sort of known unknown is we know that these 122 tariffs are in place. There is a court case, it could be decided. We could end up with a refund again of tariffs that are being collected by the United States. And so that is another one of these known unknowns.

Taimur Baig

Super helpful. All right, going back to your article.

Deborah Elms

Yeah, so the others that I talked about, one of them we've already covered, which is what happens with all of these napkin deals, are they still in force, are they not still in force? And we don't know. We just don't know what will happen. Not every country has even signed one, so the Philippines, for example, has not actually gotten theirs across the line, and so the question in the Philippines, you can imagine is, well, is it worth it? Should we be pursuing this now or should we not be pursuing this? I think it's challenging because, again, it's unclear how these agreements help insulate you or lower the risk of future changes. And we have had this sort of fascinating, in my mind fascinating, probably less fascinating for many other people who are bearing the brunt of the problem, but the UK for example, where the King of England is actually in Washington right now, is under a lot of pressure from Trump directly about tearing up the napkin deal that the UK has signed. And in fact, he made several new threats to do so in the last two weeks. And so, from a recipient perspective, it's very challenging. Like, should we sign these deals? Should we proceed with implementation of these deals? If the President keeps threatening to rip them up and ultimately could decide to do so. What was the value in that whole process, that is difficult for us in a political context domestically to say to our people, we signed an unfair lopsided agreement in the first place, which now got torn up and replaced by something else, like why did you even bother? You know, there will be, as you can imagine, lots of domestic questions coming in from potentially the UK through the Philippines. And so those countries that trade with the United States are really in a bit of a quandary, where do we go from here?

Taimur Baig

So, we've covered all the bases on the four known unknowns. You said earlier that from the US trade negotiators' perspective and also from the perspective of the White House, these tariffs, these export control measures are working. What is the evidence of that?

Deborah Elms

Well, that is a great question. I mean you have to remember that this is an administration that I would argue is sort of faith based. There is an article of faith that things are what they are, and then you don't really care what the evidence is or isn't because it's a sort of faith-based argument. I think tariffs are useful. I think they matter, therefore we will impose tariffs, and whatever evidence you show for or against is in some ways irrelevant because the idea is, you either accept that tariffs are the most beautiful word in the English language as Trump has said, or you don't. And so, I think it's very hard to say that the evidence, which is largely suggesting that they are not working in many different ways, depending on what your outcomes are supposed to be. It is irrelevant. They think they're working. They're convinced they're working. They've convinced other people in the United States perhaps that they may be working, and so they're going to continue down this path regardless of the evidence. And the evidence is, I think, challenging because although the United States has continued to import despite all of this tariff noise. That's the first piece of evidence that I think is a challenge. If you've raised tariffs so much and you're continuing to see overwhelming amounts of imports, that's a challenge to the first part of the argument, which is that we will see less demand. The whole point here was we had trade imbalances. US imported more than they exported, we should fix that with tariffs. If you're continuing to import an awful lot, those trade balances often are widening rather than shrinking. So, on the first point, evidence suggests you're wrong, tariffs don't affect trade as much as you expect. They do redirect trade. So, we have seen this redirection both in terms of how the flows go, but also redirection of trade in terms of companies that are competitive and companies that are not competitive. We've seen a lot of companies go out of business in the United States as a result of tariffs, including crucially a lot of small businesses that could not navigate or could not pay these tariffs because they were significant to their businesses. Many of them have gone out of business, so the evidence there is pretty overwhelming that for small businesses tariffs are an issue. We have a lot of evidence that tariffs again change demand patterns, especially when the tariffs get high. So, if we look at things like metals, steel, aluminum, copper, where tariffs are 50% because they're covered by sector-specific tariffs instead of these broad blanket tariffs by country. We have had a lot of complaints and a lot of price changes domestically in the US as a result of these tariffs, including on everything, everything that uses metal, whether it's office furniture or food products, pharmaceuticals that use the blister packs, etc., there are metals in there, and that has resulted in extensive price changes for a lot of products that use metal or lumber where the tariffs are quite high. So, the evidence again, not great in favor of tariffs. What they were supposed to do as well, but on the other hand they had generated revenue as you can see from USD166bn. That now has to be refunded with interest. So actually, this is costing the US money instead of being a way, as Trump's tried to claim for eliminating the income tax. He said we could just get rid of the income tax and just tax all those foreigners on tariffs, and that clearly doesn't work, especially if you have to give the money back ultimately with interest. So that doesn't work in terms of paying for this. We also have a problem here where the investment that was supposed to come in as a result of these tariffs, the evidence for that is mixed, but not significant yet. Now we could argue it's too early because many of the investments might take time, so maybe we just haven't had enough time for the inbound investment argument for tariffs alone to work. I think we'll see what happens there. I mean there is still some investment in the United States, particularly around AI, but there is not a lot of investment outside of the AI sector. So, it doesn't look like tariffs on their own are driving investment. What could be driving investment are these napkin deals, because as you mentioned early on, there are some eye-watering sums that Japanese firms are supposed to invest in the United States. So, is that tariff related? Yes, as in the tariffs caused the Japanese to have this conversation and as part of that they agreed to buy stuff or invest. You know, so that could be resulting in some investment in the US or potentially some exports that would otherwise not take place, because when you agree to buy something like soybeans or something, that then is an export that matters to the United States. But I think the evidence so far one year into this campaign is at best mixed and probably not terribly positive.

