



## DEBATE

### **Jean-Claude Trichet, former President of the European Central Bank, Honorary Governor of the Banque de France**

We still have around 10 minutes, and I wondered if any of us had something important to say or we could ask for questions from the audience.

### **Meir Sheetrit, former Member of the Israeli Knesset**

I would like to ask you what you think the influence will be of Trump putting taxes on imports from various countries in the world?

### **Jean-Claude Trichet**

Who wants to respond to that? Are you bold enough to say what you really think?

### **Jean-Marie Paugam, Deputy Director General of the WTO**

I think that we do not know. For the moment, it is a would-be policy and there are three questions that are going to be debated within the US administration. The first is obviously the policy mix because tariffs are by nature inflationary and recessive but at the same time, there are going to be very expansionist fiscal policies and maybe deregulation. The question is how that will all combine and what the choices will be of this administration in terms of the inflationary price they are willing to pay. As you know, and I think a central banker knows more about that than I do, inflation tends to cause interest rates to increase and exchange rates to appreciate, so it cancels your trade policy. This question of the policy mix is not clear, but it is not to say that it is not really reasonable, I am not being judgmental. I was recently having a discussion with a major coffee trader in Geneva, and he is not concerned because the United States does not grow coffee so why would they tax it, which would be purely inflationary. Therefore, the first uncertainty is going to be about this choice of policy mix.

The second one is about the discussion on whether tariffs are going to be tactical, transactional, or strategic with a view to decoupling, and nobody knows at this stage. The third question is obviously going to be how other countries are going to react and there are four possible reactions: to do nothing, to negotiate, to retaliate and to circumvent. It is likely that major powers will have those four options and smaller ones may have fewer, but the combination of the mobilization of these options is going to define the size of the shock.

This is a long way to say that I agree with Vincent about the uncertainty that is the characteristic of what we are going to face.

**Jean-Claude Trichet**

Thank you very much. At least one thing is likely, and that is that this will all be transactional because it seems to me that this is the way the new executive branch of the US sees things.

**Gabriel Felbermayr, Director of the Austrian Institute of Economic Research (WIFO), former President of the Kiel Institute for the World Economy (IfW)**

As you say, it is transactional. We have tried to quantify the wealth effects in several studies now of 60% extra tariffs on China or 10% on everyone and there is no proper economic model that shows that this is a very good idea for the United States. I think there is a consensus on this. As you say, this implies that tariffs are used as a threat and unfortunately, it is a credible threat so it will probably bring countries to the negotiating table because that is what you need if you want to achieve changes in this system where efficiency gains have already been exhausted. In zero-sum bargaining threats are very important. We also know that what could remain at the end is a strongly appreciated dollar. This is what the models tend to say. With a stronger dollar we will have less world trade, so I think this is probably the safest prediction one can make on the dollar and the size of global transactions.

**Jean-Claude Trichet**

I think you are expressing the view of most economists, but we are all economists, so maybe we have different views. What would you say?

**Vincent Koen, Deputy Director of Country Studies at the OECD**

I think that the direction of the change implied by tariffs is clear, but we really have no clue about the magnitude. Your successor, Christine Lagarde, said "let us negotiate, let us buy more LNG from the US, offer something and try to avoid 10% or 20% extra tariffs on the EU countries or 60% on China." We know from the first Trump administration that there is a part that is bluster upfront and a lot of noise and I do not think we should be paralyzed by this but try to keep our heads cool and see what is coming. Scott Bessent, who has been named as the new Secretary of the Treasury, has a very good understanding of financial markets and hopefully he and others in the new administration will be able to contain any extreme ideas on the trade side.

**Jean-Claude Trichet**

As an American citizen, what would you say, John Lipsky?

**John Lipsky, Senior Fellow of the Foreign Policy Institute at Johns Hopkins University's Paul H. Nitze School of Advanced International Studies, former First Deputy Managing Director of the IMF**

Here is a level of uncertainty. It is widely considered that the former Special Trade Representative in Trump's first administration, Mr. Lighthizer, was going to be the great guru of trade policy in the second administration. In-between, he authored a book titled *No Trade is Free*, and what is remarkable about it is that all the benefits he claims are a result of protectionist policies actually are contradicted by experience. Of course, it is notable that Mr.

Lighthizer is not a member of this administration. In addition to the Secretary of the Treasury, who has long experience in financial markets — and must understand these things — the National Economic Counsellor, Kevin Hassett, is a serious economist, who is certainly conservative but well-trained and very experienced. That adds a huge depth of uncertainty about exactly what is going to happen and probably argues in favor of what you say, Jean-Claude. At best, let us hope that the threats of new protection are transactional and could actually produce some positive results rather than the other way around. But this is yet to be seen.

**Jean-Claude Trichet**

Thank you very much, John. Do you have any comments, Qiao?

**Qiao Yide, Vice Chairman and Secretary General of Shanghai Development Research Foundation**

I agree with what the previous speaker said, the general direction has been clear because Trump will definitely raise the import tariffs. However, it is unclear how much he is using that as a tool to achieve other goals and how much he really wants to impose tariffs. Also, as you mentioned, we do not know how other countries will react, retaliate or negotiate, so the only thing we can do is to respond to whatever he wants to do step by step.

**Jean-Claude Trichet**

Thank you very much indeed. I see that our time is over so if we have a last question, it should be very concise and so should our responses.

There are no more questions so I will conclude by saying that we had a very good interaction on this panel. Bravo.