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QI Panel:

Will Trumponomics Shrink or Expand U.S. Influence in the Global South?

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Sarang Shidore 0:38

Hello and welcome to this Quincy Institute webinar on the Trump administration's foreign economic policy and the global south. My name is Sarang Shidore, and I'm the director of the Global South program here at the Quincy Institute. We are a transpartisan foreign policy think tank in Washington, DC, promoting ideas that move the United States away from military interventionism and toward more diplomacy and economic engagement, all in the spirit of realist restraint. The global south program at the Quincy Institute aims to achieve a new bargain between the United States and the meta region known as the Global South, stretching from Mexico City to Manila. And this program recognizes the global South's instinct for multi alignment, and aims to build mutually productive relations in the national interest.

The second Trump administration has wasted no time since being sworn in, seven weeks back, proposing a range of geoeconomic policies which could have a deep impact on developing countries and their ties to the United States. The threat of tariffs as a broad spectrum tool to achieve both trade and non trade goals has rightly taken center stage. But there are also broader policy tools beyond tariffs, all of which come under the term, quote, unquote, industrial policy. Finally, there can also be major impacts from us, fiscal and monetary policy shifts. What are the motivations behind Washington's actions? Are these goals likely to be achieved? How could all this influence America's ties to the global south and indeed its influence in that entire meta region.

To discuss all of this, we are joined today by three excellent panelists, and I'm going to introduce them one by one, starting with Inu Manak, who is a fellow for trade policy at the Council on Foreign Relations, an expert in international political economy. Her research focuses on US trade policy and the law and politics of the World Trade Organization or the WTO at CFR, She researches and writes on trade politics and institutions dispute settlement and development. Next, I have Quincy Institute's own Karthik Sankaran, who is a senior research fellow in the geo economics space in the global sub program here at the Quincy Institute, originally trained as an historian, he had a long career in finance, beginning in 1997 very focused on foreign exchange and fixed income in emerging markets. He then worked for the Eurasia group as director for global strategy. And finally, I have Todd N. Tucker, who leads the Roosevelt Institute's work on the role of governance and institutions in facilitating economic transformation, an expert on trade and political economy, Todd has testified before legislatures and expert committees around the world. He's the author of the book, Judge not politics and development in international investment law.

So thank you, all three of you, for joining us today in what promises to be a really rich and interesting discussion, given what's happening around us, and I'm going to start with you, Todd, with the big headline of tariffs that's all over the news. And the second Trump administration has announced or threatened a slew of these tariffs. We have seen different kinds of announcements, starting with the steel and aluminum tariffs, there's been, of course, a tariff imposed on Mexico. There are other things in the works, either actually imposed or threatened. So with all of this going on, could you give our viewers, some of whom don't follow trade policy, day in and day out, a state of play, of where we are today in terms of tariffs threatened and actually imposed, especially when it comes to developing countries.

Todd Tucker 4:50

Well, thanks, Sarang. I'm so happy to be a part of this panel. I'm a longtime fan of the Quincy Institute and of Karthik and you know, so it's a great, great group to be a part of. Um. You know, I think, as we learned in the first Trump administration, it's really important to distinguish between what Trump says and what Trump does, because there's often a fairly big gap there. And you know, if you look back to the campaign, you know, over the last couple of years, you had Trump sort of calling tariffs the most beautiful word in the English language, calling himself Mr. Tariff man. So in a way, it's not surprising that there would have been there would there would be tariffs early in the administration. But so far, we haven't seen. You know what he had actually campaigned on, which was 10% across the board, tariffs on all products, on all countries, with, with, with, you know, at least, at least of 10% and sometimes, in some cases, he would say more. And for China, 60% so far, we're not there, but we have seen some pretty consequential and in some ways surprising policy developments over the first few weeks.

You know, I think the big headline of this week certainly is that is on Monday, the 25% tariffs on Canada and Mexico going into effect, which I think a lot of people didn't think was going to actually happen. There was a lot of sort of backdoor lobbying by by important industries to try to see that not happen. And also, of course, by the Canadian government, Mexican government. We've seen already a partial rolling back of that over the last 24 hours, with exemptions for autos and auto supply chains. We're also seeing similar kind of requests for waivers from the agricultural sector and for certain sort of key minerals. So I think that we'll, we're likely, we're definitely not at the end of this story, I think there will continue to be some, some, some back and forth on those tariffs. We also have seen a couple of rounds of increases in tariffs against China, although, again, sort of far short of a 60% increase, which is what he had pledged. It's been, I believe, two rounds of 10% and we've also seen some back and forth on the so called de minimis tariff rules, which is basically an exemption from tariffs that applies to small packages, which, you know, has long, sort of been a part of trade policy and was for many times, for many years, not considered that much of an important issue.

We've seen sort of, over recent years, a large increase in the use of small shipments as a way of, kind of getting around tariffs, especially from China. So there's been some back and forth on there, where exactly that's going to land. It's a little unclear. We are in the last in the next week,

we're likely to see sort of a restore, restoration of a main policy of Trump one which is 25% tariffs on steel across the board under Biden, there had been some sort of rolling back of that. We're seeing sort of a restoration of the Trump one policy there we've seen an increase in tariffs, or a proposed increase on tariffs from the 10% that Trump had applied and Trump won to a 25% now in Trump two and there's a variety of other sort of sectoral actions that are being contemplated.