Taimur Baig

Yeah, Deborah, from my perspective it's actually surprisingly weak. I would have expected the USD30bn a month tariff that was coming in to certainly help the fiscal position last year, but then there were so many other things going on that didn't really work out. And in 2026 with the way defense spending is skyrocketing exactly when tariff revenues are peaking, it might actually get worse. I thought at the very least, Trump only understands goods, forget about the services. That the goods trade balance would improve. It remained at 4% of GDP. I thought that with the coercion of the US and the foreign investment dynamic, there will be job creation to some extent, even if it's not very impressive. Some jobs, we lost 95,000 manufacturing jobs last year. So, it seems to me that it's very hard to come up with arguments where you could say that there's very clear evidence of this thing is working unless you go with that point that you made. It's too early. Wait till 2026 passes, and maybe there'll be some silver lining.

Deborah Elms

Well, I think as you mentioned, there are a lot of confounding variables here. So, on the job creation and job losses, remember that this tariff peak combines with the immigration crackdown in the United States, which could result in a lot of job losses. It's kind of hard to say, well, how much of that is trade related, how much of that is immigration related, how much of that is related to, I don't know what, aging or fill in the blank, your favorite variable, but whatever it is, we have a lot of confusing information that is hard to parse through. But it does not appear that the US as a whole has lost its enthusiasm for foreign products. I was in Shanghai, for example, talking to a very large multinational who said, "Our products face a 54% tariff into the United States. And despite a 54% tariff, it is still more profitable for us to make things in China and export to the United States than to use our similarly situated firms in the United States that are producing the same products." So that is a fascinating insight into why we still have all of these exports going to the United States. It still buys stuff and it still buys stuff at price points that you don't get elsewhere. And when you think about the damage of tariffs, I think one of the difficulties for people thinking about, why don't these tariffs, which sound horrible, have more of an impact? Let me just talk about them like in the context of a shirt. So, imagine that you buy a shirt, just for the sake to make the math easier. Let's imagine the shirt costs the company USD2. So now you're paying tariffs on USD2. And even a very high jump up in tariffs ultimately doesn't budge much of the price of the shirt, because you're only paying it on the USD2 price that the firm has to pay. There's a lot of other stuff that goes into the pricing of the shirt before it reaches the consumer at the end. And so, you can absorb for a lot of products, you can absorb a pretty high tariff, without necessarily ruining the incentive for the consumer at the end to buy that product. So, I think that's partly why we haven't seen quite as much damage from tariffs as we thought. If you're importing from cheaper places in general, even a 2% to 20% tariff increase may not be enough to dampen demand in the US. And so, we do see more trade than perhaps people anticipated as a result of this. Plus, I would also point out that the US tariff wall is very leaky, and where it's especially leaky is two things that I think are making a big difference. The first is that products from Canada and Mexico, who are by far the largest trade partners with the United States, have been exempted from most of this tariff chaos because they have the USMCA, the US-Mexico-Canada trade agreement that is up for renegotiation right now, but that has really helped soften the blow in the US because that's where the majority of products actually come from in terms of trade. The second reason why the tariff impact, I think, has been muted overall is that the US has not imposed tariffs on what it calls semiconductors, which is not just semiconductors, but electronics, huge category of products, especially exported from Asia to the United States. Those have not been tariffed up to this point. And so those things that are crucial, especially for the AI buildout, for example. Not tariffed, and a lot of those consumer goods that fit under the semiconductor or electronics banner also not tariffed, which means that although there are lots of tariffs coming in lots of areas, laptops and phones and televisions and so forth are currently still going into the United States at no tariffs. And I think those two things, USMCA plus no tariffs on the electronics sector, has also muted the impact of tariffs that you would see in the headlines that that is important to remember.