You know, a good place for your for the readers and listeners to to look for a sense of where trade policy is going in this administration would be, I would say there's kind of two tracks to trade policy. One is the sort of, this is a concept that Peter Harrell, from the formerly of the National Security Council, wrote about, which is that there's the Trump track and then there's kind of the policy track, right? The Trump track is just kind of, you know, very unpredictable, all over the place, usually not very well, motivated by policy concerns. Changes a lot. And then there's the policy track, which is, you know, folks like at the office of the US Trade Representative are attempting to flesh out so I would say, for your readers and listeners, take a look at the 2025 trade policy agenda the USTR has put out. It's a short read, at least the introductory part of it, and you can get a sense of sort of how they're thinking about trade policy on the sort of more traditional policy track.

Sarang Shidore 9:10

So Inu, Todd mentioned these very interesting two ways of looking at this, the President Trump track and the policy track. But Donald J Trump is the president of the United States, isn't he? And when he issues statements, they are of some consequence, at least. And the argument I've heard is is something, maybe there's some link there with, with what Todd just said, which is that there are threats and sometimes there are relief actions promised by the President and those that verbiage, that rhetoric, actually is a good thing, because these threats, or even the relief sometimes promise, these are all negotiating tactics meant to gain advantage to the. Us in an America First framework, they sort of keep the the other party off balance, and at the end of the day, when the dust settles, we get a better deal. Are you convinced by this argument?

Inu Manak 10:11

No, you won't be surprised here. I'm not convinced at all by that argument. And and I would even go so far to say that there is only one track, and it is the Trump track that everything goes to the President. Whatever he wants to happen, happens. And I think we've seen that so far, his advisors have not really been a major constraint on him at this point. Of course, his whole team is not yet there yet. It's not fully assembled. So you're not you're not having as many people in the room to sort of push back where it might be necessary. We don't know what Jameson Greer is going to do the incoming USTR, once he actually fully takes on his role as Todd mentioned the 2025 report looks like it was mostly drafted by Peter Navarro, especially that introduction. So it doesn't really match with the things that maybe some of us have heard from Jameson Greer in the past. So it's time to find out, like, what exactly he is going to stand for once he takes on that position and how he's going to push back, importantly, whether or not he's going to be as

effective as Robert Lighthizer was in trying to pull back some of the worst instincts of the president. Now, the threat of tariffs Bucha, right, is highly relevant because it's prompted trading partners to descend to Washington, rushing to secure a deal ahead of their imposition, we saw non stop visits from foreign dignitaries here since Trump has been in office.

Now it's true that the markets have not reacted consistently. I think that's one really interesting thing that we've seen so far. The first tariff threat against Canada, Mexico and China, did not budge markets that much, mostly because many thought, as Todd said, that the tariffs were so crazy, why would you put them in place? So a lot of the markets were kind of hedging that this would just not happen. Some read it simply as a negotiating tactic. You know, Trump will get something for and then he'll back off. That seemed to be the case until this week, where we did see the market drop when Trump stated over the weekend that he would, in fact, go ahead with the terror especially on Canada and Mexico are two most important trading partners. Now, the most challenging part of all these random announcements and redactions is that it creates this environment of significant uncertainty. Going after our closest allies first is also sending a signal to the rest of our trading partners that no one is safe and that the United States is willing to blow up its most important trading relationships, even the pact that Trump himself helped negotiate.

So this is not something that's going to be easy for all of us to kiss and make up after I think the perception of our allies are greatly shifting, and the prevailing view that's emerging is that the United States simply cannot be trusted, and that it's going to hurt us now and for years to come if we continue down this track. So I think that this is a very significant development in this last week, and something we're going to keep an eye on for quite some time.

Sarang Shidore 12:47

It certainly seems to be quite significant. I'm just getting a flash breaking news that Secretary Lupnick has told CNBC that President Trump is likely to decide today to exempt all usmca compliant trade from the Canada and Mexico tariffs for one month. So we are seeing not just a variation in the level of tariffs mentioned or the sudden announcements, but also time limitations this one month thing where you do something for one month and then you extend it or you revoke it. I think all of this is adding to the uncertainty around this question of foreign economic policy.

But let me before I get all of you to talk a little more on that, let me bring in a Karthik here, on specifically on on Mexico. Because, of course, the big news this week was the 25% tariff on Mexico imposed, I think it was imposed on Tuesday, and this despite Mexico having done quite a few things because Washington's demands were in the realm of drug policy and crime and immigration, and Mexico delivered a whole bunch of drug lords to the United States. It is quite unprecedented what they did. And this Mexico case is also interesting because it very strongly links tariffs to non tariff outcomes. So the question for you, Karthik is, are tariffs productive ways of achieving these non tariff goals, and if this cycle goes on with Mexico? I mean, it looks like we have some relief today, but who knows what tomorrow will bring. So if the cycle goes on, where

could we end up in this US Mexico or US-MCA great spat. Is there a stable point plateau somewhere in sight?

Karthik Sankaran 14:48

Yeah, stability is something that everybody wants right now, and you know, I'm not sure we'll get there. What was very interesting, you know, as you pointed out, was that you. Um, you know, President shenbaum actually delivered, she delivered some very substantial concessions with potentially negative political consequences in Mexico. You know, there are obviously people who are happy to see these drug lords gone, but there's the potential threat of violent retaliation and so on. So what's interesting about this is in some way, I'm not even sure whether the non trade asks. I mean, they're certainly real. But are they a rationale for tariffs, or are they another alibi for tariffs, which they want to do anyway? Because what we've seen from Mexico over the last month is obviously the delivery of the of the drug lords, but also a very significant fall in, in in the migration numbers.

Another thing they've talked about, some pretty big actions on, on, on fentanyl. So if you take Treasury Secretary Scott Besant at his word, when he said, you know, this is tariffs are going to be used as an escalate to de escalate strategy, and would seem to me that what President shenbaum did was actually deliver that, and then eventually what we got was a suspension of the tariffs, not so much because of what President shenbaum had done, but because the US auto industry said this has serious implications for supply chains. I mean, we really cannot. We really can't do this. We cannot reconfigure supply chains. You know, it'll take years. It will take years to do this so that, so we, so we got a month. So, you know, part of this is just figuring out there seems to be a broad based love for tariffs to accomplish everything, and if you don't get absolutely everything that you want, then that, then the threat stays in place. Another issue here is that Canada and Mexico behaved very differently. You know, you saw a substantial increase in in kind of Shen bum tried consistent with Mexico's concerns about sovereignty to deliver a great deal Canada in an election campaign was having absolutely none of it, and yet they ended up in exactly the same place.

So even if you're going to use this as in negotiating tactic, then there should be some sense that you're calibrating the tactic to the response and then responding and so on, and there was no sign of that. I mean, as to the other point here, and I think this goes even deeper, is that it's really not productive to do this, particularly in the case of Mexico, because precisely the things the US says it's most concerned about are likely to be exacerbated by an increase in economic uncertainty in Mexico, or an economic you know, or an economic slowdown, or worse, because if you're concerned about migration and if you're concerned about crime, then sparking of very deep downturn in the Mexican economy, because people are concerned about the nature of the US Mexican relationship is actually a pretty good way to make things worse, not, certainly not better. I've been as to where this ends up.

I I think, unfortunately, at this point, it seems as though, what the what people are, what what the administration is responsive to is not even so much. The the escalated de-escalate part, looking

for what you get in return for threatening this, but the what happens in the stock markets and what sizable constituencies in the US want, and the relative power of those constituencies. So in this instance, I would expect that you know what auto manufacturers want versus what the UAW wants will play, will pay a significant part in this. And all this is happening in the context of a trade relation that was actually the most codified of US trade relationships. And both Todd Nino have done a lot on that, because usmca is a deeply codified relationship. And in what we have here is a set of questions that go and render the Jerry Seinfeld joke. The important part is not to sign the agreement. The important part, important part is to keep the agreement. And I honestly don't know what's going to happen with keeping the agreement, even if, after this agreement is reviewed in quotation marks, renegotiated. In fact, will the agreement be. Kept is a question that everyone's going to be asking, and that goes back to the uncertainty point.

Sarang Shidore 20:06

For all our viewers who are watching, please drop your questions on chat, because we're going to take up our viewer questions in just a few minutes. But Karthik, you make some excellent points there. And, well, several struck me, but the one I want to pick up on is the one you when you talked about how Mexico did many things, concessions, aka concessions Canada, Canada didn't do a whole lot, but they got the same end result. So I want to sort of bring Todd in now and broaden this aperture of Mexico relations to cover usmca, because the usmca, the trade agreement, the successor of NAFTA, which governs relations trade, relations with with Mexico and Canada, for the US is up for renewal in 2026 and all signs are that President Trump wants a renegotiation of the usmca. So if this is any indication, what seems to be a bit of a monologue, rather than a dialog from Washington, if this is any indication, Todd, how do you see the US-MCA negotiation play out in a sort of realistic sense? And second, what would be your preference, given that you looked at this for a long time in terms of redoing, would you would you want to redo the US-MCA? And if you do, what would you want to put in it?

Todd Tucker 21:34

Yeah, no. Great, great questions, great conversation. You know, I think that in some ways this, you know, as folks have sort of alluded to, this was always in the cards that there would be a renegotiation at this point. This was, you know, a major difference of the usmca relative to the original NAFTA, and indeed to many of the US trade agreements, if not all over the last several decades, which is that it had sort of this, you know, quote, unquote sunset clause, which gave which, which sort of forced a review after a number of years. And so 2026, is when that review was coming due. And I think that you you saw that, you know, whether it was Joe Biden when he was still running, or Kamala Harris, or indeed, Trump, all of them, at some point, committed to use this sort of renegotiation period to push push further.

So in a sense that that was in the cards, I think you know what's what's certainly surprising. And I think all of us have agreed on this is, is given that Canada, Mexico already agreed to renegotiate the deal effectively by signing the US-MCA in the first place. Why? Then the strong arm tactics already there was sort of the threat of expiration of US-MCA which was kind of an

action forcing mechanism. So then, then, why? What, what possible sort of, even negotiating advantage or logic Do you have by sort of making, making these threats? And I mean, we can get into that more, perhaps in the Q and A is to everybody's pet theory as to why this actually happened. But, you know, I think in terms of another, another major thing that was that was different with US-MCA, which I think a lot of analysts and a lot of organizations are looking to expand upon, is the the rapid response mechanism, which is the an innovation in the labor rights chapter, which you know does something that you know, people you know in universities and academic settings and law schools have talked about for a long time, which is how to better integrate labor rights protections into trade trade deals.

And so this was a policy that was developed, you know, actually after Trump had already renegotiated with Canada and Mexico, the US_MCA. This was put in at the request of congressional Democrats who developed it in from the House and the Senate. And it basically does something, again, that sort of people wanted to do for a long time, but it actually does it in an interesting way, which is sort of balance the competing demands of sort of keeping overall liberalized trade while also penalizing companies that abuse workers. And so the way they do this balance is by creating sort of a fast track authority to impound the products that are made at specific factories where the bosses in those factories have abused workers. And so what that does is it means that, like all of the companies that are playing by the rules and doing the doing the right thing. Do not see their trade impacted. It's really targeted on the one the company that's the bad actor and and the the impoundment of the goods last until the workers are rehired if they've been unjustly fired or there's some other remedy to the to the to the to the concerns that the. Have. So by some estimates, this, this has benefited already 10s of 1000s of Mexican workers under, you know, several dozen enforcement actions under the Biden administration. I think it'll be, you know, there was, even though Trump had, you know, signed this and negotiated this, they didn't use it at all in their last year of in office.