Taimur Baig

Yeah, absolutely. I'm just still thinking about your Shanghai example. You know, on one hand, we see China's exports to the US down 30%. On the other hand, we see China still exporting over USD300bn worth of stuff to the US on an annual basis, still making up 10% of its total exports. So, it's like a duality. On one hand, US is succeeding importing less stuff that's made in China, it is still importing a lot of stuff that is made in China.

Deborah Elms

Yeah, I mean, again, it will depend and it will vary by product. It's not just the tariff, it's also the compliance costs and it's also the greater scrutiny. All of those things together add cost to exports from China to the US. And some of the new rule changes in the US, particularly around some of the technology, export controls, etc., have made it impossible to buy directly from China because of new rule changes. But for most goods, there is a pivot point I would argue for most firms where tariffs could go up to a certain percentage. At 145%, most firms are like, "Forget it, there's no point in us importing from China." But if it's not 145%, if it's 30% or 20% or as it currently is at 10%, fine, we'll continue to import from China because the math works in our favor, and each firm will have to decide for itself, like what is that pivot point? How high do those tariffs become before we say, "Never mind, we'll have to find an alternative source." And if we find an alternative source, we have to think hard about like, well how difficult will that be to find, how expensive will that be to find, and an alternative. And how quickly can we receive those products, because one of the things that China does better than anyone is deliver quantity, scale and speed, those kinds of things that no one else can replicate, is worth paying extra for to be able to ensure that, 10,000 pieces of whatever it is that you want arrives in your store on Tuesday. That is a value proposition coming out of China that no one else has, and even if the tariffs get quite high, they're still going to buy 10,000 pieces of whatever it is to be there by Tuesday.

Taimur Baig

You know, in terms of China makes better than anybody else, I think EV would be one great example. Deb, I see on social media influencer after influencer from the US going to China and look longingly at the cool cars that the Chinese are rolling out, stuff that they will never get. I think this is the first time in history because the US was the source of the cool stuff that the whole world coveted, and now there is one thing at least on EVs. The Americans covet it, but they can't get it. So, I'm curious to see how this evolves in the coming years and decades as China becomes more successful in making "cool products". I want to leave the US a little bit and talk with you about trade outside the United States. In the last year, we have seen a bunch of trade deals signed by non-US actors. EU-India comes to my mind, but there are other things going on. So, let's talk a little bit about what's happening in the rest of the world with respect to trade deals.

Deborah Elms

We are seeing an explosion in trade deals. I mean we've already seen that, so some places there is less room to grow in terms of more trade deals. You've Singapore already extremely well covered by trade deals with all of Singapore's major partners, I think, and there's not a lot of other places you can go to sign trade deals for Singapore. You can always upgrade what you have, and in fact the Singaporeans are doing that, ASEAN is doing that. There's a lot of upgrading taking place but that stampede to finish up any existing deals, the European Union, I think, is poster child for this. They are signing, they're working very hard with Malaysia, apparently, they're in the final stages, working again with the Philippines, with Thailand. Just finished with India. And India itself, which has always been fairly allergic to the idea of signing free trade agreements, has gone on an incredible ambitious rush to sign deals, including with New Zealand just this week. So I think that's a super interesting data point that says that the rest of the world is recognizing how challenging this United States has been, and they need to diversify themselves, diversify the situation for their companies, because remember, companies trade, not governments, but especially to provide greater certainty and lower risk for their companies when they look for alternatives to the US. And so we're seeing a lot of these agreements getting signed, a lot of the agreements accelerated implementation or upgrade of existing commitments, and I think that is, perhaps not making a huge difference today because it takes some time for these trade agreements to get signed and implemented, but I think as we go forward from here, we will see more and more trade taking place using these other arrangements that exclude the United States, and that creates some really interesting challenges for companies going forward. Again, how important is the United States market? Probably of diminishing importance for a lot of companies, and how important are these other markets that may have been too difficult or too expensive to trade in before, but with the coming of these new trade deals, it's easier and cheaper potentially to source or to sell to a lot of new partners.