It'll be interesting to see if they use it at all, you know, over the next over the next while, because it is something that I think is considered fairly successful. And so I think that, you know, as for what to include in the usmca, more broadly, you know, in sort of the 2.0 version of it, I think that like looking like looking at that rapid response mechanism, assessing how well it's working, and sort of seeing if it can be used for, you know, more broadly, for other policy objectives, like cooperation on climate. I mean, it sounds a little crazy to even talk about that in the in the current administration, but I think that that is, you know, this is especially if it's a meaningful renegotiation, Congress will have some say over approving it. So that also gives Congress some leverage over what to include in the deal. So, you know, looking at something like a common carbon tariff, perhaps against sort of dirtier imports, I think would be among the things that I would look to see if there's some ability to make some progress on.

Sarang Shidore 26:16

So I want to bring in a question by Ryan. So who's watching this? And he's asking, what all of this that's going on with shifts in US policy? What does what does this do to the quote, unquote, rules based order. But I want to actually fuse that, and this is for you Inu that point with a

specific point that Todd talked about, he talked about the RRM, or the rapid response mechanism. This is a component in the usmca that was introduced under Trump's first term that was a demand of organized labor. And so, I mean, I also want to acknowledge this point, because the Trump administration claims that it's speaking for working people, for working Americans. And indeed that episode showed that it brought in some of the concerns of us organized labor into the agreement, succeeded in getting in there. But when I look at the RRM from 10,000 feet, I see that there is a way to sort of go out and find problems with Mexican factories, workers in Mexico that are or factories that are violating workers standards and labor rights, but there doesn't seem to be a corresponding or equal gaze on US based factories. Correct me if I'm wrong, but it seems like all of the cases in the RRM are all one way. And this also kind of goes back, not just to the rules based order, but Donald Trump has said, I think, quite convincingly, to many years, that reciprocity is important, that reciprocal tariffs. If others tariff us, we will tariff them. So does RRM meet the standard of A, the rules based order and B, reciprocity?

Inu Manak 28:12

Well, I would say that the RRM has plenty of problems, and I do hope that in the review of the usmca, it will be looked at very critically and assess for what is has done if you're looking at this basic question of reciprocity. No, it's not reciprocal at all. In fact, the language of the RM is structured in such a way that it's really an asymmetrical tool. It's only meant to be used against Mexico, and that makes it pretty clear it's there's two separate ways to use it, one from Canada to Mexico, one the US to Mexico, and the United States is the only country that's really used it. So that's one of the fundamental challenges. And this has been sort of the marker of US Mexico relations for a very long time, that there's a great degree of power asymmetry. And I think that the RM certainly emphasizes that if you look at the evidence, and I did a study about the RM two years ago, looking at the first 12 cases and what happened throughout those there really is not a lot of evidence that the US-MCA RM mechanism actually improved worker rights in Canada or the United States, right? So the entire pitch by USTR Catherine Tai was that this was going to help improve worker rights and create a bunch of fairness in the system. It did not. It was not intended to do that at all. It was never intended to improve worker rights in the United States. It can't even effectively used against breaches of labor in the United States, of which there are many in Mexico, labor reforms were already underway before the usmca went to force and were implemented throughout the country by october 2022, but institutional change takes time. You're not going to all of a sudden improve all your labor rights, and it takes a long time for the institutions to sort of build up sort of an understanding of how to enforce some of these rights.

So this is something that we realized from the interagency Labor Committee. On that was established to monitor the enforcement of some of these rules. But essentially, Mexico made a lot of financial commitments in this labor law reform implementation, and there was a lot of capacity building efforts from the US government to support that and that those things are working. So things like just helping people understand what their labor rights were, there's a lot of misinformation, or not access to this knowledge in a lot of factories in Mexico, and so they're

trying to train staff and folks in factories to understand this. So this was an effort that was becoming quite successful, but that was a wasn't the focus. I think of a USTR tie. In fact, she just talked about the router response mechanism, which was used multiple times, there were some limited results. But I think the thing that we have to keep in mind is that if you're doing a facility by facility approach to enforcing Mexico's labor laws, there's going to be severe limitations. A bunch of the workforce is not in the formal sector, so you're not capturing a big part of the population either. Some of those RM actions happen in parallel to Mexico's domestic process. So that meant that it was hard to disentangle the effect of what was going on in the courts in Mexico and what was happening with these negotiations that USTR was engaging in. So you have these declarations of success when it really wasn't clear what was causing the success.

And then if we look at overall, just how it's worked in practice. I mean, this really was the extraterritorial application of the US interpretation of ILO standards on Mexico. This was not a traditional state to state dispute settlement mechanism. It's under the state to state chapter, but it doesn't function that way. In fact, it was basically the United States Government talking to facilities. That is not a state to state dispute settlement mechanism. So it doesn't actually work as intent. Doesn't actually work as intended. So I think these are some of the concerns that have been raised, not just by me, but other folks saying that enforcement gets a lot of press, and if you want sustained change in Mexico, it means that we have to work with folks on the ground there to understand how to build up the capacity for them to address their own labor concerns and to take ownership over that, because if we're essentially doing this through some sort of negotiation between the USTR and facilities, we're essentially outsourcing all of that enforcement to the United States, and that's not going to help things on the ground in Mexico at all.

Sarang Shidore 32:13

All right, so interesting, oou use the word extra territoriality, you know, I work on the security side of the fence, and we have that concept there too. And in general, we have found at the Quincy institute that extra territoriality doesn't help in building bridges, increasing US influence on the security side. But of course, economics is its own world. And Todd, I would love you to wane on this question. And Karthik, please come in as well if you have something to add if, if one starts from the premise that you want to build a influential United States relationship with, say, in this case, Mexico is so, so that that may argue for a more reciprocal arrangement, where you can continue to have equities in that state and and society. Of course, the other side of that argument is, well, the national interest. If you're going to get more for American workers in the process, and maybe less for Mexican workers or other constituents in Mexico, that's how nations pursue policies. So where would you stand on that? Would you say that first of all, reciprocity is that even something we should look at? And second, is that a second thing, secondary to pursuing the interests of American workers or business or whoever you have?

Todd Tucker 33:33

Yeah, I mean, I would, so I would certainly agree with with Inu that it is non reciprocal by design, and that it is extraterritorial enforcement by the US on Mexico specific facilities. I think an important color to add to that, however, is that this is something that's widely celebrated by the Mexican government and Mexican unions for helping them sort of solve exactly some of the institutional deficits that Inu pointed out have been long lasting and sort of difficult to remedy in Mexico. So it may not be sort of over, if you take sort of a 50 year view, it may not be sort of the ideal arrangement of like how you would like to how ideally we would structure North American, sort of national, sovereign institutions. However, it is something that you know, the way the mechanism works is that the unions themselves can appeal for the relief, and so Mexican unions have been sort of the some of the primary users of the mechanism so far.

So it is, it is something that's, you know, I think, sort of widely appreciated. I think the Mexican government also appreciates that this is a facility specific mechanism that's not affecting the totality of their business, nor is it sort of depleting resources on a very, you know, what's even under normal times, a very crowded diplomatic agenda between the US and Mexico. It's nice to be able to keep the focus on things that are sort of high level, not sort of, you know, was a given worker fired at a given facility. So I think. Kind of solved a problem that we've long had in trade policy, which is that, you know, some of these, some of these aggressions against labor, are such a micro perspective that it's very difficult for them to ever sort of assume prominence on the macro diplomatic agenda. And so it sort of keeps it on a different track. That's a little bit more manageable. So I think that's an important context.

Sarang Shidore 35:22

Yeah, thanks for that. Karthik, anything you want to add to that?

Karthik Sankaran 35:26

I mean, I mean, I've looked at extra territoriality more from the point of view of, you know, other of other policies, you know, dollar centrality, export control, sanctions, you know that. But you know we can come back. We can come back to that. We can come back to that later.

Sarang Shidore 35:43

Yeah, we will. We will touch upon those topics in just a minute. So please, please link that up to what we just talked about. Feel free to do that. I sort of want to now go beyond Mexico. We spent quite some time on it. Is very important. It's the largest trading partner of the United States, and certainly by far the biggest one in the Global South, but Innu, if I look down the list of all developing states that are trading partners, Mexico is number one. Number two is Vietnam, and number three is India, a big continental country in Asia. And here is a very interesting dynamic we are seeing. Prime Minister Modi was here in town earlier. We are seeing, obviously, Trump has said certain critical things about India, in terms of great deficit, also tariffs, the rate India applies to the to US imports is higher than the rate the US applies. And that's important for President Trump. So all of this should set us up. You'd think for a rather tough

approach toward India from Washington, but yet, you haven't seen quite that tough an approach. In fact, there's talk of a free trade deal between the US and India right now. So what gives what does this tell you? What clues does it provide in terms of how global South states can indeed create some carve outs or deals or a different sort of treatment here.

Inu Manak 37:08

Well, I think the relationship between knights is India is going to be a fascinating one to watch under this administration. I was a little surprised that there was this declaration that we'll get a trade agreement, a real trade agreement, between the US and India. I don't know if that could be completed during the entire second term, although there is talk that it'll get completed this year, maybe six months, maybe by Diwali even right? So there are these ambitious targets of what they're trying to do, but on tariff rates, here's going to be like a real big stick in the mud, and it's going to be really difficult to get over this, because India thinks that it has a right to maintain its high tariffs, right because of its WTO commitments and developing country status. In fact, it is often hid behind what's referred to as special and differential treatment. So special treatment we give to developing countries, the WTO, which India describes as a treaty given right, and it's used this to avoid making certain concessions or to secure substantial carve outs from from things that are negotiation now, India also retains significant market access barriers on a number of different areas of the economy. So digital services is one of the things that the US has complained about, and many others, the regulatory environment is not that business friendly.

So there's a lot of issues that won't be easily resolved. So beyond tariffs themselves, there are going to be a lot of challenges from the Trump administration side in understanding how they're going to achieve any sort of reciprocity. It's going to be near impossible to achieve reciprocity with India. But if we go back in time a little bit, look at the Biden administration. They courted India as a counterweight to China and strengthen technological cooperation to expand supply chain resilience and efforts. They had an initiative on critical and emerging technologies, and a core part of that was designed to address concerns over geopolitical competition and to leverage collaboration on development diffusion and the protection of critical technologies, on AI, biotechnology and things like that. So there's a lot of goodwill that's been building up with doing the US and India over the years. But I will point out that despite all the carrots that the Biden administration dangled, it didn't really push India to open its market. So we're kind of at the same stage we were many, many years ago. The only achievement was to get India to drop six WTO cases, which don't really matter anyways, because the WTO is not functioning, and the removal of tariffs on certain US agricultural products, like chickpeas, lentils, almonds, walnuts, apples, these sorts of things, declared a significant victory. But honestly, it's not a whole lot of market access, so the Trump administration may actually be a little bit more successful in incentivizing India to open up a little bit more because of the nature of their threats.