Taimur Baig

Do you have any hope for India becoming more free trade-oriented vis-à-vis ASEAN?

Deborah Elms

I think they have been, and I think that's quite interesting. For me, there are a couple of canary in the coal mine on India and ASEAN. They have an agreement in place. There is a free trade agreement between India and ASEAN, that is not great, the coverage is not great, and the difficulty in using it is tremendous, such that I'm not certain that any firm has successfully used India- ASEAN as a way to sell goods to each other. They do sell goods to each other, just to be clear, but I don't think they use the actual agreement to do so because the complexity is very high. So, they could change that. So, one thing they could do is say, well, we have these upgrade activities going on within ASEAN. ASEAN just upgraded its agreement with China, for example, for the third time. It just rolled out a really comprehensive and useful upgrade to ASEAN, Australia, New Zealand, the AANZFTA agreement, so they could do so with India. But we have to see what is the appetite by India to actually do so. So far, it's been muted, but you never know. They were a member of the Regional Comprehensive Economic Partnership or RCEP for all of the negotiations until literally the day on which they were intending to sign the deal when India dropped out. So, they could return. They've already negotiated it, they've already got schedules for it, because they were part of it all the way until that last, literally the last day. So, they could return to RCEP and that would give them 15 markets that they are connected to, all 10 ASEAN members, China, Japan, Korea, Australia, and New Zealand. It would be easy in the sense that again, it's already been negotiated. It would be challenging domestically, why did we walk away and now we think it's a good idea. I think politically in India that might be a heavy lift, but it would be a way for India to show tremendous enthusiasm for trade deals if they return to RCEP.

Taimur Baig

Yeah, I remain sort of cautiously optimistic because I think I have seen articles written by senior government officials in India sort of regretting that step that they probably should have gone ahead because I think there's greater recognition in India that if they want to have a green tech related revolution, if they want to have an EV revolution, they want the Chinese tech stack, and therefore China-India investment is super important and the entire reason for getting out of RCEP or not going into RCEP was that China will use ASEAN as a backdoor to enter India. Well, they want it now, so my fingers are crossed. I am hoping for more pragmatic heads to come together and India RCEP reentry to materialize.

Deborah Elms

It's fascinating. I mean, I would say one other thing on the RCEP side that is fascinating is that it's gone under the radar, this agreement since it came into force just around Covid, just before Covid, and so trying to get firms to focus on it has been challenging. The early years of RCEP were only modest in terms of delivering real benefits to companies, but now we've officially had it in force for long enough that it starts to really make a difference financially for companies. But I think this is key, they're going to upgrade it next year, the RCEP itself. And so, we could see, as we often do with ASEAN, an acceleration of commitments. So, we often have in RCEP specifically, a lot of these tariff cuts across eye-wateringly long periods, like 25 years. And I think that was because people were concerned about what that would look like and they wanted to make sure that they weren't under a tsunami of foreign products from across RCEP. Now that we've had RCEP in place for more than 5 years, I think governments are a little more relaxed about this, and I can imagine them saying those tariff cuts that were 25 years are going to be condensed to say 15 years, which means every year we get better benefits than we anticipated. So, I think we'll see more of that, more coverage within RCEP, and they're expanding membership. So, they've got a couple of countries including Bangladesh and Sri Lanka that are in the pipeline to join. All of that in my mind should put additional pressure on India to get back in again because you're already out of 15 of the fastest growing parts of the economy. Do you really also want to be out as your neighbors get in? And so, I think the combination of the upgrade, the expansion, and the delivery of real benefits from the 15 could change the calculus in Delhi.

Taimur Baig

Fantastic to hear that. Ok, let's go from micro, where we're talking about country-specific stuff to the biggest macro of all, the WTO. Is it all over or its framework is still sort of there, limping along, and can it in some way or some shape, handle trade disputes in the context of geopolitical rivalry and supply chain insecurity?

Deborah Elms

It is handling trade disputes, just to be clear, but it's not doing so through its traditional dispute mechanism. There is a separate agreement that a large number of governments have signed onto, so they are actually hearing disputes, which I think is a reminder that it matters and that the rule book itself is valuable. Almost all of the other FTAs are built on WTO rules. So, think of the WTO as the foundation of the house. Useful. Everybody needs a good foundation, but you also need that foundation if you're going to put FTAs on top of that. So, we need the WTO rulebook to remain as much as possible in force and effective. It has been a really challenging couple of years for the WTO, the World Trade Organization itself. I think there you need it because eventually all of this fragmentation is going to be a disaster and everybody will say, well this is stupid, we should simplify, we should come back together, we should have global rules instead of regional rules. If you get rid of the WTO, let's just imagine that somehow, we just turn the lights off and leave. What a nightmare it will be to restart that. Like I can already imagine so many conversations about, well, where is it going to be located and who's going to pay for it, and who's going to deal with the visa issues for the staff members, and I mean, just keep it alive just to avoid that problem in the future. But I think we'll have to pivot what it does, much more than we've seen so far, and one extraordinarily valuable role that I think the WTO could play is as a mechanism for conversation, dialogue and transparency. That is sort of what the WTO is supposed to do, but it doesn't do it very well, honestly, and it does so in a very formal way. Like we do transparency, but only when you notify on such and such. I think we need to be much more ambitious about this. We need to say, what's really valuable at a time of great disruption and change is that we have an opportunity, we all have ambassadors that sit in Geneva or are accredited to Geneva, to talk about what are we doing? What are our risks, what are our opportunities? How are we aligning, how are we not aligning? What are the issues that matter to you? What are the issues that matter to me? I think that's a key role for the WTO because if they're not having those conversations in Geneva, then those conversations are just not happening. We have something similar here in Asia, which is great, APEC, Asia-Pacific Economic Cooperation. There's no noun, it's just APEC. They do this, and people do dismiss them and have dismissed APEC since 1993, I think is when it came into force, as a talk shop. But I would argue more than ever, we actually do need a talk shop. We, this is a time of great disruption. What are we all doing? And I think the WTO is the only place where you can have those conversations and start to lay the groundwork for what we should be doing in the future. So, we should keep it open because replacing it will be a bitch, because we need to have those conversations somewhere and because it can still do valuable stuff if we allow it to do subsets of members. So, we don't need to have all 166 members, we could have part of them and in this area and part of them in that area. They could either do it within the confines of the WTO and attach it to the WTO legal framework, or if that keeps getting blocked by India, you could do it outside of the building, and just have it exist as part of the members doing something attached to the WTO but not inside the house.

Taimur Baig

Right and blocked by the US. I mean, if that is the case, then step out of the US and get the thing done.

Deborah Elms

It could, although the US is difficult in many settings. But the US within the WTO has been really interesting, where they are actually remaining engaged in the WTO. They have said no under the Trump administration to lots of other international organizations, but they still have an ambassador at the WTO. They still have a presence, they're still participating. So, at the moment, I think you can still have those conversations and include the US and I would argue, again, crucially, the rest of the world actually needs to hear from the United States. What are you guys doing? Why are you doing it? Do you realize what it's doing to us? Let me explain to you how this is affecting us in this or that way. That should be easier to manage because if you try to do this bilaterally, of course, 166 bilaterals is too many. If you try to do it in other settings, the focus is too high. You need to sort of have routine conversations. Which is what I think the WTO does and could do more of. And that to me, especially at a time of rupture, is absolutely critical. The challenge, of course, is that you've got to get 166 members to agree that they should talk more. Now that sounds simple, but actually that's not that easy. Because many of them will say, no, we can't do that because of X or Y problem, or we can't get the room. I don't know. There will be some sort of excuse for why they can't actually do this. But I think if you're a member driven organization and the members come forward and say we want to do this conversation stuff, it fits within our mandate, openness and transparency, we should just begin. Maybe we'll get further.

Taimur Baig

Not easy, but so worth it. Deb, this was just a fantastic conversation. Thanks so much for your time and insights.

Deborah Elms

Thanks.

Taimur Baig

Well, that's it for today. Thanks to our listeners.

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