But what's really fascinating is this special relationship between Trump and Modi. In particular, they have a budding bromance that we've been seeing play out over the last eight years. So Trump may not be as inclined to be really tough with India because he just. Loves Modi, so I

think that is something that we need to keep an eye out for, and also is informative for other countries that are looking at this relationship, because his relationship with India is unique, because of Modi and other global south countries may not get the same treatment, right? So I think India will get something out of this, and this is why I think they're really happy about Trump being back in office. But others, look at Colombia, ask them, what's going on? I don't think they're too excited. So there are differences in how this will play out in the Global South, and India is definitely a special, special actor.

Sarang Shidore 40:30

No question that the US India relationship, geopolitically, has been strong, getting stronger, really, since Bill Clinton's visit in 1999 that was a big fork in the road in the nuclear deal in 2005 to 2008 so we can, we perhaps may continue to see that. But Todd, I want to now move beyond India to a real continent, the the continent of Africa, where there is a trade agreement in place since the year 2000 it's called the Africa Growth and Opportunity Act, or AGOA. It's the volumes of trade are not massive, but for African countries many, many of which are a part of this agreement, it is actually quite important now, again, going back to the America first framework, where the idea is that we should pursue trade in reciprocal ways. Innu mentioned the special and differentiated treatment for developing countries. If there's an example of such a trade agreement, it is AGOA, it seems to me, a one way concessional agreement for African goods coming in, not so much an opening of markets of African countries. So does this concept of giving more than you get in the case of AGOA, does it have any legs in today's environment, and speak to it from a national interest perspective, why should the United States even renew an AGOA?

Todd Tucker 41:55

Yeah, no. Great questions. You know. So AGOA is sort of part and parcel of a system of unilateral trade preferences that the US has. There is the generalized system of preferences GSP. There is a version for the Caribbean Basin. There's a version for the Indian countries. You know, there's sort of a network of of Ben, excuse me, of unilateral benefits for developing countries. I think you know, this is the model of this is more of a sort of mid 20th century model, like the late 20th century model, which is, there's not sort of a specific sectoral focus. There's not kind of an industrial policy strategy element to this. It really is just kind of meant to be a bridge for, you know, very poor countries to access the US market, you know, under, under the theory that this promotes diversification away from, you know, production that the US doesn't like, like drug production in the context, especially of the Indian trade preference system. So, you know, there's, there's a lot. There's long been a bipartisan consensus in favor of these preference programs. Certain companies use them quite extensively, you know, I think some of the issues that I would expect, you know, so, and I think it's important to note that it will expire in September, and there's also sort of an issue of reauthorizing the GSP and some of the other preference programs as well, you know, I think in the past, it's often been paired with reauthorization of trade adjustment assistance, you know, which is a program run by the

Department of Labor to compensate workers who can, who can show that they're they've lost jobs due to trade competition.

And so that's sort of been the way to address the national interest, in a way, is, is that you have sort of, yes, this unilateral open, open market access, but then you're pairing that with some some adjustment assistance for US workers, that you might be displaced by those imports or by other imports generally. So I think that's, that's kind of one area that I think if you, if you don't have trade adjustment assistance, I don't think you're likely to see very many Democrats support reauthorization. And then I think if you don't address some of the issues, like, you know, whether really large, much larger economies like South Africa, like whether they should be graduating out of the program or not, you know, and not just sort of self designating as because they're part of Sub Saharan Africa, that they get the benefits. I think that, you know, the Trump team, and probably a lot in Congress will also want to see that addressed. And then I think that there's also just in some appetite to figure out how, especially given sort of Africa's mineral riches, and sort of the concern that that especially Trump has, but also, you know, is widely shared in both parties for access to minerals that are useful and necessary for the clean energy transition and for other purposes like defense. You know, I think that there will be some desire to figure out if there's, there can't be sort of a mineral specific cooperation element as part of the AGOA.

Sarang Shidore 44:56

Karthik, let's now go beyond trade. We spent quite. A bit of time on it. Obviously it's in the headlines, and most folks can relate to trade. They go and buy things in Walmart. But there are other things happening on geoeconomics. And if we go, for example, to finance, you have been writing a lot on finance. Karthik for Responsible Statecraft, our own outlet at the Quincy Institute, which I encourage all viewers to read, as well as Karthik great articles there, but you refer to the dollar and US bond yields as the two most important prices in global finance. So what's been happening in on those two fronts, and how do you see their evolution is affecting global south countries?

Karthik Sankaran 45:44

Yeah, you know, there was a lot of concern late last year that what we'd end up after the election, that what we're going to end up with as a result of as a result of tariff policies, was that you would end up with a significantly stronger dollar and a and much higher and much higher bond yields in the US. And the concern was that for in large parts of the Global South, this is a very, very bad combination, because many countries either they borrow that their overseas debt is either contracted in dollars, or even if you have foreign investors investing in your your local currency markets, they're very sensitive to the dollar. And higher bond yields means that you, if you have higher us, bond yields kind of trickle out into the rest of the world, and it makes, kind of repaying, repaying debt harder. And the jargon for this is it kind of it leads to tighter, more constrictive financial conditions that that are that are a problem. Now, I had my I had doubts about whether that would happen. And what's interesting is that's precisely what you saw from

the election through just about inauguration, and then in the months since then, you've had kind of more of a reconsideration of what these policies mean, not just for the rest of the world, but also for the US.

And I think that's where you're starting to see some concerns, some, you know, maybe even some alarm in markets, because that, because the idea is that everything that's happening is leading to so much greater uncertainty about, you know, about trade, about the about trade, about the broader economy. There's all this stuff that that's happening with with Doge, and what you've seen more recently, and it's been especially pronounced in the last couple of weeks, I'd say, is concern that's been picked up in in in in both in business and consumer surveys that the instead of boosting the US economy, these steps are actually going to lead it to slow down and slow down pretty sharply. So us bond deals have come off quite substantially off their highs. They're about half a percent, half a percent lower than they were, maybe a bit more than that, and and the dollar, and the dollar has weakened now, this may take us to a place where you get a kind of very differentiated setup across global south countries, where some countries may be hit by in the south, global south may be Hit by certain aspects of policy, so kind of in the poorest countries, particularly in particularly in Africa, some aspects of the cutbacks in aid and so on may have, may have very significant negative may have very significant negative effects with security spillovers places like Somalia or South Sudan or something like that.

Mexico is a special case because it is a large economy. It is deeply connected to the United States, but it's also one that has very high trade exposure to the United States, because exposure, because export to the US, comprised about 25% of Mexican GDP. Vietnam is kind of somewhat similar in that respect. But Mexico seems to arouse, you know, more passions, more animus within this administration, as we've seen so Mexico is kind of in the in the front is in the front row, and we've already discussed that, but there's a there's a broader set of countries that may actually benefit from what's happening in US financial markets at this point, and those are the countries I would think of that are kind of large, continental sized economies that have relatively limited trade exposure to the US, but still. Have some financial exposure to the US in the sense that they're hurt by dollar strength, that they're hurt by higher interest rates, but for countries like Brazil or Indonesia, potentially India, this kind of blowback of us, policy uncertainty back into us, financial markets might end up actually being relatively favorable. Give them some give them, give them some breathing room.

And the other thing that's happened alongside this is, you know, everyone's talking about this big bazooka spending in Europe, which has also helped, you know, push the Europe against the dollar. And because that's the most important bilateral exchange rate that everyone kind of follows as to what the dollar is doing, you may end up with a place where other countries, particularly these large continental countries, that are not that exposed to the US import market. India, is obviously a special case, because there's that bromance factor that both you and Inu allotted to alluded to. But if this persists, it might take some of the pressure off some of these places which, which might be good, but not for the best reasons. But I don't think they'll be asking.

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Sarang Shidore 51:09

Staying with you, Karthik, and moving to another facet of foreign economic policy, that's export controls. And we are seeing a slew of export control announcements. Actually, they are not just in Trump 2.0 they were in Biden 1.0 and Trump 1.0 as well, I believe. And of course, many of these are China specific. But how is this push broadly affecting the developing world, even if it's being targeted mainly at China? Does it spill over into other countries? Let's say in Southeast Asia or Latin America and so forth.

Karthik Sankaran 51:41

Absolutely, I mean, because now what's being targeted is not just China, but also kind of geopolitical proximity to China, or the threat of geopolitical proximity to China. And this already started with the with the Biden administration, kind of the last thing they did was one of the last acts was to set up everybody. Scott Besant has used this kind of red, yellow, green model of of tearing, which apparently seems to have been picked up even the last days of binding Biden administration, when it came to when it came to when it came to chip exports, we've seen that kind of return on the on the US side under Trump, when it talks about allowing investment into into the US again, based on the similar idea of the more trustworthy Countries will be allowed more investment in the more investment in the US. And that's, you know, and distance from China, plays a, plays a, plays a, plays a part in that. And I think one of the issues here is this is part of a, you know, a big story right now, I think, is this effort to try to bifurcate technology stacks. But starting, as you know, as you pointed out, you know, repeatedly, one of the things that characterizes the global south is a desire not to be partitioned, to be located in a single security stack, in a single economic stack, in a single technology stack. And I suspect that you know many countries, whether it's the GCC, which is the primary target, because they're like, ooh, sovereign wealth funds, they can invest here. I expect them to be resistant. Countries in Southeast Asia, like, like, like, Singapore, Malaysia, or are also likely to be resistant.

There's, there's pushback from from the US technology industry. And I think one of the reasons this kind of there's going to be this resistance to participate in a bifurcated world is partly because, especially with what's happened with deep sea, people wonder, what's the cost effectiveness of each stack? Is good enough? Do I need the best or do I need what's good enough for my purposes? So do I want to be located in the more expensive technology stack, even if it's the best? You know, countries might have different answers. And the other thing is, which I'd raise more broadly in a in a policy context, is just the phrase partners and allies keeps recurring in all these, um, executive orders, and yet, I would suggest there's a little more uncertainty about exactly what that phrase means in light of recent events across the world. So, you know, everybody's probably wondering what it means to be a partner and ally.

Sarang Shidore 54:43

Yeah, for sure, lot of uncertainty on that front as well. But Idu, I want you to address this question of industrial policy broadly, because not just tariffs, is it? It's things like export controls,

it's things like subsidies. And bunch of other things. And it does seem like with the US embracing it with gusto, over two or three administrations, we are seeing a whole world that sort of says industrial policy is all right. And but you have written about this quite a bit, and you wrote a piece for CFR, in which you wrote that us, industrial policy, specifically for the US, is, quote, unquote, filled with contradictions. So could you spell out what these contradictions are, and what sort of message do contradictions in policy? I mean, policy often has some contradictions. So what do they send? Any any message to the global south that sort of creates a problem with relations or damages us credibility or certainty in policy?

Inu Manak 55:51

I think you're absolutely right that industrial policy has made a comeback. We've seen governments around the world that have been ramping up spending in an effort to achieve a lot of different policy goals through the direct subsidization and expansion of certain economic sectors over others. We have heard in the United States that this is about strategic competition. It's about creating jobs for the future. It's about fighting climate change. A lot of motivations for the recent embrace of industrial policy, and it's varied widely now, of course, the Biden administration was very active in promoting industrial policy. It's not entirely clear what President Trump would do here. He has threatened to get rid of some of the things that that Biden put in place, including in the inflation Reduction Act and in the chips and science act, but it seems like he also has some interest in doing some industrial policy of his own, to some extent, but he may use different tools. So let's see what he actually does there.

One of the primary concerns that I have raised over and over was to say, look, when we're talking about the way a lot of supporters of industrial policy have discussed the benefits of doing this in the US, the challenge has been that the way it has been implemented, has really been really putting the United States first, and everyone else is quite second. Biden did this as much as Trump is probably going to do, and it's alienated our trading partners. It's made them trust us a lot less. And it's been particularly consequential for the Global South, which don't have the resources to actually invest in subsidies of their own. You really just have three markets that can produce a lot of subsidies. That's the United States, the European Union and China, right? Everybody else can't do what we're doing at this scale. So what we're seeing is this argument that all this investment is going to have all these positive spillovers. You know, from our investments, we're going to invest here, and everyone's going to benefit from us being very productive. You know, this is really problematic, and developing countries are very skeptical about this, because they're seeing this as like you're telling us, we're going to be the buyers. We're not going to be part of all these input. We're not going to benefit from this directly, other than we're just going to get the technology afterwards. Now, this is really problematic, because at the end of the day, we need to find ways to help bring a lot of these countries on board to whatever the goals are that we want to achieve, whether it be climate change or anything else.

And I think those real investments on the ground that actually link them into the supply chains is important. I don't think even the Biden administration did this well enough in how they invest in industrial policy, making sure that developing countries actually have a real stake. You know,

many talked about it as, you know, having some part of the value chain, but not necessarily being the core of investment in some of the value chain. So this is, I think, where we have to be very careful, and we have to be sure that we reach out to a lot of countries in the Global South to ensure that they have a reason to trust the United States, to invest in the technologies that we think are important for a lot of the things that we want to achieve, and to make sure that they actually choose us instead of choosing China, which is giving a lot of money to them and no strings attached. So this is one of the challenges, I think, that we face in some of the modern way of thinking about industrial policy.

Sarang Shidore 58:59

Right, so very interesting point there, making them stakeholders, not just getting concessions. Perhaps this, this is relevant for longer term influence building for sustainable relationships, not the short term sort of gives that we might get. Perhaps I want to end with the audience questions from Girish naatkani, who asks the question, when Trump's second term is done, and the global reactions around it, and all of the things we have talked about in terms of certain global convergences as well, are we in a complete are we going to be in a completely different geo economic world At the end of it, are we going to see a radically different world, sort of 2.0 world, after Bretton Woods and all of that, if you assume that inaugurated 1.0 perhaps, or is there a way to come back and find some kind of a median ground again? This is speculating. Little question. But if Todd, you can address that just in a short we are running out of time, so maybe just 20 seconds or 30 seconds?

Todd Tucker 1:00:09

Yeah, well, certainly in a vibe sense, things are bad now, and I think things are likely to stay pretty bad. In a vibe sense, I think that, you know, it's important to kind of go back to the first point I make to like, differentiate between the day to day chatter and sort of the fundamentals. You know, I think were we likely to see some type of wind down with the war in Ukraine under either under any administration? Yes, probably would we continue to struggle to have a value proposition for the Global South? Yes, we have been, as you knew, pointed out for a long time, that that's going to continue. You know, are the trade imbalances and other concerns a structural competitiveness concern? Yes. So a lot of those things you know are going to be true sort of regardless, but, but certainly, at least the optics and vibes are quite bad and likely to stay bad.

Sarang Shidore 1:00:59

Karthik, briefly, please.

Karthik Sankaran 1:01:05

I think, I mean, there's going to be big, there will be very big changes at atmospheric I mean, in some ways, what may change. Actually, I'm somewhat more optimistic about the trade

imbalance part, actually, because it does seem as though between what's happening in Europe and potentially what's happening in in China, kind of some of the big macro economic drivers of global imbalances, which is just the balance of consumption, investment, spending. And if we see a little more give on consumption in China, which they seem to want to do, we'll see if it's true, we certainly see a big change in investment behavior in Europe. And if you think that a lot of trade imbalances are driven by not just by what happens in the US, but also by what happens outside here, I'm actually somewhat hopeful the global imbalances themselves might shrink. Hopefully that takes some of the pressure, the temperature down as well.

Sarang Shidore 1:02:02

Some optimism there, Inu, you get the last word.

Inu Manak 1:02:07

I would say, I'm glad to hear someone's optimistic a little bit. So that's really reassuring. You know, for me and what I say, I say trade institutions. And looking at the WTO and the trade agreements that we've established over the years, I am deeply concerned about one critical point, that the United States doesn't honor the commitments that it signs. And I think that this is one issue that is going to really irk our trading partners for quite some time. It's not going to be an easy thing to actually resolve, even in whatever next administration there is so I think this, this loss of trust, is something we should be deeply concerned about, especially when we're seeing that trade policy is changing, not only by the minute, but seems to be completely out of control in terms of a clear messaging on what's going on. So businesses cannot operate in this kind of uncertainty, and that is going to be very, very difficult for businesses too, thinking about whether they should invest in the United States. I don't know if this looks like a stable market in the long run. So unless Trump can stabilize his economic policy, it's me very, very difficult for folks to actually look at the United States as a safe bet.

Sarang Shidore 1:03:15

This reminds me of a column that I think Gillium Ted wrote in the Financial Times some months back, saying the United States is developing many aspects and many characteristics of an emerging market that we are all now emerging markets, perhaps, and with all the instability, volatility that comes with it, we covered a lot of ground today, but we didn't cover everything. So I hope that both of you, all three of you, can come back to the Quincy Institute and we can continue this discussion, because one thing we know for sure, the story ain't over. Thank you to all three of you. Inu, Karthik Todd, thank you to the viewers. Please go to our website, Quincy inst, Quincy inst.org, there are lots of webinars that we run. There's lots that's happening, there's also lots of reports from the global south program and other programs. So until next time, stay well.